CML Microsystems Plc

REPORT AND ACCOUNTS

2007

Contents

The Year AT A GLANCE

	2007 £'000	2006 £'000
Revenue	17,768	26,333
(Loss)/Profit before Taxation	(3,209)	3,486
Shareholders' Equity	17,477	21,185
(Loss)/Earnings per Share	(17.53)p	17.68p
Proposed Dividend per Share	5p	10.5p

Five Year SUMMARY

	Year ending 31st March				
	2007	2006	2005	2004	2003
	£'000	£'000	£'000	£'000	£'000
	Prepared under IFRS			Prepared under UK GAAP	
Income Statement					
Revenue	17,768	26,333	23,457	16,322	12,387
Gross Profit	11,040	15,860	14,861	10,323	8,323
Gross Profit Percentage	62.13%	60.23%	63.35%	63.25%	67.19%
(Loss)/Profit Before Taxation	(3,209)	3,486	2,305	(979)	(322)
Earnings per Share					
Basic	(17.53)p	17.68p	16.77p	(5.28)p	0.53p
Diluted	(17.53)p	17.66p	16.64p	(5.28)p	0.53p
Balance Sheet					
Shareholders' Equity	17,477	21,185	19,498	16,692	19,440
	No.	No.	No.	No.	No.
Issued 5p Ordinary Shares	14,947,626	14,892,052	14,880,962	14,801,362	14,620,578

Directors
AND ADVISORS

George William Gurry
Aged 75, is Group Executive Chairman. He is a founder of the Company.

Nigel Graham Clark
Aged 53, joined the Group in August 1980. He was appointed Company Secretary in December 1983 and Group Financial Director in December 1985.

Christopher Arthur Gurry
Aged 43, joined the Group in 1994. He was appointed to the board in April 2000 as Business Development Director.

George James Bates
Aged 60, joined the Group in November 1971. He was appointed Group Director of Engineering in May 1994. On 31st March 2006 he resigned as Group Director of Engineering but has continued in the capacity of a Non-Executive Director.

Ronald Jacob Shashoua
Aged 73, joined the Group as a Non-Executive Director in June 1996. Formerly of Casson Beckman, Chartered Accountants, Mr Shashoua was a corporate finance specialist partner and also held a number of management positions within the partnership, including Chief Executive.

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Auditors
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Chartered Accountants
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Solicitors
Kidd Rapinet
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Womble Carlyle Sandridge & Rice
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North Carolina
USA

Bankers
Barclays Bank Plc
9 High Street
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Company OVERVIEW

Introduction

CML Microsystems Plc (CML) was founded in 1968 in the United Kingdom (as Consumer Microcircuits Limited). Today, through eight operating subsidiaries located in the UK, the United States, Germany, Singapore and Taiwan, the Group designs, manufactures and markets a range of integrated circuits (ICs) for global industrial, professional and consumer applications within wireless communication, wireline communication, storage and networking market areas.

Headquartered in Essex, UK, CML employs over 200 people worldwide. The Company operates a 'fabless' semiconductor model (outsources silicon wafer fabrication) and performs IC assembly and test functions at facilities in the UK and through subcontractors around the globe.

CML operates sales and technical support offices in Essex (UK), Konstanz (Germany), North Carolina (USA), Singapore, Taipei, and Shanghai and is supported by a global network of distributors and manufacturer's representatives.

Long recognised as an innovator in IC products, CML has achieved a leading position in mixed-signal (combined analog and digital) circuit design and supply to many major electronic equipment manufacturers across the globe. Originating from the development of high-performance ICs during the 1970's and 80's, the Group has significant experience in delivering ICs for applications that demand world-class quality, performance, extended battery life and integration-levels. The Group maintains and enhances its market position by delivering an array of products that are often designed in conjunction with customers' specifications and/or complex international standards.

Strategy

Historically, CML has carved out a profitable niche in global markets dominated by large corporations by pursuing a simple and consistent niche strategy; to deliver a solution rather than merely a component product to the customer; and to concentrate on markets that have significant expertise barriers to entry and limited economic appeal to larger competitors. More recently, the acquisition of German fabless IC company, Hyperstone GmbH, has seen this strategy evolve further to include consumer and industrial markets with increased global competition - but the key strategy remains.

Group semiconductor products focus on four main segments of the global semiconductor market:

- **Wireless**

  ICs covering voice, data, signalling and radio frequency (RF) requirements within historic and emerging markets for professional radio (PMR/LMR), marine radio, leisure radio, paging and voice security.

- **Wireline Telecom**

  Voice, data and signalling ICs predominantly for 'wired' telephony applications and 'gateway' applications where traditional telephony infrastructure converges with digital and wireless applications.

- **Storage**

  Flash controller IC's for use within consumer memory cards (CF, SD, miniSD, microSD, MMC, RSMMC, MicroMMC) and industrial storage products such as solid state drives (SSDs).

- **Networking**

  Proprietary RISC/DSP System on Chip (SoC) processor IC's for industrial networking/ automation (Ethernet communications), security (IP-cameras, digital video recorders for CCTV) and biometrics (fingerprint recognition, access control / time and attendance logging) applications.

The Group's wide-ranging design skills, diversified technology portfolio and system-level understanding, coupled with market leading product functionality and an extensive selling network are key factors in the Group's future success.

Chairman's STATEMENT

Introduction

As foreshadowed when reporting on the interim results and the outlook for the second half, the results for the full year ended 31 March 2007 reflect the material losses posted for each of the six month trading periods.

The losses at the operating level were much as had been forecast internally, and arising from the product introduction delays and lost customer issues referred to in my interim statement, but the overall reported loss is increased under the new accounting and reporting standards. Notwithstanding that, the loss is broadly in line with market expectations for the year.

Results

Group revenues amounted to £17.77m (2006: £26.33m) for the year, the decline attributable largely to the serious reduction in product shipments to a key customer within the consumer storage market area.

A loss before taxation of £3.21m (2006: Profit before taxation £3.49m) was recorded although it can be noted that a weaker dollar along with amortisation and pensions adjustments were significant contributing factors.

The posted loss per share of 17.53p was better than market expectations although down on the prior year (2006: earnings per share 17.68p).

Cash flow was negative during the year and cash balances reduced by £2.7m following a £3.2m loss before taxation and the payment of a £1.6m dividend.

Dividend

Your directors have considered the material loss and negative cash flow recorded for the year just ended, and the pressure that has been placed on cash reserves and working capital, and they believe it is appropriate to ensure that resources should be prioritised towards ensuring a return to profitability for your Company.

The Board has confidence that your Company can achieve its planned progress in this current year, and is recommending payment of a dividend of 5p per ordinary share (2006: 10.5p per ordinary share) to be payable on 3 August 2007 to shareholders registered on 6 July 2007.

Prospects

The opening months of the current year are generally on or slightly ahead of operating targets, although firm progress will most likely not become evident before the second half.

Action to address the product availability delays of last year will only begin to bite in coming months.

I am disappointed with the full year results but encouraged that steps to tackle issues under management control will bear effect. I am confident, subject to unforeseen circumstances, in expecting a firm improvement in performance for this current year, including clear visibility of the point when the Group will return to profitability.

The progress of any business is always dependent on the quality and dedication of the people it employs. I am confident that our employees are motivated towards the success of the Group and its return to profit and the Board wish to thank the employees worldwide for their dedication and support through the year.

G. W. Gurry

Chairman

Introduction

This year can be characterised by good progress with a number of the Company's growth plans, coupled with certain disappointments that significantly impacted financial improvement over the prior year.

On a market segmental basis, performance during the year was mixed:

Wireless

A significant reduction in revenues from products shipped into the very low cost analogue leisure radio market was partially countered by growth in application areas for voice privacy and digital radio markets. The Company benefited from historic investments in this area and voice privacy IC shipments for military digital radios along with revenues from wireless data IC's for telemetry systems exceeded those that were planned.

Revenues from shipments to professional analogue radio manufacturers continued to grow and steady progress with customer design-in activity occurred. It is noteworthy that growth continued in this historic analogue segment alongside that seen within the newer digital radio markets where the Company is also well placed and has been active for some years.

Adoption of products based upon the Company's proprietary FirmASIC technology was encouraging and production volumes began shipping towards the year-end. Time-to-market with products based upon this technology improved noticeably.

Wireline Telecom

Far-East data modem IC stocking issues were cleared and revenue levels moved ahead as expected. Shipments of products to manufacturers within the wireless local loop / fixed wireless terminal markets were particularly pleasing, despite pricing pressure. It should be noted that business levels with certain customers within this market sub-segment continue to exhibit uncertainty due to the bid and tender process that is a pre-requisite to any significant contract awards.

As noted at the interim period, the Company achieved good progress with its strategy of expanding product integration, reducing time to market and improving commercial competitiveness.

Storage

In the consumer storage area, revenues were impacted by the decision of the single largest Group customer to exit the flash memory card market. This situation was unexpected as we began the year, and occurred whilst the customer base in the storage segment was relatively low, and during a period where these customers were in the process of designing-in Group products or in the early production phase.

This event was unfortunate but has to be considered along with the fact that the Company intends to become a major player in certain sub-sectors of the storage market, and volatility can be experienced during the early stages of the growth phase whilst customer concentration is high.

Outside of the consumer memory card markets, progress was on track and penetration of the customer base for solid-state drives (SSD) was significant. SSD storage devices offer a number of benefits over magnetic media for certain applications such as faster access times, lower current consumption, higher operating temperatures and improved reliability. The Company has extensive experience, a strong patent and technology portfolio and world-class products in this area that all contributed to a noteworthy revenue increase during the year.

Networking

Shipments of ICs into networking applications fell slightly year on year. This is an area where R&D investment has been substantial and the reduction in revenues masked the underlying progress that was made and reflected the typical delay from new product introduction through to customer volume production phase. Revenues from older, less integrated products fell whilst shipments of newer technology ICs released to production at the beginning of the year began to increase as the year-end approached. Investment in the development of support tools for these new ICs along with reference designs for target market applications continued.

In a year where revenues have reduced dramatically as a direct result of unexpected issues associated with a single customer, it is appropriate to reiterate that during the year the Group had no single customer who represented more than ten percent of Group revenues and only one customer who represented more than five percent of Group revenues.

Margins

Gross margins within the Group's historical markets of wireline telecom and wireless were held at previous year levels and, with the reduction in revenues experienced within the storage market, the overall gross profit margin improved slightly to 62% (2006 - 60%). Product delays within consumer storage application areas contributed to increased pricing pressure towards the year-end.

Overheads

During the year, the majority of customer transactions were in US dollars. The Group had a partial natural hedge due to significant raw material purchases being made in US dollars and no further hedging arrangements were entered into. The weakening of the US dollar had an adverse effect on profits.

Tight control over the overheads was maintained whilst having appropriate regard for the growth objectives of the business. Despite the increased control measures, overheads increased and the main contributors to that were accounting for pensions under IAS 19, the effects of amortisation and the weakening of the US dollar.

