



CML Microsystems Plc

HALF YEARLY REPORT

FY16



Storage



Wireless



Wireline
telecom

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.

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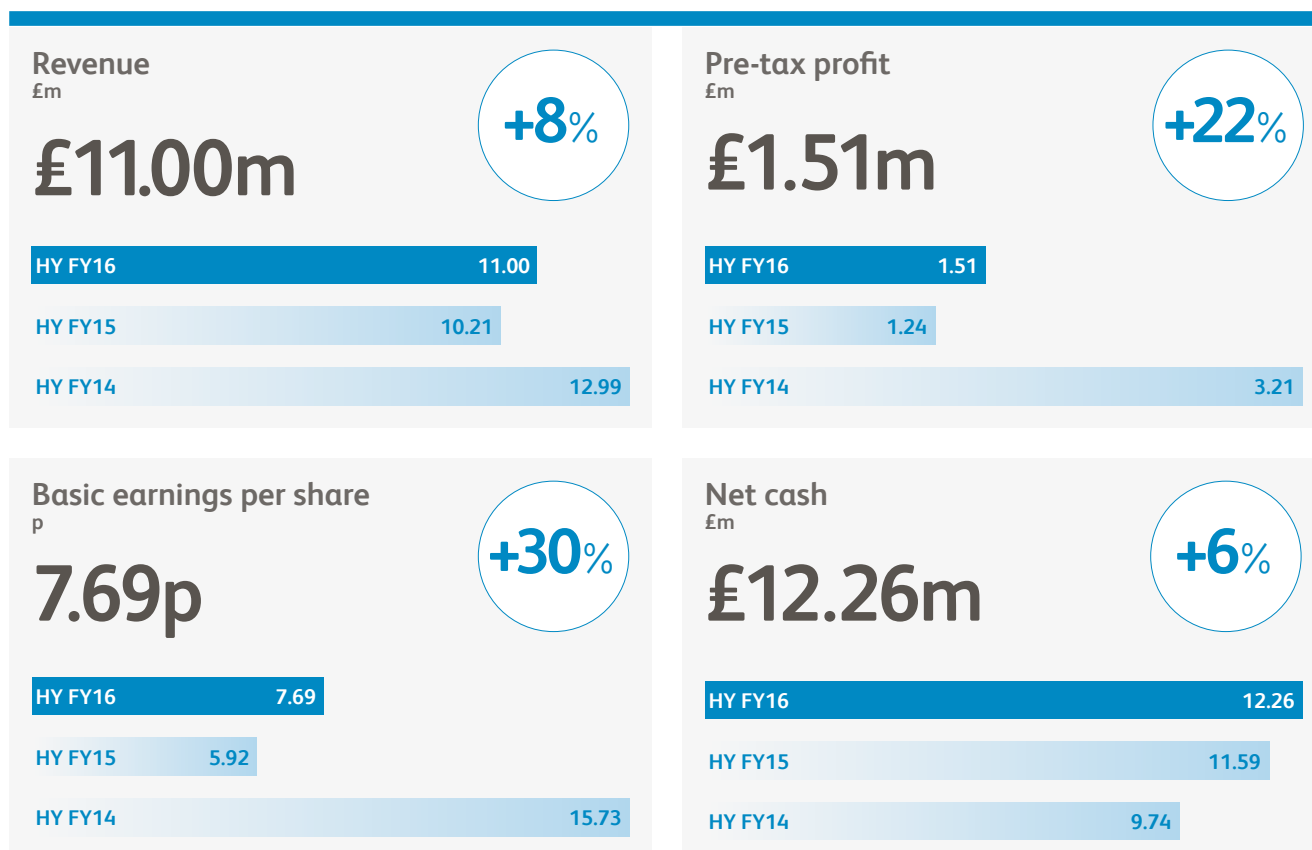
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Highlights

The Group has moved forward, increasing both sales revenue and profitability when compared to the same period last year.

Our results



The revenues and pre-tax profits have been restated for the HY FY14 period to remove the results of Radio Data Technology Limited following it entering voluntary liquidation on 13 August 2013.

Chairman's statement

The Group's visible growth opportunities provide me with clear evidence that the execution of the Board's strategy is driving progress.

