CML Microsystems Plc

Annual report and accounts

FY16

USER GUIDE

Welcome to the CML Microsystems Annual Report FY16.
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 at the top to help you navigate through this report.

NAVIGATING WITH TABS

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

LINKS WITHIN THIS DOCUMENT

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

CML Microsystems Plc designs, manufactures and markets mixed-signal and RF semiconductors for global industrial and professional applications within the storage, wireless and wireline communications market areas.

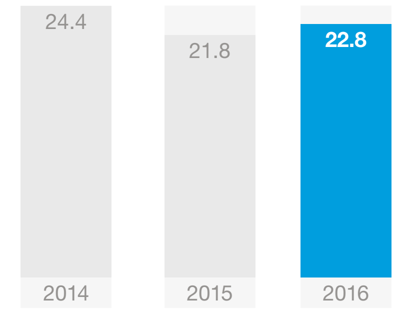
Founded in 1968, CML operates internationally with subsidiaries across the UK, the USA, Germany, Singapore and Taiwan.

Visit us online at cmlmicroplc.com

RETURN TO GROWTH

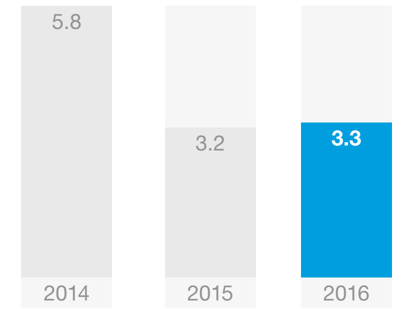
Revenue (£m)

22.83 +5%



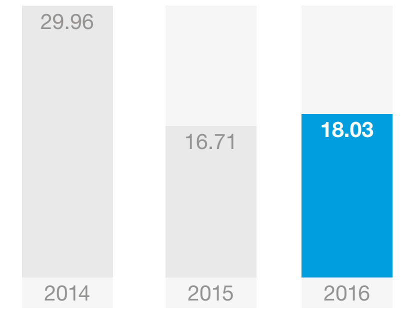
Pre-tax profit (£m)

3.32 +4%



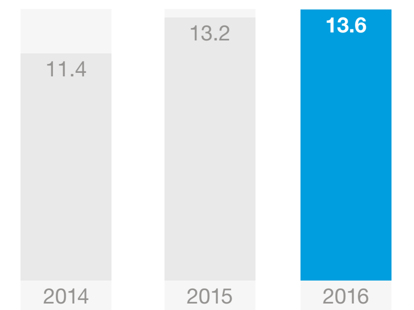
Basic earnings per share (p)

18.03 +8%



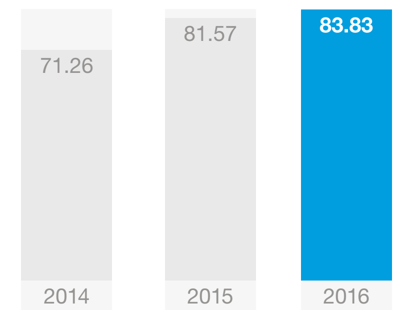
Net cash (£m)

13.60 +3%



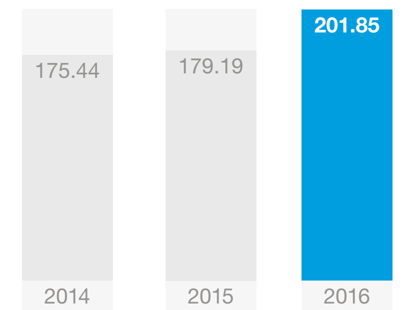
Net cash per share (p)

83.83 +3%



Net assets per share (p)