Pensions

Over the last few years the Board, in conjunction with the pension schemes trustees and actuary, have been working to reduce the scheme deficit in the Group's defined benefit pension scheme and various measures have been put in place with this objective in mind. These measures are agreed with the scheme actuary who conducts a triennial valuation, as required by law. In addition, the Group has to comply with IAS 19 for the accounting of this liability in the consolidated financial statements. In arriving at the effect of IAS 19 for retirement benefit obligations on the income statement, the scheme actuary calculates the movements in the scheme deficit. It is not practical for the Company to calculate this and then estimate the effect on internal forecasts, so any non-recurring charge has the potential to alter results unexpectedly.

During the year, a new set of pension commutation factors were introduced which had the effect of increasing the past service liabilities of the scheme. This charge amounted to £587k (2006 – £nil) and has been confirmed as a one off cost. The net of the current years service costs and the past service costs are added to the administration cost and this resulted in a charge for the year of £993k (2006 - £380k) reflecting a year-on-year negative variance of £613k. The financial income or cost is adjusted in a similar manner and this year's income amounted to £227k (2006 – cost of £20k) posting a positive comparative variance of £247k.

The net effect of IAS 19 on the income statement was to increase the loss before taxation by £766k (2006 - decrease profit before tax by £400k). A further actuarial gain was recorded of £1,063k (2006 - £222k) and this is posted through the statement of recognised income and expenditure resulting in a scheme deficit, before any deferred tax adjustment, of £2,289k (2006 - £3,135k).

Taxation

The low taxation credit within the income statement reflects the large adjustment to the taxation charge on the subsidiary Hyperstone GmbH. This followed a revised determination by the German tax authority following a tax inspection that took place on one of the previous owners. The basis on which certain allowances were claimed in prior years was disallowed and resulted in a further amount of £450k becoming payable. The whole of this amount was charged to tax during the year.

Property

In addition to property from which operating subsidiaries trade, the Group owns a number of investment properties that are stated within the balance sheet at market value. The remaining property is stated at historical cost. The Board is mindful of the significant value held in property within the balance sheet and accordingly took moves during the year to ensure this area of the business provides a better return for shareholders. The long leasehold premises at Fareham, Hampshire which was previously held as an investment property was placed on the market for sale prior to the year end and an investigation commenced into the possibility of increased development of the Group headquarters site in Essex.

Development costs

Steady new product progress was made in the wireless and wireline telecom markets with eight new products being launched during the year. Development of the networking and storage solutions products fell significantly behind schedule, as reported at the interim stage. Overall spend on development was slightly down on the previous year at £4.704m (2006 - £5.063m). The effects of adopting IAS 38, as opposed to following historical policies under UK GAAP where all development expenditure was written off during the year incurred, resulted in a small negative effect on the income statement of approximately £85k.

Working capital and cash flow

With a significant reduction in revenues becoming apparent during the year, and in keeping with management objectives, inventory levels reduced significantly and tight financial control was exercised over cash flow. The resulting effect was that cash balances reduced by £2.7m following a £3.2m loss and the payment of a £1.6m dividend.

Report OF THE DIRECTORS

The directors submit their Report and Group financial statements for the year ended 31st March 2007.

Statement of Directors' Responsibilities in respect of the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

UK company law requires the directors to prepare Group and Company Financial Statements for each financial year. Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") adopted by the EU and have also elected to prepare the Company financial statements in accordance with IFRS adopted by the EU. These financial statements are required to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the company.

In preparing each of the group and company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently:
b. make judgements and estimates that are reasonable and prudent;
c. for the group and company statements, state whether they have been prepared in accordance with IFRS adopted by the EU;
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985.

They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal Activities

The Group designs, manufactures and markets a range of electronic products for use in communications industries.

Business Review and Future Developments

The Chairman's Statement on page 4 and Business Review on pages 5 to 7 give a detailed review of the business of the Group along with the development and performance of the business during the year and the position at the year end. A range of performance measures to monitor and manage the businesses are used some of which are considered key performance indicators (KPIs). These KPIs include revenue, gross profit and operating profit.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group are with foreign currencies and customer dependency. With the majority of the Group's earnings being linked to the US Dollar a decline in this currency will have a direct effect on revenue, although since the majority of the cost of sales are also linked to the US Dollar, this risk is reduced at the gross profit line. Additionally, though the Group has a very diverse customer base in certain market segments, key customers can represent a significant amount of revenue. Key customer relationships are closely monitored, however changes in buying patterns of a key customer could have an adverse effect on the Group's performance.

Results

The results for the year are set out in the Group income statement on page 16. The Group's pre-tax loss was £3,209,224 (2006 - profit £3,485,861) and the loss attributable to ordinary shareholders was £2,618,419 (2006 - profit £2,632,529).

Dividends

The directors propose a dividend of £747,381 for the year (2006 - £1,563,665) payable on 3rd August 2007. This is equivalent to 5p per 5p Ordinary share (2006 - 10.5p per 5p Ordinary share).

Research and Development

The Group actively reviews developments in its markets with a view to taking advantage of the opportunities available to maintain and improve its competitive position.

Substantial Shareholdings

Other than the directors' interests shown on page 9, the Company has been advised of the following substantial holdings as at 8th June 2007:

Liontrust Asset Management Plc	17.13%
Advance Aim Value Realisation Company Limited	6.69%
M & G Investment Management Ltd.	5.35%
Legal and General	4.18%
Universities Superannuation Scheme Ltd.	3.48%

Payment of Payables

It is the Company's policy to negotiate payment terms with its suppliers in all sectors and to ensure that they know the terms on which payment will take place when the business is agreed. It is our policy to abide by these terms. The Company has no trade payables outstanding at the end of the financial year and therefore the Company's practice in respect of the year with regard to its payment of creditors, as defined by the Companies Act 1985, has been zero days.

Report OF THE DIRECTORS continued

Directors and their Interests

The directors of the Company at 31st March 2007, all of whom have served throughout the year unless otherwise stated, together with their interests in the shares of the Company were:

	Ordinary Shares of 5p each	
	31st March 2007	1st April 2006
G.W. Gurry	4,389,262	4,389,262
N.G. Clark	123,571	120,726
G.J. Bates	44,409	44,409
C.A. Gurry	408,936	405,061
R.J. Shashoua	83,755	83,635

The above interests in the ordinary share capital of the Company are beneficial other than Mr G. W. Gurry's holding which includes 1,700,000 (2006 - 1,700,000) shares held by him as trustee in a non-beneficial capacity. Details of the directors' interests in options granted over ordinary shares are disclosed in the Directors' Remuneration Report. There have been no changes in the directors' interests in shares or share options between 1st April 2007 and 8th June 2007. There are no contracts of significance in which the directors have an interest.

Annual General Meeting

The notice of the Annual General Meeting sets forth resolutions for the customary Ordinary Business and also Special Business comprising two Special Resolutions relating to the following matters:

Special Resolutions

1. To renew the authority to the Company to make market purchases of its own shares.
2. To disapply the pre-emption provisions of Section 89(1) of the Companies Act 1985 for a maximum of 15 months up to an aggregate nominal amount of £35,750.

Disabled Employees

The Company makes every reasonable effort to ensure that disabled employees receive equal opportunities and are not discriminated against on the grounds of their disability.

Employee Involvement

The Company encourages employees to participate directly in the success of the business through a free flow of information and ideas.

Statement as to Disclosure of Information to Auditors

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditors

The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1st April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

A resolution to re-appoint Baker Tilly UK Audit LLP as auditors of the Company will be put to the members at the Annual General Meeting.

By order of the Board
N.G. Clark
Company Secretary; 18th June 2007

Directors' REMUNERATION REPORT

Introduction

This report has been prepared in accordance with Schedule 7a of the Companies Act 1985 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31st December 2002. As required a resolution to approve the Directors' Remuneration Report will be proposed at the forthcoming Annual General Meeting of the Company at which the financial statements will be approved. The vote will have advisory status, will be in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

Remuneration Committee

The Board has established a Remuneration Committee comprising G. W. Gurry and N. G. Clark.

Executive Remuneration Policy

The Group aims to ensure that the executive remuneration arrangements are in line with the Group's overall practice on pay and benefits and having regard to the size and nature of the business, are competitive and designed to attract, retain and motivate executive directors of high calibre.

Basic Annual Salary

The basic salary of each director is determined by taking into account the director's experience, responsibility, value to the organisation and mutual value. In deciding appropriate levels, the Committee takes account of information from various sources, both internal and external, to ensure that the level of basic salary is appropriate.

Annual Bonus

The Committee establishes the objectives for each financial year where a cash bonus might be paid. The Committee believes that any incentive should be tied to the overall profitability and progress of the Group. No bonus payments were made during the year.

Long Term Incentive Plans

The Company has no long term incentive plans for executive directors.

Benefits in Kind

The executive directors receive certain benefits in kind, principally a car and private medical insurance.

Pension Arrangements

All executive directors except G. W. Gurry are members of the Company's defined benefit pension scheme. The Company's contribution to the scheme is 12.1% of salary for all members. Life insurance cover and widows death in service cover is provided under the scheme. Company contributions of £15,000 (2006 - £11,000) were made towards the money purchase pension scheme during the year.

Share Options

No separate share option scheme exists purely for executive directors and they therefore only participate in share option plans that are eligible to all employees. The Committee believes that share option schemes for all employees maximise shareholder value over time and therefore no specific performance conditions attach to the number of options granted to executive directors on an individual basis.

Remuneration (audited)

Individual directors' remuneration was as follows:

	2007				2006			
	Salary	Benefits in kind	Total	Pension contributions	Salary	Benefits in kind	Total	Pension contributions
	£	£	£	£	£	£	£	£
G. W. Gurry	127,000	19,030	146,030	-	127,000	20,581	147,581	-
N. G. Clark	230,000	29,108	259,108	25,760	229,000	29,108	258,108	26,760
G. J. Bates	16,000	10,247	26,247	-	155,000	17,539	172,539	17,172
C. A. Gurry	160,000	26,770	186,770	32,284	155,000	26,770	181,770	27,284
R. J. Shashoua	16,000	-	16,000	-	16,000	-	16,000	-
	549,000	85,155	634,155	58,044	682,000	93,998	775,998	71,216

Share Options (audited)
The following directors had interests in options to subscribe for ordinary shares as follows:

	Number of options at 1st April 2006	Exercised during year	Granted during the year	Number of options at 31st March 2007	Exercise price	Market price at date of exercise	Exercise date
G. W. Gurry	-	-	-	-	-	-	-
N. G. Clark	4,750	-	-	4,750	£2.92½	-	14th June 2003 to 13th May 2007
	15,000	-	-	15,000	£3.35	-	18th March 2007 to 17th March 2014
G. J. Bates	4,750	-	-	4,750	£2.92½	-	14th June 2003 to 13th May 2007
	15,000	-	-	15,000	£3.35	-	18th March 2007 to 17th March 2014
C. A. Gurry	4,750	-	-	4,750	£2.92½	-	14th June 2003 to 13th May 2007
	15,000	-	-	15,000	£3.35	-	18th March 2007 to 17th March 2014
	59,250	-	-	59,250			

Options are granted at an exercise price not less than the market price on the last dealing day prior to the date of grant and, under normal circumstances, remain exercisable between the third and seventh anniversaries of the date of grant. The share option schemes cover all Group employees, not just the directors. Further details are provided in note 23 to the financial statements. The market price of the Company's shares on 31st March 2007 was 130p (2006 - 267.5p) and the range for the year was 129p to 320p.