I am pleased to state that as expected the Group has moved forward, increasing both sales revenue and profitability when compared to the same period last year. Results reported are broadly in line with expectations despite current global market conditions becoming more difficult.

In the first six month period to 30 September 2015, sales revenues increased 8% to £11.00m (2014: £10.21m) and pre-tax profits increased by 22% to £1.51m (2014: £1.24m). Cash at the period end reduced compared to the March year end mainly as a result of payment of the dividend, the planned increase in development expenditure and the purchase of our own shares to be held in treasury.

Recently, one or two of the market areas addressed are showing signs of softness and a small number of customers have delayed the launch of their new products, albeit only by a few months. This appears to be a short-term problem that has reduced the Board's expected growth rate for the second half. Despite this caveat, the Board remains confident that the Group will move forward for the financial year as a whole.

The Group's visible growth opportunities provide me with clear evidence that the execution of the Board's strategy is driving progress, regardless of the short-term headwinds in some market areas. I am confident of a more significant improvement in the results over the medium and longer term.

As always the progress of any business is dependent upon the quality and dedication of its employees. The Board wishes to thank its employees worldwide for the performance and commitment they have shown throughout this period.

NIGEL CLARK

Group Non-Executive Chairman

24 November 2015

Group Managing Director's statement and operational and financial review

The trading performance through the first half of the current financial year was ahead of the comparable period and reflected the Group's multifaceted approach to delivering growth.

OPERATIONAL AND FINANCIAL REVIEW

The first six months of the current trading year produced a meaningful advance in revenue and profitability against the comparable period. Total sales reported to 30 September 2015 were £11.00m representing an increase of 8% (2014: £10.21m).

The overall rise was a result of improved trading from each of the three major market areas addressed; namely Storage, Wireless and Wireline Telecoms. Geographically, shipments into the Far East recorded the largest gain whilst across the customer base, the majority of the Group's current top customers increased their spend.

Gross margin remained robust and drove gross profit 10% higher to £7.98m (2014: £7.22m). As previously communicated, the Group continued to invest in marketing, sales and support resources whilst simultaneously maintaining high levels of R&D investment. Distribution and administration costs increased to £6.62m (2014: £6.17m), delivering an operational profit (before share-based payments and finance income) of £1.54m (2014: £1.28m).

Other operating income, principally rental proceeds from commercial properties and regional engineering development grants, fell to £0.19m (2014: £0.22m).

Profit before taxation advanced by over 22% to £1.51m (2014: £1.24m) delivering a diluted earnings per share of 7.65p (2014: 5.84p).

Cash balances at 30 September 2015 stood at £12.26m which is a reduction on the 31 March 2015 position of £13.19m due mainly to the payment of a £1.12m dividend and the increased investment in development costs.

SUMMARY

The trading performance through the first half of the current financial year was ahead of the comparable period and reflected the Group's multifaceted approach to delivering growth.

Advances were made with strengthening our marketing, sales and support resources and new product development activities continue to receive high levels of investment.

In recent months, the Group has released two new RF ICs suitable for global industrial wireless applications along with a focused baseband processing solution for Digital Mobile Radio (DMR). For the industrial storage markets, our SD and USB flash memory controller products continue to gain acceptance at the design-in and qualification level, although the sale of SATA interface controllers has been slower than expected. Ongoing activities are directed towards those market sub-segments that we believe will deliver on our multi-year growth objectives.

OUTLOOK

Despite the improvement in first half results, it is important to convey that a number of the end markets the Group addresses are going through technological change with respective Group customers at varying stages of adoption, market introduction and manufacturing ramp. Predicting the timing of some of these end market transitions is challenging.

Whilst the recent signals from some market areas necessitate an air of caution, the Board's current expectations are for a sequential revenue improvement and for a full year advance in profitability.

