CML Microsystems Plc

# User guide

Welcome to the CML Microsystems Plc Annual Report and Accounts 2015. In this interactive pdf you can do many things to help you easily access the information that you want, whether that's printing, searching for a specific item or going directly to another page, section or website.

These are explained below.

## Document controls

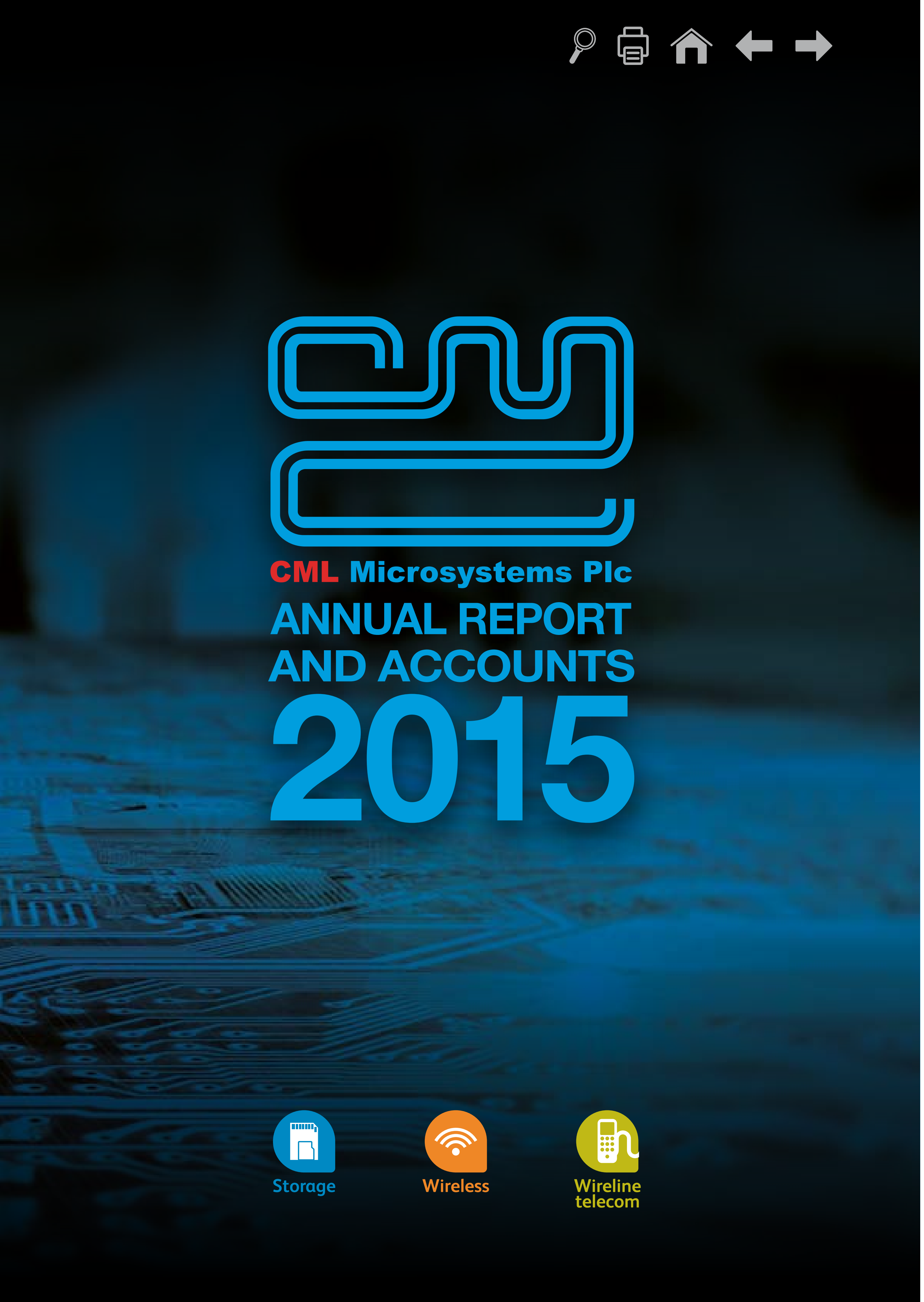
Use the document controls located in the top right corner to help you navigate through this report.

## Links within this document

Throughout this report there are links to pages, other sections and web addresses for additional information.

## Navigating with tabs

Use the tabs to quickly go to the start of a different section.






## CML Microsystems Plc designs, manufactures and markets a range of semiconductors for global industrial and professional applications within the storage, wireless and wireline communications market areas.

Founded in 1968, CML operates internationally with subsidiaries across the UK, the USA, Germany, Singapore and Taiwan.

Visit us online at cmlmicroplc.com

## Contents

The Group delivered solid progress against its medium-term growth objectives. Sales in the second half were 13% higher than the first half, serving to demonstrate that the disruptive events of the previous year had less influence as the year progressed.

## Our results (continuing operations)

### Revenue
£m

| | £m |
|---|---|
| 2015 | 21.8 |
| 2014 | 24.4 |
| 2013 | 24.6 |

£21.8m
-11%

### Pre-tax profit
£m

| | £m |
|---|---|
| 2015 | 3.2 |
| 2014 | 5.8 |
| 2013 | 5.5 |

£3.2m
-45%

### Basic earnings per share
p

| | p |
|---|---|
| 2015 | 16.71 |
| 2014 | 29.96 |
| 2013 | 28.01 |

16.71p
-44%

### Net cash
£m

| | £m |
|---|---|
| 2015 | 13.2 |
| 2014 | 11.4 |
| 2013 | 9.0 |

£13.2m
+16%

### Net cash per share
p

| | p |
|---|---|
| 2015 | 81.57 |
| 2014 | 71.26 |
| 2013 | 56.61 |

81.57p
+14%

### Net assets per share
p

| | p |
|---|---|
| 2015 | 179.19 |
| 2014 | 175.44 |
| 2013 | 134.87 |

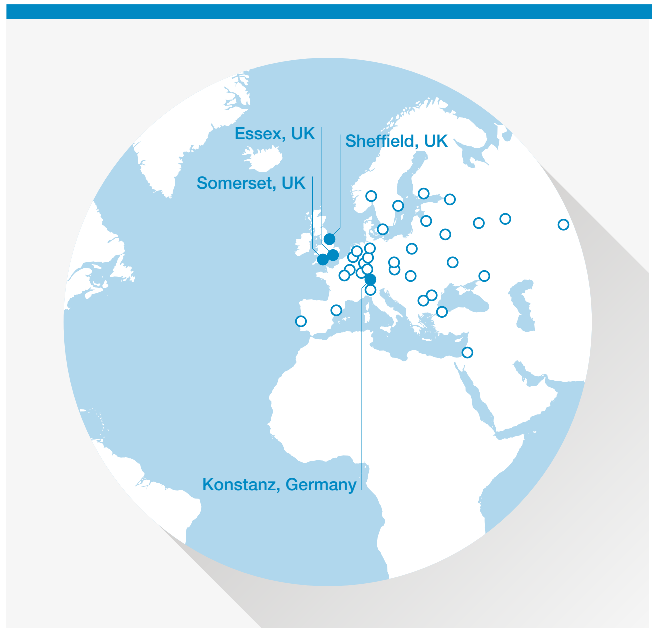
179.19p
+2%





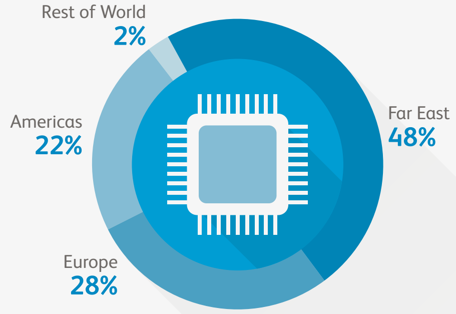
The Group's wide-ranging design skills, diversified technology portfolio and system-level understanding, coupled with market leading product functionality and an extensive selling network are key factors in the Group's success.

## Where we operate





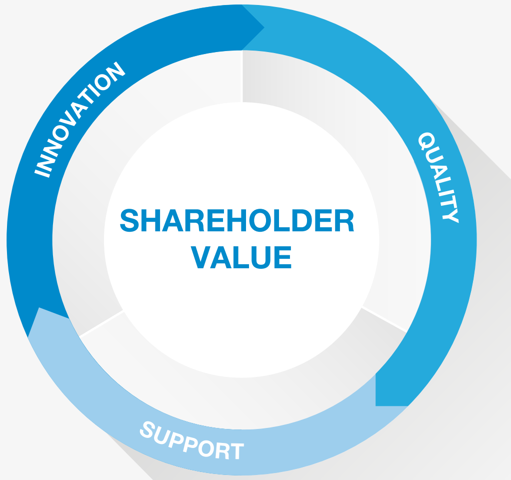

### BUSINESS PERFORMANCE




| 2015 revenue split by region (continuing operations) | 2015 £ | 2014 £ |
|---|---|---|
| Far East | 10,438,093 | 12,386,107 |
| Europe | 6,072,586 | 5,148,972 |
| Americas | 4,803,780 | 6,263,037 |
| Rest of World | 489,254 | 595,543 |
| Total | 21,803,713 | 24,393,659 |

The business model is to design, manufacture and market a range of semiconductors for global industrial and professional applications within the storage, wireless and wireline communications market areas.

The Group operates with four design centres based at Langford (near Maldon, Essex), Shepton Mallet (Somerset), Sheffield (Yorkshire) and Konstanz (Germany). Manufacturing is conducted on site at Langford or sub-contracted to third parties throughout the world. Sales and marketing resources operate internationally through subsidiaries based in the UK, the USA, Germany, Singapore and Taiwan, backed up by an extensive distribution and representative network.




### Innovation

Technical innovation is a fundamental contributor to the Group's success. Our marketing and engineering personnel collaborate to define and deliver compelling, commercially attractive semiconductor solutions. Our extensive and growing silicon and software IP portfolio can be combined using optimal partitioning for a specific end-market to achieve the right balance between performance and cost.

### Quality

Superiority and excellence are important definitions of quality within our organisation and are widely applicable across numerous activities. Whether it is product design, manufacturing, selling or stakeholder relationship management, we strive to be a quality company operating with the high levels of business acumen and ethical practices that the business was founded on over 45 years ago.

### Support

Superlative customer support is part of CML's DNA. It is a key trait that customers associate us with and an important factor in customers' decision making process to select us as a long-term supplier and partner. We recognise that. A thorough "system knowledge" of the end-application within the markets that we address underpins our long-standing reputation.

## Our objectives

### Sustainable growth

- Focused engineering investment
- Stable cost base
- Progressive revenues
- Consistent gross margins

Read more in the Managing Director's operating and financial review on pages 9 to 13.





CML focuses purely on one operating segment; the semiconductor segment. The semiconductor segment focuses on three main market areas: storage, wireless and wireline telecom.

## Our markets

### Semiconductor

#### Storage

APPLICATION AREAS

- Industrial flash-memory cards (CompactFlash, SD card, multi-media card)
- Solid State Drives (SSDs), embedded storage, "special function" cards

GROUP REVENUE

50%

#### Wireless

APPLICATION AREAS

- Professional and industrial analogue/digital radios (voice centric)
- Wireless data products (proprietary radio modems, pagers, telemetry, marine safety)

GROUP REVENUE

38%

#### Wireline telecom

APPLICATION AREAS

- Security alarm panels, point-of-sale, health monitors
- Meter reading, telephone exchange (PABX)

GROUP REVENUE

10%

## Our strategy

Our long-term plan is underpinned by three strategic pillars:

**Our long-term plan**

**define, develop and deliver** high-quality, innovative semiconductor solutions, enabling our customers to produce world-class products for global communications and data storage applications

**focus** on sub-markets and applications that have significant expertise barriers to entry and are not well served by competitors

offer **superior** levels of technical support

Delivering shareholder value

## Key performance indicators

We have a range of performance measures to monitor and manage the business, some of which are considered key performance indicators ("KPIs"). These KPIs include revenue, gross profit, profit from operations, basic earnings per share and cash, summary details of which are shown below and discussed within the Chairman's statement on page 8 and the Managing Director's operating and financial review on page 9.

### Revenue
(continuing operations)
£m

| | |
|---|---|
| 2015 | 21.8 |
| 2014 | 24.4 |
| 2013 | 24.6 |

### Profit from operations
(continuing operations)
£m

| | |
|---|---|
| 2015 | 3.2 |
| 2014 | 5.8 |
| 2013 | 5.5 |

## Risks

**PRINCIPAL RISKS AND UNCERTAINTIES**

**Key risks of a financial nature**

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. Furthermore, the Group does however have significant Euro-denominated fixed costs. Additionally, though the Group has a very diverse customer base in certain market sectors, 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. Further details of risks, uncertainties and financial instruments are contained in note 19.

**Key risks of a non-financial nature**

The Group is a small player operating in a highly-competitive global market that is undergoing continual and geographical change. The Group's ability to respond to many competitive factors including, but not limited to, pricing, technological innovations, product quality, customer service, manufacturing capabilities and employment of qualified personnel will be key in the achievement of its objectives, but its ultimate success will depend on the demand for its customers' products since the Group is a component supplier. A substantial proportion of the Group's revenue and earnings are derived from outside the UK and so the Group's ability to achieve its financial objectives could be impacted by risks and uncertainties associated with local legal requirements, the enforceability of laws and contracts, changes in the tax laws, terrorist activities, natural disasters or health epidemics.

**Understanding of the development, performance or position of the Company's business**

For financial years ending on or after 30 September 2013, all companies must prepare a stand-alone strategic report in addition to their directors' report (Section 414C (7) of The Companies Act 2006 Strategic Report and Directors' Report). The Directors do not believe that environmental matters (including the impact of the Company's business on the environment), details of the Company's employees (including gender) and social, community and human rights issues are needed for an understanding of the development, performance or position of the Company's business and accordingly have not included this within the strategic report but have added these to the Directors' report.

# Chairman's statement

## This last year has seen a firm foundation put in place for the achievement of long-term sustainable growth.

### INTRODUCTION

It is most pleasing to be delivering my first statement on the Group's progress through the last year with results surpassing market expectations, though this must be tempered with the fact that expectations were disappointingly downgraded at the start of the year. However, I can say it has been a year where we have moved from not only addressing the issues that led to last year's downgrade, but also putting procedures in place that will help ensure the Group returns to a growth path that is sustainable over the long term.

### RESULTS AND DIVIDEND

In summary, revenues declined 11% to £21.80m (2014: £24.39m), profit before taxation declined 45% to £3.18m (2014: £5.79m) and basic EPS declined 44% to 16.71p (2014: 29.96p). On a more positive note, cash increased to £13.19m (2014: £11.37m) and net assets moved up to £28.97m (2014: £27.93m).

As a board we must always be mindful of the cash needs of the business and ensure that the Group has appropriate resources available, not only for the daily running of the business and the ongoing product development programme, but also to capitalise on any potential opportunities that may arise. Additionally it is clear that geographically the markets we address are in a period of change and I expect some of that change to put demands on our cash resources. That said, the Board remains focused on delivering consistent and growing returns to shareholders in both the short and the long term. Despite these results not delivering a year-on-year improvement, the Board is confident that your Company will return to a growth path through the current financial year. This belief, coupled with a progressive dividend policy, means that the Board is recommending the dividend increase by just over 10% to 6.9p (2014: 6.25p).

If approved, the proposed dividend will be paid on 3 August 2015 to all shareholders whose names appear on the register at the close of business on 3 July 2015.

### MANAGEMENT

One of the keys to ensuring sustainable growth is having the right management in place and through the last year we have strengthened the Group's management team both at the main board level and at an operational level. Hugh Rudden was appointed Group Sales and Marketing Director in June 2014 and in January 2015, Neil Pritchard joined as Group Financial Director and Company Secretary. Following these appointments it has enabled me, as previously announced, to transition to the role of Chairman and also permitted Chris Gurry to focus exclusively on the role of Managing Director, relinquishing the post of Chairman he had held on an interim basis following the death of our previous Chairman. This has strengthened the Board's expertise, broadened its experience and added extra impetus. At the operational level this has also meant change, which is always challenging, but I am pleased to say that this has been managed professionally and embraced enthusiastically by the staff.

### PROSPECTS AND OUTLOOK

Today CML is a semiconductor Group with a strong desire for growth. We have world-class products, significant market knowledge, a highly-skilled engineering team and a strong balance sheet giving us the ability to capitalise on the opportunities we see to grow both organically and by other means. The Board's core strategy of sustainable growth remains paramount and to that end we continue to look at where we are, where we want to be and then assess what we need to do to achieve our objectives. Over the last five years the Group has grown organically, and although we are confident this will continue to fuel significantly more growth, we are constantly reviewing options for non-organic expansion that complement our skills, market knowledge and geographical reach. In an ever-changing environment your Board is very much aware of the need to have multiple growth options.

Right now the Group is at a very exciting time of its development and has a strong management team in place supported by our dedicated employees. This last year has seen a firm foundation put in place for the achievement of long-term sustainable growth over a multi-year period. Bearing this in mind I have confidence, subject to unforeseen circumstances, that the Company should move back to a positive growth path over this coming year and beyond.

In closing I should like to point out that for the success of any company it is vital for its employees to be talented, committed, hardworking and enthusiastic. At CML we are very lucky to have a team of loyal and dedicated employees fulfilling that criteria and the Board wish to extend their thanks and appreciation to each and every employee.

**N. G. CLARK**
Non-Executive Chairman

19 June 2015





# Managing Director's operating and financial review

## For the 2015 financial year, the Group delivered solid progress against its medium-term growth objectives.

### RESULTS

For the 2015 financial year, the Group delivered solid progress against its medium-term growth objectives. Whilst revenue of £21.80m was below the prior year (2014: £24.39m), it was slightly ahead of earlier expectations. Sales in the second half were 13% higher than the first half, serving to demonstrate that the disruptive events of the previous year had less influence as the year progressed.

Overall gross profit margin returned to a more typical level of 71% (2014: 73%). This was largely due to the combined effects of product mix and lower levels of customer non-refundable engineering ("NRE") income as related engineering projects began the transition to commercial product sales. Actual gross profit was £15.46m (2014: £17.88m).

A rise in amortisation charges associated with increased development spend contributed to higher distribution and administration costs of £12.78m (2014: £12.47m). R&D costs for the year were £5.21m (2014: £4.80m) with an amount of £0.85m being written off through the income statement (2014: £0.66m). The total increase would have been higher except for a meaningful benefit on foreign exchange being recorded, totalling £0.84m.

The Group received a total of £0.42m (2014: £0.47m) which was classified as other income, with the majority contributors being rents received from non-operational commercial property assets along with EU grants received towards specific engineering activities.

Profit from operations fell to £3.11m (2014: £5.89m) however, the twin positive effects of finance income and a £0.10m lift in the value of the Group's commercial property assets outweighed share-based payment charges leading to a profit before tax of £3.18m (2014: £5.79m).

An income tax expense of £0.48m was recorded (2014: £1.02m) which is below the standard UK rate, assisted by higher R&D tax credits and a reduced deferred tax charge.

Profit after tax fell 44% to £2.70m (2014: £4.77m).

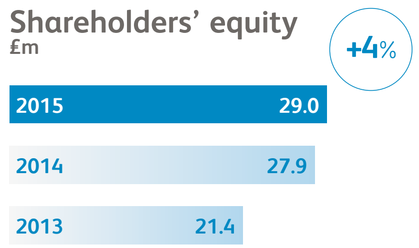
Despite strong levels of R&D investment, the Group once again increased its cash balances. At the period end, following a dividend payment of £1.01m (2014: £0.87m) in respect of the previous year, cash reserves advanced by 16% to £13.19m (2014: £11.37m). Included within this balance is a conditional customer prepayment of £0.67m against a key new product development.

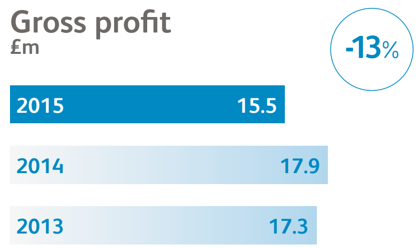
The end of year inventory level was higher at £1.76m (2014: £1.13m) which is closer to the typical value expected for the revenue levels being achieved through the end of the period.

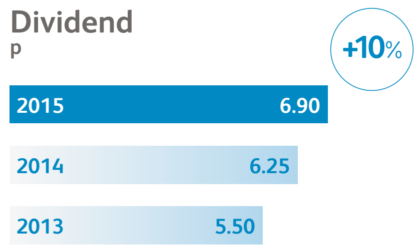
The Group historically operated a defined benefit final salary scheme in the UK that has been closed to new members and future accruals for some years. The deficit for the year, calculated under accounting rule IAS 19, amounted to £3.62m (2014: £2.70m). The deterioration in the funding position was primarily due to changes in market conditions which determine the financial assumptions used, predominantly lower discount rates due to lower corporate bond yields. We continue to take professional advice targeted at achieving the right balance between adequate scheme funding and the Group's trading objectives.

In terms of customer dependency, the reduction in total sales combined with the effect of a key customer exit during the prior year moved one additional customer above the 10% contribution threshold. Only two customers contributed greater than 10% to Group revenue for the year, one at 14% and one at 11%.