Pensions (audited)
The Group operates several pension schemes throughout the United Kingdom and overseas in which some of the directors are included. Full details of these schemes are given in note 11 to the financial statements.
The number of directors who were members of pension schemes operated by the Company was:

	2007 No.	2006 No.
Money Purchase Scheme	4	4
Defined Benefit Scheme	3	3

The following directors were members of the defined benefit scheme operated by the Company during the year. Pension entitlements and corresponding transfer values were as follows during the year:

	Total accrued pension at 31st March 2007 £	Increase in accrued pension £	Transfer value of net increase in accrual over period £	Transfer value of accrued pension at 31st March 2006 £	Transfer value of accrued pension at 31st March 2007 £	Total change in transfer value during period £
N. G. Clark	97,814	2,855	106,120	918,545	1,033,865	115,320
G. J. Bates	-	-	-	1,057,125	-	-
C. A. Gurry	20,054	1,318	19,694	122,489	146,143	23,654

Mr G. J. Bates commenced the drawing of his pension scheme entitlement in the year and accordingly no subsequent transfer value is disclosed above.

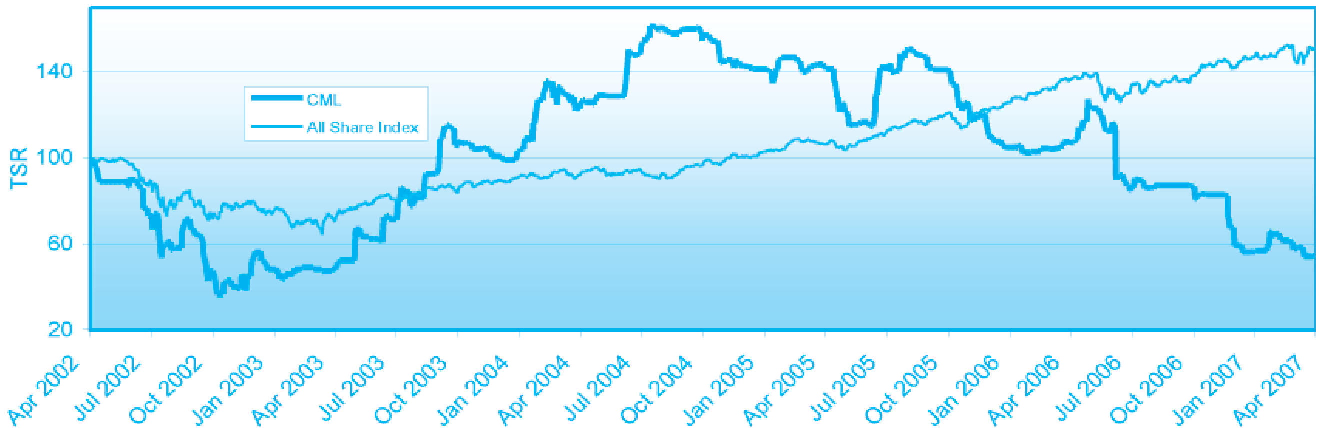
Non-Executive Directors
The fees payable to non-executive directors are designed to recognise the responsibility and reward the expertise and ability of the individual.

Directors' Service Contracts
No director has a service contract with the Company nor are they appointed for a specific term of office. Directors are subject to reappointment at the first Annual General Meeting after their appointment and thereafter, apart from the Managing Director, one third of the remaining directors shall retire by rotation at the Annual General Meeting.

Directors' REMUNERATION REPORT continued

Company's Performance

The graph below shows the total shareholder return on a holding of shares in the Company as against the average total shareholder return (TSR) of the companies comprising the FTSE All Share Index for the last five years. The FTSE All Share Index was selected because it was the only index with data available for five years which in the opinion of the Board is most appropriate for the Company for the purpose of a benchmark.



On behalf of the Board of Directors
N. G. Clark
Director and Company Secretary
18th June 2007

Statement of the application of principles in the 2003 combined code (“The Code”)

The Board recognises its responsibilities and the principles of good corporate governance and where appropriate it has sought to comply with "The Code" throughout the Group whilst having due regard to the fact that the company is classed as a “smaller company”. The Board confirms that it has complied with the provisions of “The Code”, save as specified below.

Directors

The Group is led and controlled by an effective Board which during the year comprised four executive directors and one independent non-executive director. With G. J. Bates moving to a non-executive director the Board now comprises 3 executive directors and two non-executive directors, one of whom is independent. Details of the directors can be found on page 2. Since the Board has only one independent non-executive director, formation of committees and procedures to fully comply with “The Code” has not been possible but matters which otherwise might have been delegated to sub-committees are instead considered by the whole Board.

The Group does not comply with Code Provision A.1.1 in that the Board does not have a formal schedule of matters specifically reserved for its decision due to the fact that the size of the Group and the close involvement by all the executive directors in all aspects of the business means this is not considered appropriate. The Group does not comply with Code Provision A.1.2 in that it has not set out the number of meetings of the Board and Remuneration Committee and the individual attendance by directors at such meetings due to the fact that the executive directors of the Board meet almost daily throughout the year on an informal basis and regularly on a formal basis. The non-executive directors attend when appropriate both the formal and informal meetings.

G. W. Gurry performs the role of both Chairman and Chief Executive and so the Group does not comply with Code Provision A.2.1 in that the same individual exercises the roles of Chairman and Chief Executive. The Board feels that due to the close involvement in all operational matters of the other executive directors, it ensures that there is an appropriate balance of power and authority.

The Group does not comply with Code Provision A.3.2 in that throughout the year the Board did not have at least two independent non-executive directors but believed that one non-executive director was appropriate bearing in mind the current size, nature and culture of the Group. The Group does not comply with Code Provision A.3.3 in that one of the non-executive directors has not been appointed as the senior independent director. R. J. Shashoua has been a non-executive director in excess of nine years. The Board considers that he remains independent because he holds a number of other independent consultancy positions.

The Group does not comply with Code Provision A.4.1 in that it does not have a nomination committee, which leads the process for Board appointments. The whole Board led by the Chief Executive considers any appointment. No appointments to the Board have been made during the year.

The Group does not think it necessary to comply with Code Provision A.5.2, which requires a formal agreed procedure for the directors to take independent professional advice at the company’s expense since all Board members have full access to the Group's advisors, and the Group's culture is to openly discuss any important issues.

The Group does not comply with Code Provision A.6.1 in that it does not consider it relevant to state in the annual report how performance evaluation of the Board, its committees and the individual directors has been conducted. The board as a whole monitors its performance by reference to the performance of the business against targets, expectations and its longer-term strategies.

The Group does not comply with Code Provision A.7.1 in that not all directors are subject to re-election every three years. It is considered adequate that one third of the Board on a rotating basis except for G. W. Gurry submit themselves for re-election at the Annual General Meeting each year.

Remuneration

The Remuneration Committee consists of the Chairman and Financial Director who are responsible for considering and approving terms of service, remuneration, bonuses, share options and other benefits of all directors. The Group does not comply with Code Provision B.1.1 in that there is no performance element in the remuneration package of the directors or comply with Code Provision B.2.1 in that there are no independent non-executive directors on the remuneration committee but consider that this does not affect the committee's ability having regard to the size and nature of the business and the importance of retaining and motivating management.

Accountability and Audit

It is required by "The Code" that the Board, at least annually, conduct a review of the Group's systems of internal controls and should report to the shareholders that they have done so. The Board recognises that the Group operates in highly competitive markets that can be affected by factors and events outside its control. Accordingly, a review of the material controls, including financial, operational and compliance controls and risk management systems was undertaken during the year by the internal audit function. The Board, as a whole, reviews the results of the work carried out by the internal audit function and necesary actions are taken where needed. This review is not entirely in line with the guidance published by the Turnbull Committee and so the Group does not fully comply with Code Provisions C.2.1.

The Group does not comply with Code Provision C.3 in that it does not have an audit committee. The Board believes that it presents a balanced and understandable assessment of the Group's position and prospects but due to the current size of the Group and the Board, it feels that an audit committee is inappropriate. The Financial Director is responsible for the appointment of the external auditors; reviewing the scope and results of the audit; its cost effectiveness; the independence and objectivity of the auditors and the supply of non-audit services. Additionally, the independent non-executive director carries out an independent review with the auditors.

Arrangements for staff to raise concerns about possible improprieties in matters of financial reporting or other matters has been considered. However, the business has a culture of high integrity, open communication and direct access to senior management from all levels which provides an informal route for the notification of such issues. Therefore a formal procedure is not considered necessary.

Relations with Shareholders

The Finance Director and Business Development Director are the Group's principal spokesmen with investors, fund managers, the press and other interested parties. They hold briefings with Institutional Fund managers and analysts primarily following the announcement of Interim and Preliminary results. The Board also welcomes all shareholders at the Annual General Meeting where they are able to question the full Board and meet with them afterwards. Details of all briefings and meetings are communicated to the full Board.

Going Concern

The Directors have reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

By order of the Board
N.G. Clark
Company Secretary; 18th June 2007

Report
OF THE INDEPENDENT AUDITORS

To the members of CML Microsystems Plc

We have audited the group and parent company financial statements on pages 16 to 39. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and as regards to the Group financial statements, Article 4 of the IAS Regulation and whether the information given in the Directors' Report is consistent with the financial statements.

The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Business Review that is cross referenced from the Business Review section of the Directors' Report.