CHRIS GURRY

Group Managing Director

24 November 2015

Condensed consolidated income statement

for the six months ended 30 September 2015

	Unaudited 6 months end 30/09/15 £'000	Unaudited 6 months end 30/09/14 £'000	Audited Year end 31/03/15 £'000
Continuing operations			
Revenue	11,003	10,209	21,804
Cost of sales	(3,027)	(2,986)	(6,339)
Gross profit	7,976	7,223	15,465
Distribution and administration costs	(6,623)	(6,168)	(12,777)
	1,353	1,055	2,688
Other operating income	190	221	419
Profit before share-based payments	1,543	1,276	3,107
Share-based payments	(49)	(61)	(95)
Profit after share-based payments	1,494	1,215	3,012
Revaluation of investment properties	—	—	100
Finance income	20	22	66
Profit before taxation	1,514	1,237	3,178
Income tax expense	(266)	(281)	(476)
Profit after taxation from continuing operations	1,248	956	2,702
Profit for period attributable to equity owners of the parent	1,248	956	2,702
Basic earnings per share			
From continuing operations	7.69p	5.92p	16.71p
From profit for the year	7.69p	5.92p	16.71p
Diluted earnings per share			
From continuing operations	7.65p	5.84p	16.51p
From profit for the year	7.65p	5.84p	16.51p

Condensed consolidated statement of comprehensive income

for the six months ended 30 September 2015

	Unaudited 6 months end 30/09/15 £'000	Unaudited 6 months end 30/09/14 £'000	Audited Year end 31/03/15 £'000
Profit for the period	1,248	956	2,702
Other comprehensive income:			
Foreign exchange differences	65	(258)	(477)
Actuarial loss on retirement benefit obligations	—	—	(1,133)
Deferred tax on actuarial loss	—	—	227
Other comprehensive income/(expense) for the period net of tax attributable to equity holders of the parent	65	(258)	(1,383)
Total comprehensive income for the period net of tax attributable to equity holders of the parent	1,313	698	1,319

Condensed consolidated statement of financial position

as at 30 September 2015

	Unaudited 30/09/15 £'000	Unaudited 30/09/14 £'000	Audited 31/03/15 £'000
Assets			
Non-current assets			
Property, plant and equipment	5,146	5,040	4,976
Investment properties	3,550	3,450	3,550
Development costs	8,289	7,258	6,984
Goodwill	3,512	3,512	3,512
Deferred tax asset	1,301	1,238	1,310
	21,798	20,498	20,332
Current assets			
Inventories	1,779	1,456	1,763
Trade receivables and prepayments	2,525	2,777	2,864
Current tax assets	767	191	628
Cash and cash equivalents	12,263	11,586	13,188
	17,334	16,010	18,443
Total assets	39,132	36,508	38,775
Liabilities			
Current liabilities			
Trade and other payables	3,583	2,845	3,471
Current tax liabilities	246	446	196
	3,829	3,291	3,667
Non-current liabilities			
Deferred tax liabilities	2,654	2,291	2,513
Retirement benefit obligation	3,624	2,698	3,624
	6,278	4,989	6,137
Total liabilities	10,107	8,280	9,804
Net assets	29,025	28,228	28,971
Capital and reserves attributable to equity owners of the parent			
Share capital	813	811	813
Share premium	5,700	5,614	5,700
Treasury shares – own share reserve	(190)	—	—
Share-based payments reserve	336	388	287
Foreign exchange reserve	(201)	(47)	(266)
Accumulated profits	22,567	21,462	22,437
Total shareholders' equity	29,025	28,228	28,971

Condensed consolidated cash flow statements

for the six months ended 30 September 2015

	Unaudited 6 months end 30/09/15 £'000	Unaudited 6 months end 30/09/14 £'000	Audited Year end 31/03/15 £'000
Operating activities			
Net profit for the period before taxation	1,514	1,237	3,178
Adjustments for:			
Depreciation	121	110	267
Amortisation of development costs	1,661	1,408	3,224
Revaluation of investment properties	—	—	(100)
Movement in pension net costs	—	—	(207)
Share-based payments	49	61	95
Profit on sale of plant and equipment	—	—	(4)
Finance income	(20)	(22)	(66)
Movement in working capital	435	608	852
Cash flows from operating activities	3,760	3,402	7,239
Income tax (paid)/refunded	(174)	151	(270)
Net cash flows from operating activities	3,586	3,553	6,969
Investing activities			
Purchase of property, plant and equipment	(290)	(256)	(318)
Investment in development costs	(2,905)	(2,672)	(4,363)
Disposals of property, plant and equipment	—	52	12
Finance income	20	22	66
Net cash flows from investing activities	(3,175)	(2,854)	(4,603)
Financing activities			
Issue of ordinary shares	—	557	645
Purchase of treasury shares	(190)	—	—
Dividend paid to Group shareholders	(1,118)	(1,014)	(1,013)
Net cash flows from financing activities	(1,308)	(457)	(368)
(Decrease)/increase in cash and cash equivalents	(897)	242	1,998
Movement in cash and cash equivalents:			
At start of period/year	13,188	11,373	11,373
(Decrease)/increase in cash and cash equivalents	(897)	242	1,998
Effects of exchange rate changes	(28)	(29)	(183)
At end of period/year	12,263	11,586	13,188