In March 2015 a planning application for residential development on part of the site forming the Company's Oval Park headquarters was refused at local council level. A subsequent appeal was lodged post the financial year end.

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Directors' reports
Financial statements
Additional information

# Managing Director's operating and financial review continued

## Storage

APPLICATION AREAS

- Industrial flash-memory cards (CompactFlash, SD card, multi-media card)
- Solid State Drives (SSDs), embedded storage, "special function" cards

MARKETS SERVED

Automotive, Industrial, Medical, Infrastructure, Infotainment, Gaming, Security, Telecoms, Utilities, Mobile and POS payment

GROUP REVENUE

50%

Revenue

£10.8m

2014: £11.8m

### STORAGE

The shipment of semiconductors into solid state storage applications accounted for 50% of Group revenues. To 31 March 2015, sales fell 9% to £10.82m (2014: £11.80m) with the overall reduction primarily due to prior year customer disruption that was previously flagged. Revenue for the second six month period was ahead on both a sequential and comparable basis serving to underpin expectations for a return to growth.

We began the year with a product range weighted towards compact flash card controller technology. Over recent years, research and development has been targeted at adding SATA, SD, eMMC and USB interface technology to our proprietary core architecture with the vision of providing a full portfolio of interface options to our customers. They in turn, need to offer a wide selection of storage solutions to the demanding end-customer base. I am pleased to report that we made good progress in that regard.

Shipments of SD controllers grew strongly year-on-year as full production silicon became available and the year-end pipeline of new design-in opportunities, with both existing and new customers, was at a healthy stage. The high level of interest in our industrial-class USB solution has already begun to translate into design wins and should start to deliver revenue through the year ahead.

Our engineering teams continue to innovate with the announcement in February 2015, at Embedded World, Germany, of our ground breaking hyMap™ technology. Amongst many other things, hyMap™ enables our customers to utilise high capacity, cost-effective flash memory technology within some of their application areas while still meeting the stringent requirements of the industrial end markets. Other features offered by hyMap™ include extended flash life, high-speed small-file transfer performance and improved power-fail robustness – all without the cost of additional external memory.

Ongoing product developments are focused on enhancing and expanding the controller product range to ensure we are able to either maintain or achieve a leadership position depending upon the stage of development we are at in the particular end-market.

Significant progress with our various engineering and selling-related activities was made through the year as we continued steering a course that is intended to widen the size and scope of the markets open to us.





## Wireless

APPLICATION AREAS

- Professional and industrial analogue/digital radios (voice centric)
- Wireless data products (proprietary radio modems, pagers, telemetry, marine safety)

MARKETS SERVED

Industrial, Medical, Satellite, Marine, Military, Transport, Security, Telecoms, Utilities, Critical comms

GROUP REVENUE

38%

Revenue

£8.3m

2014: £9.1m

### WIRELESS

Revenue from the sale of semiconductors into industrial and professional wireless applications fell 10% to £8.28m (2014: £9.12m). As communicated at the half year stage, and following on from the prior year in which some end-market applications suffered from a lack of government spend, order bookings and shipments improved as the year progressed. Sales in the second six month period were almost 20% ahead on a sequential basis.

For the wireless end-markets that we target, our product range has been evolving over recent years. Coming from the position of providing relatively simple function baseband processing, signalling and low data-rate modem ICs, the transition is towards a significantly expanded product portfolio. This includes baseband processors with higher levels of protocol handling, sophisticated and flexible wireless modem solutions coupled with class-leading RF semiconductors for stringent global communications standards.

In the second half of the year under review we reached the important strategic milestone of having a number of customers commence manufacturing of their new wireless products containing Group chip-set solutions. This underpins our expectations for future growth and, with the continued expansion of the chip-set customer base, six monthly revenue volatility is expected to give way to sequential growth.

New product introductions during the year included a single common platform product capable of delivering key functionality for use in a number of digital radio standards, including DMR, NXDN, dPMR and various country-specific equivalents, along with a high-performance analogue front end ("AFE") IC that bridges the gap between a digital radio's RF section and the DSP/FPGA. Importantly, the latter product meets the needs of Software Defined Radio ("SDR") architectures.

Existing wireless product developments are focused on growing the functionality we can absorb within our customer's end-product, raising the bar in terms of performance and widening our addressable markets through the expanded resources and technical capabilities that we now have in place.

The transition from legacy lower-function products to compelling chip-set solutions started and was evidenced through higher second half revenues. Our R&D activities continue to be directed at cementing our position with continual roadmap developments whilst also pushing into new areas that will bring incremental revenue opportunities. Whilst the gestation period from customer engagement to order shipment is sometimes frustrating, the pipeline of meaningful opportunities is growing.

# Managing Director's operating and financial review continued

## Wireline telecom

APPLICATION AREAS

- Security alarm panels, point-of-sale, health monitors
- Meter reading, telephone exchange (PABX)

MARKETS SERVED

Security
Industrial
Medical
Telephony
POS

GROUP REVENUE

10%

Revenue

£2.3m

2014: £2.9m

### TELECOM

Shipments into wireline telecom markets were disappointing, despite the end-application areas being viewed as somewhat of a sunset market. Revenue of £2.28m was recorded (2014: £2.92m) equating to 10% of total Group sales (2014: 12%).

The reduction was geographically broad based and across a number of specific products reflecting a general weakness across the existing customer base and delays in the expected uplift from more recently secured design wins.

The current product range for traditional analogue telecom markets continues to be competitive within the application areas targeted.

In addition to the three main market areas already reviewed, the Group received additional revenue from the sale of miscellaneous semiconductor products and services derived from historic operational activities. In the year under review, the sale of products classified under this category amounted to £0.43m (2014: £0.56m).

### SUMMARY AND OUTLOOK

Despite record profits to March 2014, trading through the opening months of the period under review was characterised by revenue headwinds that emerged as a consequence of prior year disturbances.

Management objectives over the twelve months were typically multifaceted. Operationally, new product introductions that generated good levels of design-in activity amongst the customer base needed to convert into meaningful production orders. The recent expansion and amalgamation of the Group's R&D resources required appropriate focus to ensure that we continue to develop market leading semiconductor solutions. Importantly, and fundamentally, we needed to demonstrate our belief that the volatility was temporary and our underlying growth strategy remained valid.

With the benefit of hindsight, it is good to have the disruption largely behind us and report that we were able to deliver against those management objectives while at the same time making satisfying progress with our medium-term growth plans.





For the current financial year, a number of significant customer end-products have entered the production phase and are expected to ramp as the year progresses. To improve our success rate further and to capitalise on the growing number of opportunities that the expanded product range is enabling, we have decided to make significant investments in our marketing, sales and support resources.

Our R&D teams are working hard at developing innovative products that should allow us to reach market leader status in our chosen markets. In that respect, we will be maintaining the high levels of R&D investment that have been a hallmark of recent years.

The key end markets for storage and wireless each continue to exhibit exciting growth opportunities. Within storage, we start the year with a flash memory controller range that includes the majority of the major interface standards that are used within our target markets and those controllers interoperate with state of the art flash memory technologies from the major suppliers.

The trend for hard disk drives to migrate to solid state technology in industrial and embedded application areas continues and our alignment with a wide customer base through standard semiconductor products is expected to see us strengthen our position.

Our wireless semiconductor range now includes RF and baseband processing silicon platform solutions for use within almost all of the major professional and industrial standards that are expected to achieve highest market share over time. Through the year ahead another major standard will be added and new high performance RF solutions are scheduled to be introduced that will increase the addressable market size.

To continue being successful, the Group must define, develop and deliver technically compelling, commercially viable semiconductor products to market and offer levels of support that make us the first choice key component supplier within our chosen end-markets. This is our overriding objective.

The Board is confident that the Group will continue to be prosperous and that a meaningful advance in revenue and profitability is likely to be made over the coming year.

**C. A. GURRY**
Managing Director

19 June 2015

# Directors and advisors

## NIGEL CLARK

**Group Non-Executive Chairman (appointed 19 January 2015)**

Aged 61, Nigel joined the Company in 1980. He was appointed Company Secretary in 1983 and Group Financial Director in 1985. Prior to joining CML, he was with Touche Ross & Co. (which subsequently merged with Deloitte in 1989) and is a qualified chartered accountant, holding an FCA. Nigel became Group Non-Executive Chairman in January 2015. He holds a Mathematical Science degree from the University of London.

## CHRIS GURRY

**Group Managing Director**

Aged 51, Chris joined the Group in 1994, was appointed to the Board in 2000 as Business Development Director and became Group Managing Director in October 2007. Prior to joining CML, he worked within the electronics industry and has over 25 years' experience within communications markets.

## NEIL PRITCHARD (appointed 19 January 2015)

**Group Financial Director and Company Secretary**

Neil joined the Company in January 2015. Aged 43, Neil was previously Finance Director of the UK and Eire division of the DAX listed automotive products group, Continental AG. Prior roles include Group Financial Controller at multinational London Stock Exchange listed Delta PLC (acquired by US company Valmont Industries in 2010) and Group Finance Manager at FTSE 250 multinational speciality chemicals group Yule Catto & Co PLC (now renamed Synthomer PLC). Neil is a qualified chartered accountant, holding an FCA, having spent six years with KPMG London in audit and forensic transaction services roles. He holds an Economics and Politics degree from the University of Bath.

## HUGH RUDDEN (appointed 16 June 2014)

**Group Sales and Marketing Director**

Aged 55, Hugh has over 25 years' sales and marketing experience in the semiconductor industry. Prior to joining the Company, he divided his time between leading a VC-backed photovoltaic start-up company through early stage financing and providing business and management consultancy services across a number of sectors. Prior to this, he was CEO at Bede Plc (acquired by Jordan Valley Semiconductors in 2008), and also spent 14 years at Memec Group (acquired by Avnet in 2005), a global semiconductor distribution and designs services organisation where his roles included product marketing manager, regional CEO and VP global design services solutions. Hugh speaks German and holds a BSc in Physics from the University of Durham.

## RONALD SHASHOUA

**Non-Executive Director**

Aged 81, Ronald joined the Company in 1996. Formerly of Casson Beckman, Chartered Accountants, Ron was a corporate finance specialist partner and also held a number of management positions within the partnership, including Managing Director. The Board consider Ron to be an independent director though this does not comply with the definition in the UK Corporate Governance Code 2012. Ron is Chairman of the remuneration committee.

## JIM LINDOP

**Non-Executive Director**

Aged 58, Jim joined the Company in April 2013 and has extensive innovative leadership experience in the technology and engineering sectors, having spent over 30 years in the industry. Most recently he was founder and CEO of Jennic Ltd, a privately held semiconductor company established in 1996 and subsequently acquired by NXP Semiconductors in 2010. Prior to Jennic, he consulted to companies in Cambridge, UK, including Symbionics, building and leading project teams in new wireless technologies. Earlier experience includes working at Rolls Royce designing electronic instrumentation for aero-engines and as a director of engineering at Simmons Limited. Jim holds a BSc and MSc in Electronics from the University of Nottingham.

## REGISTERED OFFICE

Oval Park
Langford
Maldon
Essex CM9 6WG

## REGISTRARS

**Neville Registrars Limited**
Neville House
18 Laurel Lane
Halesowen B63 3DA

## AUDITOR

**Baker Tilly UK Audit LLP**
25 Farringdon Street
London EC4A 4AB

## JOINT STOCKBROKERS

**Cenkos Securities plc**
6, 7, 8 Tokenhouse Yard
London EC2R 7AS

**S P Angel**
Prince Frederick House
35-39 Maddox Street
London W1S 2PP

## FINANCIAL PUBLIC RELATIONS

**Walbrook PR Limited**
4 Lombard Street
London EC3V 9HD





# Report of the Directors

The Directors submit their report and Group financial statements for the year ended 31 March 2015.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the strategic report, the report of the Directors, the Directors' remuneration report, the separate corporate governance statement on page 24 and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required under the Listing Rules of the Financial Conduct Authority to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 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.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS adopted by the EU; and
- 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 adequate accounting records that are sufficient to show and explain the Group and the Company transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## DIRECTORS' STATEMENT PURSUANT TO DISCLOSURE AND TRANSPARENCY RULES

Each of the Directors, whose names and functions are listed on page 14 confirm that, to the best of each person's knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the CML Microsystems Plc website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## GOING CONCERN

The Group's business activities, performance, position and risks are set out in this Annual Report and Accounts. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and the use of financial instruments and policies relating thereto are detailed in the appropriate sections on pages 25 to 57 and elsewhere in the notes to the financial statements. The report also includes details of the Group's risk mitigation and management. The Group has considerable financial resources, and the Directors believe that the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts and financial statements.

## PRINCIPAL ACTIVITIES

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

## BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The strategic report on pages 1 to 13 provides an analysis 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 along with future developments. A range of performance measures to monitor and manage the business are discussed within the strategic report on pages 6 and 7.

## RESULTS

The results for the year are set out in the consolidated income statement on page 26. The Group's pre-tax profit was £3,177,505 (2014: profit of £5,791,705) and the profit attributable to equity owners of the parent was £2,701,781 (2014: profit of £4,768,638).

## DIVIDENDS

The Directors are proposing a dividend in respect of the year end 31 March 2015 of 6.9p per 5p ordinary share (2014: 6.25p 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. This action involves the design and development of hardware and firmware for the semiconductor environment.

## STRATEGIC REPORT

Carbon dioxide emissions are detailed in the Director's report. In accordance with S414C (11) of the Companies Act 2006; included in the strategic report is the review of the business and future developments, principal risks and uncertainties and key performance indicators. This information would have otherwise been required by Schedule 7 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 to be contained in the Directors' report.

## SHARE CAPITAL

The Company's authorised and issued ordinary share capital as at 31 March 2015 comprised a single class of ordinary shares. Details of movements in the issued share capital can be found in note 23 to the financial statements. Each share carries the right to one vote at general meetings of the Company. During the period, 295,610 ordinary shares (2014: 88,329 ordinary shares) in the Company were issued under the terms of the various share option schemes.

# Report of the Directors continued

## RESTRICTIONS ON TRANSFER OF SECURITIES

There are no specific restrictions on the transfer of securities in the Company, which is governed by the Articles and prevailing legislation. Nor is the Company aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

### Variation of rights

Subject to applicable statutes, rights attached to any class of shares may be varied with the written consent of the holders of at least 75% in nominal value of the issued shares of that class, or by a special resolution passed at a separate general meeting of the shareholders.

### Rights and obligations attaching to shares

Subject to the provisions of the Companies Act 2006, any resolution passed by the Company under the Companies Act 2006 and other shareholder rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board (as defined in the Articles) may decide. Subject to the Articles, the Companies Act 2006 and other shareholder rights, unissued shares are at the disposal of the Board.

## POWERS FOR THE COMPANY ISSUING OR BUYING BACK ITS OWN SHARES

The Company was authorised by shareholders, at the 2014 AGM, to purchase in the market up to 2,394,139 of the Company's issued share capital, as permitted under the Company's Articles. No shares have been bought back under this authority. This standard authority is renewable annually; the Directors will seek to increase the authority to 2,438,480 5p ordinary shares at this year's AGM.

The Directors were granted authority at the 2014 AGM to allot relevant securities up to a nominal amount of £532,030. That authority will apply until the conclusion of this year's AGM. At this year's AGM shareholders will be asked to grant an authority to allot relevant securities up to a nominal amount of £541,884.

## INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority's ("FCA") Disclosure and Transparency Rules ("DTRs") is published on a Regulatory Information Service and on the Company's website. Directors and their voting rights are listed further below in this Report. As at 12 June 2015, the Company had been notified under DTR 5 of the following significant holdings of voting rights in its shares.

| Registered holder | Type of investor | % of issued share capital |
|---|---|---|
| Miton Group plc | Institutional investor | 11.86% |
| Cazenove Capital Management Limited | Institutional investor | 11.69% |
| J. M. Gurry | Private investor | 9.69% |
| Legal and General Investment Management Limited | Institutional investor | 7.29% |
| M. I. Gurry | Private investor | 5.98% |
| T. M. R. Dean | Private investor | 5.51% |
| Hargreave Hale Limited | Institutional investor | 5.43% |
| Herald Investment Management | Institutional investor | 4.68% |
| J. M. Finn Nominees Limited | Institutional investor | 4.02% |
| Prudential Portfolio Managers Limited | Institutional investor | 3.85% |
| Slater Investments Limited | Institutional investor | 3.78% |

## DEADLINES FOR EXERCISING VOTING RIGHTS

Votes are exercisable at a General Meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, or corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

## SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

There are no agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

## 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 has been zero days. The Group's general policy is to pay all creditors in a period between 30 and 45 days.

## MARKET VALUE OF LAND AND BUILDINGS

Investment properties in both the Group and Company comprise freehold and leasehold land and buildings and it is from the operating leases on these properties that the Group's rental income is generated. Everett Newlyn, Chartered Surveyors and Commercial Property Consultants professionally valued the investment properties on the basis of open market value as at 31 March 2015, for which a valuation of £3,550,000 has been advised.

## DIRECTORS AND THEIR INTERESTS

The Directors of the Company at 31 March 2015, 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 | |
|---|---|---|
| | 31 March 2015 | 31 March 2014 |
| N. G. Clark | 24,600 | 4,600 |
| C. A. Gurry | 917,567 | 917,567 |
| N. B. Pritchard (appointed 19 January 2015) | — | — |
| H. F. Rudden (appointed 16 June 2014) | — | — |
| R. J. Shashoua | 145,500 | 143,500 |
| J. A. Lindop | — | — |

The above interests in the ordinary share capital of the Company are beneficial. 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 between 1 April 2015 and 12 June 2015. With the exception of Directors' service contracts there are no contracts of significance in which the Directors have an interest.







## THIRD PARTY INDEMNITY PROVISION FOR DIRECTORS

The Company currently has in place, and has done for the whole of the year ended 31 March 2015, Directors' and officers' liability insurance for the benefit of all Directors of the Company.

## ANNUAL GENERAL MEETING

The notice of the Annual General Meeting sets forth resolutions for the customary ordinary business resolutions 1 to 7 and also special business comprising of one ordinary resolution, 8 and two special resolutions, 9 and 10 relating to the following matters:

### Special business ordinary resolution

8. To renew the authority for the Company to allot relevant securities.

### Special business special resolutions

9. To disapply the pre-emption provisions of the Companies Act 2006.
10. To renew the authority to the Company to make market purchases of its own shares.

## CAPITAL RISK MANAGEMENT

The Company only has one class of share as detailed in note 23. Though no specific basis, such as the gearing ratio is used to monitor the capital, the Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## INTEREST RATE, LIQUIDITY AND FOREIGN CURRENCY MANAGEMENT

Further information regarding these matters is provided in Note 19.

## INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF PREPARING CONSOLIDATED ACCOUNTS

The elements of the internal control system are aimed at ensuring the accuracy and reliability of consolidated financial reporting and guarantee that business transactions are recognised in full and at the proper time in accordance with statutory regulations and CML Microsystems Plc's Articles of Association. Furthermore, they ensure that inventory counts are carried out correctly and that assets and liabilities are accurately recognised, measured and disclosed in the consolidated financial statements. The systems also ensure that the accounting documents provide reliable, comprehensible information.

The controlling activities to ensure the accuracy and reliability of the accounting include analytical reviews as well as the execution and control of important and complex transactions by different people. The separation of administrative, executive, accounting and authorisation functions and their performance by different individuals (dual signatures) reduces the risk of fraud.

Internal guidelines also govern specific formal requirements made of the consolidated financial statements. Establishing the group of consolidated companies is defined in detail, as are the components of the reports to be drawn up by the Group companies and their transmission to the central consolidation system. The formal requirements relate to the mandatory use of a standardised and complete set of reporting forms and a uniform account framework for the Group. The internal guidelines also include concrete instructions on presenting and carrying out netting procedures within the Group and confirming the resulting account balances.

At Group level the specific control activities to ensure the accuracy and reliability of consolidated financial reporting include the analysis and if necessary restatement of separate financial statements prepared by Group companies, taking into account the auditor's report and meetings held to discuss them.

## EMPLOYEES

The Group's employees are its greatest asset and ultimately are the key factor in determining the long-term success of the business.

The Board aims to ensure that all employees work in an environment that supports diversity and fosters a culture of dignity and respect. We are committed to supporting employment policies and practices that support equal opportunities, non-discrimination, and that comply with relevant local legislation and accepted employment practice codes. Policies and practices of equal opportunities and non-discrimination will ensure that an individual's ability, aptitude and talent are the sole determinants in recruitment, training, career development and progression opportunities rather than on the grounds of age, beliefs, disability, ethnic origin, gender, marital status, race, religion or sexual orientation.

### Breakdown of employees as at 31 March by gender and management

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total |
| Plc Board Directors | 6 | — | 6 | 4 | — | 4 |
| Senior management | 12 | 1 | 13 | 14 | 1 | 15 |
| Staff | 116 | 41 | 157 | 119 | 45 | 164 |
| Total | 134 | 42 | 176 | 137 | 46 | 183 |

Senior management is per the definition in Section 414C of the UK Companies Act 2006.

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

## STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

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 auditor is unaware.

Each of the Directors have confirmed that they have taken all the steps that they believe 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.