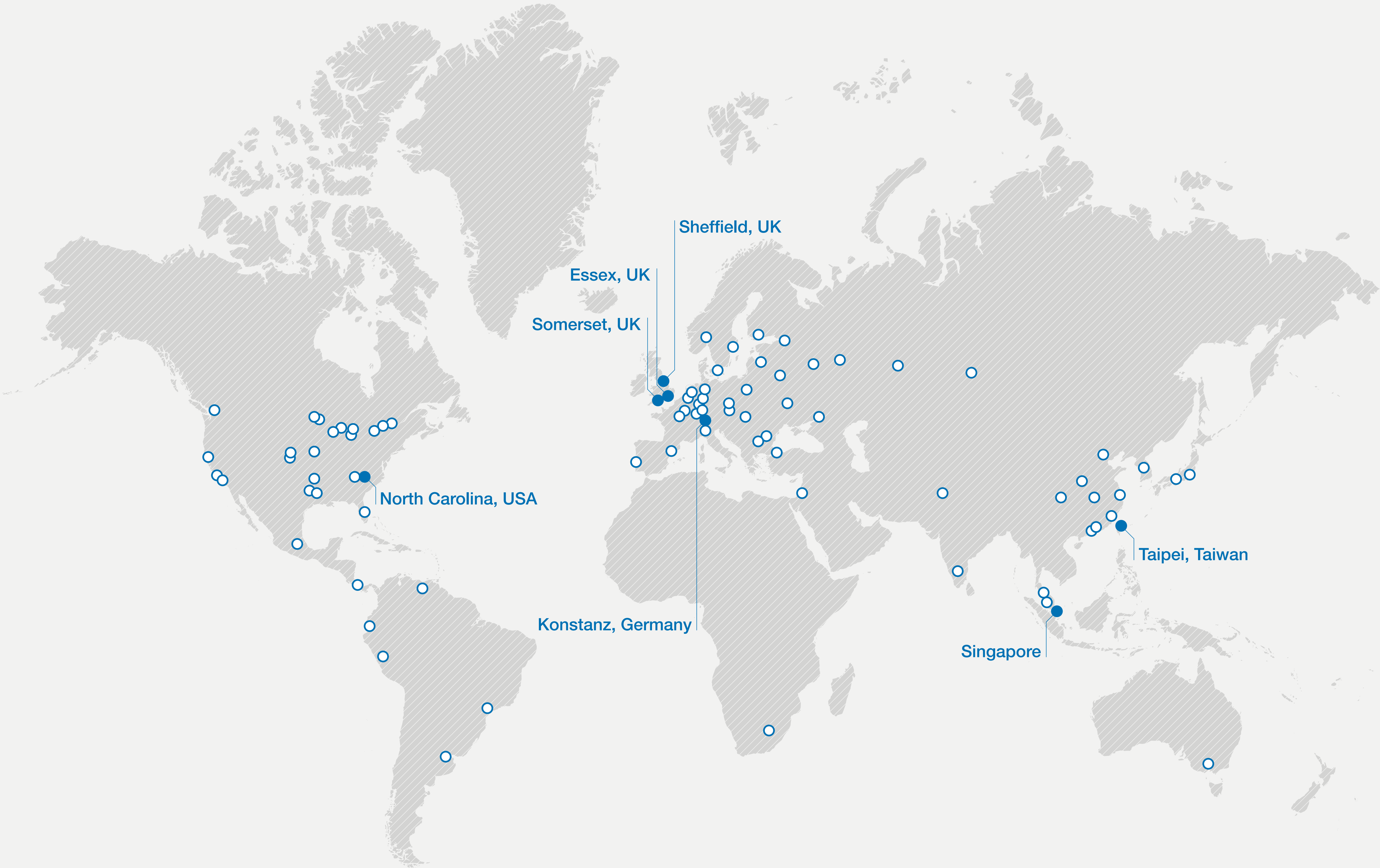
201.85 +13%



We have returned to growth and the Group is well positioned for further progress in the year ahead.

WHERE WE OPERATE

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.