Condensed consolidated statement of changes in equity

for the six months ended 30 September 2015

Unaudited	Share capital £'000	Share premium £'000	Treasury shares £'000	Share-based payments £'000	Foreign exchange reserve £'000	Accumulated profits £'000	Total £'000
At 31 March 2014	798	5,070	—	327	211	21,520	27,926
Profit for period						956	956
Other comprehensive income:							
Foreign exchange differences					(258)		(258)
Total comprehensive income for the period	—	—	—	—	(258)	956	698
Transactions with owners in their capacity as owners:							
Dividend paid						(1,014)	(1,014)
Issue of ordinary shares	13	544					557
Total of transactions with owners in their capacity as owners:	13	544	—	—	—	(1,014)	(457)
Share-based payments				61			61
At 30 September 2014	811	5,614	—	388	(47)	21,462	28,228
Profit for period						1,746	1,746
Other comprehensive income:							
Foreign exchange differences					(219)		(219)
Actuarial loss on retirement benefit obligation						(1,133)	(1,133)
Deferred tax on actuarial losses						227	227
Total comprehensive income for the period	—	—	—	—	(219)	840	621
Transactions with owners in their capacity as owners:							
Issue of ordinary shares	2	86					88
Total of transactions with owners in their capacity as owners:	2	86	—	—	—	—	88
Share-based payments				34			34
Cancellation/transfer of share-based payments				(135)		135	—
At 31 March 2015	813	5,700	—	287	(266)	22,437	28,971
Profit for period						1,248	1,248
Other comprehensive income:							
Foreign exchange differences					65		65
Total comprehensive income for the period	—	—	—	—	65	1,248	1,313
Transactions with owners in their capacity as owners:							
Dividend paid						(1,118)	(1,118)
Purchase of treasury shares			(190)				(190)
Total of transactions with owners in their capacity as owners:	—	—	(190)	—	—	(1,118)	(1,308)
Share-based payments				49			49
At 30 September 2015	813	5,700	(190)	336	(201)	22,567	29,025

Notes to the condensed consolidated financial statements

for the six months ended 30 September 2015

1 SEGMENTAL ANALYSIS

Business segments

	Unaudited 6 months end 30/09/15		Unaudited 6 months end 30/09/14		Audited Year end 31/03/15	
	Semi-conductor components £'000	Group £'000	Semi-conductor components £'000	Group £'000	Semi-conductor components £'000	Group £'000
Revenue						
By origination	17,423	17,423	15,842	15,842	34,031	34,031
Inter-segmental revenue	(6,420)	(6,420)	(5,633)	(5,633)	(12,227)	(12,227)
Segmental revenue	11,003	11,003	10,209	10,209	21,804	21,804
Profit/(loss)						
Segmental result	1,494	1,494	1,215	1,215	3,012	3,012
Revaluation of investment properties		—		—		100
Net financial income		20		22		66
Income tax		(266)		(281)		(476)
Profit after taxation		1,248		956		2,702
Assets and liabilities						
Segmental assets	33,514	33,514	31,629	31,629	33,287	33,287
Unallocated corporate assets						
Investment properties		3,550		3,450		3,550
Deferred tax assets		1,301		1,238		1,310
Current tax receivable		767		191		628
Consolidated total assets		39,132		36,508		38,775
Segmental liabilities	3,583	3,583	2,845	2,845	3,471	3,471
Unallocated corporate liabilities						
Deferred tax liabilities		2,654		2,291		2,513
Current tax liabilities		246		446		196
Retirement benefit obligation		3,624		2,698		3,624
Consolidated total liabilities		10,107		8,280		9,804
Other segmental information						
Property, plant and equipment additions	290	290	256	256	318	318
Development cost additions	2,905	2,905	2,672	2,672	4,363	4,363
Depreciation	121	121	110	110	267	267
Amortisation	1,661	1,661	1,408	1,408	3,224	3,224
Other significant non-cash income	—	—	—	—	307	307