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the unaudited part of the Company Overview, the Business Review, the Report of the Directors, the Directors' Remuneration Report, the Chairman's Statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2007 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2007;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards to the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

18th June 2007

Group
INCOME STATEMENT
for the year ended 31st March 2007

	Notes	2007	2006
		£	£
Continuing operations			
Revenue	3	17,768,437	26,332,610
Cost of sales	4	(6,728,735)	(10,472,523)
Gross profit		11,039,702	15,860,087
Distribution and administration costs	4	(14,985,049)	(13,409,173)
		(3,945,347)	2,450,914
Other operating income	4	659,577	471,999
Operating (loss)/profit before adjustments		(3,285,770)	2,922,913
Share based payments	24	(76,102)	(79,407)
Operating (loss)/profit after adjustments		(3,361,872)	2,843,506
Revaluation of investment properties	12	-	695,000
Finance costs	7	(228,062)	(232,945)
Finance income	7	380,710	180,300
(Loss)/profit before taxation		(3,209,224)	3,485,861
Income Tax	8	590,805	(853,332)
(Loss)/profit after taxation attributable to equity shareholders	10	(2,618,419)	2,632,529
(Loss)/earnings per share			
Basic	10	(17.53)p	17.68p
Diluted	10	(17.53)p	17.66p

Statement of Recognised Income and Expense

		£	£
(Loss)/profit for the period		(2,618,419)	2,632,529
Foreign exchange differences		(346,011)	350,112
Actuarial gain	11	1,063,000	222,000
Income tax on actuarial gain	22	(318,900)	(66,600)
Recognised losses and gains relating to the period		(2,220,330)	3,138,041

Group BALANCE SHEET
at 31st March 2007

	Notes	2007		2006	
		£	£	£	£
Assets					
Non current assets					
Tangible assets - Property, plant and equipment	12		6,802,494		7,256,243
Tangible assets - Investment property	12		2,245,000		3,845,000
Intangible assets - Development costs	12		5,984,153		6,132,784
Intangible assets - Goodwill on consolidation	12		3,512,305		3,512,305
Deferred tax asset	22		1,716,935		1,164,870
			20,260,887		21,911,202
Current assets					
Inventories	15	1,595,272		2,232,651	
Trade receivables and prepayments	16	3,057,534		4,898,785	
Current tax assets	21	418,615		537,215	
Cash and cash equivalents	17	3,000,076		5,707,644	
		8,071,497		13,376,295	
Non current assets classified as held for sale - property	12	1,600,000		-	
			9,671,497		13,376,295
Total assets			29,932,384		35,287,497
Liabilities					
Current liabilities					
Bank loans and overdrafts	18		4,000,000		4,000,000
Trade and other payables	20		2,247,879		3,297,053
Current tax liabilities	21		761,027		365,124
			7,008,906		7,662,177
Non current liabilities					
Deferred tax liabilities	22	3,127,996		3,158,575	
Provisions	25	29,864		147,234	
Retirement benefit obligation	11	2,289,000		3,135,000	
			5,446,860		6,440,809
Total liabilities			12,455,766		14,102,986
Net Assets			17,476,618		21,184,511
Equity					
Share capital	23		747,381		744,602
Convertible warrants	24		-		120,230
Capital reserve	24		4,148,288		4,039,124
Share based payments reserve	24		237,971		161,869
Foreign exchange reserve	24		(36,285)		309,726
Accumulated profits	24		12,379,263		15,808,960
Shareholders' equity			17,476,618		21,184,511

Approved and authorised for issue by the Board on 18th June 2007 and signed on its behalf by

G. W. Gurry

N. G. Clark
Directors

Cash FLOW STATEMENTS
for the year ended 31st March 2007

	Notes	Group 2007	Group 2006	Company 2007	Company 2006
		£	£	£	£
Operating activities					
Net (loss)/profit for the period before income taxes		(3,209,224)	3,485,861	685,216	2,199,991
Adjustments for:					
Revaluation of investment properties		-	(695,000)	-	(695,000)
Depreciation		705,840	665,704	74,450	73,135
Amortisation of development costs		4,788,520	4,005,225	-	-
Movement in pensions deficit		217,000	(147,000)	-	-
Share based payments		76,102	79,407	76,102	79,407
Exceptional restructuring costs		(117,370)	(272,766)	-	-
Interest expense		228,062	232,945	223,343	211,072
Interest income		(380,710)	(180,300)	(27,550)	(53,943)
Increase/(decrease) in working capital	28	1,418,327	(2,532,510)	593,577	(1,790,188)
Cash flows from operating activities		3,726,547	4,641,566	1,625,138	24,474
Income tax refunded		236,380	68,777	-	-
Net cash flows from operating activities		3,962,927	4,710,343	1,625,138	24,474
Investing activities					
Purchase of tangible fixed assets		(368,394)	(721,941)	(66,040)	(70,700)
Investment in intangible assets		(4,704,027)	(5,063,478)	-	-
Disposal of tangible fixed assets		56,056	19,099	-	-
Interest income		380,710	180,300	27,550	53,943
Purchase of fixed asset investment		-	-	-	(80,755)
Net cash flows from investing activities		(4,635,655)	(5,586,020)	(38,490)	(97,512)
Financing activities					
Issue of ordinary shares		-	32,438	-	32,438
Repayment of bank loan		-	(377,499)	-	(377,499)
Dividends paid		(1,563,665)	(1,563,577)	(1,563,655)	(1,563,577)
Interest expense		(228,062)	(232,945)	(223,343)	(211,072)
Net cash flows from financing activities		(1,791,727)	(2,141,583)	(1,786,998)	(2,119,710)
Decrease in cash and cash equivalents		(2,464,455)	(3,017,260)	(200,350)	(2,192,748)
Movement in cash and cash equivalents:					
At start of period		5,707,644	8,448,712	115,212	2,307,960
Decrease		(2,464,455)	(3,017,260)	(200,350)	(2,192,748)
Effects of exchange rate changes		(243,113)	276,192	-	-
At end of period		3,000,076	5,707,644	(85,138)	115,212

Group

STATEMENT OF CHANGES IN EQUITY
for the year ended 31st March 2007

	Share capital £	Convertible warrants £	Capital reserves £	Share based payments £	Foreign exchange reserve £	Accumulated profits £	Total £
At 1st April 2005	744,048	120,230	4,007,240	82,462	(40,386)	14,584,608	19,498,202
Shares issued	554		31,884				32,438
Foreign exchange differences					350,112		350,112
Net actuarial gains recognised directly to equity						222,000	222,000
Deferred tax on actuarial gains						(66,600)	(66,600)
Dividends paid						(1,563,577)	(1,563,577)
Profit for period						2,632,529	2,632,529
Share based payments				79,407			79,407
At 31st March 2006	744,602	120,230	4,039,124	161,869	309,726	15,808,960	21,184,511
Warrants converted/ lapsed	2,779	(120,230)	109,164			8,287	-
Foreign exchange differences					(346,011)		(346,011)
Net actuarial gains recognised directly to equity						1,063,000	1,063,000
Deferred tax on actuarial gains						(318,900)	(318,900)
Dividends paid						(1,563,665)	(1,563,665)
Loss for period						(2,618,419)	(2,618,419)
Share based payments				76,102			76,102
At 31st March 2007	747,381	-	4,148,288	237,971	(36,285)	12,379,263	17,476,618

Company
BALANCE SHEET
at 31st March 2007

	Notes	2007		2006	
		£	£	£	£
Assets					
Non current assets					
Investments	13		7,732,886		8,397,467
Property, plant and equipment	12		7,343,300		8,951,710
Deferred tax asset	22		86,594		135,155
			15,162,780		17,484,332
Current assets					
Trade receivables and prepayments	16	-		8	
Cash and cash equivalents	17	-		115,212	
		-		115,220	
Non current assets classified as held for sale - property	12	1,600,000		-	
			1,600,000		115,220
Total assets			16,762,780		17,599,552
Liabilities					
Current liabilities					
Bank loans and overdrafts	18		4,085,138		4,000,000
Trade and other payables	20		222,394		293,399
Current tax liabilities	21		-		-
			4,307,532		4,293,399
Non current liabilities					
Deferred tax liabilities	22		1,152,542		1,116,528
Total liabilities			5,460,074		5,409,927
Net assets			11,302,706		12,189,625
Equity					
Share capital	23		747,381		744,602
Convertible warrants	24		-		120,230
Capital reserve	24		4,148,288		4,039,124
Share based payments reserve	24		237,971		161,869
Merger reserve	24		315,800		315,800
Accumulated profits	24		5,853,266		6,808,000
Total shareholders' equity			11,302,706		12,189,625

Approved and authorised for issue by the Board on 18th June 2007 and signed on its behalf by

G. W. Gurry

N. G. Clark
Directors

Company

STATEMENT OF CHANGES IN EQUITY

at 31st March 2007

	Share capital	Convertible warrants	Capital reserves	Share based payments	Merger reserve	Accumulated profits	Total
	£	£	£	£	£	£	£
At 1st April 2005	744,048	120,230	4,007,240	82,462	315,800	6,082,337	11,352,117
Shares issued	554		31,884				32,438
Dividends paid						(1,563,577)	(1,563,577)
Profit for period						2,289,240	2,289,240
Share based payments				79,407			79,407
At 31st March 2006	744,602	120,230	4,039,124	161,869	315,800	6,808,000	12,189,625
Warrants converted/ lapsed	2,779	(120,230)	109,164			8,287	-
Dividends paid						(1,563,665)	(1,563,665)
Profit for period						600,644	600,644
Share based payments				76,102			76,102
At 31st March 2007	747,381	-	4,148,288	237,971	315,800	5,853,266	11,302,706

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable international Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS"). The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

a Basis of accounting

The financial statements have been prepared under the historical cost convention with the exception of investment properties which are carried at valuation.

b Basis of consolidation

These financial statements incorporate the financial statements of the Company and its subsidiary undertakings using the purchase method of accounting. The results of acquired subsidiary undertakings are included from the date of acquisition. No profit and loss account is presented for CML Microsystems Plc as provided by Section 230(3) of the Companies Act 1985. Dormant subsidiaries are not included in the consolidated financial statements.

c Segmental reporting

The Group's primary reporting format is in two segments being Semi-conductor components and equipment. These individual segments are engaged in separate business sectors and are subject to different risks and returns.

d Revenue

The Group recognises revenues from the sale of semiconductor products or services when the significant risks and rewards of ownership have passed to the customer. This is generally when goods have been despatched to the customer, and the revenues can be measured reliably. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, Value Added Tax and other sales taxes or duties.

e Intangible assets - Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Historically the Group's policy for goodwill arising on acquisition of a subsidiary undertaking was to write it off directly against reserves but following the introduction of Financial Reporting Standard 10 goodwill arisng on the acquisition of a subsidiary undertaking was capitalised, classified as an asset and amortised over its economic useful life. Under IFRS 1 the Group has elected to adopt the 31st March 2005 balance sheet amortised value prepared under UK GAAP for goodwill and carry out annual impairment reviews as required under IAS 38. Goodwill is reviewed annually for impairment by comparing its carrying value to the net selling price of the associated asset; any resultant loss being charged through the consolidated income statement. Net selling price is determined using a five year average of historic and projected future earnings as applied to the price earnings ratio for the technology sector.

f Intangible assets – Research and development

Development expenditures that satisfies the recognition criteria as set out in IAS 38 are shown at historical cost less accumulated amortisation since it has a definite useful life. In determining the period over which the carrying value of the intangible fixed assets is amortised, the Group is required to consider the likely period over which the developed products are likely to generate economic benefits. Amortisation is calculated using the straight line method to allocate the cost of the development over a period of between 2 and 4 years, representing the period over which economic benefit is derived from developed products. Research and other development expenditures that fall outside the scope of IAS 38 are charged to the income statement when incurred.