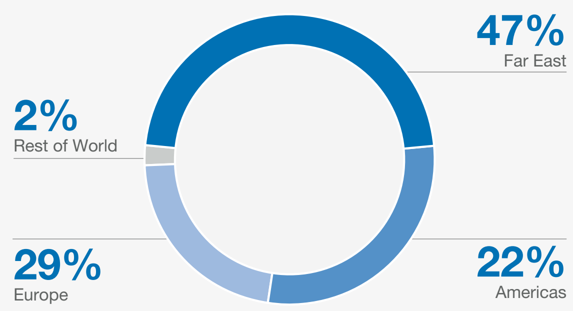
Key statistics

Established in	Offices	Staff
1968	7	179

2016 revenue split by region

	2016 £'000	2015 £'000
Far East	10,704	10,438
Europe	6,571	6,073
Americas	5,122	4,804
Rest of World	436	489
Total	22,833	21,804

Geographical analysis of business performance



● Group operations
○ Support and distribution offices

This map is illustrative, but not fully definitive of our locations. For a full list of our locations please visit our website at cmlmicroplc.com.

INVESTMENT IN SALES, MARKETING & SUPPORT

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.

BUSINESS MODEL

DESIGN
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.

MANUFACTURE
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.

MARKET
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

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

Read more in the Managing Director's operating and financial review on page 9 to 15.

RELEASING KEY NEW PRODUCTS

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

SEMICONDUCTORS

STORAGE

APPLICATION AREAS

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

GROUP REVENUE
£11.6m
2015: £10.8m

51%

WIRELESS

APPLICATION AREAS

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

GROUP REVENUE
£8.2m
2015: £8.3m

36%

WIRELINE TELECOM

APPLICATION AREAS

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

GROUP REVENUE
£2.6m
2015: £2.3m

11%

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

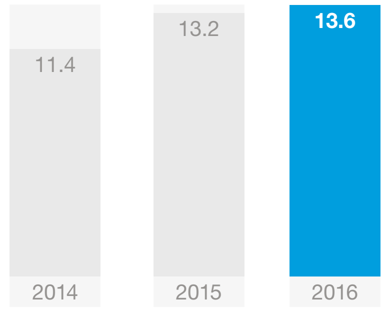
offer **superior** levels of technical support

Delivering shareholder value

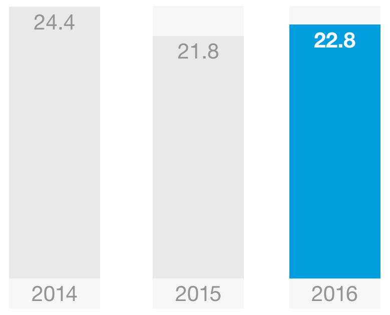
KPIs

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.

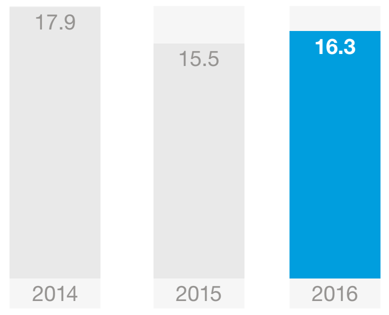
Net cash (£m)



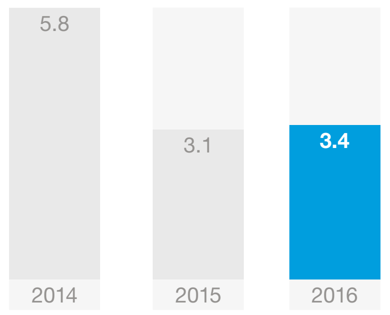
Revenue (£m)
(continuing operations)



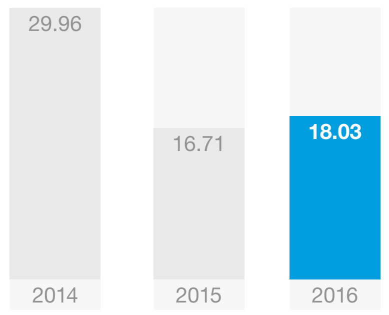
Gross profit (£m)
(continuing operations)



Profit from operations (£m)
(continuing operations)



Earnings per share (p)
(continuing operations)



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.

