



CML Microsystems Plc



2008

Half Yearly Financial Report
for the period ended
30 September 2008

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CML Microsystems Plc
Chairman's Statement

The results for the opening six-month period of the current trading year reflect the unexpected downturn in demand that became evident across many Group markets during closing months.

My earlier expectations that the results for this period would provide clear evidence of a continuing improvement in the Group's performance have been negated by the constraints on expenditure and product investment adopted by customers' following recent global financial concerns.

Your Directors have considered these circumstances and the appropriate actions that might be taken.

Group revenues for the half-year trading period ending 30 September 2008 were £8.226M, moderately down against £8.487M for the comparable period the year earlier, and the operating loss before tax was increased as a consequence.

The Operating Review that follows this statement summarises financial and trading information in further detail.

As is customary for your Company, the directors are not recommending payment of an interim dividend.

The property market continues to experience declining values and the non-operational properties that the Group had earlier decided to place on the market are unlikely to receive satisfactory offers during this present trading year.

Your board believes that the recent shortfall in expected sales and the broad customer and financial situations that rule will make progress in the second half difficult to achieve. Steps to reduce the Group's operating costs have commenced but are not expected to show benefit to this year's results.

I regret that I cannot provide a more positive indication for your Company's prospects in the short term, but feel certain it is sufficiently well placed to weather present issues and to return to profit.

G. W. Gurry
Chairman

24 November 2008

CML Microsystems Plc

Operating and Financial Review

Overview

During the period under review, we continued to execute our strategy to deliver long-term sustainable growth by successfully developing and marketing class-leading semiconductor products for the global communications and data storage markets.

For the majority of the trading period, overall financial performance was in line with management expectations for an increase in performance against the prior financial year. However, towards the end of the half, weaker product demand levels were experienced and trading was negatively impacted resulting in the posting of an operating loss that was higher than anticipated.

Financial Results & Business Summary

Group revenues for the six-month period to 30 September were £8.23m (2007: £8.49m) representing a 3% reduction on the comparable half. Semiconductor shipments into the wireless and storage segments accounted for approximately 75% of Group revenues with particularly strong growth being recorded from the storage market. Revenues within the telecom market declined from European and US-based customers largely as a result of weaker demand from the alarm panel sub-market. Overall, the shortfall posted by the telecom segment eradicated gains made in the storage market.

Gross profit margin fell to 67% (2008: 71%) reflecting the change in product mix and an element of licensing revenue that was included within the comparable period.

Group operating costs reduced to £6.73m (2008: £7.14m), net finance costs amounted to £197k (2008: £109k) and a corresponding loss before tax of £1.3m was recorded (2008: £1.1m).

Given the extent of foreign currency movements since the Group's last reporting period, it is appropriate to reiterate the Group's exposure. Through the opening half year, the majority of customer transactions were in US dollars and, whilst most raw material purchases were also in US dollars, our largest cost centres are located in the UK and Germany resulting in some exposure to currency fluctuations. The Group does not enter into hedging arrangements in this respect.

Summary and Outlook

Performance during the opening six months was mixed. Good progress from the storage and wireless markets was countered by a disappointing result from the telecom segment.

Following the period end, trading has softened and the stance from all addressable market segments is very cautious. Whilst operational costs have been minimised, the Board is taking further steps to ensure the cost base is more appropriately aligned with anticipated business levels. Whilst these steps will likely result in an exceptional charge being recorded during the second half, they are necessary actions to maximise our success going forward.

The current outlook remains uncertain and it is therefore difficult to predict the timing of any recovery. Through this period, we will continue to focus on achieving sustainable progress and a return to profitability as soon as practically possible.

In closing I would like to thank our global employee base for their ongoing commitment and reiterate the crucial role they continue to play in our future.