g Tangible assets - Property, plant and equipment and investment property

All tangible fixed assets, other than investment properties, are stated at historical cost. Depreciation is provided on all tangible fixed assets other than freehold land and investment properties at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Freehold and long leasehold premises		-2% straight line
Short leasehold premises		-period of the lease
Plant and equipment:	Fixtures and fittings	-20% reducing balance
	Other equipment	-20% & 25% straight line
Motor vehicles		-25% straight line

Investment properties are revalued annually by the directors and every third year by independent Chartered Surveyors on an existing use, open market basis. No depreciation is provided on freehold investment properties or on leasehold investment properties where the unexpired 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.

h Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of temporary timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occured at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recoverable against suitable taxable profits in the future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

i Inventories

Inventories are valued on a first in, first out basis and are stated at the lower of cost and net realisable value. In respect of work in progress and finished goods, cost comprises direct materials, direct labour and a proportion of overhead expenses appropriate to the business.

j Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rates ruling at the date of the transactions. All differences are taken to the income statement. The financial statements of the overseas subsidiaries are translated into sterling at the average rate of exchange for the period. Translation differences are dealt with through the Foreign Exchange reserve in shareholders' funds. The Group has decided to deem the cumulative amount of exchange differences arising on consolidation of the net investments in subsidiaries at 1st April 2004 to be zero.

k Investments

Fixed asset investments are stated at cost less any provision for diminution in value. Investments held as current assets are stated at the lower of cost and net realisable value.

l Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts where there is a set off arrangement with the bank. Other bank overdrafts are shown within borrowings of the current liabilities on the balance sheet.

m Employee benefits – Pension obligations

Group companies operate both defined benefit and defined contribution pension schemes. The schemes are funded through payments to funds administered by trustees and these are determined by periodic actuarial calculations in respect of the defined benefit pension schemes. The Group has elected to recognise all cumulative actuarial gains and losses in relation to employee defined benefit schemes at the date of transition. The liability recognised in the balance sheet in respect of the defined pension schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets. Independent actuaries using the projected unit method calculate the defined benefit obligation annually. Actuarial gains and losses from experience adjustments and changes in actuarial assumptions are charged or credited directly to equity. For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

n Employee benefits – Share based payments

The Group has taken advantage of the transitional provisions that allows it to apply IFRS 2 to share option awards granted after 7th November 2002 that had not vested on or before 31st March 2005. Share options are valued using the Black Scholes model. This fair value is charged to the income statement over the vesting period of the share based payment scheme. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

o EU Grants

EU grants receivable to assist the Group with costs in respect of development work are credited against capitalised development costs so as to match them with the expenditure to which they relate. Other grants that are not of a capital nature are credited to the income statement as part of other operating income.

p Leases

Leases of property, plant and equipment where the Group has substantially all the risk and rewards of ownership are classified as finance leases. Leases in which a significant number of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis. Rental income under operating leases are credited to the income statement on a straight-line basis.

q Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statement in the period in which the dividends are approved by the Company's shareholders.

r Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual result. The amortisation period of development costs is considered to be a critical accounting estimate and judgement; details of which are referred to in Accounting Policy, section f.

s Borrowing cost

Borrowing costs are recognised as an expense in the period in which they are incurred.

t Non current assets held for sale

Non current assets held for sale have been valued at the lower of the carrying value or fair value less costs to sell. The reclassification to current assets takes place when the assets are placed on the open market available for sale.

2 SEGMENTAL ANALYSIS

Primary - Business

	2007 Equipment £	2007 Semiconductor Components £	2007 Group £	2006 Equipment £	2006 Semiconductor Components £	2006 Group £
Revenue						
Segmental sales	1,003,590	16,764,847	17,768,437	1,134,354	25,198,256	26,332,610
(Loss)/Profit						
Segmental operating (loss)/profit	101,563	(3,463,435)	(3,361,872)	259,912	2,583,594	2,843,506
Net finance income/(expense)			152,648			(52,645)
Revaluation of investment properties			-			695,000
Income tax			590,805			(853,332)
(Loss)/Profit after taxation			(2,618,419)			2,632,529
Assets and liabilities						
Segmental assets	761,681	23,190,153	23,951,834	781,944	28,958,468	29,740,412
Unallocated corporate assets			5,980,550			5,547,085
Consolidated total assets			29,932,384			35,287,497
Segmental liabilities	157,735	2,120,008	2,277,743	280,471	3,163,816	3,444,287
Unallocated corporate liablities			10,178,023			10,658,699
Consolidated total liabilities			12,455,766			14,102,986
Other segmental information						
Tangible asset additions	619	367,775	368,394	45,965	675,976	721,941
Intangible asset additions	74,284	4,629,743	4,704,027	67,930	4,995,548	5,063,478
Depreciation	16,942	688,898	705,840	23,672	642,635	666,307
Amortisation	76,218	4,712,302	4,788,520	85,959	3,919,266	4,005,225

Secondary - Geographical

	UK £	Germany £	Americas £	Far East £	Total £
Year ended 31st March 2006					
Revenue by origination	10,397,679	12,481,096	3,276,510	7,028,827	33,184,112
Inter-segmental transfers	(2,934,123)	(3,206,955)	(710,424)	-	(6,851,502)
Revenue to third parties	7,463,556	9,274,141	2,556,086	7,028,827	26,332,610
Tangible asset additions	173,871	459,845	4,751	83,474	721,941
Intangible asset additions	2,739,587	2,323,891	-	-	5,063,478
Net assets	15,142,522	3,302,960	1,812,213	926,816	21,184,511
Year ended 31st March 2007					
Revenue by origination	10,415,596	4,332,175	3,464,734	4,587,538	22,800,043
Inter-segmental transfers	(2,636,927)	(1,892,522)	(502,157)	-	(5,031,606)
Revenue to third parties	7,778,669	2,439,653	2,962,577	4,587,538	17,768,437
Tangible asset additions	285,663	39,829	17,303	25,599	368,394
Intangible asset additions	2,542,606	2,161,421	-	-	4,704,027
Net assets	13,989,279	1,331,741	1,314,572	566,292	17,201,884

Inter-segmental transfers or transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

3 REVENUE

	2007 £	2006 £
Geographical classification of turnover (by destination):		
United Kingdom	1,469,286	1,301,207
Rest of Europe	5,462,159	11,477,319
Far East	6,634,301	9,092,356
Americas	2,821,153	2,675,151
Others	1,381,538	1,786,577
	17,768,437	26,332,610

4 OPERATING PROFIT

	2007 £	2006 £
Operating profit is stated after charging or crediting:		
Cost of sales:		
Depreciation	102,918	96,614
Amount of inventories written down	120,381	49,027
Cost of inventories recognised as expense	5,208,674	9,620,099

	2007 £	2007 £	2006 £	2006 £
Distribution costs		2,515,708		2,501,673
Administrative expenses:				
Amortisation	4,788,520		4,005,225	
Depreciation	602,922		569,090	
Audit fees	99,389		110,675	
Auditors' non audit fees	53,001		90,545	
Rentals under operating leases:				
Land and buildings	183,083		214,272	
Other operating leases	41,476		33,316	
Research and development	37,017		56,865	
Loss on sale of tangible fixed assets	-		15,383	
Other expenses	6,663,933		5,812,129	
		12,469,341		10,907,500
		14,985,049		13,409,173

Amounts payable to Baker Tilly and its associates in respect of both audit and non-audit services	2007 £	2006 £
Audit services		
Statutory audit of company's annual accounts and Group consolidation	60,000	74,000
Other services		
The auditing of accounts of associates of the company pursuant to legislation (including that of countries and territories outside Great Britain)		
This includes:		
Audit of subsidiaries where such services are provided by Baker Tilly or its associates	16,095	14,997
Audit of associated pension schemes	10,000	14,000
Other services supplied pursuant to such legislation	10,202	36,960
Tax services		
Tax compliance services	19,910	25,000
Advisory services	8,600	5,000
	124,807	169,937

4 OPERATING PROFIT (continued)

Amounts payable to other auditors in respect of both audit and non-audit services	2007	2006
	£	£
Audit services		
Statutory audit	23,294	21,698
Tax services		
Tax compliance services	1,585	2,530
Other services	2,704	7,055
	27,583	31,283

Other operating income:		
Rental income	280,757	265,541
Profit on sale of tangible fixed assets	11,131	4,100
EU grants and consulting	367,689	199,657
Other income	-	2,701
	659,577	471,999

5 EMPLOYEES

Staff costs, including directors, during the year amounted to:		
Wages and salaries	8,254,143	8,235,654
Social security costs	1,015,884	968,717
Other pension and health care costs	994,495	967,456
Share based payments	76,102	79,407
	10,340,624	10,251,234

The average number of employees, including directors, during the year was:		
	No.	No.
Administration	43	42
Engineering	90	87
Manufacturing	65	65
Selling	33	33
	231	227

6 DIRECTORS' EMOLUMENTS

Directors' emoluments	£	£
Remuneration (including fees)	634,155	775,998
Pension contributions - money purchase scheme	15,000	11,000
	649,155	786,998

Emoluments in respect of the highest paid director amounted to:

Remuneration	259,108	258,108
Pension contributions - money purchase scheme	-	1,000
	259,108	259,108

Further details on directors' emoluments can be found in the Directors' Remuneration Report.

7 FINANCE COSTS AND INCOME

	2007	2006
	£	£
Interest on repayment of tax	-	80
Bank interest receivable	153,710	180,220
Pension finance income	227,000	-
	380,710	180,300
Bank interest payable	228,062	212,945
Pension finance costs	-	20,000
	228,062	232,945

8 INCOME TAX

(a) Analysis of tax credit in period

	2007	2006
Current tax		
UK corporation tax on results of the period	(357,579)	(351,462)
Adjustment in respect of previous periods	-	(122,938)
	(357,579)	(474,400)
Foreign tax on results of the period	194,282	451,995
Foreign tax - adjustment in respect of previous periods	450,305	-
Total current tax	287,008	(22,405)
Deferred tax		
Origination and reversal of timing differences	(877,813)	1,124,222
Foreign tax - adjustment in respect of previous periods	-	(248,485)
Tax (credit)/charge on profit on ordinary activities (note 8(b))	(590,805)	853,332

(b) Factors affecting tax charge/(credit) for period

Tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%).
The differences are explained below:

	2007	2006
(Loss)/profit on ordinary activities before tax	(3,209,224)	3,485,861
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006: 30%)	(962,767)	1,045,758
Effects of:		
Expenses not deductible for tax purposes	107,292	25,123
Non taxable income	-	(46,725)
Research and development tax credits	(52,362)	(103,378)
Higher tax rates on earnings in the USA and Germany	(155,205)	333,982
Lower tax rates on earnings in Singapore and Taiwan	(29,807)	(29,405)
Benefit of small companies starting rate	-	(600)
Adjustments to current tax charge in respect of previous periods	450,305	(122,938)
Adjustments to deferred tax charge in respect of previous periods	-	(248,485)
Utilisation of tax losses	51,739	-
Tax (credit)/charge for period (note 8(a))	(590,805)	853,332

The UK corporation tax credit arising on the results for the year in part relates to the claiming of research and development tax credits. The group has trading losses of approximately £3.2 million (2006 - £0.3 million) which are available to carry forward and offset future profits of the same trade. A deferred tax asset of £983,862 (2006 - £86,594) has been recognised in respect of these losses.