Geographical segments

	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Unaudited					
Six months ended 30 September 2015					
Revenue by origination	5,101	5,577	2,562	4,183	17,423
Inter-segmental revenue	(2,518)	(3,902)	—	—	(6,420)
Revenue to third parties	2,583	1,675	2,562	4,183	11,003
Property, plant and equipment	5,022	97	11	16	5,146
Investment properties	3,550	—	—	—	3,550
Goodwill	—	3,512	—	—	3,512
Development costs	2,906	5,383	—	—	8,289
Total assets	25,538	10,162	1,325	2,107	39,132
Unaudited					
Six months ended 30 September 2014					
Revenue by origination	4,865	5,282	2,001	3,694	15,842
Inter-segmental revenue	(2,170)	(3,463)	—	—	(5,633)
Revenue to third parties	2,695	1,819	2,001	3,694	10,209
Property, plant and equipment	4,909	114	14	3	5,040
Investment properties	3,450	—	—	—	3,450
Goodwill	—	3,512	—	—	3,512
Development costs	2,655	4,603	—	—	7,258
Total assets	24,991	8,131	1,473	1,913	36,508
Audited					
Year ended 31 March 2015					
Revenue by origination	10,134	10,627	4,688	8,582	34,031
Inter-segmental revenue	(5,036)	(7,190)	—	(1)	(12,227)
Revenue to third parties	5,098	3,437	4,688	8,581	21,804
Property, plant and equipment	4,849	104	14	9	4,976
Investment properties	3,550	—	—	—	3,550
Goodwill	—	3,512	—	—	3,512
Development costs	2,440	4,544	—	—	6,984
Total assets	27,060	8,388	1,370	1,957	38,775

Segmental reporting is in accordance with IFRS 8, is based on internal management reporting information that is regularly reviewed by the chief operating decision maker. The measurement policies the Group uses for segmental reporting under IFRS 8 are the same as those used in its full year financial statements.

Revenue

The geographical classification of business turnover (by destination) is as follows:

	Unaudited 6 months end 30/09/15 £'000	Unaudited 6 months end 30/09/14 £'000	Audited Year end 31/03/15 £'000
United Kingdom	495	473	853
Rest of Europe	2,379	2,640	5,220
Far East	5,205	4,538	10,438
Americas	2,745	2,336	4,804
Other	179	222	489
	11,003	10,209	21,804

Notes to the condensed consolidated financial statements continued

for the six months ended 30 September 2015

2 DIVIDEND PAID AND PROPOSED

A dividend of 6.9p per 5p ordinary share in respect of the year ended 31 March 2015 was paid on 3 August 2015 (2014: 6.25p per ordinary share of 5p in respect of the year ended 31 March 2014). No dividend is proposed in respect of the six months period ended 30 September 2015 (2014: £Nil per ordinary share of 5p in respect of the period ended 30 September 2014).

3 INCOME TAX

The Directors consider that tax will be payable at varying rates according to the country of incorporation of its subsidiary undertakings and have provided on that basis.

	Unaudited 6 months end 30/09/15 £'000	Unaudited 6 months end 30/09/14 £'000	Audited Year end 31/03/15 £'000
UK income tax credit	(167)	(160)	(598)
Overseas income tax charge	283	285	430
Total current tax charge/(credit)	116	125	(168)
Deferred tax charge	150	156	644
Reported income tax charge	266	281	476

4 EARNINGS PER 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, as explained below:

	Ordinary 5p shares	
	Weighted average number	Diluted number
Six months ended 30 September 2015	16,219,037	16,295,008
Six months ended 30 September 2014	16,152,635	16,376,911
Year end 31 March 2015	16,167,635	16,367,735

On 10 June 2015, the Company purchased 50,000 ordinary shares of 5p each in the Company at a price of 376.5p per ordinary share. These shares are held in treasury for the benefit of various employee share plans and are excluded from the denominators listed above for the purposes of earnings per share calculations.