C.A. Gurry
Managing Director

24 November 2008

CML Microsystems Plc
Consolidated Income Statement

	6 Months End 30/09/08 £'000	<i>6 Months End 30/09/07 £'000</i>	12 Months End 31/03/08 £'000
Continuing Operations			
Revenue	8,226	8,487	17,098
Cost of sales	(2,755)	(2,437)	(5,393)
Gross Profit	<u>5,471</u>	<u>6,050</u>	<u>11,705</u>
Distribution and administration costs	(6,728)	(7,144)	(13,671)
	<u>(1,257)</u>	<u>(1,094)</u>	<u>(1,966)</u>
Other operating income	208	125	430
Operating loss before adjustments	<u>(1,049)</u>	<u>(969)</u>	<u>(1,536)</u>
Share based payments	(49)	(18)	(48)
Operating loss after adjustments	<u>(1,098)</u>	<u>(987)</u>	<u>(1,584)</u>
Finance cost	(210)	(166)	(334)
Finance income	13	57	190
Loss before taxation	<u>(1,295)</u>	<u>(1,096)</u>	<u>(1,728)</u>
Income Tax	(380)	(107)	1,111
Loss for the period attributable to equity shareholders	<u>(1,675)</u>	<u>(1,203)</u>	<u>(617)</u>
Loss per share			
Basic	(11.21)p	(8.05)p	(4.13)p
Diluted	<u>(11.21)p</u>	<u>(8.05)p</u>	<u>(4.13)p</u>

Statement of Recognised Income and Expense

	6 Months End 30/09/08 £'000	<i>6 Months End 30/09/07 £'000</i>	12 Months End 31/03/08 £'000
Loss for the period	(1,675)	(1,203)	(617)
Foreign exchange differences	210	(44)	82
Actuarial gain	-	-	1,934
Income tax on actuarial gain	-	-	(580)
Recognised (losses)/gains relating to the period attributable to equity holders of the Company	<u>(1,465)</u>	<u>(1,247)</u>	<u>819</u>

CML Microsystems Plc
Consolidated Balance Sheet

	30/09/08 £'000	30/09/07 £'000	31/03/08 £'000
Assets			
Non current assets			
Tangible assets - Property, plant and equipment	6,091	6,699	6,261
Investment property	415	2,245	415
Development costs	5,146	5,729	5,341
Goodwill	3,512	3,512	3,512
Deferred tax asset	1,295	1,715	1,290
	<u>16,459</u>	<u>19,900</u>	<u>16,819</u>
Current assets			
Inventories	1,720	1,963	1,745
Trade receivables and prepayments	2,290	3,005	2,535
Current tax assets	137	148	410
Cash and cash equivalents	1,841	1,816	1,891
	<u>5,988</u>	<u>6,932</u>	<u>6,581</u>
Non current assets classified as held for sale – property	3,807	1,600	3,770
	<u>9,795</u>	<u>8,532</u>	<u>10,351</u>
Total assets	<u>26,254</u>	<u>28,432</u>	<u>27,170</u>
Liabilities			
Current liabilities			
Bank loans and overdrafts	5,211	4,659	5,075
Trade and other payables	2,315	2,434	2,320
Current tax liabilities	24	424	54
	<u>7,550</u>	<u>7,517</u>	<u>7,449</u>
Non current liabilities			
Deferred tax liabilities	2,524	3,126	2,125
Provisions	-	-	-
Retirement benefit obligation	-	2,289	-
	<u>2,524</u>	<u>5,415</u>	<u>2,125</u>
Total liabilities	<u>10,074</u>	<u>12,932</u>	<u>9,574</u>
Net Assets	<u>16,180</u>	<u>15,500</u>	<u>17,596</u>
Equity			
Share capital	747	747	747
Capital reserve	4,148	4,148	4,148
Share based payments reserve	99	19	50
Foreign exchange reserve	256	(80)	46
Accumulated profits	10,930	10,666	12,605
Shareholders' equity	<u>16,180</u>	<u>15,500</u>	<u>17,596</u>

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Consolidated Cash Flow Statement