## AUDITOR

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

# Report of the Directors continued

## ENVIRONMENTAL ISSUES AND GREENHOUSE GAS EMISSIONS

The Board recognises its responsibility as a manufacturing concern to reduce, where economically sound, the energy it uses and where possible take advantage of recycling opportunities, complying with local laws as a minimum standard. The direct impact of the Company’s own business on the environment is little more than that of a normal office environment so has minimal effect. This is due to the fact that the Company mainly uses a sub-contractor model for the manufacture of its products. The mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013 (“the Regulations”) requires we report the data shown below. The methodology used to calculate our emissions is based on the “Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance” (June 2013) issued by the Department for Environment, Food and Rural Affairs (“DEFRA”). We have also utilised DEFRA’s 2013 conversion factors within this report. We have not extrapolated figures where the data is not available, such as power consumption when it is included within a lease cost.

### Greenhouse gases emissions in tonnes of $CO_2$ equivalents

| Tonnes of $CO_2e$ | 2015 | % of total emissions | 2014 | % of total emissions |
|---|---|---|---|---|
| Scope 1 | 149.81 | 20.37% | 153.88 | 20.65% |
| Scope 2 | 585.61 | 79.63% | 591.30 | 79.35% |
| Total controlled emissions | 735.42 | 100.00% | 745.18 | 100.00% |

### Emissions source

| Tonnes of $CO_2e$ | 2015 | % of total emissions | 2014 | % of total emissions |
|---|---|---|---|---|
| Scope 1 | | | | |
| Fuel – Company owned vehicles | 31.16 | 4.24% | 31.93 | 4.28% |
| Gas – heating | 118.64 | 16.13% | 121.94 | 16.37% |
| Refrigerant | 0.01 | 0.00% | 0.01 | 0.00% |
| Total scope 1 emissions | 149.81 | 20.37% | 153.88 | 20.65% |
| Scope 2 | | | | |
| Electricity – office and manufacturing | 585.61 | 79.63% | 591.30 | 79.35% |
| Total scope 2 emissions | 585.61 | 79.63% | 591.30 | 79.35% |

### Geographical breakdown

**2015**

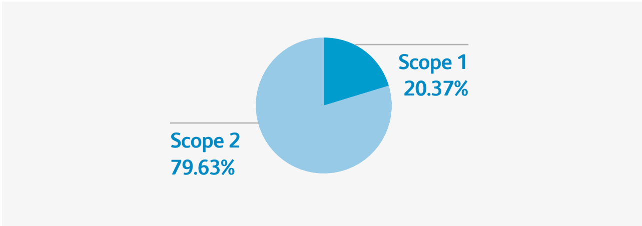
| Tonnes $CO_2e$ | Scope 1 | Scope 2 | Total | Percentage |
|---|---|---|---|---|
| UK | 126.31 | 517.95 | 644.26 | 87.61% |
| Taiwan | 11.23 | 32.27 | 43.50 | 5.91% |
| Singapore | 0.00 | 5.40 | 5.40 | 0.73% |
| Germany | 12.27 | 29.99 | 42.26 | 5.75% |
| Total emissions | 149.81 | 585.61 | 735.42 | 100.00% |

**2014**

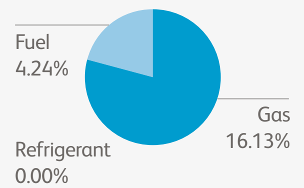
| Tonnes of $CO_2e$ | Scope 1 | Scope 2 | Total | Percentage |
|---|---|---|---|---|
| UK | 128.33 | 529.01 | 657.34 | 88.21% |
| Taiwan | 13.46 | 31.32 | 44.78 | 6.01% |
| Singapore | 0.00 | 5.57 | 5.57 | 0.75% |
| Germany | 12.09 | 25.40 | 37.49 | 5.03% |
| Total emissions | 153.88 | 591.30 | 745.18 | 100.00% |

### Emissions’ intensity

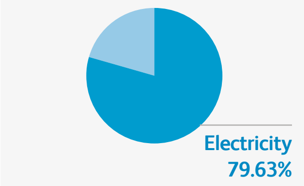
| Tonnes of $CO_2e$/£’000 turnover | 2015 | 2014 |
|---|---|---|
| Scope 1 | 0.01 | 0.01 |
| Scope 2 | 0.02 | 0.03 |
| Total | 0.03 | 0.04 |

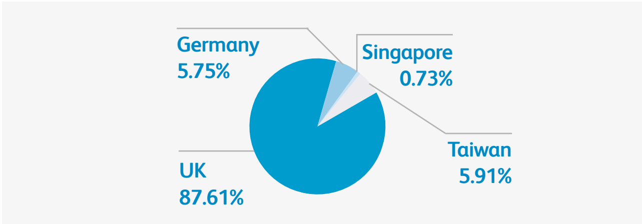


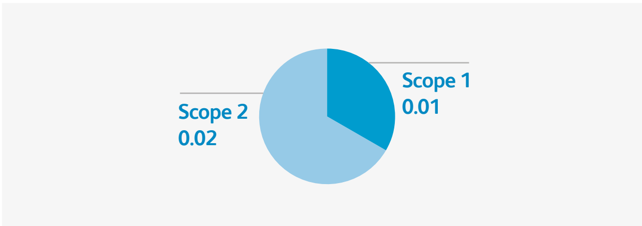

Scope 1 breakdown




Scope 2 breakdown




The above greenhouse gas emissions data is reported using an operational control approach to define our organisational boundary, which meets the definitional requirements of the Regulations in respect of those emissions for which we are responsible. This includes all material emission sources which we deem ourselves to be responsible for. These sources are within our organisational boundary and align with our own internal and financial control. We do not have responsibility for any emission sources outside this boundary such as commercial flights (scope 3) since they are not within our control and therefore are not considered to be our responsibility.

By order of the Board

**N. B. PRITCHARD**
Company Secretary
19 June 2015





# Directors’ remuneration report

## INTRODUCTION

This report has been prepared in accordance with the regulations regarding the Directors’ remuneration report (Schedule 8 of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 as amended in 2013). As in previous years the shareholders will be asked to approve the Directors’ remuneration report at the forthcoming Annual General Meeting of the Company at which the financial statements will be approved. Approval sought for this will have advisory status. The remuneration committee reviewed the existing policy revised in 2014 and deemed no change necessary to the current arrangements.

## CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

In setting the policy for Directors, the remuneration committee is mindful of the Group’s objective to reward all employees fairly according to their role, experience and performance. In setting the policy for Directors’ remuneration the committee considers the pay and employment conditions of the other employees within the Group. No formal consultation has been undertaken with the employees in drawing up this policy.

The committee has not used formal comparison measures.

## REMUNERATION COMMITTEE

The Board has established a remuneration committee that comprises of R. J. Shashoua (committee Chairman), C. A. Gurry and N. G. Clark. The Executive Directors do not participate in deciding their personal remuneration package.

## REMUNERATION POLICY

Set out in the table below is the Group policy on Directors’ remuneration. In setting the policy, the remuneration committee has taken into account:

- the need to attract, retain and motivate individuals of a calibre who will ensure successful leadership and management of the Company;
- the Group’s general aim in seeking to reward all employees fairly according to the nature of their role;
- the need to align the interests of the shareholders as a whole with the long-term growth of the Group;
- the need to be flexible and adjust with operational changes throughout the term of this policy;
- the size and nature of the business; and
- knowledge of general pay levels within the Company’s peer group and similar size companies.

The remuneration of the Non-Executive Directors is determined by the Board and takes into account additional remuneration for services outside the scope of the ordinary duties of Non-Executive Directors.

### Executive Directors

| Element | Purpose | Policy | Operation | Performance conditions |
|---|---|---|---|---|
| Base salary | To recognise skills, responsibility, accountability, experience and value. | Set at a level considered appropriate to attract, retain, motivate and reward the right individual. | Reviewed annually by the remuneration committee. Paid monthly. | No specific performance conditions, no maximum salary and no minimum or maximum rate of increase. |
| Pension | To provide competitive retirement benefits. | Fixed percentage of base salary. | Paid monthly into the Group defined contribution scheme. | No specific performance conditions. |
| Benefits* | To provide a competitive benefits package. | Include car or car allowance, health cover and death in service. | As defined in the employment contract. | No specific performance conditions. |
| Annual bonus | To reward and incentivise. | Tied to the overall profit and performance of the business as well as the individual in that period. | Assessed annually on both a financial and non-financial basis. | The maximum bonus will not exceed 50% of base salary and is totally at the discretion of the remuneration committee. |
| Share options | To provide Executive Directors with a long-term interest in the Company. | Granted under general group-wide schemes. | Offered at appropriate times by the remuneration committee. | No minimum or maximum levels set and no performance criteria specified. |

### Non-Executive Directors

| Element | Purpose | Policy | Operation | Performance conditions |
|---|---|---|---|---|
| Base salary | To recognise skills, experience and value. | Set at a level considered appropriate to attract, retain and motivate the individual. | Reviewed periodically as needed. | No specific performance conditions, no maximum salary and no minimum or maximum rate of increase. |
| Pension | None offered. | None offered. | None offered. | None offered. |
| Benefits | Health cover when employed under PAYE. | Health cover where appropriate up to the age of 75. | Group organised. | No specific performance conditions. |
| Share options | None offered. | None offered. | None offered. | None offered. |

* Principally a car and private medical insurance. The contracts of the Executive Directors allow the provision of a company car to be exchanged for a car allowance and where this is done, this allowance is added to the benefits in kind figure.

The Company has no long-term incentive plans for Directors and no separate share option scheme exists solely 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.

# Directors' remuneration report continued

## POLICY ON PAYMENT FOR LOSS OF OFFICE

There are no contractual provisions that could impact on a termination payment. Termination payments will be calculated in accordance with the existing contract of employment or service contract. It is the policy of the remuneration committee to issue employment contracts to Executive Directors with normal commercial terms and without extended terms of notice which could give rise to an extraordinary termination payment.

## SINGLE TOTAL FIGURE OF REMUNERATION (AUDITED)

**Individual Director's remuneration was as follows:**

| 2015 | Salary £ | Bonus £ | Benefits in kind £ | Total excluding pension £ | Pension contribution £ | Total £ |
|---|---|---|---|---|---|---|
| N. G. Clark | 190,800 | 33,390 | 19,220 | 243,410 | 31,583 | 274,993 |
| C. A. Gurry | 201,400 | 35,245 | 24,079 | 260,724 | 27,189 | 287,913 |
| N. B. Pritchard | 27,935 | — | 934 | 28,869 | 1,300 | 30,169 |
| H. F. Rudden | 111,282 | 19,396 | 15,589 | 146,267 | 5,600 | 151,867 |
| R. J. Shashoua | 25,000 | — | — | 25,000 | — | 25,000 |
| J. A. Lindop | 20,000 | — | — | 20,000 | — | 20,000 |
| | 576,417 | 88,031 | 59,822 | 724,270 | 65,672 | 789,942 |

| 2014 | Salary £ | Bonus £ | Benefits in kind £ | Total excluding pension £ | Pension contribution £ | Total £ |
|---|---|---|---|---|---|---|
| G. W. Gurry | 18,958 | — | 611 | 19,569 | — | 19,569 |
| C. A. Gurry | 201,400 | 40,280 | 23,144 | 264,824 | 28,728 | 293,552 |
| N. G. Clark | 190,800 | 42,930 | 19,226 | 252,956 | 31,583 | 284,539 |
| G. J. Bates | 14,583 | — | 665 | 15,248 | — | 15,248 |
| R. J. Shashoua | 25,000 | — | — | 25,000 | — | 25,000 |
| J. A. Lindop | 20,000 | — | — | 20,000 | — | 20,000 |
| | 470,741 | 83,210 | 43,646 | 597,597 | 60,311 | 657,908 |

See remuneration policy for types of benefits in kind. No formal performance measures are considered relevant due to the size and nature of the Board and therefore bonuses and share options granted are entirely at the discretion of the remuneration committee.

**Remuneration of the Group Managing Director over the last five years:**

| Year | Group Managing Director | Total remuneration including bonus £'000 | Annual bonus payout/ maximum opportunity % | Long-term incentive vesting rates against maximum opportunity % |
|---|---|---|---|---|
| 2015 | C. A. Gurry | 288 | 17.5%/50% | n/a |
| 2014 | C. A. Gurry | 294 | 20.0%/50% | n/a |
| 2013 | C. A. Gurry | 294 | 22.5%/50% | n/a |
| 2012 | C. A. Gurry | 281 | 20.0%/50% | n/a |
| 2011 | C. A. Gurry | 261 | 17.5%/50% | n/a |

**Percentage change in Group Managing Director's remuneration:**

The table below shows the percentage change in the Group Managing Director's total remuneration from the prior year to the current year compared to the total remuneration for the Group:

| | 2015 £ | 2014 £ | Change % |
|---|---|---|---|
| Basic salary | 201,400 | 201,400 | — |
| Taxable benefits and pension | 51,268 | 51,872 | (1.16) |
| Annual bonus | 35,245 | 40,280 | (12.50) |
| Total remuneration of Group Managing Director | 287,913 | 293,552 | (1.92) |
| Total remuneration of employees | 9,655,140 | 9,609,246 | +0.48 |





## SHARE OPTIONS (AUDITED)

The following Directors had interests in options to subscribe for ordinary shares as follows:

| | Number of options at 1 April 2014 | Options exercised in year | Gain on options exercised in year | Options granted in year | Number of options at 31 March 2015 | Exercise price | Exercise date |
|---|---|---|---|---|---|---|---|
| C. A. Gurry | 20,000 | — | — | — | 20,000 | £2.20 | 15 June 2014 to 14 June 2021 |
| N. G. Clark | 20,000 | (20,000) | — | — | — | £2.20 | 15 June 2014 to 14 June 2021 |
| H. F. Rudden | — | — | — | 20,000 | 20,000 | £3.125 | 17 Sept 2017 to 17 Sept 2024 |
| | 40,000 | (20,000) | — | 20,000 | 40,000 | | |

On 17 September 2014, the Company granted H. F. Rudden 20,000 share options at an exercise price of £3.125. On 21 January 2015, N. G. Clark exercised 20,000 options at the exercise price of £2.20 and retained the shares. On 2 April 2015, the Company granted N. B. Pritchard 20,000 share options at an exercise price of £3.45.

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 tenth anniversaries of the date of grant. The share option schemes cover all Group employees, not just the Directors. The share options have no performance conditions attached. Further details are provided in note 23 to the financial statements. The market price of the Company's shares on 31 March 2015 was 347.5p (2014: 572.5p) and the range for the year was 260.0p to 572.5p.

## 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 (where a member is defined as a current member, deferred member or pension member) was:

| | 2015 Number | 2014 Number |
|---|---|---|
| Defined contributions scheme | 3 | 2 |
| Defined benefit scheme | 1 | 1 |

C. A. Gurry was the only Director who was a member of the defined benefit scheme operated by the Company during the year and subsequently transferred the pension out of the defined benefit scheme during the year. Pension entitlements and corresponding transfer values were as follows during the year:

| | Total accrued pension at 31 March 2015 £ | Increase in accrued pension excluding inflation £ | Transfer value (less Directors' contributions) of net increase in accrual over period £ | Transfer value of accrued pension at 31 March 2014 £ | Transfer value of accrued pension at 31 March 2015 £ | Total change in transfer value during period (transfer out of pension made) £ |
|---|---|---|---|---|---|---|
| C. A. Gurry | — | — | — | 345,435 | — | (345,435) |

The Company's defined benefit pension scheme was closed in respect of future benefit accruals on 31 March 2009. Life assurance cover and widows death-in-service cover is still provided under this scheme.

Company contributions of £65,672 (2014: £60,311) were made towards the defined contribution scheme during the year in respect of the Executive Directors as detailed earlier in this report.

Normal retirement age for all Company pension schemes is 65 (2014: 65). There are no additional benefits that will become receivable by a Director in the event of early retirement.

## APPROACH TO RECRUITMENT REMUNERATION

All appointments to the Board are made on merit. The components of the remuneration package (for a new Director recruited within the life of the approved remuneration policy) would comprise of a base salary, pension, benefits, annual bonus and an opportunity to be granted share options. The approach with any appointment is detailed in the policy table. The Company aims to attract appropriately skilled and experienced individuals offering a level of remuneration that, in the opinion of the remuneration committee, is not excessive but fair.

# Directors' remuneration report continued

## REMUNERATION SCENARIOS

An indication of the possible level of remuneration that would be contractually received by each Executive Director in the year commencing 1 April 2015, had N. B. Pritchard and H. F. Rudden been employed for a full twelve months, in accordance with the Directors' remuneration policy and contractual terms, is shown below:

| | C. A. Gurry (£'000) | N. B. Pritchard (£'000) | H. F. Rudden (£'000) |
|---|---|---|---|
| Maximum | 353 | 215 | 236 |
| On target | 278 | 166 | 183 |
| Minimum | 253 | 150 | 166 |

The "minimum" remuneration consists of the base salary, benefits and pension as disclosed in the remuneration table for 2015 contained within this report, adjusted for full year example contractual commitments. The "on target" remuneration is the minimum remuneration figure plus, as an example, a 12.5% bonus paid on the base salary element part of the minimum remuneration. There are no contractual targets set for Directors' bonuses and in the last five years bonus levels have ranged from zero to 22.5% of the base salary element. The maximum remuneration assumes a 50% bonus paid on the base salary element part of the minimum remuneration.

## NON-EXECUTIVE DIRECTORS

The fees payable to Non-Executive Directors are determined by the Board and designed to recognise the experience and responsibility whilst rewarding the expertise and ability of the individual.

## DIRECTORS' SERVICE CONTRACTS

C. A. Gurry is employed by the Company under a written contract of employment that provides for termination by either party giving twelve months' notice. N. B. Pritchard and H. F. Rudden are employed by the Company under a written contract of employment that provides for termination by either party giving six months' notice.

R. J. Shashoua does not have a service contract with the Company nor was he appointed for a specific term of office. J. A. Lindop has a three-year service contract effective 1 April 2013. N. G. Clark has a service contract effective 19 January 2015. All Directors are subject to re-appointment at the first Annual General Meeting after their appointment and thereafter, apart from the Group Managing Director, one third of the remaining Directors shall retire by rotation at the Annual General Meeting.

Directors notice periods are set in line with market practice and of a length considered sufficient to ensure an effective handover of duties should a Director leave the Company.

## CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

The remuneration committee considered the Executive Directors remuneration and the Board considered the Non-Executive Directors remuneration in the year ended 31 March 2015. During the year, N. G. Clark took up the post of Group Non-Executive Chairman for the Company and details of his remuneration package are provided in the above table within this report. No other movements were awarded to salary and no external advice was taken in reaching this decision.

## RELATIVE IMPORTANCE OF SPEND ON PAY

The total expenditure of the Group on remuneration to all employees (note 5) is shown below

| | 2015<br>£ | 2014<br>£ | Movement<br>£ |
|---|---|---|---|
| Employee remuneration | 10,797,923 | 10,910,967 | (113,044) |
| Distributions to shareholders | 1,013,533 | 873,394 | 140,139 |

## SHAREHOLDER VOTING

At the Annual General Meeting on 30 July 2014, there was an advisory vote on the resolution to approve the remuneration report the result of which is detailed below:

| | % of votes for | % of votes against | Number of votes withheld |
|---|---|---|---|
| Resolution to approve the remuneration report | 99.92 | 0.08 | — |



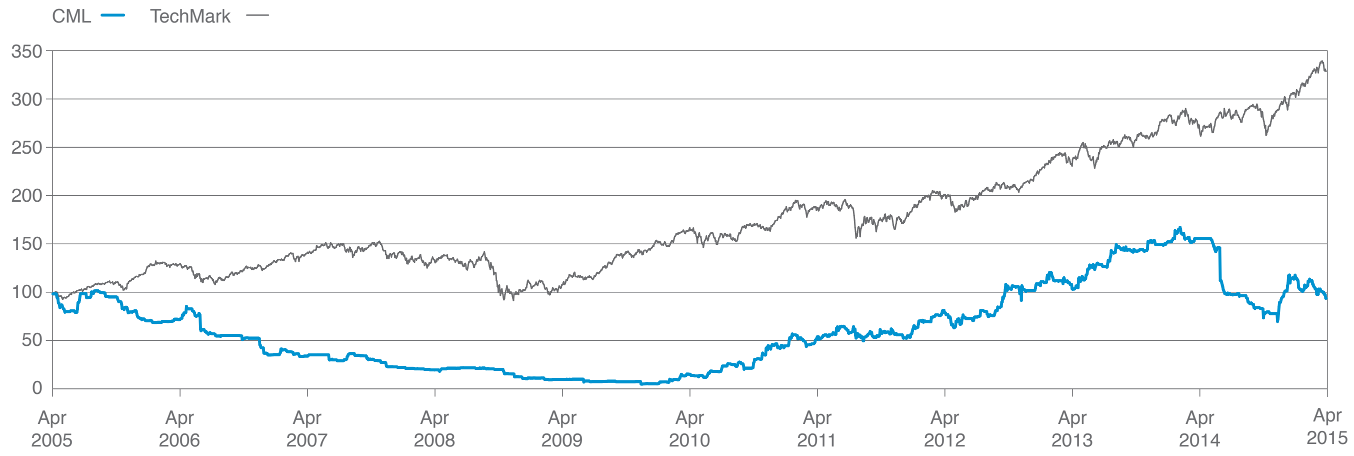


## CONSIDERATION OF SHAREHOLDER VIEWS

No shareholder views have been taken into account when formulating this policy. In accordance with the regulations, an ordinary resolution for approval of this policy will be put to the shareholders at the Annual General Meeting in July 2015.