5 INVESTMENT PROPERTIES

Investment properties are revalued at each discrete period end by the Directors and every third year by independent Chartered Surveyors 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. At 31 March 2015 the investment properties were professionally valued by Everett Newlyn, Chartered Surveyors and Commercial Property Consultants, on an open market basis.

6 ANALYSIS OF CASH FLOW MOVEMENT IN NET CASH

The cash flow below is a combination of the actual cash flow and the exchange movement:

	Net cash at 01/04/14 £'000	6 months end 30/09/14 Cash flow £'000	Net cash at 30/09/14 £'000	6 months end 31/03/2015 Cash flow £'000	Net cash at 31/03/15 £'000	6 months end 30/09/15 Cash flow £'000	Net cash at 30/09/15 £'000
Cash and cash equivalents	11,373	213	11,586	1,602	13,188	(925)	12,263
	11,373	213	11,586	1,602	13,188	(925)	12,263

7 RETIREMENT BENEFIT OBLIGATIONS

The Directors have not obtained an actuarial IAS19 Employee Benefits report in respect of the defined benefit pension scheme for the purpose of this Half Yearly Report.

8 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 would have a direct effect on revenue, although since the majority of the cost of sales are also linked to the US Dollar, this risk is reduced at the gross profit line. Additionally, though the Group has a very diverse customer base in certain market segments, key customers can represent a significant amount of revenue. Key customer relationships are closely monitored; however changes in buying patterns of a key customer could have an adverse effect on the Group's performance.

Key risks of a non-financial nature

The Group is a small player operating in a highly-competitive global market, which is undergoing continual 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.

9 DIRECTORS' STATEMENT PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

The Directors confirm that, to the best of their knowledge:

- a) the condensed 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 Group and the undertakings included in the consolidation taken as a whole; and
- b) the condensed set of financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting; and
- c) the Chairman's statement and Group Managing Director's statement and operational and financial review include 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 also responsible for the maintenance and integrity of the CML Microsystems Plc website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

10 BASIS OF PREPARATION

The basis of preparation and accounting policies used in preparation of the Half Yearly Financial Report are the same accounting policies set out in the year ended 31 March 2015 financial statements.

11 GENERAL

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

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

The principal risks and uncertainties within the business are contained within this report in note 8 above.

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

This Half Yearly Financial Report includes a fair review of the information required by DTR 4.2.7/8 (indication of important events and their impact, and description of principal risks and uncertainties for the remaining six months of the financial year).

This Half Yearly Financial Report does not include all the information and disclosures required in the Annual Report, and should be read in conjunction with the consolidated Annual Report for the year ended 31 March 2015.

The financial information contained in this Half Yearly Financial Report has been prepared using International Financial Reporting Standards as adopted by the European Union. This Half Yearly Financial Report does not constitute statutory accounts as defined by Section 434 of the Companies Act 2006. The financial information for the year ended 31 March 2015 is based on the statutory accounts for the financial year ended 31 March 2015 that have been filed with the Registrar of Companies and on which the Auditor gave an unqualified audit opinion.

The Auditor's report on those accounts did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. This Half Yearly Financial Report has not been audited or reviewed by the Group Auditor.

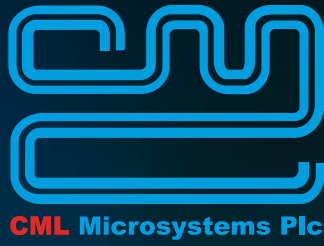
A copy of this Half Yearly Financial Report can be viewed on the Company website www.cmlmicroplc.com.

12 APPROVALS

The Directors approved this Half Yearly Report on 24 November 2015.

Glossary

DMR	digital mobile radio
EU	European Union
IAS	International Accounting Standard
IC	integrated circuit
IFRS	International Financial Reporting Standards
R&D	research and development
RF	radio frequency
SATA	serial ATA interface
SD	secure digital
USB	universal serial bus



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