	6 Months End 30/09/08 £'000	6 Months End 30/09/07 £'000	12 Months End 31/03/08 £'000
Operating activities			
Net loss for the period before income taxes	(1,295)	(1,096)	(1,728)
Adjustments for:			
Depreciation	224	324	579
Amortisation of development costs	1,997	2,205	4,684
Movement in pension deficit	-	-	(355)
Share based payments	49	18	48
Interest expense	210	166	334
Interest income	(13)	(57)	(190)
Decrease in working capital	263	500	440
Cash flows from operating activities	<u>1,435</u>	<u>2,060</u>	<u>3,812</u>
Income tax (paid)/refunded	257	(176)	(747)
Net cash flows from operating activities	<u>1,692</u>	<u>1,884</u>	<u>3,065</u>
Investing activities			
Purchase of tangible assets	(52)	(230)	(358)
Investment in development costs	(1,811)	(1,919)	(3,952)
Disposals of property, plant and equipment	6	-	13
Interest income	13	57	190
Net cash flows from investing activities	<u>(1,844)</u>	<u>(2,092)</u>	<u>(4,107)</u>
Financing activities			
Increase in bank loans	1,000	-	-
(Decrease)/increase in short term borrowings	(864)	-	1,075
Dividends paid	-	(747)	(747)
Interest expense	(210)	(166)	(334)
Net cash flows from financing activities	<u>(74)</u>	<u>(913)</u>	<u>(6)</u>
Decrease in cash and cash equivalents	<u>(226)</u>	<u>(1,121)</u>	<u>(1,048)</u>
Movement in cash and cash equivalents:			
At start of period	1,891	3,000	3,000
Decrease	(226)	(1,121)	(1,048)
Effects of exchange rate changes	176	(63)	(61)
At end of period	<u>1,841</u>	<u>1,816</u>	<u>1,891</u>

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Consolidated Statement of Changes in Equity

	Share capital	Capital reserve	Share based payments	Foreign exchange reserve	Accumulated profits	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2007	747	4,148	238	(36)	12,379	17,476
Foreign exchange differences				(44)		(44)
Loss for period					(1,203)	(1,203)
	747	4,148	238	(80)	11,176	16,229
Dividend paid					(747)	(747)
Share based payments in period			18			18
Share based payments transferred on cancellation			(237)		237	-
At 30 September 2007	747	4,148	19	(80)	10,666	15,500
Foreign exchange differences				126		126
Net Actuarial gains recognised directly to equity					1,934	1,934
Deferred tax on actuarial gains					(580)	(580)
Profit for period					585	585
	747	4,148	19	46	12,605	17,565
Share based payments			31			31
At 31 March 2008	747	4,148	50	46	12,605	17,596
Foreign exchange differences				210		210
Loss for period					(1,675)	(1,675)
	747	4,148	50	256	10,930	16,131
Share based payments			49			49
At 30 September 2008	747	4,148	99	256	10,930	16,180

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Notes to the financial statements

1. Segmental Analysis

Primary - Business

	Unaudited 6 Months End 30/09/08			Unaudited 6 Months End 30/09/07			Audited 12 Months End 31/03/08		
	Equipment £'000	Semi- conductor components £'000	Group £'000	Equipment £'000	Semi- conductor components £'000	Group £'000	Equipment £'000	Semi- conductor components £'000	Group £'000
Revenue									
By origination	479	10,678	11,157	587	11,353	11,940	1,130	22,474	23,604
Inter-segmental revenue	-	(2,931)	(2,931)	-	(3,453)	(3,453)	-	(6,506)	(6,506)
Segmental revenue	479	7,747	8,226	587	7,900	8,487	1,130	15,968	17,098
(Loss)/Profit									
Segmental result	55	(1,153)	(1,098)	110	(1,097)	(987)	178	(1,762)	(1,584)
Net financial income/(expense)			(197)			(109)			(144)
Income tax			(380)			(107)			1,111
Loss after taxation			(1,675)			(1,203)			(617)
Assets and Liabilities									
Segmental assets	731	19,869	20,600	815	21,909	22,724	708	20,578	21,286
Unallocated corporate assets									
Investment property			4,222			3,845			4,184
Deferred taxation			1,295			1,715			1,290
Current tax receivable			137			148			410
Consolidated total assets			26,254			28,432			27,170
Segmental liabilities	115	2,200	2,315	133	2,301	2,434	93	2,227	2,320
Unallocated corporate liabilities									
Deferred taxation			2,524			3,126			2,125
Current tax liability			24			424			54
Bank loans and overdrafts			5,211			4,659			5,075
Retirement benefit obligation			-			2,289			-
Consolidated total liabilities			10,074			12,932			9,574
Other segmental information									
Property, plant and equipment additions	30	22	52	-	230	230	2	356	358
Development cost additions	35	1,776	1,811	34	1,885	1,919	72	3,880	3,952
Depreciation	9	215	224	8	316	324	16	563	579
Amortisation	31	1,966	1,997	32	2,173	2,205	73	4,611	4,684

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Notes to the financial statements - continued

2. Dividend paid and proposed

Declared and paid during the period

	Unaudited 6 Months End 30/09/08 £'000	<i>Unaudited 6 Months End 30/09/07 £'000</i>	Audited 12 Months End 31/03/08 £'000
Equity dividends paid on 5p ordinary shares 5p per share dividend for year ended 31 March 2007	-	747	747

The directors do not recommend the payment of an interim dividend.