## 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 TechMark 100 Index for the last ten years. The TechMark 100 Index was selected because in the opinion of the Board it is the most appropriate for benchmarking the Company.




On behalf of the Board of Directors

**R. J. SHASHOUA**
Non-Executive Director and Chairman of the remuneration committee
19 June 2015

# Corporate Governance

## STATEMENT OF THE APPLICATION OF PRINCIPLES IN THE UK CORPORATE GOVERNANCE CODE 2012 (THE "CODE")

The Board acknowledge the importance of the UK Corporate Governance Code 2012 (the "Code") revised in September 2012. Companies that have a standard listing on the London Stock Exchange are not required to comply with the Code under the Listing Rules. However there is a requirement to comply with certain disclosure and transparency rules, specifically DTR 7.2, relating to corporate governance statements.

The Company is committed to high standards of corporate governance and has sought to comply with those aspects of the Code that are considered by the Board to be practical and appropriate for an organisation of its size and nature and where, in the Board's opinion, are of material benefit to the Company and/or its stakeholders. A copy of the Code is available on the Financial Reporting Council's website at www.frc.org.uk/corporate/ukcgcode.cfm.

In particular, the Company places a high degree of importance on corporate governance issues relating to internal financial control, accountability and the ability of its Directors to behave independently and appropriately. Consequently, consideration of the Code has been weighted towards these issues whilst also having due regard for the size and nature of the Group.

## DIRECTORS

The Group is led and controlled by an effective board that comprises three Executive Directors and three Non-Executive Directors. Details of the Directors can be found on page 14. The Chairman is primarily responsible for the running of the Board and the Group Managing Director is the Chief Operating Decision Maker ("CODM") with responsibility for the day-to-day running of the Group and for implementing Group strategy.

The Board meets formally a minimum of four times per year. During the year ended 31 March 2015, nine Board meetings were held where all Directors in post participated.

All Board members have full access to the Group's advisors for seeking professional advice at the Company's expense and the Group's culture is to openly discuss any important issues. New appointments are led by the Group Managing Director and considered by the whole Board acting as the nominations committee.

The Group's wider organisational structure has clear lines of responsibility. Operating and financial responsibility for all subsidiary companies is the responsibility of the Board. The CODM monitors operating performance through the regular review of financial reports and by holding regular formal discussions with senior managers and their respective senior personnel.

In accordance with the Articles of Association one third of the Board excluding the Group Managing Director is subject to re-election by rotation annually.

## ACCOUNTABILITY

In the report of the Directors on pages 15 to 18 of this Annual Report and Accounts there are details of the Group's internal financial control procedures and risk management practices. The Group has a long-established framework of internal financial controls and the Board recognises that the Group operates in highly competitive markets that can be affected by factors and events outside its control. Accordingly, an annual review of the material controls, including financial, operational, compliance and risk management systems is undertaken during the year by the internal audit function.

In accordance with the objectives of the Code, the Board reviews the results of the review and takes necessary actions where required. The Board is satisfied there is an on-going process in place for identifying, evaluating and managing the Group's significant risks.

## AUDIT

The audit committee is responsible for ensuring the financial performance of the Group is properly measured and reported and for reviewing reports from auditors relating to the Group accounts and the Group's internal control systems. The audit committee also reviews the independence and the objectivity of the auditor and the supply of non-audit services. The audit committee comprises the Non-Executive Chairman and an Independent Non-Executive Director (as defined by the Board).

## RELATIONS WITH SHAREHOLDERS

The Group Managing Director and the Group Financial 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 half-year and preliminary results along with other ad-hoc meetings throughout the year. 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.

By order of the Board

**N. B. PRITCHARD**
Company Secretary
19 June 2015





# Independent auditor's report

## to the members of CML Microsystems Plc

We have audited the Group and parent company financial statements (the "financial statements") on pages 26 to 57. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 AUDITOR

As more fully explained in the Directors' responsibilities statement set out on page 15, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

## OPINION ON THE FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report under the Companies Act 2006 which requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**EUAN BANKS**
(Senior Statutory Auditor)
For and on behalf of Baker Tilly UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

19 June 2015

# Consolidated income statement

for the year ended 31 March 2015

| | Notes | 2015 £ | 2014 £ |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 3 | 21,803,713 | 24,393,659 |
| Cost of sales | 4 | (6,338,749) | (6,511,437) |
| **Gross profit** | | 15,464,964 | 17,882,222 |
| Distribution and administration costs | 4 | (12,776,694) | (12,469,963) |
| | | 2,688,270 | 5,412,259 |
| Other operating income | 4 | 418,989 | 473,613 |
| **Profit from operations** | | 3,107,259 | 5,885,872 |
| Share-based payments | 24 | (95,405) | (155,931) |
| **Profit after share-based payments** | | 3,011,854 | 5,729,941 |
| Revaluation of investment properties | 12 | 100,000 | — |
| Finance income | 7 | 65,651 | 61,764 |
| **Profit before taxation from continuing operations** | | 3,177,505 | 5,791,705 |
| Income tax expense | 8 | (475,724) | (1,023,069) |
| **Profit after taxation from continuing operations** | | 2,701,781 | 4,768,636 |
| Profit after taxation from discontinued operations | 28 | — | 2 |
| **Profit after taxation attributable to equity owners of the parent** | 10 | 2,701,781 | 4,768,638 |
| **Basic earnings per share** | | | |
| From continuing operations | 10 | 16.71p | 29.96p |
| From profit for year | 10 | 16.71p | 29.96p |
| From discontinued operations | 10 | — | — |
| **Diluted earnings per share** | | | |
| From continuing operations | 10 | 16.51p | 29.20p |
| From profit for year | 10 | 16.51p | 29.20p |
| From discontinued operations | 10 | — | — |

# Consolidated statement of total comprehensive income

for the year ended 31 March 2015

| | Notes | 2015 £ | 2015 £ | 2014 £ | 2014 £ |
|---|---|---|---|---|---|
| **Profit for the year** | | | 2,701,781 | | 4,768,638 |
| **Other comprehensive income, net of tax** | | | | | |
| Items that will not be reclassified subsequently to profit or loss | | | | | |
| Actuarial (loss)/profit on retirement benefit obligations | 11 | (1,133,000) | | 3,393,000 | |
| Deferred tax on actuarial losses/(profits) | 22 | 226,600 | | (678,600) | |
| Items reclassified subsequently to profit or loss upon derecognition | | | | | |
| Foreign exchange differences | | (477,497) | | (301,900) | |
| Other comprehensive (expense)/income for the year net of taxation attributable to equity owners of the parent | | | (1,383,897) | | 2,412,500 |
| **Total comprehensive income for the year attributable to the equity holders of the parent** | | | 1,317,884 | | 7,181,138 |





# Consolidated statement of financial position

as at 31 March 2015

| | Notes | 2015 £ | 2015 £ | 2014 £ | 2014 £ |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 12 | | 4,975,835 | | 4,936,710 |
| Investment properties | 12 | | 3,550,000 | | 3,450,000 |
| Development costs | 12 | | 6,983,619 | | 6,188,255 |
| Goodwill | 12 | | 3,512,305 | | 3,512,305 |
| Deferred tax asset | 22 | | 1,310,289 | | 1,270,976 |
| | | | 20,332,048 | | 19,358,246 |
| **Current assets** | | | | | |
| Inventories | 15 | 1,762,845 | | 1,129,051 | |
| Trade receivables and prepayments | 16 | 2,864,534 | | 3,388,003 | |
| Current tax assets | 21 | 628,006 | | 282,667 | |
| Cash and cash equivalents | 17 | 13,187,718 | | 11,373,483 | |
| | | | 18,443,103 | | 16,173,204 |
| Non-current assets classified as held for sale properties | 12 | | — | | 100,168 |
| **Total assets** | | | 38,775,151 | | 35,631,618 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 20 | | 3,471,194 | | 2,508,599 |
| Current tax liabilities | 21 | | 195,888 | | 274,129 |
| | | | 3,667,082 | | 2,782,728 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 22 | 2,512,736 | | 2,224,517 | |
| Retirement benefit obligation | 11 | 3,624,000 | | 2,698,000 | |
| | | | 6,136,736 | | 4,922,517 |
| **Total liabilities** | | | 9,803,818 | | 7,705,245 |
| **Net assets** | | | 28,971,333 | | 27,926,373 |
| **Capital and reserves attributable to equity owners of the parent** | | | | | |
| Share capital | 23 | | 812,827 | | 798,046 |
| Share premium | 24 | | 5,700,344 | | 5,069,921 |
| Share-based payments reserve | 24 | | 287,366 | | 327,130 |
| Foreign exchange reserve | 24 | | (265,865) | | 211,632 |
| Accumulated profits | 24 | | 22,436,661 | | 21,519,644 |
| **Total shareholders' equity** | | | 28,971,333 | | 27,926,373 |

The financial statements on pages 26 to 57 were approved and authorised for issue by the Board on 19 June 2015 and signed on its behalf by:

**C. A. GURRY**
Director

**N. B. PRITCHARD**
Director

Registered in England and Wales: 944010

# Consolidated and Company cash flow statements

## for the year ended 31 March 2015

| | Notes | Group 2015 £ | Group 2014 £ | Company 2015 £ | Company 2014 £ |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net profit before taxation (continuing operations) | | 3,177,505 | 5,791,705 | 220,705 | 279,721 |
| Net profit before taxation (discontinued operations) | | — | 2,787 | — | — |
| Net profit for the year before taxation | | 3,177,505 | 5,794,492 | 220,705 | 279,721 |
| Adjustments for: | | | | | |
| Depreciation | | 266,638 | 255,358 | 87,301 | 87,301 |
| Amortisation of development costs | | 3,223,983 | 2,588,063 | — | — |
| Revaluation of investment properties | | (100,000) | — | (100,000) | — |
| Movement in pensions net costs | | (207,000) | 31,000 | — | — |
| Share-based payments | | 95,405 | 155,931 | 95,405 | 155,931 |
| Dividend received from Group companies | | — | — | 1,214,486 | 519,367 |
| Profit on sale of plant and equipment | | (3,770) | (7,770) | — | — |
| Finance income | | (65,651) | (61,773) | (17,288) | (15,578) |
| Movement in working capital | 27 | 852,270 | (1,101,969) | (1,353,072) | 2,045,716 |
| **Cash flows from operating activities** | | 7,239,380 | 7,653,332 | 147,537 | 3,072,458 |
| Income tax paid | | (270,376) | (204,593) | — | — |
| **Net cash flows from operating activities** | | 6,969,004 | 7,448,739 | 147,537 | 3,072,458 |
| **Investing activities** | | | | | |
| Purchase of property, plant and equipment | | (317,602) | (102,995) | — | — |
| Investment in development costs | | (4,362,929) | (4,139,040) | — | — |
| Disposal of property, plant and equipment | | 12,083 | 5,990 | — | — |
| Finance income | | 65,651 | 61,773 | 17,288 | 15,578 |
| **Net cash flows from investing activities** | | (4,602,797) | (4,174,272) | 17,288 | 15,578 |
| **Financing activities** | | | | | |
| Issue of ordinary shares | | 645,204 | 96,806 | 645,204 | 96,806 |
| Dividend paid to shareholders | | (1,013,533) | (873,394) | (1,013,533) | (873,394) |
| Decrease in bank loans and short-term borrowings | | — | (338,267) | — | — |
| **Net cash flows from financing activities** | | (368,329) | (1,114,855) | (368,329) | (776,588) |
| **Increase/(decrease) in cash and cash equivalents** | | 1,997,878 | 2,159,612 | (203,504) | 2,311,448 |
| **Movement in cash and cash equivalents:** | | | | | |
| At start of year | 17 | 11,373,483 | 9,322,957 | 2,357,563 | 46,115 |
| Increase/(decrease) in cash and cash equivalents | | 1,997,878 | 2,159,612 | (203,504) | 2,311,448 |
| Effects of exchange rate changes | | (183,643) | (109,086) | — | — |
| **At end of year** | | 13,187,718 | 11,373,483 | 2,154,059 | 2,357,563 |





# Consolidated statement of changes in equity

## for the year ended 31 March 2015

| | Share capital £ | Share premium £ | Share-based payments £ | Foreign exchange reserve £ | Accumulated profits £ | Total £ |
|---|---|---|---|---|---|---|
| **At 31 March 2013** | 793,630 | 4,977,531 | 171,199 | 513,532 | 14,910,000 | 21,365,892 |
| Profit for year | | | | | 4,768,638 | 4,768,638 |
| **Other comprehensive income net of taxes** | | | | | | |
| Foreign exchange differences | | | | (301,900) | | (301,900) |
| Net actuarial gain recognised directly to equity | | | | | 3,393,000 | 3,393,000 |
| Deferred tax on actuarial gain | | | | | (678,600) | (678,600) |
| **Total comprehensive income for year** | — | — | — | (301,900) | 7,483,038 | 7,181,138 |
| | 793,630 | 4,977,531 | 171,199 | 211,632 | 22,393,038 | 28,547,030 |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Issue of ordinary shares | 4,416 | 92,390 | | | | 96,806 |
| Dividend paid | | | | | (873,394) | (873,394) |
| **Total transactions with owners in their capacity as owners** | 4,416 | 92,390 | — | — | (873,394) | (776,588) |
| Share-based payments in year | | | 155,931 | | | 155,931 |
| **At 31 March 2014** | 798,046 | 5,069,921 | 327,130 | 211,632 | 21,519,644 | 27,926,373 |
| Profit for year | | | | | 2,701,781 | 2,701,781 |
| **Other comprehensive income net of taxes** | | | | | | |
| Foreign exchange differences | | | | (477,497) | | (477,497) |
| Net actuarial loss recognised directly to equity | | | | | (1,133,000) | (1,133,000) |
| Deferred tax on actuarial loss | | | | | 226,600 | 226,600 |
| **Total comprehensive income for year** | — | — | — | (477,497) | 1,795,381 | 1,317,884 |
| | 798,046 | 5,069,921 | 327,130 | (265,865) | 23,315,025 | 29,244,257 |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Issue of ordinary shares | 14,781 | 630,423 | | | | 645,204 |
| Dividend paid | | | | | (1,013,533) | (1,013,533) |
| **Total transactions with owners in their capacity as owners** | 14,781 | 630,423 | — | — | (1,013,533) | (368,329) |
| Share-based payments in year | | | 95,405 | | | 95,405 |
| Cancellation/transfer of share-based payments | | | (135,169) | | 135,169 | — |
| **At 31 March 2015** | 812,827 | 5,700,344 | 287,366 | (265,865) | 22,436,661 | 28,971,333 |

There is considered to be no significant tax effect of foreign exchange differences in the above consolidated statement of changes in equity.

# Company statement of financial position
as at 31 March 2015

| | Notes | 2015 £ | 2015 £ | 2014 £ | 2014 £ |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 12 | | 4,678,608 | | 4,765,909 |
| Investment properties | 12 | | 3,550,000 | | 3,450,000 |
| Investments | 13 | | 7,208,882 | | 5,806,353 |
| Deferred tax asset | 22 | | 122,044 | | 144,413 |
| | | | 15,559,534 | | 14,166,675 |
| **Current assets** | | | | | |
| Trade receivables and prepayments | 16 | 27,648 | | 8,458 | |
| Cash and cash equivalents | 17 | 2,154,059 | | 2,357,563 | |
| | | | 2,181,707 | | 2,366,021 |
| **Total assets** | | | 17,741,241 | | 16,532,696 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 20 | | 555,064 | | 486,417 |
| | | | 555,064 | | 486,417 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 22 | | 678,435 | | 669,208 |
| **Total liabilities** | | | 1,233,499 | | 1,155,625 |
| **Net assets** | | | 16,507,742 | | 15,377,071 |
| **Equity** | | | | | |
| Share capital | 23 | | 812,827 | | 798,046 |
| Share premium | 24 | | 5,700,344 | | 5,069,921 |
| Share-based payments reserve | 24 | | 287,366 | | 327,130 |
| Merger reserve | 24 | | 315,800 | | 315,800 |
| Accumulated profits | 24 | | 9,391,405 | | 8,866,174 |
| **Total shareholders' equity** | | | 16,507,742 | | 15,377,071 |

The financial statements on pages 26 to 57 were approved and authorised for issue by the Board on 19 June 2015 and signed on its behalf by:

**C. A. GURRY**
Director

**N. B. PRITCHARD**
Director

Registered in England and Wales: 944010





# Company statement of changes in equity
for the year ended 31 March 2015

| | Share capital £ | Share premium £ | Share-based payments £ | Merger reserve £ | Accumulated profits £ | Total £ |
|---|---|---|---|---|---|---|
| **At 31 March 2013** | 793,630 | 4,977,531 | 171,199 | 315,800 | 8,831,398 | 15,089,558 |
| Profit for year | | | | | 908,170 | 908,170 |
| **Total comprehensive income for year** | — | — | — | — | 908,170 | 908,170 |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Issue of ordinary shares | 4,416 | 92,390 | | | | 96,806 |
| Dividend paid | | | | | (873,394) | (873,394) |
| **Total transactions with owners in their capacity as owners** | 4,416 | 92,390 | — | — | (873,394) | (776,588) |
| Share-based payments in year | | | 155,931 | | | 155,931 |
| **At 31 March 2014** | 798,046 | 5,069,921 | 327,130 | 315,800 | 8,866,174 | 15,377,071 |
| Profit for year | | | | | 1,403,595 | 1,403,595 |
| **Total comprehensive income for year** | — | — | — | — | 1,403,595 | 1,403,595 |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Issue of ordinary shares | 14,781 | 630,423 | | | | 645,204 |
| Dividend paid | | | | | (1,013,533) | (1,013,533) |
| **Total transactions with owners in their capacity as owners** | 14,781 | 630,423 | — | — | (1,013,533) | (368,329) |
| Share-based payments in year | | | 95,405 | | | 95,405 |
| Cancellation/transfer of share-based payments | | | (135,169) | | 135,169 | — |
| **At 31 March 2015** | 812,827 | 5,700,344 | 287,366 | 315,800 | 9,391,405 | 16,507,742 |

## 1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as endorsed by the EU ("IFRS") and the requirements of the Companies Act applicable to companies reporting under 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 that are carried at valuation. This is done on a going concern basis as the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. See page 15 for further detail.

The Group's presentational currency is Pounds Sterling since that is the currency in which the majority of the Group's transactions are denominated. The Company's functional currency is Pounds Sterling.

### 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 income statement is presented for CML Microsystems Plc as provided by Section 408 of the Companies Act 2006. Dormant subsidiaries are not included in the consolidated financial statements on the basis that they are not material to the Group. A subsidiary is defined within these accounts to mean a company, over which the Group has control. The Group controls an entity where the Group is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

### c) Segmental reporting

The Group's primary reporting format was, until the liquidation during the prior year of Radio Data Technology Ltd, in two segments being semiconductor components and equipment. These individual segments were engaged in separate business sectors and were subject to different risks and returns. The Group is now focused purely on one operating segment, being the semiconductor segment, with similar risks and returns. This semiconductor segment focuses on three main market areas: storage, wireless and wireline telecom.

### d) Revenue

The Group recognises revenues from the sale of equipment and 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 receivable excluding discounts, rebates, Value Added Tax and other sales taxes or duties. Other income such as interest earned and property income is recognised as earned. Warranty for all product sold or any loss or damage suffered by a purchaser only extends to the refund of the purchase price or replacement of the product originally sold regardless of how the claim has arisen therefore only accounted for on an actual identified potential liability.

### e) 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. Under IFRS 1 the Group elected to adopt the 31 March 2005 balance sheet amortised value prepared under UK GAAP for goodwill and carry out annual impairment reviews as required under IAS 36 and in accordance with IAS 38. Goodwill is reviewed annually for impairment by comparing its carrying value to the net selling price of the cash generating unit; any resultant loss being charged through the consolidated income statement. Net selling price is determined using a five-year average of projected future earnings as applied to the price earnings ratio for the technology sector. No impairments are reversed.

### f) Research and development

Development expenditures that satisfy the recognition criteria as set out in IAS 38 are shown at historical cost less accumulated amortisation since they have a definite useful life. In determining the period over which the carrying value of the intangible fixed assets are 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 up to four years, representing the period over which economic benefit is derived from developed products and is charged to administration costs in the income statement. Research and other development expenditures that fall outside the scope of IAS 38 are charged to the income statement when incurred. An internally-generated intangible asset arising from the Group's business development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of an asset can be measured reliably;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

### g) Property, plant and equipment and investment property

All property, plant and equipment, other than investment properties, are stated at historical cost. Depreciation is provided on all property, plant and equipment 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 improvements | period of the lease |
| Plant and equipment | 25% straight line |
| Motor vehicles | 25% straight line |

Investment properties are stated at their fair values and are revalued annually by the Directors and every third year by an independent chartered surveyor on an open market basis. No depreciation is provided on freehold investment properties or on leasehold investment properties. 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, adjustments in respect of prior years 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 substantively enacted by the year end.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the year end. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

### 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 year end. 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 for the income statement and at the closing rate for the statement of financial position. Translation differences are dealt with through the foreign exchange reserve in shareholders' equity. The Group decided to deem the cumulative amount of exchange differences arising on consolidation of the net investments in subsidiaries at 1 April 2004 to be zero.