SUSTAINABLE GROWTH

"The Board's core strategy of **sustainable growth** remains paramount."

Introduction

The CML Group is a business based upon world class products, an inherent knowledge of the markets it addresses and growing global coverage. This is all supported by a strong balance sheet that includes significant cash reserves. These factors give CML the ability to stay focussed on its strategic goals in the knowledge that the fundamental business stability is intact, allowing investment today where the return on those investments can be some way in the future.

The need to improve market coverage in the Far East and more specifically in China to drive growth in that market, coupled with the opportunity to acquire a company with complementary solutions, led to the identification of Sicomm and the recently announced intended acquisition. Although I expect this acquisition will enhance the Group's performance in the coming year I must also stress that this is an important strategic move targeted to give a long term benefit. Sicomm brings improved market access and customer support geographically whilst also increasing our product range. This acquisition builds on our existing resources in the region and provides an established Chinese trading operation with an instant impact. Coupling these benefits with those of the complementary product line, which has yet to be fully marketed globally, demonstrates the compelling nature of this acquisition.

Results and dividend

Revenues increased 5% to £22.83m (2015: £21.80m) marginally ahead of market expectations, profit before taxation increased by 4% to £3.32m (2015: £3.18m) and basic EPS increased 8% to 18.03p (2015: 16.71p). Importantly, in a year of significant development expenditure, cash increased to £13.60m (2015: £13.19m) and net assets moved up to a record £32.58m (2015: £28.97m).

The need for strong cash reserves in the business is important in fulfilling the expansion strategy and so, as always, there is a requirement to balance the needs of the Group whilst also being mindful that shareholder return expectations are met in both the short and long term. In light of the progress made this year, coupled with the continued confidence in the Group's financial position and future prospects the Board are pleased to recommend a slightly increased dividend to 7.0p (2015: 6.9p). If approved, this dividend will be paid on 29 July 2016 to shareholders whose names appear on the register at the close of business on 24 June 2016.

Management

With the reorganisation and strengthening of the Group's senior management team in 2015 we have had the opportunity this year to focus on improving operational effectiveness globally. This process, though started, is ongoing and is expected to be enhanced still further with the technical capabilities and market knowledge of the new Sicomm team. Product innovation, focussed sales efforts and driving efficiency are all priorities for the management team.

Prospects and outlook

The Board's core strategy of sustainable growth remains paramount and as stated in my report last year we will pursue this strategy of utilising our strong balance sheet to invest in growth, both organically and through targeted acquisitions. Through this year we expect to be integrating Sicomm but this will not detract from pursuing appropriate opportunities should they be presented.

What must not be forgotten is that the key to moving forward in any business is the contribution from the workforce and our employees across the world, as always, have been crucial to achieving our goals. They have consistently met the demands placed on them with innovation, passion and commitment which is much appreciated and I would like to place on record the Board's appreciation and gratitude for this.

In summary we start this year with a clear direction but still have much to do. We have returned to growth and I am confident CML is well positioned for further progress in the year ahead on the back of our innovative products and market traction gained, but as always, there will likely be challenges. What is pleasing is that the fundamentals of the business remain sound, and my confidence this year is underpinned by the positive trend in order bookings in the second half of the year just finished coupled with the strong and enthusiastic management team.

N G Clark
Group Non-Executive Chairman
24 June 2016

SCALABILITY

"Changes made will **enhance our focus** and also provide a scalable structure."

Shareholder's equity
£32.6m

Gross profit
£16.3m

Dividend
7.0p

Introduction

At the beginning of the financial year under review we predicted revenue and profits growth, high levels of engineering investment, and expansion of our marketing and customer facing resources. It is pleasing to report that we have made firm progress in each of those areas placing the business in a stronger position than it was one year ago.

Total sales for the period moved higher, key new product launches occurred within both the Storage and Wireless semiconductor categories, additional selling and support resources were added in each major region and the number of meaningful customer opportunities grew.