9 DIVIDEND PAID

	2007	2006
	£	£
10.5p per Ordinary share of 5p paid in respect of year end 31st March 2006 (2006 - 10.5p per Ordinary share of 5p paid in respect of year end 31st March 2005)	1,563,665	1,563,577

10 (LOSS)/EARNINGS PER ORDINARY SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to ordinary shareholders, divided by the weighted average number of shares in issue during the year.

	Loss 2007 £	Weighted average number of shares 2007	Loss per share 2007 p	Profit 2006 £	Weighted average number of shares 2006	Earnings per share 2006 p
Basic (loss)/earnings per share	(2,618,419)	14,933,733	(17.53)	2,632,529	14,892,052	17.68
Diluted (loss)/earnings per share						
Basic (loss)/earnings per share	(2,618,419)	14,933,733	(17.53)	2,632,529	14,892,052	17.68
Dilutive effect of share options		-	-		12,866	0.02
Diluted (loss)/earnings per share	(2,618,419)	14,933,733	(17.53)	2,632,529	14,904,918	17.66

11 RETIREMENT BENEFIT OBLIGATIONS

The Group operates several pension schemes in the UK and the US. The majority of the Group's employees in the UK are members of a defined benefit scheme and the majority of the Group's employees in the US are in a 401(k) trustee profit sharing plan. All schemes are administrated by Trustees and are independent of the Group's finances.

The latest triennial actuarial valuation of the defined benefit scheme in the UK at 1st April 2005, using the projected unit method, disclosed assets with a market value of £9,993,000, equivalent to 85% of the accrued liabilities, after allowing for expected future increases in earnings. The main actuarial assumptions used were: Investment return 7% p.a. pre-retirement, 5% post retirement; General growth in salaries 3% p.a.; Pensions accrued prior to 6th April 1997 will increase in payment at 3.0% p.a. compound; Limited price indexation 3.0% p.a. with a minimum of 3.0%; Early leaver indexation 3% p.a. As at 1st April 2005 the Minimum Funding Requirement ("MFR") calculation showed a funding level of 129%.

The scheme operated in the US is the equivalent of a money purchase scheme. The Group makes a contibution of 3% of each eligible employees salary and a matching contribution of 3% for each 1% contributed by the employee up to a maximum Group contribution of 6%.

The total contributions to the schemes over the year was:

Pension costs	2007 £	2006 £
UK defined benefit pension cost	494,935	570,035
UK defined contribution pension cost	108,966	70,079
US 401(k) profit sharing plan	110,712	118,280
	714,613	758,394

The Group operates a defined benefit scheme in the UK. The triennial actuarial valuation carried out as at 1st April 2005 has been updated to 31st March 2007 by a qualified independent actuary. The major assumptions used by the actuary for IAS19 were (in nominal terms):

	2007	2006	2005
Pensionable salary growth	3.00%	3.00%	3.00%
Pension escalation in payment (Limited Price Indexation with a minimum of 3%)	3.00%	3.00%	3.00%
Discount rate	5.40%	4.70%	5.50%
Inflation assumption	3.30%	2.90%	2.90%

The scheme was closed to new members on 1st April 2002 and employees have the option of joining a defined contribution scheme. Under the projected unit method of valuation, the current service cost will increase as members approach retirement.

11 RETIREMENT BENEFIT OBLIGATIONS (continued)

On the basis of the above assumptions, the amounts that have been charged to the income statement and the statement of recognised income and expense for the year to 31st March 2007 and 31st March 2006 are as follows:

	2007	2006
Income statement	£	£
Operating profit		
- current service cost	(406,000)	(380,000)
- past service cost	(587,000)	-
- total operating charge	(993,000)	(380,000)
Other finance income		
- expected return on pension scheme assets	1,017,000	715,000
- interest on pension scheme liabilities	(790,000)	(735,000)
- net return	227,000	(20,000)
Statement of recognised income and expense		
Actual return less expected return on pension scheme assets	(1,018,000)	2,542,000
Experience gains and losses arising on the scheme liabilities	(91,000)	(5,000)
Changes in assumptions underlying the present value of scheme liabilities	2,172,000	(2,315,000)
Net actuarial gain recognised in statement of recognised income and expense	1,063,000	222,000
The actual return on pension scheme assets in the year	(1,000)	3,257,000

History of experience gains and losses:

	2007	2006	2005
Difference between expected and actual return on scheme assets:	(£1,018,000)	£2,542,000	(£59,000)
- as a percentage of scheme assets	(7%)	19%	(1%)
Experience gains and losses on scheme liabilities:	(£91,000)	(£5,000)	(£372,000)
- as a percentage of present value of scheme liabilities	(1%)	(1%)	(3%)
Total amount recognised in Statement of Recognised Income and Expense:	£1,063,000	£222,000	(£493,000)
- as a percentage of present value of scheme liabilities	6%	1%	(4%)

The fair value of the assets in the scheme and the expected rates of return were:

	2007 Value £	2006 Value £	2005 Value £	2004 Value £	2003 Value £
Equities	8,440,000	9,703,000	6,324,000	6,016,000	4,295,000
Expected rate of return	*7.75%*	*8.00%*	*8.00%*	*8.00%*	*8.00%*
Bonds (including Gilts)	2,998,000	1,250,000	1,115,000	1,353,000	1,315,000
Expected rate of return	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Property	1,874,000	1,628,000	1,174,000	626,000	685,000
Expected rate of return	*7%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*
Cash	755,000	932,000	1,103,000	509,000	280,000
Expected rate of return	*4.50%*	*4.75%*	*4.75%*	*4.00%*	*4.00%*
Total market value of assets	14,067,000	13,513,000	9,716,000	8,504,000	6,575,000
Present value of scheme liabilities	(16,356,000)	(16,648,000)	(13,220,000)	(11,597,000)	(9,795,000)
Deficit in the scheme	(2,289,000)	(3,135,000)	(3,504,000)	(3,093,000)	(3,220,000)
Related deferred tax asset	686,700	940,500	1,051,200	927,900	966,000
Net pension liability	(1,602,300)	(2,194,500)	(2,452,800)	(2,165,100)	(2,254,000)

11 RETIREMENT BENEFIT OBLIGATIONS (continued)

The analysis of the movement in the present value of the scheme deficit during the year is as follows:

	2007	2006
	£	£
Deficit at 1st April	(3,135,000)	(3,504,000)
Movement in year:		
Current service cost	(406,000)	(380,000)
Contributions paid by employer	549,000	547,000
Past service cost	(587,000)	-
Other finance income/(cost)	227,000	(20,000)
Actuarial (loss)/gain on scheme assets	(1,018,000)	2,542,000
Actuarial gain/(loss) on scheme obligations	2,081,000	(2,320,000)
Deficit at 31st March	(2,289,000)	(3,135,000)

The estimated amount of contributions to be paid to the scheme during the current financial year is £500,000.

12 NON CURRENT ASSETS

Tangible Assets

	Investment Properties	Freehold Land and Buildings	Short Leasehold Buildings	Plant and Equipment	Motor Vehicles	TOTAL
	£	£	£	£	£	£
Group						
Cost/Valuation						
At 1st April 2005	3,150,000	6,326,183	18,418	10,331,210	671,606	20,497,417
Additions	-	70,700	18,323	520,110	112,808	721,941
Disposals	-	-	-	(361,999)	(96,251)	(458,250)
Revaluation	695,000	-	-	-	-	695,000
Exchange difference	-	70,402	596	136,230	-	207,228
At 31st March 2006	3,845,000	6,467,285	37,337	10,625,551	688,163	21,663,336
Additions	-	72,860	24,045	271,489	-	368,394
Disposals	-	-	(15,552)	(535,706)	(117,280)	(668,538)
Transfer to current assets	(1,600,000)	-	-	-	-	(1,600,000)
Exchange difference	-	(99,243)	(2,747)	(176,805)	-	(278,795)
At 31st March 2007	2,245,000	6,440,902	43,083	10,184,529	570,883	19,484,397
Depreciation						
At 1st April 2005	-	776,427	17,879	9,157,160	202,847	10,154,313
Charge for the year	-	73,135	9,677	433,960	148,932	665,704
Relating to disposals	-	-	-	(361,999)	(65,869)	(427,868)
Exchange difference	-	35,919	816	133,209	-	169,944
At 31st March 2006	-	885,481	28,372	9,362,330	285,910	10,562,093
Charge for the year	-	88,179	12,353	465,465	139,843	705,840
Relating to disposals	-	-	(15,552)	(535,706)	(72,355)	(623,613)
Exchange difference	-	(52,313)	(2,126)	(152,978)	-	(207,417)
At 31st March 2007	-	921,347	23,047	9,139,111	353,398	10,436,903
Net Book Value						
At 31st March 2007	2,245,000	5,519,555	20,036	1,045,418	217,485	9,047,494
At 31st March 2006	3,845,000	5,581,804	8,965	1,263,221	402,253	11,101,243

12 NON CURRENT ASSETS (continued)

	Investment Properties £	Freehold Land and Buildings £	TOTAL £
Company			
Cost/Valuation			
At 1st April 2005	3,150,000	5,538,324	8,688,324
Additions	-	70,700	70,700
Revaluation	695,000	-	695,000
At 31st March 2006	3,845,000	5,609,024	9,454,024
Additions	-	66,040	66,040
Transfers to current assets	(1,600,000)	-	(1,600,000)
At 31st March 2007	2,245,000	5,675,064	7,920,064
Depreciation			
At 1st April 2005	-	429,179	429,179
Charge for the year	-	73,135	73,135
At 31st March 2006	-	502,314	502,314
Charge for the year	-	74,450	74,450
At 31st March 2007	-	576,764	576,764
Net Book Value			
At 31st March 2007	2,245,000	5,098,300	7,343,300
At 31st March 2006	3,845,000	5,106,710	8,951,710

Investment Properties in both the Group and Company comprise £2,245,000 (2006 - £2,245,000) of freehold land and buildings and £nil (2006 - £1,600,000) of long leasehold property.

The historical cost and accumulated depreciation of freehold and long leasehold land and buildings included within investment properties at valuation is £1,558,534 and £335,397 respectively giving a net historical cost book value of £1,223,137. The properties were professionally valued by Everett Newlyn, Chartered Surveyors and Commercial Property Consultants on an existing use, open market basis at £2,245,000 as at 31st March 2006. The directors consider this valuation to still be appropriate as at 31st March 2007.

The long leasehold property has been transferred into current assets at the carrying value of £1,600,000 as it had been placed on the open market for sale.