3. Income tax

The directors consider that tax will be payable at varying rates according to the country of incorporation of a subsidiary and have provided on that basis. Deferred taxation is not reassessed at the interim stage.

	Unaudited 6 Months End 30/09/08 £'000	<i>Unaudited 6 Months End 30/09/07 £'000</i>	Audited 12 Months End 31/03/08 £'000
UK income tax	(175)	(144)	(364)
Overseas income tax	161	251	329
Total current tax charge/(credit)	(14)	107	(35)
Deferred tax	394	-	(1,076)
Reported income tax charge/(credit)	380	107	(1,111)

The deferred tax charge is the result of Industrial Building Allowance being withdrawn. Though proposed by the UK government at 31 March 2008 this change had not been enacted and accordingly not accounted for in the Report and Accounts for the year-end 31 March 2008. Details of this were included in the notes as a subsequent event.

4. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period and on the following weighted average number of shares in issue:

	Ordinary 5p shares	
	Weighted Average Number	Diluted Number
6 months ended 30 September 2008	14,947,626	14,947,626
<i>6 months ended 30 September 2007</i>	<i>14,947,626</i>	<i>14,947,626</i>
12 months ended 31 March 2008	14,947,626	14,947,626

5. Retirement benefit obligations

The directors have not obtained an actuarial report in respect of the defined benefit pension scheme for the purpose of this Half Yearly Report.

6. Tangible assets – Investment Property/property held for sale

Investment properties are re-valued at each discreet period end by the directors and every third year by independent Chartered Surveyors on an existing use open market basis. No depreciation is provided on freehold properties or on leasehold investment properties where the un-expired lease term exceeds 20 years. In accordance with IAS 40, gains and losses arising on revaluation of investment properties are shown in the income statement. The directors are of the opinion that there has been no material change of the total carrying value of the investment properties and the property held for sale.

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Notes to the financial statements – continued

7. General

Other than already stated within the Chairman's statement and the operating and financial review there have been no important events during the first six months of the financial year that have impacted this Half Yearly Report.

There have been no related party transactions or changes in related party transactions described in the latest annual report that could have a material effect on the financial position or performance of the Group in the first six months of the financial year.

The principal risks and uncertainties within the business are contained in the operating and financial review on page 2 of this Half Yearly Report.

In the Segmental Analysis (note 1 on page 7) inter-segmental transfers or transactions are entered into under commercial terms and conditions appropriate to the location of the entity whilst considering that the parties are related.

This interim management report includes a fair review of the information required by DTR 4.2.7 (indication of important events and their impact, and description of principal risks and uncertainties for the remaining six months of the financial year).

This Half Yearly Report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". This Half Yearly Report does not include all the information and disclosures required in the Annual Financial Statements, and should be read in conjunction with the consolidated Annual Financial Statements for the year ended 31 March 2008.

The financial information contained in this Half Yearly Report has been prepared using International Financial Reporting Standards as adopted by the European Union. The accounting policies used in preparation of the Half Yearly Report are the same accounting policies set out in the year ended 31 March 2008 financial statements. This Half Yearly Report does not constitute statutory accounts as defined by Section 240 of the Companies Act 1985. The financial information for the year ended 31 March 2008 is based on the statutory accounts for the financial year ended 31 March 2008 that have been filed with the Registrar of Companies and on which the auditors gave an unqualified audit opinion. The auditors report on those accounts did not contain a statement under section 237(2) or (3) of the Companies Act 1985. This Half Yearly Report has not been audited or reviewed by the Group Auditors.

A copy of this Half Yearly Report can be viewed on the company website <http://www.cmlmicroplc.com>.

8. Approval of results

The directors approved this Half Yearly Report on 24 November 2008.



CML Microsystems Plc

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