Towards the end of the financial year we also took the decision to re-organise our operational structure in the Americas region. The changes made, once fully enacted, will enhance our focus within this important market region and also provide a scalable structure that better suits the Group's multi-faceted growth strategy.

Results

Group turnover for the year to 31 March 2016 amounted to £22.83m representing an increase of 5% against the prior full year (2015: £21.80m). The growth was driven by advances in Storage and Wireline Telecom revenues whilst geographically, improvements were recorded in each of the main territories addressed; namely the Far East, Americas and Europe. That said, it is important to note that annual revenue comparisons by region can be misleading as some customers can and do alter their manufacturing locations periodically. Revenue analysis at a market sector level is covered later in this report.

Sales in the second half of the year improved by 8% compared to the first six-month period and new order bookings in the final months of the year were notably stronger.

Stable gross margins delivered a gross profit for the period of £16.25m (2015: £15.47m).

Distribution and administration (D&A) costs rose to £13.27m (2015: £12.78m) due partly to an increase in staff costs, associated with the investment in sales, marketing and engineering support resources (£0.29m) but also resulting from the lack of the prior year IAS19 pension credit (£0.22m). The overall amortisation level was higher at £3.33m (2015: £3.22m), with the positive effect of aligning amortisation and capitalisation procedures across the Group cancelled out by a £0.58m negative swing in foreign exchange benefit compared to the previous year.

R&D costs for the year were markedly higher, as expected. Total expenditure for the year amounted to £6.09m and represents an increase of 16% (2015: £5.21m). Of this total, £0.73m was expensed and is included within the D&A figure (2015: £0.85m).

Other income consists of amounts received from the commercial rental of Group-owned property assets that are now surplus to operational requirements and from the award of EU grants associated with specific engineering development activities. The amount recorded this year was £0.41m (2015: £0.42m). Rental income increased through the year and EU funding decreased.

Profit from operations increased by 9% to £3.39m compared to a figure of £3.11m for the prior year. Despite healthy cash balances, finance income reflected the low prevailing interest rates that exist globally. After accounting for share-based payments and finance income, a profit before tax of £3.32m was posted (2015: £3.18m) representing growth of 4%.

The Group continued to benefit from UK tax credits associated with some of its R&D activities and that is the primary driver behind the lower than average tax rate achieved. An income tax expense of £0.40m was posted against a prior year expense of £0.48m.

Profit after tax amounted to £2.93m (2015: £2.70m).

The Group's cash reserves at 31 March 2016 stood at £13.60m, representing an increase of £0.41m when compared to the same cut-off date one year earlier (2015: £13.19m). The balance reported follows a record spend on R&D (£6.09m), payment of a dividend in respect of the prior financial year (£1.12m), capital expenditure of £0.44m and the payment of an escrow deposit in respect of the Sicomm acquisition that was announced on 27 May 2016 (£0.33m).

Included in the cash balance is a conditional customer prepayment of approximately £1.39m (2015: £0.67m) against future product purchases. Initial deliveries to the customer in question commenced in the final months of the financial year.

Inventory levels at the year-end totalled £1.57m (2015: £1.76m) and comprised slightly higher raw material levels and lower finished goods stock levels when compared to the previous year.

STORAGE

Typical applications

Our objectives for the year were to increase sales, commence initial revenues from the new products that were recently launched and to execute our engineering developments on-time and to budget.

The contribution to Group turnover from Storage products rose by 8% to £11.65m (2015: £10.82m) representing 51% of total Group revenues. Sales into Europe and the Far East were responsible for the gain with the Americas posting a flat year. As mentioned earlier, revenue at a geographical level is attributed to the territory in which the goods are actually sold (e.g. the customers own manufacturing location or the customers sub-contract location) and does not necessarily relate to the region in which the original design win was recorded.