Intangible Assets	2007 £	2006 £
Group - Goodwill		
Cost		
At 1st April and at 31st March	3,512,305	3,512,305

The goodwill arose on the acquisition of Hyperstone AG. which was amortised under UK GAAP until 31st March 2004.

12 NON CURRENT ASSETS (continued)

Group - Development costs

	2007 £	2006 £
Cost		
As at 1st April	19,145,042	14,096,050
Additions	4,704,027	5,063,478
Exchange difference	(64,138)	(14,486)
As at 31st March	23,784,931	19,145,042
Amortisation		
As at 1st April	13,012,258	9,007,033
Charged in the period	4,788,520	4,005,225
As at 31st March	17,800,778	13,012,258
Net book value		
As at 31st March	5,984,153	6,132,784

No EU grants have been credited to the cost of development in arriving at the net book value at the year end.

13 NON CURRENT ASSETS - INVESTMENTS

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Cost of investment in subsidiary undertakings:				
As at 1st April	-	-	4,959,658	4,878,903
Additions	-	-	-	80,755
As at 31st March	-	-	4,959,658	4,959,658
Advances to subsidiary undertakings				
As at 1st April 2006	-	-	3,437,809	1,539,557
(Reduction)/Increase in advances	-	-	(664,581)	1,898,252
As at 31st March 2007	-	-	2,773,228	3,437,809
Net Book Value				
As at 31st March 2007	-	-	7,732,886	8,397,467

Details of the principal subsidiary undertakings of the Company are as follows:

Name	Country of incorporation	Percentage held		Holding
CML Microsystems Inc.	USA	100%	Trading in USA	Direct
CML Microcircuits (UK) Limited	England	100%	Trading in England	Direct
CML Microcircuits (USA) Inc.	USA	100%	Trading in USA	Indirect
CML Microcircuits (Singapore) Pte Ltd	Singapore	100%	Trading in Singapore	Direct
Radio Data Technology Limited	England	100%	Trading in England	Direct
Applied Technology (UK) Limited	England	100%	Trading in England	Direct
Hyperstone AG	Germany	100%	Trading in Germany	Direct
Hyperstone Inc.	USA	100%	Trading in USA	Indirect
Hyperstone Asia Pacific Limited	Taiwan	100%	Trading in Taiwan	Direct

All of the above companies are involved in the design, manufacture and marketing of specialised electronic devices for use in the telecommunications, radio and data communications industries. The above all share the same reporting date.

14 RELATED PARTY TRANSACTIONS

Transactions with operating companies which were eliminated in the consolidation consist of:

	2007 £	2006 £
Management fees charged to:		
CML Microcircuits (UK) Limited	613,682	745,750
CML Microcircuits (USA) Inc.	54,318	55,618
Hyperstone AG	40,832	40,622
	708,832	841,990
Interest on loans was charged to:		
Hyperstone AG	26,798	28,522
Dividends		
Received from CML Microsystems Inc	529,101	840,290
Received from CML Microcircuits (Singapore) Pte Ltd	421,927	673,968
	951,028	1,514,258

Key management personnel consists of the board of directors and transactions during the year were as follows:

	2007 £	2006 £
Short term employee benefits	757,364	926,954
Share based payments	7,349	7,189

15 INVENTORIES

	Group 2007 £	Group 2006 £
Raw materials	749,485	1,234,326
Work in progress	237,274	297,136
Finished goods	608,513	701,189
	1,595,272	2,232,651

16 TRADE RECEIVABLES AND PREPAYMENTS

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Amounts falling due within one year:				
Trade receivables	2,541,555	4,344,406	-	-
Other receivables	239,146	124,878	-	8
Prepayments and accrued income	276,833	429,501	-	-
	3,057,534	4,898,785	-	8

17 CASH AND CASH EQUIVALENTS

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Bank and certificates of deposit	2,911,405	3,635,166	-	-
Cash at bank	88,671	2,072,478	-	115,212
	3,000,076	5,707,644	-	115,212

18 BANK LOANS AND OVERDRAFTS

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Bank loans	4,000,000	4,000,000	4,000,000	4,000,000
Bank overdrafts	-	-	85,138	-
	4,000,000	4,000,000	4,085,138	4,000,000

19 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Financial Instruments

The Group's financial instruments comprise cash balances, bank loan, overdraft facilities, current asset investments and items such as trade receivables and trade payables that arise directly from its operations.

Financial instruments such as investments in and advances to subsidiary undertakings and short term receivables and payables have been excluded from the disclosures below.

The Group has little exposure to credit and cash flow risk. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The maximum credit exposure of financial instruments within the scope of IAS 39, without taking account of collateral, is represented by the balance sheet carrying amount for trade receivables and prepayments.

The main risks arising from the Group's financial instruments are interest rate/liquidity risk and foreign currency risk. The policies for managing these risks are summarised below and have been applied throughout the year.

Interest Rate/Liquidity Risk

Cash balances are placed so as to maximise interest earned while maintaining the liquidity requirements of the business. The directors regularly review the placing of cash balances.

The gross overdraft facility provided by the Group's principal bankers is £500,000 which is subject to renewal annually.

Foreign Currency Risk

The Group has overseas operations in Germany, the USA, Taiwan and Singapore. As a result, the Group's sterling balance sheet could be affected by movements in the Euro, US dollar, Singapore dollar and Taiwan dollar to sterling exchange rates. The Group has no significant currency exposure generating gains or losses within the income statement. Foreign currency assets and liabilities generate no gain or loss in the income statement because they are denominated in the currency of the Group operation to which they belong. At 31st March 2007, the Group had net monetary assets denominated in foreign currencies of £2.660 million (2006 - £7.619 million), of which approximately 49% (2006 - 24%) was denominated in US dollars and 29% (2006 - 64%) was denominated in Euros.

Financial Assets

	Floating Rate 2007 £	Floating Rate 2006 £
Sterling	563,533	750,922
US Dollar	2,511,994	4,746,989
Singapore Dollar	6,283	11,165
Euro	(87,317)	174,496
Taiwan Dollar	5,583	24,072
	3,000,076	5,707,644

The floating rate assets consist of short term cash deposits. There were no fixed rate financial assets at either year-end. The fair value of the Group's financial assets are considered to be the same as this carrying value.

Financial Liabilities

	Floating Rate 2007 £	Floating Rate 2006 £
Sterling	4,000,000	4,000,000

The principal financial liabilities includes a bank loan denominated in sterling which bears interest at a rate of 0.375% above LIBOR and is repayable upon receipt of three months notice expiring on 2nd July 2007.

20 TRADE AND OTHER PAYABLES

Amounts falling due within one year:	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Trade payables	973,850	1,260,418	-	-
Other taxation and social security costs	607,274	748,202	102,058	110,833
Other payables	148,223	669,523	105,704	141,753
Accruals and deferred income	518,532	618,910	14,632	40,813
	2,247,879	3,297,053	222,394	293,399

21 CURRENT TAX LIABILITIES/ASSETS

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Current tax liabilities	761,027	365,124	-	-
Current tax assets	418,615	537,215	-	-

22 DEFERRED TAX

Provision for deferred taxation is:	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Accelerated capital allowances	(836,953)	(457,279)	(836,493)	(800,479)
Tax losses carried forward	983,862	86,594	86,594	86,594
Other timing differences	(1,557,970)	(1,623,020)	(316,049)	(267,488)
	(1,411,061)	(1,993,705)	(1,065,948)	(981,373)
Deferred tax asset	1,716,935	1,164,870	86,594	135,155
Deferred tax liability	(3,127,996)	(3,158,575)	(1,152,542)	(1,116,528)
	(1,411,061)	(1,993,705)	(1,065,948)	(981,373)
At 1st April	(1,993,705)	(1,051,368)	(981,373)	(991,171)
Exchange difference	23,731	-	-	-
Deferred tax credited/(charged) in Income Statement for year (note 8)	877,813	(875,737)	(84,575)	9,798
Deferred tax credited/(charged) to Statement of Recognised Income and Expense	(318,900)	(66,600)	-	-
At 31st March	(1,411,061)	(1,993,705)	(1,065,948)	(981,373)

The financial statements include a deferred tax asset of £1,716,935 (2006 - £1,164,870), of which £983,862 (2006 - £86,594) arises as a result of previous trading losses incurred by the company. In accordance with the requirement of IAS 12 'Income taxes', the directors have considered the likely recovery of this deferred tax asset. The directors have taken into account future taxable profits and expect a significant improvement in profitability in future periods and that this will be sustained. Accordingly the directors have satisfied themselves that it is appropriate to recognise the above deferred tax asset.

23 SHARE CAPITAL

	2007 £	2006 £
Authorised		
25,000,000 Ordinary shares of 5p each (2006 - 25,000,000 Ordinary shares of 5p each)	1,250,000	1,250,000
Issued		
14,947,626 Ordinary shares of 5p each (2006 - 14,892,052 Ordinary shares of 5p each)	747,381	744,602

During the year 55,574 Ordinary Shares of 5p each were issued in exchange for Convertible Warrants.

Share options

On 28th July 1993 the Company approved at the Annual General Meeting a share option scheme with 1,835,000 Ordinary shares of 5p each available for issue. At 31st March 2007 options had been granted on 1,261,815 Ordinary shares of 5p each (2006 - 1,261,815 Ordinary shares of 5p each) from the scheme. On the 2nd August 2000 the Company approved at the Annual General Meeting a second scheme, which was United Kingdom Inland Revenue Approved. This scheme was amended and re-approved at the Extraordinary General meeting held on 10th February 2004. At 31st March 2007 options had been granted on 791,555 Ordinary Shares of 5p each from the scheme (2006 - 791,555 Ordinary shares of 5p each). Under the two schemes the Company has the authority to grant options over up to 10% of the issued share capital.

The number of shares over which options remained in force at the year end and their exercise period and price was:

	Ordinary Shares of 5p each 2007 No.	2006 No.
From 14th June 2003 to 13th May 2007 at £2.92½	101,050	102,150
From 14th June 2003 to 13th June 2010 at £2.92½	118,915	122,460
From 18th March 2007 to 17th March 2014 at £3.35	465,970	497,020

24 OTHER SHAREHOLDERS' FUNDS

	Group		Company	
	2007	2006	2007	2006
Convertible warrants	£	£	£	£
At 1st April	120,230	120,230	120,230	120,230
Cancelled	(8,287)	-	(8,287)	-
Converted in year	(111,943)	-	(111,943)	-
At 31st March	-	120,230	-	120,230

As part of the consideration to acquire Hyperstone AG, 119,363 convertible warrants were issued and are convertible into the same amount of ordinary shares of 5p each in CML Microsystems Plc. 50% of the warrants were converted on 2nd January 2005 and the remainder were converted as they were available.

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Capital reserve				
At 1st April	4,039,124	4,007,240	4,039,124	4,007,240
Issue of Ordinary shares of 5p each	109,164	31,884	109,164	31,884
At 31st March	4,148,288	4,039,124	4,148,288	4,039,124

This reserve is a result of the premium being paid for the issue of shares over their par value.