### k) Investments

Investments are stated at cost less any provision for diminution in 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 in current liabilities on the statement of financial position.

### 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 liability recognised in the statement of financial position in respect of the defined pension schemes is the present value of the defined benefit obligation at the year end 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.

2014 amendments to IAS 19 Employee Benefits: the amendments required immediate recognition of actuarial gains and losses in other comprehensive income. The principal amendment that affected the Group was the requirement to calculate net interest income or expense using the discount rate used to measure the defined benefit obligation. The revised standard required retrospective application and impacted the Group's income statements and statement of comprehensive income as a result of the changes in assessing the return on pension scheme assets. A prior year restatement was made in the 2014 Annual Report and Accounts to reflect these changes.

### n) Employee benefits – share-based payments

Share options which are equity settled are valued using the Black-Scholes model. This fair value at the date of the grant 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.

Cancelled or settled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in the profit or loss in the year that the options are cancelled or settled.

### 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. Grants are only recognised when all conditions of the grant have been complied with and are matched to the expenditure to which they relate.

### 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 is credited to the income statement on a straight-line basis and any contingent rents are recognised as income in the period to which they relate.

### q) Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements 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, the valuation of investment properties and the impairment of goodwill are considered to be critical accounting estimates and judgements; details of which are referred to in accounting policies, sections e, f and g. Deferred tax assets are only recognised when there is a reasonable expectation of recovery.

### s) Borrowing cost

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

# Notes to the financial statements continued

for the year ended 31 March 2015

## 1 ACCOUNTING POLICIES CONTINUED

### t) Non-current assets held for sale

Non-current assets held for sale are investment properties and freehold land and buildings and they have been valued at the lower of carrying value and fair value less costs to sell. The re-classification takes place when the sale is highly probable and the assets are available for immediate sale in their present condition.

### u) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group has become a party to the contractual provision of the instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Trade receivables are classified as loans and receivables and are initially recognised at fair value then at amortised cost using the effective interest method. They are subsequently measured at their amortised cost less any provision for impairment. An impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of impairment is the difference between the asset's carrying amount and the present value of its estimated future cash flows. The amount of the impairment is recognised in the consolidated income statement. Trade payables are not interest bearing and are initially stated at their fair value then amortised cost using the effective interest method. Cash and cash equivalents include cash in hand, deposits held on call with banks or legal bodies, other short-term highly-liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within current liabilities on the consolidated statement of financial position. Borrowings are recognised initially at their fair value. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the year end. Finance charges are accounted for on an accruals basis and are added to the carrying amount to the extent that they are not settled in the period in which they arise.

### v) Impairment of property, plant and equipment and intangible assets other than goodwill

At each year end, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that an asset may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

### w) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

### x) Adoption of International Accounting Standards

Whilst the IASB effective dates for IFRS 10, 11 and 12 and amended IAS 27 and 28 were periods beginning on or after 1 January 2013, please note EU companies were permitted an extra year before they are required to apply them, hence their adoption in the year ended 31 March 2015.

The Group has therefore adopted the following new and amended IFRS from their effective date:

**IAS 27 Separate Financial Statements (amended 2011)**. Applicable for periods beginning on or after 1 January 2014. Largely replaced by IFRS 10 but retains existing guidance on group reorganisations where a new parent entity is established and sets out disclosure requirements in separate financial statements.

**IAS 28 Interests in Associates and Joint Ventures.** The amendments to this standard provide that the equity method of accounting should be used to account for investments in associates and joint ventures in consolidated financial statements and this eliminates the choice to proportionately consolidate joint ventures that was previously available under IAS 31(revised 2008). In addition, the equity method must also be used in the individual financial statements of an investor that does not have any subsidiaries. Applicable for periods beginning on or after 1 January 2014.

**IAS 32 Financial Instruments – Presentation – Amendment; Offsetting Financial Assets and Financial Liabilities.** Applicable for periods beginning on or after 1 January 2014. Provides guidance on the meaning of "a legally enforceable right of set off" and situations where gross settlement systems may be considered equivalent to net settlement.

**IAS 36 Impairment of Assets – Amendment; Recoverable Amount Disclosures for Non-Financial Assets.** Applicable for periods beginning on or after 1 January 2014. Now only requires disclosure of recoverable amount when an impairment loss is recognised or reversed in the period in respect of an individual asset or cash generating unit, and requires disclosure of the fair value hierarchy levels and, for levels 2 and 3, the valuation technique and key assumptions used, when that recoverable amount is based on fair value less costs of disposal.

**IAS 39 Financial Instruments: Recognition and Measurement – Amendment; Novation of Derivatives and Continuation of Hedge Accounting.** Applicable for periods beginning on or after 1 January 2014. Narrow-scope amendment to allow hedge accounting to continue when a derivative designated as a hedging instrument is novated from one party to a central counterparty as a result of laws or regulation.

**IFRS 10 Consolidated Financial Statements.** Applicable for periods beginning on or after 1 January 2014. Replaces IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. Retains the principle of control, but redefines control and provides further guidance on how to apply the control principle.

**Amendments to IFRS 10 Consolidated Financial Statements: Transition Guidance.** Applicable for periods beginning on or after 1 January 2014. The amendments to IFRS 10 clarify the date of initial application and reliefs from the presentation or adjustment of comparative information.

**IFRS 11 Joint Arrangements.** Applicable for periods beginning on or after 1 January 2014. Replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers and establishes consistent principles for all types of jointly controlled arrangements. Retains a similar definition of joint control but clarifies that a joint arrangement will be either a "joint operations" or a "joint venture".

**Amendments to IFRS 11 Joint Arrangements: Transition Guidance.** Applicable for periods beginning on or after 1 January 2014. The amendments to IFRS 11 clarify reliefs from the presentation or adjustment of comparative information.

**IFRS 12 Disclosure of Interests in Other Entities.** Applicable for periods beginning on or after 1 January 2014. Applies to entities with interests in subsidiaries, joint arrangements, associates and other unconsolidated structured entities and sets out disclosures in respect of such entities.





**Amendments to IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance.** Applicable for periods beginning on or after 1 January 2014. The amendments to IFRS 12 clarify reliefs from the presentation or adjustment of comparative information.

**IFRIC 21 Levies.** Applicable for periods beginning on or after 1 January 2014. Clarifies that the obligating event that gives rise to a liability is the activity (as described in the relevant legislation) that triggers the payment of the levy.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

**IAS 40 Investment Property – amendment.** Applicable for periods beginning on or after 1 January 2014 but not yet endorsed by the EU. The amendment to IAS 40 clarifies that IFRS 3 is applied in determining whether the acquisition of a property is a business combination or not. Includes a consequential amendment to IFRS 3. Interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

**IAS 16 Property, Plant and Equipment – amendments.** Applicable for revaluations in the initial period of application (beginning on or after 1 July 2014). Amendments clarify the treatment of accumulated depreciation when an item of property, plant or equipment is revalued: the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

**IAS 19 Employee Benefits – Amendment; Defined Benefit Plans: Employee Contributions.** Applicable for periods beginning on or after 1 July 2014. Simplifies the accounting for contributions to defined benefit plans from employees or third parties that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

**IAS 24 Related Party Disclosures – amendment.** Applicable for periods beginning on or after 1 July 2014. The amendment to IAS 24 extends the definition of a related party to include entities that provide key management personnel services. Clarifies that key management personnel compensation excludes compensation from a management entity to its employees or Directors, and that key management services obtained from a separate management entity must be disclosed.

**IAS 38 Intangible Assets – amendment.** Applicable for periods beginning on or after 1 July 2014. The amendments align the accounting treatment of accumulated depreciation when an intangible asset is revalued with the amendments of IAS 16 when an item of property, plant and equipment is revalued.

**IAS 40 Investment Property.** Applicable for period beginning on or after 1 July 2014. Clarifies that reference should be made to IFRS 3 to determine whether the acquisition of an investment property is the acquisition of an asset; or a group of assets; or a business combination.

**Amendments to IAS 40 Investment Property: Transition Guidance.** Applicable for period beginning on or after 1 July 2014. Further clarification of the interrelationship between IFRS 3 and IAS 40.

**IFRS 1 First-time adoption of International Financial Reporting Standards.** Applicable for periods beginning on or after 31 December 2013 but not yet endorsed by the EU. Clarifies for a legal entity, in its first IFRS financial statements, that it has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early adoption. An entity is required to apply the same version of the IFRS throughout the periods covered by those first IFRS statements.

**IFRS 2 Share-based Payment – amendment.** Applicable for periods beginning on or after 1 July 2014. The amendments to IFRS 2 clarifies and separates certain definitions.

**IFRS 3 Business Combinations – amendment.** Applicable for periods beginning on or after 1 July 2014 but not yet endorsed by the EU. IFRS 3 was amended so all non-equity contingent consideration is measured at fair value at each reporting date with fair value changes recognised in profit or loss. Includes consequential amendments to exclude contingent consideration in a business combination from other measurement bases in IFRS 9, IAS 39 and IAS 37.

**IFRS 8 Operating Segments – amendment.** Applicable for periods beginning on or after 1 July 2014. The amendments to IFRS 8 require disclosure of the judgements made in aggregating operating segments including a description of the aggregated operating segments and economic indicators assessed. Clarifies that the reconciliation of total reportable segments' assets to the entity's assets is only required when segment assets are regularly provided to the chief operating decision maker.

**IFRS 9 Financial Instruments.** Applicable for periods beginning on or after 1 January 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting for Financial Instruments.

**IFRS 13 Fair Value Measurement.** Applicable for periods beginning on or after 1 July 2014. The amendment to the Basis of Conclusions to clarify that when certain paragraphs from IAS 39 and IFRS 9 were deleted (because IFRS 13 contains guidance for using present value techniques) the intention was not to remove the ability of an entity to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. Also amended to clarify the portfolio exception (where an entity manages its group of financial assets and liabilities on a net exposure basis) applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined by IAS 32 Financial Instruments: Presentation.

**IFRS 15 Revenue from Contracts: Applicable for periods beginning on or after 1 January 2017.** The standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. It applies to all contracts with customers except for: leases within the scope of IAS 17 Leases; financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; insurance contracts within the scope of IFRS 4 Insurance Contracts.

The Directors anticipate that the adoption of these Standards and Interpretations as appropriate in future periods will have no material impact on the financial statements of the Group, subject to any future business combinations.

# Notes to the financial statements continued

for the year ended 31 March 2015

## 2 SEGMENTAL ANALYSIS

Reported segments and their results in accordance with IFRS 8, are based on internal management reporting information that is regularly reviewed by the chief operating decision maker (C. A. Gurry). The measurement policies the Group uses for segmental reporting under IFRS 8 are the same as those used in its financial statements.

**Information about revenue, profit/loss, assets and liabilities**

| | 2015 | | 2014 | | |
|---|---|---|---|---|---|
| | Semiconductor components £ | Group £ | Equipment £ | Semiconductor components £ | Group £ |
| **Revenue** | | | | | |
| By origin | 34,031,382 | 34,031,382 | 282,275 | 39,757,907 | 40,040,182 |
| Inter-segmental revenue | (12,227,669) | (12,227,669) | — | (15,364,248) | (15,364,248) |
| **Total segmental revenue** | 21,803,713 | 21,803,713 | 282,275 | 24,393,659 | 24,675,934 |
| Segmental result | 3,011,854 | 3,011,854 | 2,778 | 5,729,941 | 5,732,719 |
| Revaluation of investment properties | | 100,000 | | | — |
| Finance income | | 65,651 | | | 61,773 |
| Income tax expense | | (475,724) | | | (1,025,854) |
| **Profit after taxation** | | 2,701,781 | | | 4,768,638 |
| **Assets and liabilities** | | | | | |
| Segmental assets | 33,286,856 | 33,286,856 | — | 30,527,807 | 30,527,807 |
| **Unallocated corporate assets** | | | | | |
| Investment properties | | 3,550,000 | | | 3,450,000 |
| Properties held for sale | | — | | | 100,168 |
| Deferred tax assets | | 1,310,289 | | | 1,270,976 |
| Current tax assets | | 628,006 | | | 282,667 |
| **Consolidated total assets** | | 38,775,151 | | | 35,631,618 |
| Segmental liabilities | 3,471,194 | 3,471,194 | — | 2,508,599 | 2,508,599 |
| **Unallocated corporate liabilities** | | | | | |
| Deferred tax liabilities | | 2,512,736 | | | 2,224,517 |
| Current tax liabilities | | 195,888 | | | 274,129 |
| Retirement benefit obligation | | 3,624,000 | | | 2,698,000 |
| **Consolidated total liabilities** | | 9,803,818 | | | 7,705,245 |

**Other segmental information**

| | 2015 | | 2014 | | |
|---|---|---|---|---|---|
| | Semiconductor components £ | Group £ | Equipment £ | Semiconductor components £ | Group £ |
| Property, plant and equipment additions | 317,602 | 317,602 | — | 102,995 | 102,995 |
| Development cost additions | 4,362,929 | 4,362,929 | — | 4,139,040 | 4,139,040 |
| Depreciation | 266,638 | 266,638 | 254 | 255,104 | 255,358 |
| Amortisation | 3,223,983 | 3,223,983 | — | 2,588,063 | 2,588,063 |
| Other non-cash income | 307,000 | 307,000 | — | 31,000 | 31,000 |

Inter-segmental transfers or transactions are entered into under commercial terms and conditions appropriate to the location of the business entity whilst considering that the parties are related. On 13 August 2013 Radio Data Technology Limited which represented 100% of the equipment segment (shown in the year ended 31 March 2014 comparative period) went into voluntary liquidation and consequently after that date the Group had only one segment, semiconductor components.





**Geographical information**

| | UK £ | Rest of Europe £ | Americas £ | Far East £ | Total £ |
|---|---|---|---|---|---|
| **Year ended 31 March 2015** | | | | | |
| Revenue by origination | 10,134,538 | 10,626,884 | 4,688,222 | 8,581,738 | 34,031,382 |
| Inter-segmental revenue | (5,036,496) | (7,190,229) | — | (944) | (12,227,669) |
| Revenue to third parties | 5,098,042 | 3,436,655 | 4,688,222 | 8,580,794 | 21,803,713 |
| Property, plant and equipment | 4,848,669 | 104,203 | 14,343 | 8,620 | 4,975,835 |
| Investment properties | 3,550,000 | — | — | — | 3,550,000 |
| Development costs | 2,439,356 | 4,544,263 | — | — | 6,983,619 |
| Goodwill | 3,512,305 | — | — | — | 3,512,305 |
| Total assets | 27,060,374 | 8,387,547 | 1,369,988 | 1,957,242 | 38,775,151 |
| Year ended 31 March 2014 | | | | | |
| Revenue by origination | 12,573,992 | 11,929,768 | 5,856,202 | 9,680,220 | 40,040,182 |
| Inter-segmental revenue | (5,826,088) | (9,538,160) | — | — | (15,364,248) |
| Revenue to third parties | 6,747,904 | 2,391,608 | 5,856,202 | 9,680,220 | 24,675,934 |
| Property, plant and equipment | 4,751,764 | 67,876 | 114,550 | 2,520 | 4,936,710 |
| Investment properties | 3,450,000 | — | — | — | 3,450,000 |
| Property held for sale | — | — | 100,168 | — | 100,168 |
| Development costs | 2,376,561 | 3,811,694 | — | — | 6,188,255 |
| Goodwill | — | 3,512,305 | — | — | 3,512,305 |
| Total assets | 25,273,155 | 6,926,066 | 1,491,191 | 1,941,206 | 35,631,618 |

Inter-segmental transfers or transactions are entered into under commercial terms and conditions appropriate to the location of the business entity whilst considering that the parties are related.

## 3 REVENUE

| Continuing business | 2015 £ | 2014 £ |
|---|---|---|
| Geographical classification of turnover (by destination): | | |
| United Kingdom | 852,603 | 823,860 |
| Rest of Europe | 5,219,983 | 4,325,112 |
| Far East | 10,438,093 | 12,386,107 |
| Americas | 4,803,780 | 6,263,037 |
| Other | 489,254 | 595,543 |
| | 21,803,713 | 24,393,659 |

# Notes to the financial statements continued

for the year ended 31 March 2015

## 4 PROFIT FROM CONTINUING OPERATIONS

| | 2015 £ | 2015 £ | 2014 £ | 2014 £ |
|---|---|---|---|---|
| Profit from operations is stated after charging or crediting: | | | | |
| Cost of sales: | | | | |
| Depreciation | | 91,894 | | 65,259 |
| Amount of inventories written down | | — | | 19,820 |
| Cost of inventories recognised as expense | | 5,998,268 | | 5,521,485 |
| Distribution costs (mainly staff costs) | | 2,673,639 | | 2,372,931 |
| Administration costs: | | | | |
| Amortisation | 3,223,983 | | 2,588,063 | |
| Depreciation | 174,744 | | 189,845 | |
| Auditor's fees | 143,330 | | 161,928 | |
| Rentals under operating leases: | | | | |
| Land and buildings | 325,691 | | 329,190 | |
| Other operating leases | 92,868 | | 94,101 | |
| Research and development | 849,678 | | 661,907 | |
| Other expenses (mainly staff costs) | 5,292,761 | | 6,071,998 | |
| | | 10,103,055 | | 10,097,032 |
| | | 12,776,694 | | 12,469,963 |

Amounts payable to Baker Tilly UK Audit LLP, Chartered Accountants and its associates, and to other auditors, in respect of both audit and non-audit services:

| | 2015 £ | 2014 £ |
|---|---|---|
| Audit services | | |
| Statutory audit of Company's annual accounts and Group consolidation | 56,500 | 55,000 |
| Other services | | |
| The auditing of accounts of associates of the Company pursuant to legislation (including that of countries and territories outside the United Kingdom) | | |
| This includes: | | |
| Audit of subsidiaries where such services are provided by Baker Tilly UK Audit LLP or its associates | 11,000 | 13,500 |
| Audit of associated pension schemes | 10,000 | 11,000 |
| Other services supplied pursuant to such legislation | 7,378 | 23,213 |
| Tax services | | |
| Tax compliance services | 13,450 | 15,750 |
| Advisory services | — | 2,000 |
| | 98,328 | 120,463 |
| Amounts payable to other auditors in respect of both audit and non-audit services: | | |
| Statutory audit services | 33,121 | 32,792 |
| Tax compliance services | 10,515 | 5,427 |
| Other services | 1,366 | 3,246 |
| | 45,002 | 41,465 |





**Other operating income (continuing businesses):**

| | 2015 £ | 2014 £ |
|---|---|---|
| Rental income | 236,545 | 227,332 |
| Profit on sale of property, plant and equipment | 3,770 | 2,050 |
| Profit on sale of US property held for sale (see note 12) | 12,768 | — |
| EU grants and consulting | 110,075 | 109,611 |
| Other income | 55,831 | 134,620 |
| | 418,989 | 473,613 |

All conditions relating to the EU grants have been fulfilled and there are no other contingencies.

## 5 EMPLOYEES

| | 2015 £ | 2014 £ |
|---|---|---|
| Staff costs, including Directors, during the year amounted to: | | |
| Wages and salaries | 8,818,160 | 8,792,240 |
| Social security costs | 1,047,378 | 1,145,790 |
| Other pension and health care costs | 836,980 | 817,006 |
| Share-based payments | 95,405 | 155,931 |
| | 10,797,923 | 10,910,967 |

| | 2015 Number | 2014 Number |
|---|---|---|
| The average number of employees, including Directors, during the year was: | | |
| Administration | 34 | 33 |
| Engineering | 81 | 82 |
| Manufacturing | 34 | 36 |
| Selling | 27 | 27 |
| | 176 | 178 |

## 6 DIRECTORS' EMOLUMENTS

| | 2015 £ | 2014 £ |
|---|---|---|
| Remuneration (including fees) | 789,942 | 657,908 |
| Emoluments in respect of the highest paid Director amounted to: | | |
| Remuneration | 287,913 | 293,552 |

Further details on Directors' emoluments can be found in the Directors' remuneration report on pages 19 to 23.

## 7 FINANCE INCOME AND COSTS (CONTINUING BUSINESSES)

| | 2015 £ | 2014 £ |
|---|---|---|
| Bank interest receivable | 65,651 | 61,764 |

# Notes to the financial statements continued
for the year ended 31 March 2015

## 8 INCOME TAX EXPENSE

a) Analysis of tax expense in period (continuing businesses)

| | 2015 £ | 2014 £ |
|---|---|---|
| **Current tax** | | |
| UK corporation tax on results of the period | (596,710) | (255,646) |
| Adjustment in respect of previous periods | (1,295) | (44,945) |
| | (598,005) | (300,591) |
| Foreign tax on results of the period | 430,247 | 369,860 |
| Foreign tax – adjustment in respect of previous periods | (128) | (6,372) |
| **Total current tax** | (167,886) | 62,897 |
| **Deferred tax** | | |
| Current period movement | 651,846 | 965,352 |
| Adjustments to deferred tax charge in respect of previous periods | (8,236) | (5,180) |
| **Total deferred tax** | 643,610 | 960,172 |
| **Tax charge on profit on ordinary activities** (note 8b) | 475,724 | 1,023,069 |

b) Factors affecting tax expense for period (continuing business)

Tax assessed for the period is lower than the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained below:

| | 2015 £ | 2014 £ |
|---|---|---|
| Profit before tax (continuing businesses) | 3,177,505 | 5,791,705 |

| | 2015 £ | 2014 £ |
|---|---|---|
| Profit before tax multiplied by the standard rate of UK corporation tax of 21% (2014: 23%) | 667,276 | 1,332,092 |
| Effects of: | | |
| Capital allowances less than depreciation/(in excess of) | 5,112 | (14,615) |
| Expenses not deductible for tax purposes | 67,230 | 37,340 |
| Share-based payments | (27,315) | (79,784) |
| Research and development tax credits | (456,829) | (542,088) |
| Different tax rates in countries in which the Group operates | 292,951 | 267,148 |
| Adjustments to current tax charge in respect of previous periods | (1,423) | (51,318) |
| Adjustments to deferred tax charge in respect of previous periods | (8,236) | (5,180) |
| Losses on which assets no longer recognised/(losses utilised on which no assets recognised) | — | 2,144 |
| Reduction in deferred tax rate | (3,946) | (6,314) |
| Non-taxable income | (59,096) | 83,644 |
| **Tax expense for period** (note 8a) | 475,724 | 1,023,069 |

## 9 DIVIDEND – PROPOSED

It is proposed to pay a dividend of 6.9p per ordinary share of 5p in respect of the year ended 31 March 2015. During the year a dividend of 6.25p per ordinary share of 5p was paid in respect of the year ended 31 March 2014.





## 10 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.

| | 2015 Profit £ | 2015 Weighted average number of shares Number | 2015 Earnings per share p | 2014 Profit £ | 2014 Weighted average number of shares Number | 2014 Earnings per share p |
|---|---|---|---|---|---|---|
| **Basic earnings per share** | 2,701,781 | 16,167,635 | 16.71 | 4,768,638 | 15,917,895 | 29.96 |
| **Diluted earnings per share** | | | | | | |
| Basic earnings per share | 2,701,781 | 16,167,635 | 16.71 | 4,768,638 | 15,917,895 | 29.96 |
| Dilutive effect of share options | — | 200,100 | (0.20) | — | 414,692 | (0.76) |
| **Diluted earnings per share** | 2,701,781 | 16,367,735 | 16.51 | 4,768,638 | 16,332,587 | 29.20 |

## 11 RETIREMENT BENEFIT OBLIGATIONS

The Group operates several pension schemes. Historically the majority of the Group's employees in the UK were members of a defined benefit scheme (which is governed by the UK Pensions Regulator) that was closed to new members on 1 April 2002 and with effect from 31 March 2009 future pension accrual ceased for the remaining active members. Today the majority of the Group's employees are members of defined contribution type schemes. All schemes are independent of the Group's finances.

The latest triennial actuarial valuation of the defined benefit scheme in the UK at 1 April 2014, using the defined accrued benefit method, disclosed assets with a market value of £15,727,000, equivalent to 80% of the accrued liabilities, after allowing for expected future increases in earnings. The main actuarial assumptions used were: investment return 5% p.a. pre-retirement, 5% p.a. post retirement; general growth in salaries is not applicable; pensions accrued prior to 6 April 1997 will increase in payment at 3% p.a. compound; limited price indexation 3.25% p.a. with a minimum of 2.5%; early leaver indexation 3% p.a. As at 1 April 2014 the calculation carried out in accordance with Section 143 of the Pension Act 2004 showed a funding level of 91%. Funding of the defined benefit scheme is agreed with the Trustees following each triennial actuarial valuation and the current funding agreement expires 31 March 2018. Under the scheme's trust deed the Company has the authority to appoint up to two thirds of the trustees. Currently there are two member-appointed Trustees and two Company-appointed Trustees.

For the defined contribution schemes operated throughout the Group the employer contributions are generally up to 6% of eligible salary but are subject to minimum employee contributions.

The total contributions to the schemes over the year were:

| | 2015 £ | 2014 £ |
|---|---|---|
| Pension contributions | | |
| UK defined benefit pension | 257,400 | 242,400 |
| Defined contribution pension schemes (UK and overseas) | 412,612 | 374,790 |
| | 670,012 | 617,190 |

Details from this point to the end of this note (note 11) relate to the UK defined benefit scheme only.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

a) Financial assumptions

| | 2015 | 2014 |
|---|---|---|
| Discount rate | 3.6% | 4.7% |
| Future salary increases | N/A | N/A |
| Expected duration of liabilities (years) | 18 | 18 |
| Pension revaluation in deferment (Consumer Prices Index – max. 5.0%) | 1.8% | 2.1% |
| Pension escalation in payment (Retail Prices Index – max. 5.0%, min. 3.0% from 6 April 1997 to 5 April 2005) | 3.0% | 3.0% |
| Proportion of employees opting for early retirement | 0% | 0% |
| Inflation assumption | 2.8% | 3.1% |

# Notes to the financial statements continued

for the year ended 31 March 2015

## 11 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

### b) Demographic assumptions

| | 2015 | 2014 |
|---|---|---|
| Assumed life expectancy in years, on retirement at 65: | | |
| Retiring today: | | |
| Males | 22.1 | 24.7 |
| Females | 24.1 | 26.6 |
| Retiring in 20 years: | | |
| Males | 23.5 | 27.9 |
| Females | 25.6 | 29.7 |

On the basis of the above assumptions, the amounts that have been charged to administration expenses within the income statement and the statement of total comprehensive income for the year to 31 March 2015 and 31 March 2014 are as follows:

| | 2015 £ | 2014 £ |
|---|---|---|
| **Amounts recognised in the income statement are as follows:** | | |
| Administration expense | (142,000) | (102,000) |
| Net interest on deficit | (122,000) | (260,000) |
| Total | (264,000) | (362,000) |
| **Amounts recognised in the statement of other comprehensive income ("OCI")** | | |
| Actual return on assets less return implied by net interest income | 507,000 | 200,000 |
| Experience gains on liabilities | 472,000 | 1,108,000 |
| Change in assumptions: | | |
| Discount rate | (2,935,000) | 1,256,000 |
| Inflation rate | 381,000 | 829,000 |
| Demographic assumptions | 442,000 | — |
| Net actuarial (loss)/gain recognised in OCI/remeasurement | (1,133,000) | 3,393,000 |

| | 2015 £ | 2014 £ |
|---|---|---|
| **Amounts recognised in the statement of financial position:** | | |
| Present value of funded obligations | (19,976,000) | (18,473,000) |
| Fair value of plan assets | 16,352,000 | 15,775,000 |
| Deficit as reported by the actuary | (3,624,000) | (2,698,000) |

The pension plan assets do not include ordinary shares issued by the sponsoring employer nor do they include property occupied by the sponsoring employer.

### Sensitivity to key assumptions

| | Defined benefit obligation ("DBO") £'000 | Change in DBO compared to assumptions % |
|---|---|---|
| Main assumptions | 19,976 | N/A |
| Discount rate + 0.5% | 18,268 | (9%) |
| RPI + 0.5% | 20,638 | 3% |
| Mortality for individuals one year older than calendar age | 20,423 | 2% |





Changes in the present value of the defined benefit obligation are as follows:

| | 2015 £ | 2014 £ |
|---|---|---|
| Opening defined benefit obligation | 18,473,000 | 21,679,000 |
| Expenses incurred | 142,000 | 102,000 |
| Interest cost | 845,000 | 921,000 |
| Actuarial loss/(gain) | 1,643,000 | (3,193,000) |
| Benefits paid (including expenses) | (1,127,000) | (1,036,000) |
| Closing defined benefit obligation | 19,976,000 | 18,473,000 |
| Comprising: | | |
| Deferred members | 14,856,000 | 14,365,000 |
| Pension members | 5,120,000 | 4,108,000 |

The projected unit valuation method has been used to arrive at the above service cost. The use of this method is prescribed in IAS 19. To produce a stable future contribution rate this valuation method assumes that the average age of the scheme membership will remain broadly constant in future due to a flow of new entrants to the scheme. If a scheme is closed to new members this will not be the case and the costs of benefits accruing, as a percentage of pensionable salaries, will be expected to increase over time.

Changes in the fair value of the plan assets are as follows:

| | 2015 £ | 2014 £ |
|---|---|---|
| Opening fair value of plan assets | 15,775,000 | 15,557,000 |
| Expected return on assets | 726,000 | 661,000 |
| Actuarial gain on assets | 507,000 | 200,000 |
| Contributions by employer | 471,000 | 393,000 |
| Benefits paid | (985,000) | (934,000) |
| Expenses paid | (142,000) | (102,000) |
| Closing fair value of plan assets | 16,352,000 | 15,775,000 |

The actual return on plan assets was £1,233,000 (2014: £861,000). The expected return on plan assets is calculated using the assets, market conditions and the long-term expected rate of interest set at the start of the accounting period. The Company expects to contribute £151,200 (2014: £242,400) as contributions to the CML Microsystems Plc Retirements Scheme in the next accounting year.

As with all defined benefit schemes the sponsor is exposed to various risks as there are a significant number of variables that can affect the value of the assets and the extent of the liabilities at any one time. Fundamentally the main risks are the mortality of the members and the return achieved on the scheme assets by the trustees since the Company is liable to make good any deficit. In assessing the risk before the scheme reaches its conclusion the actuary uses various assumptions (as shown in this report) but these are only assumptions based on what is considered good practice at the time. These assumptions, whether reflecting a deficit or surplus are assumptions and hence can only be relied on as estimates but are used to base the contributions payable by the Company. These contributions are agreed with the trustees of the scheme on a triennial basis with the next review to be agreed by 31 March 2018.

Amounts for the current and previous four periods are as follows:

| | 2015 IAS 19(r) £ | 2014 IAS 19(r) £ | 2013 IAS 19(r) £ | 2012 IAS 19 £ | 2011 IAS 19 £ |
|---|---|---|---|---|---|
| Defined benefit obligation | 19,976,000 | 18,473,000 | 21,679,000 | 18,565,000 | 17,930,000 |
| Plan assets | 16,352,000 | 15,775,000 | 15,557,000 | 14,023,000 | 15,323,000 |
| Deficit | (3,624,000) | (2,698,000) | (6,122,000) | (4,542,000) | (2,607,000) |
| Experience adjustments on plan liabilities | 472,000 | 1,108,000 | 129,000 | 240,000 | 313,000 |
| Experience adjustments on plan assets | 507,000 | 200,000 | 1,098,000 | (915,000) | 1,837,000 |

# Notes to the financial statements continued

for the year ended 31 March 2015

## 12 NON-CURRENT ASSETS

**Property, plant and equipment and investment properties**

| | Investment properties £ | Freehold land and buildings £ | Short leasehold improvements £ | Plant and equipment £ | Motor vehicles £ | Total £ |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **Cost/valuation** | | | | | | |
| At 1 April 2013 | 3,450,000 | 5,848,602 | 49,157 | 10,896,774 | 84,183 | 20,328,716 |
| Additions | — | — | — | 80,695 | 22,300 | 102,995 |
| Disposals | — | — | — | (298,493) | (25,584) | (324,077) |
| Foreign exchange difference | — | — | (4,803) | (85,288) | — | (90,091) |
| At 31 March 2014 | 3,450,000 | 5,848,602 | 44,354 | 10,593,688 | 80,899 | 20,017,543 |
| Additions | — | — | — | 306,107 | 11,495 | 317,602 |
| Disposals | — | — | — | (13,206) | (9,995) | (23,201) |
| Revaluation | 100,000 | — | — | — | — | 100,000 |
| Foreign exchange difference | — | — | 4,332 | (151,704) | — | (147,372) |
| **At 31 March 2015** | **3,550,000** | **5,848,602** | **48,686** | **10,734,885** | **82,399** | **20,264,572** |
| **Depreciation** | | | | | | |
| At 1 April 2013 | — | 1,025,412 | 41,804 | 10,648,996 | 68,469 | 11,784,681 |
| Charge for the year | — | 74,936 | 2,810 | 165,901 | 11,711 | 255,358 |
| Relating to disposals | — | — | — | (296,713) | (25,584) | (322,297) |
| Foreign exchange difference | — | — | (4,673) | (82,236) | — | (86,909) |
| At 31 March 2014 | — | 1,100,348 | 39,941 | 10,435,948 | 54,596 | 11,630,833 |
| Charge for the year | — | 74,937 | — | 181,378 | 10,323 | 266,638 |
| Relating to disposals | — | — | — | (5,516) | (9,371) | (14,887) |
| Foreign exchange difference | — | — | 4,332 | (148,179) | — | (143,847) |
| **At 31 March 2015** | **—** | **1,175,285** | **44,273** | **10,463,631** | **55,548** | **11,738,737** |
| **Net book value** | | | | | | |
| **At 31 March 2015** | **3,550,000** | **4,673,317** | **4,413** | **271,254** | **26,851** | **8,525,835** |
| At 31 March 2014 | 3,450,000 | 4,748,254 | 4,413 | 157,740 | 26,303 | 8,386,710 |

Investment properties in both the Group and Company comprise £3,550,000 (2014: £3,450,000) of freehold and leasehold land and buildings and it is from the operating leases on these properties that the Group's rental income is generated. Everett Newlyn, Chartered Surveyors and Commercial Property Consultants professionally valued the investment properties on the basis of open market value as at 31 March 2015, for which a valuation of £3,550,000 has been advised.





| | Equipment £ | Investment properties £ | Freehold land and buildings £ | Total £ |
|---|---|---|---|---|
| **Company** | | | | |
| **Cost/valuation** | | | | |
| At 1 April 2013 | 49,457 | 3,450,000 | 5,848,602 | 9,348,059 |
| Additions | — | — | — | — |
| At 31 March 2014 | 49,457 | 3,450,000 | 5,848,602 | 9,348,059 |
| Additions | — | — | — | — |
| Revaluation | — | 100,000 | — | 100,000 |
| **At 31 March 2015** | **49,457** | **3,550,000** | **5,848,602** | **9,448,059** |
| **Depreciation** | | | | |
| At 1 April 2013 | 19,440 | — | 1,025,412 | 1,044,852 |
| Charge for the year | 12,365 | — | 74,936 | 87,301 |
| At 31 March 2014 | 31,805 | — | 1,100,348 | 1,132,153 |
| Charge for the year | 12,364 | — | 74,937 | 87,301 |
| **At 31 March 2015** | **44,169** | **—** | **1,175,285** | **1,219,454** |
| **Net book value** | | | | |
| **At 31 March 2015** | **5,288** | **3,550,000** | **4,673,317** | **8,228,605** |
| At 31 March 2014 | 17,652 | 3,450,000 | 4,748,254 | 8,215,906 |

**Investment properties fair value**

The investment properties are measured at fair value. Valuations are based on what is determined to be the highest and best use. When considering the highest and best use the Directors will consider, on a property by property basis, its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer will consider the cost and likelihood of achieving and implanting this change in arriving at its valuation.

The methods of fair value measurement are classified into a hierarchy based on the reliability of the information used to determine the valuation, as follows:

- level 1: valuation based on inputs on quoted market prices in active markets;
- level 2: valuation based on inputs other than quoted prices included within level 1 that maximise the use of observable data directly or from market prices or indirectly derived from market prices; and
- level 3: where one or more inputs to valuations are not based on observable market data.

The values used below utilise a level 2 methodology:

| | Carrying/fair value £ | Valuation technique | Key observable inputs | Range (weighted average) 2015 |
|---|---|---|---|---|
| Investment properties | **3,550,000** | Income capitalisation | Estimated rental value<br>Per sq ft p.a.<br>Equivalent yield | £5 – £9 per sq ft<br>9 – 11%<br>7.5% |
| | **3,550,000** | | | |

The prior period comparative values were as follows:

| | Carrying/fair value £ | Valuation technique | Key observable inputs | Range (weighted average) 2014 |
|---|---|---|---|---|
| Investment properties | 3,450,000 | Income capitalisation | Estimated rental value<br>Per sq ft p.a.<br>Equivalent yield | £5 – £9 per sq ft<br>10 – 11%<br>9% |
| | 3,450,000 | | | |

# Notes to the financial statements continued

for the year ended 31 March 2015

## 12 NON-CURRENT ASSETS CONTINUED

### Non-current assets classified as held for sale

| | Group 2015 £ | Group 2014 £ |
|---|---|---|
| **Non-current assets classified as held for sale – properties** | | |
| At 1 April | 100,168 | 109,977 |
| Disposal | (100,168) | — |
| Foreign exchange movement | — | (9,809) |
| | — | 100,168 |

The US-owned land in Winston-Salem, previously classified as held for sale, was disposed of in the period for total proceeds of £112,496 (being net cash of £22,408 and the remainder in promissory notes) and with net foreign exchange arising of £440, generated a profit on disposal of £12,768 (see note 4). This land previously held for sale was unoccupied and surplus to the needs of the Group and was therefore classified as held for sale in the comparative period.

### Intangible assets

| | 2015 £ | 2014 £ |
|---|---|---|
| **Group – goodwill** | | |
| **Cost and net book value** | | |
| At 1 April and at 31 March | 3,512,305 | 3,512,305 |

The goodwill arose on the acquisition of Hyperstone GmbH that was amortised under UK GAAP until 31 March 2004. An annual impairment review is carried out in accordance with the accounting policies set out in note 1 and the Directors consider no impairment is required.

| | 2015 £ | 2014 £ |
|---|---|---|
| **Group – development costs** | | |
| **Cost** | | |
| At 1 April | 24,344,414 | 23,702,963 |
| Additions: | | |
| Internal sources | 3,045,987 | 3,277,168 |
| External sources | 1,316,942 | 861,872 |
| Disposals | (4,876,372) | (3,460,446) |
| Foreign exchange difference | (343,582) | (37,143) |
| At 31 March | 23,487,389 | 24,344,414 |
| **Amortisation** | | |
| At 1 April | 18,156,159 | 19,028,542 |
| Charged in the year | 3,223,983 | 2,588,063 |
| Relating to disposals | (4,876,372) | (3,460,446) |
| At 31 March | 16,503,770 | 18,156,159 |
| **Net book value** | | |
| At 31 March | 6,983,619 | 6,188,255 |
| At 31 March 2013 | | 4,674,421 |

No EU grants have been credited to the cost of development in arriving at the net book value at the year end (2014: £Nil).





## 13 NON-CURRENT ASSETS – INVESTMENTS

| | Company 2015 £ | Company 2014 £ |
|---|---|---|
| Cost of investment in subsidiary undertakings: | | |
| As at 1 April | 4,959,558 | 4,959,658 |
| Disposal of Radio Data Technology Limited | — | (100) |
| As at 1 April and 31 March | 4,959,558 | 4,959,558 |
| Advances to subsidiary undertakings: | | |
| As at 1 April | 846,795 | 2,803,290 |
| Increase/(decrease) in advances | 1,402,529 | (1,956,495) |
| As at 31 March | 2,249,324 | 846,795 |
| Net book value | | |
| As at 31 March | 7,208,882 | 5,806,353 |

Details of the principal trading subsidiary undertakings excluding dormant companies 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) Ltd | 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 |
| Hyperstone GmbH | Germany | 100% | Trading in Germany | Direct |
| Hyperstone Inc | USA | 100% | Trading in USA | Indirect |
| Hyperstone Asia Pacific Ltd | 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 as the Company.

## 14 RELATED PARTY TRANSACTIONS

Transactions and balances with operating companies that were eliminated in the consolidation consist of:

| Company | 2015 £ | 2014 £ |
|---|---|---|
| **Management fees charged to subsidiary undertakings by parent:** | | |
| CML Microcircuits (UK) Ltd | 1,000,000 | 1,000,000 |
| CML Microcircuits (USA) Inc | 123,187 | 125,319 |
| Hyperstone GmbH | 196,139 | 210,850 |
| Radio Data Technology Ltd | — | 38,500 |
| | 1,319,326 | 1,374,669 |
| **Dividends paid to parent:** | | |
| Received from CML Microsystems Inc | 309,886 | 283,126 |
| Received from Hyperstone GmbH | 699,329 | — |
| Received from Radio Data Technology Ltd | — | 47,490 |
| Received from CML Microcircuits (Singapore) Pte Ltd | 185,932 | 188,751 |
| | 1,195,147 | 519,367 |
| **Advances to subsidiary undertakings:** | | |
| CML Microcircuits (UK) Ltd | 2,249,324 | 846,795 |
| | 2,249,324 | 846,795 |

The outstanding amounts at the year ended 31 March 2015 are unsecured.