Share based payments				
At 1st April	161,869	82,462	161,869	82,462
Charged in year	76,102	79,407	76,102	79,407
At 31st March	237,971	161,869	237,971	161,869

The Group has elected to apply the transitional provisions that allow it to apply IFRS 2 to share based payment awards granted after 7th November 2002. Therefore this applies to options granted on the 18th March 2004 which were from the share option scheme which was amended and re-approved at the Extraordinary General Meeting on 10th February 2004. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of the grant. The contractual life of an option is 10 years. Awards under the share option scheme are for all employees throughout the Group. Options granted under the share option scheme become exercisable on the third anniversary of the grant date. Options were valued using the Black-Scholes model. The fair value per option granted and the assumptions used in the calculation are as follows:

	2007	**2006**
Grant date	18/03/04	18/03/04
Share price at grant date	£3.35	£3.35
Exercise price	£3.35	£3.35
Number of employees	166	182
Shares under option	465,970	497,020
Vesting period (years)	3	3
Expected volatility	23.40%	23.40%
Option life (years)	10	10
Expected life (years)	3.5	3.5
Risk free rate	4.40%	4.40%
Expected dividend yield	4.34%	4.34%
Possibility of ceasing employment before vesting	4.50%	4.50%
Fair value per option	£0.51	£0.51

24 OTHER SHAREHOLDERS' FUNDS (continued)

The expected volatility is based on 90 day's trading prior to the grant date. The expected life is the average expected period to exercise. The risk free rate of returns the yield to redemption on UK Gilt strips with 4 year maturity. A reconciliation of option movements over the year is shown below:

	Exercisable from 14th June 2003		Exercisable from 18th March 2007	
	2007	**2006**	**2007**	**2006**
	No.	No.	No.	No.
Outstanding 1st April	224,610	245,035	497,020	533,820
Granted	-	-	-	-
Exercised	-	(11,090)	-	-
Forfeited	(4,645)	(9,335)	(31,050)	(36,800)
Outstanding 31st March	219,965	224,610	465,970	497,020

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Merger reserve				
At 1st April and 31st March	-	-	315,800	315,800

This reserve relates to the acquisition in 1995 of Integrated Micro Systems Limited. In accordance with the provisions of Section 131 of the Companies Act 1985, the Company transferred to merger reserve the premium arisng on shares issued as part of the acquisition.

Foreign exchange reserve		
At 1st April	309,726	(40,386)
Retranslation of overseas subsidiaries	(346,011)	350,112
At 31st March	(36,285)	309,726

This reserve represents the foreign exchange differences arising from the retranslation of financial statements of foreign subsidiaries.

Accumulated Profits

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
At 1st April	15,808,960	14,584,608	6,808,000	6,082,337
(Loss)/Profit for the period	(2,618,419)	2,632,529	600,644	2,289,240
Dividends paid	(1,563,665)	(1,563,577)	(1,563,665)	(1,563,577)
Net actuarial gains	1,063,000	222,000	-	-
Deferred tax on actuarial gains	(318,900)	(66,600)	-	-
Warrants converted/lapsed	8,287	-	8,287	-
At 31st March	12,379,263	15,808,960	5,853,266	6,808,000

25 EXCEPTIONAL RESTRUCTURING COSTS

	£	£
Provision at 1st April	147,234	420,000
Provision made in year	-	-
Costs incurred in year	(117,370)	(272,766)
Provision at 31st March	29,864	147,234

The above provision is in respect of anticipated costs of expenditure incurred during closing down the group's operations in Rochester, Kent and relocating the business to the purpose-built facility in Maldon, Essex.

26 CAPITAL COMMITMENTS

Capital commitments which have been contracted for but for which no provision has been made in these financial statements are £Nil (2006 - £50,505).

27 OPERATING LEASE ARRANGEMENTS

The Group as a lessee

	2007	2006
	£	£
Minimum lease payments under operating leases recognised in income statement as an expense for the period	183,083	214,272

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007	2006
Within one year	214,995	219,378
In the second to fifth years inclusive	314,083	428,696
After five years	11,218	33,653
	540,296	681,727

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed for that period.

The Group as a lessor

Property rental income earned during the year was £280,757 (2006 - £265,541).
The properties are expected to generate rental yields of 7 per cent on an ongoing basis.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2007	2006
	£	£
Within one year	265,458	187,470
In the second to fifth years inclusive	649,325	454,458
After five years	-	-
	914,783	641,928

28 NOTES TO THE CASH FLOW STATEMENT

	2007	2006
	£	£
Group		
Increase/(decrease) in working capital:		
(Profit)/loss on sale of tangible fixed assets	(11,128)	11,283
Decrease/(increase) in inventories	637,379	(509,545)
Decrease/(increase) in receivables	1,841,251	(1,244,912)
Decrease in payables	(1,049,175)	(789,336)
	1,418,327	(2,532,510)

Analysis of changes in net funds:

	Funds at 1st April 2006	Cashflow	Exchange movement	Funds at 31st March 2007
	£	£	£	£
Cash and cash equivalents	5,707,644	(2,464,455)	(243,113)	3,000,076
Bank loans and overdrafts	(4,000,000)	-	-	(4,000,000)
	1,707,644	(2,464,455)	(243,113)	(999,924)

28 NOTES TO THE CASH FLOW STATEMENT (continued)

	2007 £	2006 £
Company		
Increase in working capital		
(Increase)/decrease in debtors	-	(8)
(Decrease)/increase in creditors	593,577	(1,790,180)
	593,577	(1,790,188)

Analysis of changes in net funds:

	Funds at 1st April 2006 £	Cashflow £	Funds at 31st March 2007 £
Cash and cash equivalents	115,212	(115,212)	-
Bank loans and overdrafts	(4,000,000)	(85,138)	(4,085,138)
	(3,884,788)	(200,350)	(4,085,138)

29 LISTINGS

CML Microsystems Plc Ordinary shares are traded on the Official List of the London Stock Exchange.

30 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were formally approved by the Board of Directors on 18th June 2007.

Notice
OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of CML Microsystems Plc will be held at Layer Marney Tower, Nr. Colchester, Essex, CO5 9US, on Wednesday 1st August 2007 at 11am to transact the following business:

ORDINARY BUSINESS
Ordinary Resolutions

1. To receive and adopt the Company's financial statements and the reports of the directors and auditors for the year ended 31st March 2007.

2. To receive and approve the Directors' Remuneration Report for the year ended 31st March 2007.

3. To declare a dividend for the year ended 31st March 2007.

4. To re-elect G. J. Bates who retires from the Board by rotation.

5. To re-appoint Baker Tilly UK Audit LLP as auditors and authorise the directors to approve their remuneration.

SPECIAL BUSINESS
Special Resolutions

To consider, and if thought fit, pass the following resolutions as Special Resolutions:

1. To renew the authority as given in the general meeting on 27th August 1999 to the Company to make market purchases of the Ordinary shares of 5p each in the capital of the Company as follows:
That the Company be and is hereby authorised to make market purchases (within the meaning of Section 163 of the Companies Act 1985) of the Ordinary shares of 5p each in the capital of the Company provided that:

(i) the maximum number of Ordinary shares hereby authorised to be acquired is 2,145,595 shares representing approximately 15% of the current issued share capital;

(ii) the minimum price which may be paid for such shares is the nominal value of 5p per share;

(iii) the maximum price (excluding expenses) which the Company may pay for each such share cannot be more than the higher of: (a) 105% of the average market value of an Ordinary share for the five business days prior to the day the purchase is made; (b) the value of an Ordinary share calculated on the basis of the higher of: (1) the last independent trade of; or (2) the highest current independent bid for, any number of Ordinary shares on the trading venue where the purchase is carried out;

(iv) the authority hereby conferred shall expire on the date of the next Annual General Meeting of the Company or the date fifteen months after the passing of this resolution (whichever shall be the earlier) unless and to the extent that such authority is renewed or extended prior to or on such date and

(v) the Company may make a contract to purchase its own shares under the authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of its own shares in pursuance of any such contract.

2. The directors be given power under Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94 of the Act) pursuant to the general authority to allot securities in accordance with Section 80 of the Act as given in the Annual General Meeting on 3rd August 2005 as if the pre-emption provisions of Section 89(1) of the Act did not apply to such allotment. The power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £35,750 (representing 715,000 Ordinary Shares, being 5% of the Company's issued share capital) and shall expire at the next Annual General Meeting of the Company or 2nd November 2007 (whichever is the sooner) unless any offer or agreement is made before expiry of this power, in which case the directors may allot securities pursuant to such offer or agreement as if the power granted by this resolution had not expired.

Oval Park
Langford, MALDON
Essex CM9 6WG

By order of the Board
N.G. Clark Company Secretary
18th June 2007

General Notes

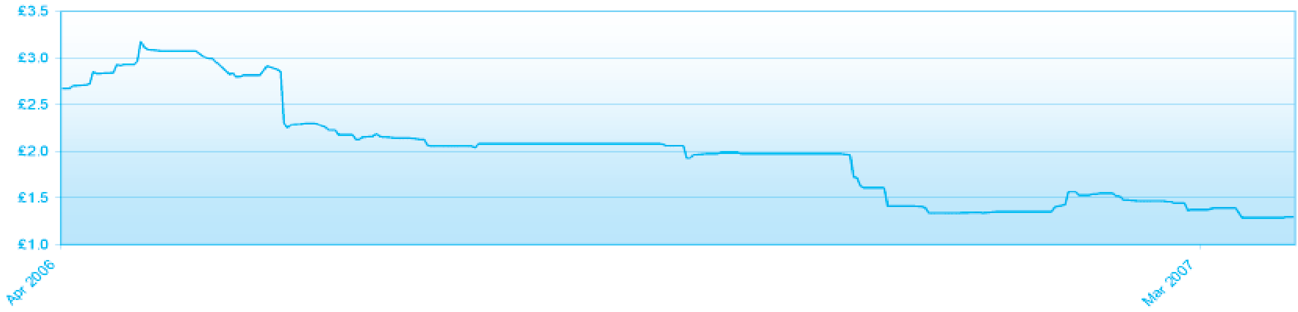
1. A member who is entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not also be a member of the Company. A proxy card is enclosed.

2. It is proposed to pay the dividend, if approved, on 3rd August 2007 to shareholders registered on 6th July 2007.

3. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the number of votes a member may cast), members must be entered on the Register of Members of the Company by close of business on 30th July 2007.

Shareholder
INFORMATION

CML Microsystems Plc Share Price - for year ended 31st March 2007



FTSE 100 Index - for year ended 31st March 2007

TechMark 100 Index - for year ended 31st March 2007

Financial Calendar

2007	
1st August	Annual General Meeting
4th August	Dividend payment date (subject to approval at Annual General Meeting)
30th September	Half-year end
20th November	Anticipated date for Interim Results
2008	
31st March	Year end
17th June	Anticipated date for preliminary announcement of Year-end 2008 Results

Contact Information

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