# Notes to the financial statements continued

for the year ended 31 March 2015

## 14 RELATED PARTY TRANSACTIONS CONTINUED

| Group | 2015 £ | 2014 £ |
|---|---|---|
| **Inter group sales:** | | |
| CML Microcircuits (UK) Ltd: | | |
| To CML Microcircuits (Singapore) Pte Ltd | 3,732,039 | 3,952,780 |
| To CML Microcircuits (USA) Inc | 1,304,457 | 1,306,308 |
| Hyperstone GmbH: | | |
| To Hyperstone USA | 3,009,899 | 4,236,763 |
| To Hyperstone Asia Pacific Ltd | 4,180,330 | 5,301,227 |
| To CML Microcircuits (UK) Ltd | — | 170 |
| Hyperstone Asia Pacific Ltd: | | |
| To CML Microcircuits (UK) Ltd | 944 | — |
| Applied Technology (UK) Ltd: | | |
| To CML Microcircuits (UK) Ltd | — | 567,000 |
| | 12,227,669 | 15,364,248 |

### Group and Company

Key management personnel consist of the Board of Directors and transactions during the year (included within remuneration disclosed in notes 5 and 6) were as follows:

| Group and Company | 2015 £ | 2014 £ |
|---|---|---|
| Employee benefits | 809,199 | 699,234 |
| Pension contributions | 65,672 | 60,311 |
| Share-based payments | 3,813 | 7,864 |
| | 878,684 | 767,409 |

## 15 INVENTORIES

| | Group 2015 £ | Group 2014 £ |
|---|---|---|
| Raw materials | 700,557 | 465,581 |
| Work in progress | 198,830 | 132,515 |
| Finished goods | 863,458 | 530,955 |
| | 1,762,845 | 1,129,051 |

## 16 TRADE RECEIVABLES AND PREPAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| Amounts falling due within one year: | | | | |
| Trade receivables | 2,317,546 | 3,037,960 | — | — |
| Other receivables | 379,535 | 167,555 | 27,458 | 6,533 |
| Prepayments and accrued income | 167,453 | 182,488 | 190 | 1,925 |
| | 2,864,534 | 3,388,003 | 27,648 | 8,458 |





## 17 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| Cash on deposit | 10,171,748 | 6,840,304 | 2,032,492 | 2,013,640 |
| Cash at bank | 3,015,970 | 4,533,179 | 121,567 | 343,923 |
| | 13,187,718 | 11,373,483 | 2,154,059 | 2,357,563 |

## 18 BANK LOANS AND OVERDRAFTS

There were no bank overdrafts or loans in the current or prior period for either the Group or Company.

## 19 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

### Financial instruments

The Group's financial instruments can comprise cash balances, bank loans, overdraft facilities and items such as trade receivables and trade payables that arise directly from its operations. 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 carrying amount for trade receivables, other receivables and cash and cash equivalents included in the statement of financial position.

The 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. A significant movement in LIBOR would be required to have a material impact on the cash flow of the Group. The gross overdraft facility provided by the Group's principal bankers is £750,000 (2014: £750,000); US$100,000 (2014: US$100,000); €Nil (2014: €Nil) that 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 statement of financial position could be affected by movements in the Euro, US Dollar, Singapore Dollar and Taiwan Dollar to Sterling exchange rates. At 31 March 2015, the Group had monetary assets denominated in foreign currencies of approximately £10.3m (2014: £8.6m), of which approximately 57% (2014: 55%) was denominated in US Dollars and 36% (2014: 38%) was denominated in Euros. It also had monetary liabilities denominated in foreign currencies of £0.2m (2014: £Nil) wholly denominated in Euros. The effects of foreign exchange recognised in the income statement amounted to a gain of £835,205 (2014: loss of £145,997).

### Financial instruments recognised in the consolidated statement of financial position

All financial instruments are recognised initially at their fair value and subsequently measured at amortised cost (see note 1u).

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 Loans and receivables £ | 2014 Loans and receivables £ | 2015 Loans and receivables £ | 2014 Loans and receivables £ |
| **Current financial assets** | | | | |
| Trade and other receivables | 2,697,081 | 3,205,515 | 27,458 | 6,533 |
| Cash and cash equivalents | 13,187,718 | 11,373,483 | 2,154,059 | 2,357,563 |
| Total | 15,884,799 | 14,578,998 | 2,181,517 | 2,364,096 |

Trade and other receivables are all due within six months.

# Notes to the financial statements continued

for the year ended 31 March 2015

## 19 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS CONTINUED

**Financial instruments recognised in the consolidated statement of financial position continued**

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 Other financial liabilities £ | 2014 Other financial liabilities £ | 2015 Other financial liabilities £ | 2014 Other financial liabilities £ |
| **Current financial liabilities** | | | | |
| Trade and other payables | 1,261,948 | 1,088,322 | 270,064 | 229,337 |
| Accruals | 1,898,922 | 1,044,461 | 199,534 | 116,281 |
| Total | 3,160,870 | 2,132,783 | 469,598 | 345,618 |

Trade receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| Trade receivables | 2,317,546 | 3,037,960 | — | — |
| | 2,317,546 | 3,037,960 | — | — |

The average credit period was 39 days (2014: 32 days). There was no allowance made, based on the knowledge of the financial circumstances of individual debtors at the year end, for estimated irrecoverable amounts from the sale of goods at the year end (2014: no allowance).

At 31 March 2015, £Nil (2014: £Nil) of trade receivables were impaired in relation to customers who are known to be in financial difficulty and from whom payment was overdue by more than three months.

The Group holds no collateral against these receivables at the year end.

The following table provides analysis of trade and other receivables that were past due at 31 March, but not impaired. The Group believes that the balances are ultimately recoverable based on a review of past payment history and the current financial status of the customers.

| | 2015 £ | 2014 £ |
|---|---|---|
| Up to 90 days | 164,395 | 26,465 |
| Up to 150 days | — | — |
| | 164,395 | 26,465 |

There are no significant credit risks arising from financial assets that are neither past due nor impaired.

At 31 March 2015, £167,650 (2014: £465,842) of receivables was denominated in Sterling, £1,852,271 (2014: £1,993,615) in US Dollars, £664,630 (2014: £578,503) in Euros and £12,530 in Taiwanese Dollars (2014: £Nil). The Directors consider that the carrying amount of trade and other receivables approximate to their fair value. Cash and cash equivalents of £13,187,718 (2014: £11,373,483) comprise cash and short-term deposits held by the Group treasury function. The carrying amount of these assets approximates their fair values.

### Sensitivity analysis

*Interest rate sensitivity*

A sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant through the reporting period. A 100 basis point change has been used. At the reporting date if the interest rate had been 100 basis points:

- higher and all other variables were constant, the Group's profit before taxation would have increased by £99,207 (2014: increased by £65,000); or
- lower and all other variables were constant, the Group's profit before taxation would have decreased by £65,651 (2014: decreased by £61,773); or
- higher and all other variables were constant, the Group's other equity and reserves would have increased by £78,373 (2014: increased by £50,050); or
- lower and all other variables were constant, the Group's other equity and reserves would have decreased by £51,864 (2014: decreased by £47,565).





**Foreign currency sensitivity**

The following table details the Group's sensitivity to a 10% change in exchange rates against the Sterling equivalents. The sensitivity analysis of the Group's exposure to foreign exchange risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

| | US$ impact | | Euro impact | |
|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| 10% movement in rates will have an impact on: | | | | |
| Profit before taxation | 1,568,636 | 1,536,555 | 374,385 | 254,912 |
| Equity | 1,506,058 | 1,455,300 | 265,813 | 178,439 |

The Group closely monitors its access to bank and other credit facilities in comparison to its outstanding commitments on a regular basis to ensure that it has sufficient funds to meet the obligations of the Group as they fall due.

The Board receives regular forecasts that estimate the cash flows over the next twelve months, so that management can ensure that sufficient financing is in place as it is required. Detailed analysis of the debt facilities taken out and available to the Group are disclosed in note 18.

## 20 TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| Amounts falling due within one year: | | | | |
| Trade payables | 906,118 | 841,583 | — | — |
| Other taxation and social security costs | 310,324 | 375,816 | 85,466 | 70,799 |
| Other payables and deferred income | 355,830 | 246,739 | 270,064 | 229,337 |
| Accruals | 1,898,922 | 1,044,461 | 199,534 | 186,281 |
| | 3,471,194 | 2,508,599 | 555,064 | 486,417 |

In relation to the defined contribution scheme and included within accruals, the Group had outstanding contributions of £23,878 (2014: £Nil) and the Company had outstanding contributions of £Nil (2014: £Nil).

## 21 CURRENT TAX LIABILITIES/ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| Current tax liabilities | 195,888 | 274,129 | — | — |
| Current tax assets | 628,006 | 282,667 | — | — |

£596,710 (2014: £255,646) of the current tax asset is an R&D claim that by its nature is subject to HMRC approval.

# Notes to the financial statements continued

for the year ended 31 March 2015

## 22 DEFERRED TAX

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| Provision for deferred taxation comprises: | | | | |
| Accelerated capital allowances | (680,933) | (631,751) | (678,435) | (669,208) |
| Tax losses carried forward | 459,214 | 572,271 | 64,571 | 78,987 |
| Pensions | 724,800 | 539,600 | — | — |
| Share-based payments | 57,473 | 65,426 | 57,473 | 65,426 |
| Research and development | (1,827,293) | (1,547,523) | — | — |
| Provisions | 24,778 | 20,000 | — | — |
| Other | 39,514 | 28,436 | — | — |
| | (1,202,447) | (953,541) | (556,391) | (524,795) |
| Deferred tax asset | 1,310,289 | 1,270,976 | 122,044 | 144,413 |
| Deferred tax liability | (2,512,736) | (2,224,517) | (678,435) | (669,208) |
| | (1,202,447) | (953,541) | (556,391) | (524,795) |
| At 1 April | (953,541) | 674,110 | (524,795) | (633,877) |
| Foreign exchange difference | 168,104 | 13,906 | — | — |
| Deferred tax (charged)/credited in income statement for year (see note 8) | (643,610) | (960,172) | (31,596) | 109,082 |
| Deferred tax relating to discontinued activities | — | (2,785) | — | — |
| Deferred tax credited/(charged) to statement of total comprehensive income | 226,600 | (678,600) | — | — |
| At 31 March | (1,202,447) | (953,541) | (556,391) | (524,795) |

The financial statements include a deferred tax asset of £1,310,289 (2014: £1,270,976) of which £459,214 (2014: £572,271) arises as a result of trading losses. 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 expected future taxable profits and expect an improvement in profitability and profits 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. The deferred tax credit of £226,600 (2014: deferred tax charge of £678,600) relates to the retirement benefit obligation (see note 11). The Directors consider that the deferred tax asset relating to the retirement benefit obligation to be recoverable on the basis that the deficit is a long-term liability that will be satisfied from future profitability.

In the Government's Budget announcement of 19 March 2014, and re-affirmed in the Government budget of 18 March 2015, it was stated that the main rate of corporation taxation was to fall to 21% until 31 March 2015 and then 20% thereafter. Therefore, the Directors consider it appropriate to use 20% as the rate at which deferred tax assets and liabilities should be provided for in the accounts and the above figures reflect this.

Deferred tax assets recoverable/liabilities expected to be settled under twelve months are £109,609 and £47,935 respectively. Deferred tax assets recoverable/liabilities expected to be settled over twelve months are £1,200,680 and £2,464,801 respectively. Deferred tax assets/liabilities expected net by jurisdiction consist of the Far East £2,698 (2014: £1,491), Europe (£1,245,808) (2014: (£1,015,626)) and the Americas £40,663 (2014: £60,594).





## 23 SHARE CAPITAL

| | 2015 £ | 2014 £ | 2013 £ |
|---|---|---|---|
| **Authorised** | | | |
| 25,000,000 ordinary shares of 5p each (2014: 25,000,000 ordinary shares of 5p each) | 1,250,000 | 1,250,000 | 1,250,000 |
| **Issued** | | | |
| At 1 April 2014 | | | |
| 15,960,927 ordinary shares of 5p each | 798,046 | 793,630 | 788,117 |
| Issued in year | 14,781 | 4,416 | 5,513 |
| 295,610 ordinary shares (2014: 88,329) of 5p were issued in the year as a result of employees exercising their options | | | |
| **At 31 March 2015** | | | |
| 16,256,537 ordinary shares of 5p | 812,827 | 798,046 | 793,630 |

### Share options

On 2 August 2000 the Company approved at the Annual General Meeting a scheme, which was United Kingdom Revenue & Customs Approved. This scheme was amended and reapproved at the Extraordinary General Meeting held on 10 February 2004. At the 2008 Annual General Meeting a new Enterprise Management Incentive share option plan was approved. On 18 November 2011 a further scheme was approved which is United Kingdom Revenue & Customs Approved and has an addendum for issuing unapproved options. The Company has the authority to grant options up to a limit, at any time, such that no more than 10% of the issued share capital is available under option.

The number of shares over which options remained in force at the year end along with a reconciliation of option movements and their exercise period and price is shown below:

| | Ordinary shares of 5p each | | | | |
|---|---|---|---|---|---|
| | 2014 Number | Granted Number | Exercised Number | Forfeited Number | 2015 Number |
| From 18 June 2010 to 17 June 2017 at £1.16 | 8,003 | — | (4,940) | — | 3,063 |
| From 15 June 2014 to 14 June 2021 at £2.20 | 353,908 | — | (263,170) | (1,905) | 88,833 |
| From 15 June 2014 to 14 June 2021 at £2.30 | 40,000 | — | (27,500) | — | 12,500 |
| From 2 September 2015 to 1 September 2022 at £2.84 | 20,000 | — | — | — | 20,000 |
| From 2 October 2015 to 1 October 2022 at £3.22 | 309,738 | — | — | (15,247) | 294,491 |
| From 2 October 2015 to 1 October 2022 at £3.34 | 5,000 | — | — | — | 5,000 |
| From 1 May 2016 to 1 May 2023 at £3.84 | 31,220 | — | — | — | 31,220 |
| From 1 July 2016 to 1 July 2023 at £0.00 | 5,311 | — | — | — | 5,311 |
| From 6 January 2017 to 6 January 2024 at £5.53 | 20,000 | — | — | — | 20,000 |
| From 17 September 2017 to 17 September 2024 at £3.125 | — | 20,000 | — | — | 20,000 |
| | 793,180 | 20,000 | (295,610) | (17,152) | 500,418 |

The weighted average exercise price of those options exercised in the year was 219.2p (2014: 109.6p). The 1,905 options exercisable from June 2014 and 15,247 options exercisable from October 2015 were forfeited due to the employees concerned leaving employment with the Group. The weighted average share option price of the share options forfeited (due to employees leaving the Group) in the year was 310.7p.

The detail of options exercised is shown below:

| Date of exercise of option | Number of options exercised | Market price at exercise date |
|---|---|---|
| 16 June 2014 | 255,610 | 399.0p |
| 28 November 2014 | 20,000 | 350.0p |
| 21 January 2015 | 20,000 | 380.0p |
| | 295,610 | |

The weighted average exercise market price of the share options granted in the year is 312.5p (2014: 524.0p).

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# Notes to the financial statements continued

for the year ended 31 March 2015

## 24 OTHER SHAREHOLDERS' FUNDS

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| **Share premium** | | | | |
| At 1 April | 5,069,921 | 4,977,531 | 5,069,921 | 4,977,531 |
| Issued in year | 630,423 | 92,390 | 630,423 | 92,390 |
| 295,610 (2014: 88,329) ordinary shares of 5p were issued in the year as a result of employees exercising their options | | | | |
| At 31 March | 5,700,344 | 5,069,921 | 5,700,344 | 5,069,921 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| **Share-based payments** | | | | |
| At 1 April | 327,130 | 171,199 | 327,130 | 171,199 |
| Options exercised or released | (135,169) | — | (135,169) | — |
| Charged in year | 95,405 | 155,931 | 95,405 | 155,931 |
| At 31 March | 287,366 | 327,130 | 287,366 | 327,130 |

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 ten years. Awards under the share option scheme are typically 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:

| Grant date | 17/09/14 | 06/01/14 | 01/07/13 | 01/05/13 | 01/10/12 | 01/10/12 | 01/09/12 | 15/06/11 | 15/06/11 | 18/06/07 |
|---|---|---|---|---|---|---|---|---|---|---|
| Share price at grant date | £3.125 | £5.53 | £4.80 | £3.88 | £3.34 | £3.34 | £2.84 | £2.30 | £2.20 | £1.16 |
| Exercise price | £3.125 | £5.53 | £0.00 | £3.84 | £3.34 | £3.22 | £2.84 | £2.20 | £2.20 | £1.16 |
| Number of employees | 1 | 1 | 2 | 7 | 1 | 142 | 1 | 1 | 25 | 1 |
| Shares under option | 20,000 | 20,000 | 5,311 | 31,220 | 5,000 | 299,491 | 20,000 | 12,500 | 88,833 | 3,063 |
| Vesting period (years) | 3 | 3 | 1 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Expected volatility | 26.84% | 21.34% | n/a | 43.30% | 29.36% | 29.36% | 29.36% | 35.70% | 35.70% | 24.60% |
| Option life (years) | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Expected life (years) | 3 | 3 | 1 | 3 | 3 | 3 | 3 | 3 | 5 | 3 |
| Risk-free rate | 2.43% | 2.71% | n/a | 3.60% | 3.09% | 3.09% | 3.09% | 4.28% | 4.28% | 5.78% |
| Expected dividend yield | 1.26% | 1.12% | n/a | 1.20% | 1.49% | 1.49% | 1.49% | 1.50% | 1.50% | 2.79% |
| Possibility of ceasing employment before vesting | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |
| Fair value per option | £0.60 | £0.90 | £4.80 | £0.71 | £0.67 | £0.67 | £0.67 | £0.58 | £0.58 | £0.22 |

The weighted average exercise price and the weighted average expected remaining contractual life are £3.08 (2014: £2.71) and three years (2014: three years) respectively.

The expected volatility is based on 90 days' trading prior to the grant date. The expected life is the average expected period to exercise. The risk-free rate of return is the yield to redemption on UK gilt strips with four-year maturity.





**Merger reserve**

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| At 1 April and 31 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 612 of the Companies Act 2006, the Company transferred to merger reserve the premium arising on shares issued as part of the acquisition.

**Foreign exchange reserve**

| | 2015 £ | 2014 £ |
|---|---|---|
| At 1 April | 211,632 | 513,532 |
| Retranslation of overseas subsidiaries | (477,497) | (301,900) |
| At 31 March | (265,865) | 211,632 |

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

**Accumulated profits**

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| At 1 April | 21,519,644 | 14,910,000 | 8,866,174 | 8,831,398 |
| Profit for the year | 2,701,781 | 4,768,638 | 1,403,595 | 908,170 |
| Dividend paid | (1,013,533) | (873,394) | (1,013,533) | (873,394) |
| Cancellation/transfer of share-based payments | 135,169 | — | 135,169 | — |
| Net actuarial (loss)/gain | (1,133,000) | 3,393,000 | — | — |
| Deferred tax gain/(loss) on actuarial (loss)/gain | 226,600 | (678,600) | — | — |
| At 31 March | 22,436,661 | 21,519,644 | 9,391,405 | 8,866,174 |

## 25 CAPITAL COMMITMENTS

Capital commitments which have been contracted for but for which no provision has been made in these financial statements are £853,480 (2014: £406,850).

## 26 OPERATING LEASE ARRANGEMENTS

**The Group as a lessee**

| | 2015 £ | 2014 £ |
|---|---|---|
| **Land and buildings** | | |
| Minimum lease payments under operating leases recognised in income statement as an expense for the period | 325,691 | 329,190 |

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

| | 2015 £ | 2014 £ |
|---|---|---|
| Within one year | 323,568 | 276,389 |
| In the second to fifth year inclusive | 791,585 | 860,173 |
| After five years | 14,246 | 164,903 |
| | 1,129,399 | 1,301,465 |

# Notes to the financial statements continued

for the year ended 31 March 2015

## 26 OPERATING LEASE ARRANGEMENTS CONTINUED

Operating lease payments represent rentals payable by the Group for some of its office properties. Leases are normally negotiated for a term of three years and rentals are fixed for that period, apart from the property in the US that was for a twelve-year period.

| | 2015 £ | 2014 £ |
|---|---|---|
| **Other** | | |
| Minimum lease payments under operating leases recognised in income statement as an expense for the period | 92,868 | 94,101 |

At the year end, the Company had future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2015 £ | 2014 £ |
|---|---|---|
| Within one year | 71,008 | 82,722 |
| In the second to fifth year inclusive | 38,410 | 68,820 |
| | 109,418 | 151,542 |

**The Group and Company as a lessor**

Property rental income earned during the year was £236,545 (2014: £227,332). Though current market conditions are unfavourable the Group now has the majority of the properties let albeit with fairly short leases so it is impractical to estimate what the estimated yields will be in the longer term but over the next couple of years yields are expected to be 7%.

At the year end, the Group had contracted with tenants for the following future minimum lease payments:

| | 2015 £ | 2014 £ |
|---|---|---|
| Within one year | 202,550 | 167,550 |
| In the second to fifth year inclusive | 301,950 | 319,450 |
| After five years | 77,963 | 122,513 |
| | 582,463 | 609,513 |

## 27 NOTES TO THE CASH FLOW STATEMENT

| | 2015 £ | 2014 £ |
|---|---|---|
| **Group** | | |
| Movement in working capital: | | |
| (Increase)/decrease in inventories | (633,794) | 563,548 |
| Decrease/(increase) in receivables | 523,469 | (865,835) |
| Increase/(decrease) in payables | 962,595 | (799,682) |
| | 852,270 | (1,101,969) |

Included within receivables is a promissory note receivable consideration in respect of the property disposed of, formerly held for sale (see note 12).

**Analysis of changes in net cash:**

| | Net cash at 1 April 2014 £ | Cash flow £ | Exchange movement £ | Net cash at 31 March 2015 £ |
|---|---|---|---|---|
| Cash and cash equivalents | 11,373,483 | 1,997,878 | (183,643) | 13,187,718 |
| | 11,373,483 | 1,997,878 | (183,643) | 13,187,718 |





| | 2015 £ | 2014 £ |
|---|---|---|
| **Company** | | |
| Movement in working capital: | | |
| (Increase)/decrease in advance to subsidiary undertaking | (1,402,529) | 1,956,495 |
| (Increase)/decrease in receivables | (19,190) | 37,041 |
| Increase in payables | 68,647 | 51,738 |
| | (1,353,072) | 2,045,274 |

**Analysis of changes in net cash:**

| | Net cash at 1 April 2014 £ | Cash flow £ | Net cash at 31 March 2015 £ |
|---|---|---|---|
| Cash and cash equivalents | 2,357,563 | (203,504) | 2,154,059 |

## 28 DISCONTINUED OPERATIONS

On 13 August 2013 Radio Data Technology Ltd went into voluntary liquidation and consequently qualified as a discontinued operation. The results of the discontinued operation which have been included in the consolidated income statement are presented below:

| | 2014 £ |
|---|---|
| **Revenue** | 282,275 |
| Cost of sales | (171,239) |
| **Gross profit** | 111,036 |
| Distribution and administration costs | (113,978) |
| | (2,942) |
| Other operating income | 5,720 |
| | 2,778 |
| Finance income | 9 |
| **Profit before taxation** | 2,787 |
| Income tax expense | (2,785) |
| **Profit from discontinued operations** | 2 |

The net cash flows attributable to Radio Data Technology Limited were considered immaterial by the Board and hence not disclosed.

## 29 LISTINGS

CML Microsystems Plc ordinary shares are traded on the Official List of the London Stock Exchange and the Company is incorporated and domiciled in the United Kingdom.

## 30 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were formally approved by the Board of Directors on 19 June 2015.

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of CML Microsystems Plc (the "Company") will be held at Layer Marney Tower, near Colchester, Essex CO5 9US, on Wednesday 29 July 2015 at 11am to transact the following business:

## ORDINARY BUSINESS

### Ordinary resolutions

To consider, and, if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Group's consolidated financial statements and the reports of the Directors and auditor for the year ended 31 March 2015.
2. To receive and approve the Directors' remuneration report for the year ended 31 March 2015.
3. To declare a final dividend of 6.9p per 5p ordinary share for the year ended 31 March 2015 to be paid on 3 August 2015 to shareholders whose names appear on the register at the close of business on 3 July 2015.
4. To re-appoint R. J. Shashoua, who retires by rotation, as a Director of the Company.
5. To re-appoint N. B. Pritchard who was appointed to the Board as a Director of the Company on 19 January 2015.
6. To re-appoint Baker Tilly UK Audit LLP as auditor of the Company.
7. To authorise the Directors to determine the remuneration of the auditor.

## SPECIAL BUSINESS

### Ordinary resolution

To consider, and if thought fit, to pass the following resolutions as an ordinary resolution:

8. That pursuant to Section 551 of the Companies Act 2006 (the "Act"), the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot Relevant Securities:
   a. comprising equity securities (as defined in Section 560(1) of the Act) up to an aggregate nominal amount of £541,884 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph b) of this resolution) in connection with a rights issue:
      i. to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and
      ii. to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and
   b. otherwise than pursuant to paragraph a) of this resolution, up to an aggregate nominal amount of £270,942 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph a) of this resolution in excess of £270,942, provided that (unless previously revoked, varied or renewed) these authorities shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the date which is 15 months after the date of the annual general meeting at which this resolution is passed (whichever is the earlier), save that, in each case, the Company may make an offer or agreement before the authority expires which would or might require Relevant Securities to be allotted after the authority expires and the Directors may allot Relevant Securities pursuant to any such offer or agreement as if the authority had not expired.

In this resolution, "Relevant Securities" means shares in the Company or rights to subscribe for or to convert any security into shares in the Company; a reference to the allotment of Relevant Securities includes the grant of such a right; and a reference to the nominal amount of a Relevant Security which is a right to subscribe for or to convert any security into shares in the Company is to the nominal amount of the shares which may be allotted pursuant to that right. These authorities are in substitution for all existing authorities under Section 551 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).





### Special resolutions

To consider, and if thought fit, to pass the following resolutions as special resolutions:

9. That, subject to the passing of resolution 8 and pursuant to Sections 570 and 573 of the Companies Act 2006 (the "Act"), the Directors be and are generally empowered to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authorities granted by resolution 8 and to sell ordinary shares held by the Company as treasury shares for cash as if Section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited to:
   a. the allotment of equity securities or sale of treasury shares in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise, but, in the case of an allotment pursuant to the authority granted by paragraph a) of resolution 8, such power shall be limited to the allotment of equity securities in connection with a rights issue):
      i. to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and
      ii. to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary;

   but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and
   b. the allotment of equity securities pursuant to the authority granted by paragraph b) of resolution 8 or sale of treasury shares (in each case, otherwise than pursuant to paragraph a) of this resolution) up to an aggregate nominal amount of £40,641, and (unless previously revoked, varied or renewed) this power shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the date which is 15 months after the date of the annual general meeting at which this resolution is passed (whichever is the earlier), save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted or treasury shares to be sold for cash after this power expires and the Directors may allot equity securities or sell treasury shares for cash pursuant to any such offer or agreement as if this power had not expired. This power is in substitution for all existing powers under Sections 570 and 573 of the Companies Act 2006 (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

10. That, pursuant to Section 701 of the Companies Act 2006 (the "Act"), the Company be and is generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 5p each in the capital of the Company ("Shares"), provided that:
    a. the maximum aggregate number of Shares which may be purchased is 2,438,480;
    b. the minimum price (excluding expenses) which may be paid for a Share is 5p (being the nominal amount of a Share);
    c. the maximum price (excluding expenses) which may be paid for a Share is the higher of:
       i. an amount equal to 105% of the average of the middle market quotations for a Share as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately preceding the day on which the purchase is made; and
       ii. an amount equal to the higher of the price of the last independent trade of a Share and the highest current independent bid for a Share on the trading venue where the purchase is carried out;
    d. an ordinary share so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of applicable laws or regulations of the United Kingdom Listing Authority, held as a treasury share, and (unless previously revoked, varied or renewed) this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the date which is 15 months after the date of the annual general meeting at which this resolution is passed (whichever is the earlier), save that the Company may enter into a contract to purchase Shares before this authority expires under which such purchase will or may be completed or executed wholly or partly after this authority expires and may make a purchase of Shares pursuant to any such contract as if this authority had not expired.

By order of the Board

**N. B. PRITCHARD**
Company Secretary
19 June 2015

**REGISTERED OFFICE**
Oval Park
Langford
Maldon
Essex CM9 6WG

Registered in England and Wales: 944010

# Notice of Annual General Meeting continued

## General notes

### 1 ATTENDING THE AGM IN PERSON

If you wish to attend the AGM in person, you should arrive at the venue for the AGM in good time to allow your attendance to be registered. You must bring some form of identification as evidence of your identity prior to the Company's representatives allowing your admittance to the AGM.

### 2 APPOINTMENT OF PROXIES

Members who are entitled to attend and vote at the AGM are entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent a member. To be validly appointed, a proxy must be appointed using the procedures set out in these notes and in the notes to the accompanying proxy form.

If a member wishes a proxy to speak on their behalf at the meeting, the member will need to appoint their own choice of proxy (not the Chairman of the AGM) and give their instructions directly to them. Such an appointment can be made using the proxy form accompanying this notice of AGM or through CREST.

Members can only appoint more than one proxy where each proxy is appointed to exercise rights attached to different shares. Members cannot appoint more than one proxy to exercise the rights attached to the same share(s). If a member wishes to appoint more than one proxy, they should contact CML Microsystems Plc, by writing to Oval Park, Langford, Maldon, Essex CM9 6WG.

A member may instruct their proxy to abstain from voting on a particular resolution to be considered at the meeting by marking the "Withheld" option in relation to that particular resolution when appointing their proxy. It should be noted that an abstention is not a vote in law and will not be counted in the calculation of the proportion of votes "for" or "against" the resolution.

The appointment of a proxy will not prevent a member from attending the AGM and voting in person if he or she wishes.

A person who is not a member of the Company but who has been nominated by a member to enjoy information rights does not have a right to appoint any proxies under the procedures set out in these notes and should read note 8 below.

To be entitled to attend and vote at the AGM (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 at 6pm on 27 July 2015.

### 3 APPOINTMENT OF A PROXY USING A PROXY FORM

A proxy form for use in connection with the AGM is enclosed. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post using the postal address on the form of proxy or (during normal business hours only) by hand by the Company at its registered office at CML Microsystems Plc, Oval Park, Langford, Maldon, Essex CM9 6WG not later than 11am on 27 July 2015 or if the AGM is adjourned, at least 48 hours before the time of the adjourned meeting.

Proxies may also be sent by email to: proxies@cmlmicroplc.com. See the enclosed proxy card for further instructions. This email address may not be used to communicate with the Company for any purpose other than submitting proxies for the AGM. The appointment must be received not later than 11am on Monday 27 July 2015 or if the AGM is adjourned at least 48 hours before the adjourned meeting. Any electronic communication sent by a shareholder to the Company that is found to contain a virus will not be accepted by the Company, but every reasonable effort will be made by the Company to inform the shareholder of the rejected communication.

If you do not have a proxy form and believe that you should have one, or you require additional proxy forms, please contact CML Microsystems Plc, Oval Park, Langford, Maldon, Essex CM9 6WG.

### 4 APPOINTMENT OF A PROXY THROUGH CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the following website: www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must in order to be valid, be transmitted so as to be received by the registrar (ID 7RA11) not later than 11am on Monday 27 July 2015 or if the AGM is adjourned at least 48 hours before the time of the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time.

In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

### 5 APPOINTMENT OF PROXY BY JOINT HOLDERS

In the case of joint holders, where more than one of the joint holders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

### 6 CORPORATE REPRESENTATIVES

Any corporation which is a member can appoint one or more corporate representatives. Members can only appoint more than one corporate representative where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s).





### 7 ENTITLEMENT TO ATTEND AND VOTE

To be entitled to attend and vote at the AGM (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6pm on Monday 27 July 2015 (or, if the AGM is adjourned, at 6pm on the day two days prior to the adjourned meeting). Changes to the Company's register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the AGM.

### 8 NOMINATED PERSONS

Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 (the "2006 Act") to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

### 9 WEBSITE GIVING INFORMATION REGARDING THE AGM

Information regarding the AGM, including information required by Section 311A of the 2006 Act, is available from the Company's website www.cmlmicroplc.com.

### 10 AUDIT CONCERNS

Members should note that it is possible that, pursuant to requests made by members of the Company under Section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the 2006 Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the 2006 Act to publish on a website. In order to be able to exercise the members rights to require the Company to publish audit concerns the relevant request must be made by (a) a member or members having a right to vote at the meeting and holding at least 5% of the voting rights of the Company or (b) at least 100 members having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital. For information on voting rights, including the total number of voting rights, see note 11 and the website referred to in note 9. Where a member or members wishes to request the Company to publish audit concerns such request must be made in accordance with one of the following ways (a) by hard copy request which is signed by a member, states their full name and address and is sent to CML Microsystems Plc, Oval Park, Langford, Maldon, Essex CM9 6WG or (b) a request which states the member's full name and address, and is sent to group@cmlmicroplc.com. Please state "AGM" in the subject line of the email.

### 11 VOTING RIGHTS

As at 15 June 2015 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consisted of 16,256,537 ordinary shares, carrying one vote each. The total voting rights in the Company as at 15 June 2015 were 16,206,537 votes.

### 12 PAYMENT OF DIVIDEND

It is proposed to pay the dividend, if approved, on 3 August 2015 to shareholders registered on 3 July 2015.

### 13 NOTIFICATION OF SHAREHOLDINGS

Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the AGM as his proxy will need to ensure that both he, and his proxy, comply with their respective disclosure obligations under the UK Disclosure and Transparency Rules.

### 14 FURTHER QUESTIONS AND COMMUNICATION

Under Section 319A of the 2006 Act, the Company must cause to be answered any question relating to the business being dealt with at the AGM put by a member attending the meeting unless answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, or the answer has already been given on a website in the form of an answer to a question, or it is undesirable in the interests of the Company or the good order of the meeting that the question be answered. Members who have any general queries about the AGM should contact the Company Secretary.

Members may not use any electronic address provided in this notice or in any related documents (including the accompanying document and proxy form) to communicate with the Company for any purpose other than those expressly stated.

### 15 DOCUMENTS AVAILABLE FOR INSPECTION

A copy of each of the Directors' service contracts or letter of appointment will be available for inspection at the registered office of the Company during normal business hours on each business day (Saturdays, Sundays and public holidays excepted) from the date of this notice and on the date of the AGM at Layer Marney Tower, near Colchester, Essex CO5 9US from 10.30am until the conclusion thereof.

# Five-year record

| | 2015 £'000 | 2014 £'000 | 2013 £'000 | 2012 £'000 | 2011 £'000 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Revenue (continuing operations) | 21,804 | 24,394 | 24,648 | 22,651 | 21,353 |
| Revenue (discontinued operations) | — | 282 | 590 | 758 | 769 |
| Total revenue[1] | 21,804 | 24,676 | 25,238 | 23,409 | 22,122 |
| Gross profit[1] | 15,465 | 17,882 | 17,564 | 16,213 | 15,368 |
| Gross profit percentage[1] | 70.93% | 73.31% | 69.59% | 69.26% | 68.83% |
| Profit before taxation[1] | 3,178 | 5,792 | 5,071 | 3,950 | 2,324 |
| **Earnings per share[1]** | | | | | |
| Basic | 16.71p | 29.96p | 25.59p | 21.06p | 17.87p |
| Diluted | 16.51p | 29.20p | 25.18p | 20.94p | 17.64p |
| **Balance sheet** | | | | | |
| Shareholders' equity[1] | 28,971 | 27,926 | 21,366 | 18,911 | 17,524 |
| **Dividend per ordinary share** | | | | | |
| Dividend proposed/paid per 5p ordinary share[1] | 6.90p | 6.25p | 5.50p | 4.00p | 3.50p |

1 As reported in the years' Annual Report.

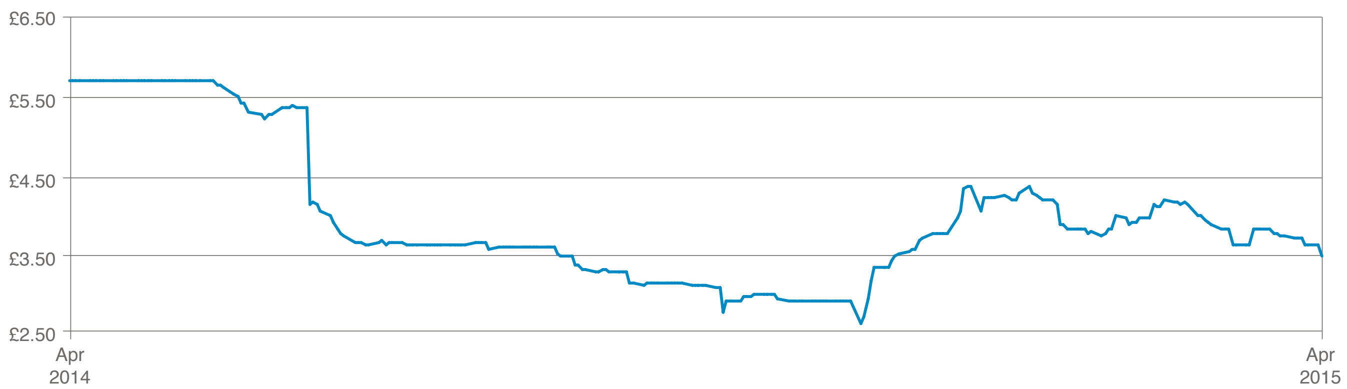
| | Number of shares | Number of shares | Number of shares | Number of shares | Number of shares |
|---|---|---|---|---|---|
| Issued 5p ordinary shares | 16,256,537 | 15,960,027 | 15,872,598 | 15,762,341 | 15,706,696 |



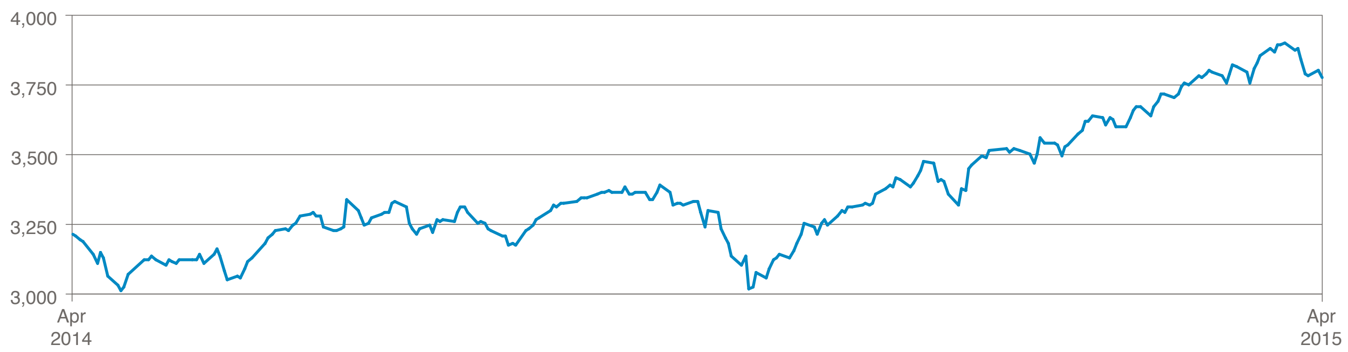


# Shareholder information

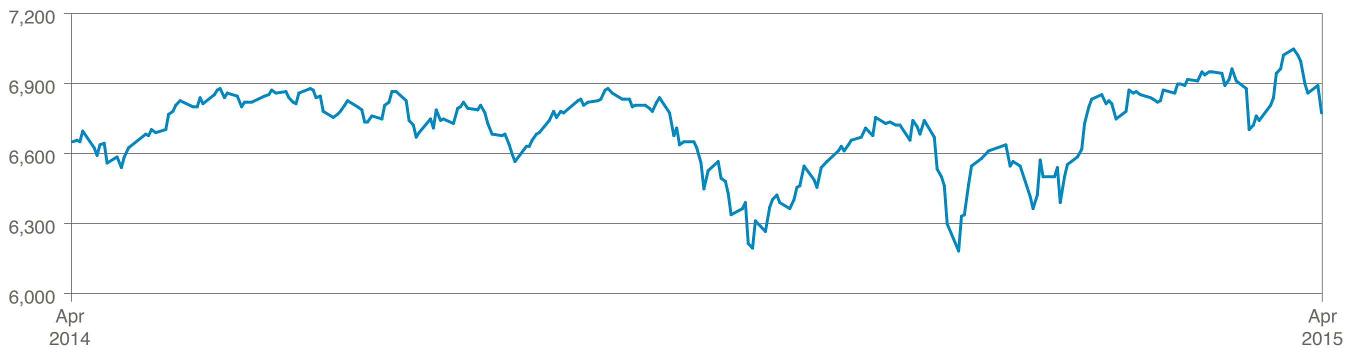
CML MICROSYSTEMS PLC SHARE PRICE – FOR THE YEAR ENDED 31 MARCH 2015




TECHMARK 100 INDEX – FOR THE YEAR ENDED 31 MARCH 2015




FTSE 100 INDEX – FOR THE YEAR ENDED 31 MARCH 2015




## FINANCIAL CALENDAR

**2015**

| | |
|---|---|
| 29 July | Annual General Meeting |
| 30 September | Half-year end |
| 17 November | Anticipated date for half-year results |

**2016**

| | |
|---|---|
| 31 March | Year end |
| 14 June | Anticipated date for preliminary announcement of year-end 2016 results |

# Glossary

| | |
|---|---|
| AFE | analogue front end |
| ATA | an advanced technology attachment |
| dPMR | digital private mobile radio |
| DMR | digital mobile radio |
| DSP | digital signal processor |
| eMMC | electronic multimedia card |
| EU | European Union |
| FPGA | field programmable gate array |
| GAAP | Generally Accepted Accounting Practice |
| IAS | International Accounting Standard |
| IC | integrated circuit |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| IP | intellectual property |
| NRE | non-refundable engineering |
| NXDN | a common air interface technical protocol for mobile communications |
| PABX | public access branch exchange |
| R&D | research and development |
| RF | radio frequency |
| SATA | serial ATA interface |
| SDR | software defined radio |
| SD card | secure digital card |
| SSD | solid state drives |
| TSR | total shareholder return |
| USB | universal serial bus |

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CML Microsystems Plc

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