Our objectives for the year were to increase sales, commence initial revenues from the new products that were recently launched and to execute our engineering developments on-time and to budget. The level of achievement against these objectives was good.

Product shipments for the year went into a variety of end-customer products across a range of application areas. Within telecoms/infrastructure markets, historically our largest sub-market, our Storage ICs were used within equipment for internet switching and routing and within wireless base stations for mobile connectivity. Our Hyperstone brand is becoming well known in these markets and associated with high quality and reliability; two essential pre-requisites for being accepted in the market.

Within the automotive market, our sales into in-vehicle infotainment (IVI) applications progressed well with multiple car manufacturers utilising Hyperstone-driven solutions and additional manufacturers entering the qualification process. Our customised automotive solution provides application-specific features that maximise the life of the solid state drive itself and delivers class leading reliability and recovery in the event of power supply interruptions. Other end-applications served through the year included industrial automation and embedded computing for licensed Gaming machines.

The outlook at the interim stage was for automotive revenue growth and an expansion of our market and customer share in the telecoms/infrastructure and Industrial/embedded areas. The sales levels reported coupled with the progress made with new customer opportunities and qualification activities means that we are on track.

In previous reporting we have commented on our strategy to expand the product portfolio to fill the gaps that we saw in order to maximise growth in our chosen end-markets. We have made good progress with that strategy and now have a product range that includes flash memory controllers equipped with CompactFlash, SATA, SD and USB2/USB3 interface technologies.

The new USB3 product was announced to the market in February 2016 at the Embedded World show in Nuremburg, Germany, and, together with the hyMap technology that has further evolved since being launched in the prior year, we are building an impressive platform portfolio that we can leverage well into the future. The engineering team continue to excel and, as with the hyMap development, the USB3 project was an impressive achievement. It uses 65nm process geometry and resulted in right first time silicon being sampled to customers on schedule.

Through the year, we continued to invest in the technology we will need in the future to be able to maximise growth in the markets we are working hard to penetrate. Trends in flash memory technology are one important consideration and our expanding relationships with tier 1 flash memory providers are key supporting factors.

We made specific investments in marketing and field-based application engineering roles during the year to ensure we continue to capitalise on the customer opportunities that the enlarged product portfolio is uncovering. Additional investments were made in customer facing tools and internal testing environments all ultimately expected to improve the customer experience and enhance our product performance and quality even further.

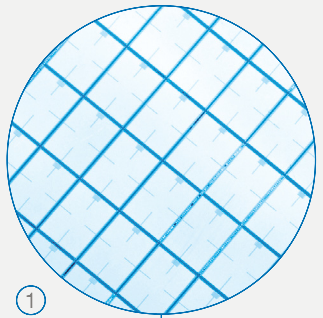
Application areas

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

Markets served

Automotive | Industrial | Medical | Infrastructure | Infotainment

Gaming | Security | Telecoms | Utilities | Mobile and POS payment



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3

Semiconductor requirements for telecommunications and networking infrastructure require reliable operations – 24 hours each day, 7 days per week, and 365 days per year for several years. Additionally, systems operate at extended temperatures and require extremely high immunity to power faliure.

1. System-on-Chip, logic and analog components are designed specifically to the requirements of our target markets. Controller architecture and firmware are developed in a hardware and software co-design approach.
2. Our chips are application specific and involve the rigorous testing of silicon, packaged and qualified to the highest standards.
3. Firmware features are continuously enhanced and extended to support new NAND Flashes, improve reliability and maximise endurance in important end markets.

WIRELESS

Our strategy within Wireless communications application areas has been to continue evolving the product range so that we can target new end-applications and expand the total available market.

Revenues received from the shipment of semiconductors into wireless end-applications were marginally down against the prior year at £8.21m (2015: £8.28m) but broadly in line with expectations that were set following the delays to one or two customer product launches, as communicated at the interim stage. By financial year end shipments into these customer projects had commenced.

Regionally the business mix was a little different for the year as a whole. Good growth was seen in the Americas as customer production schedules began to ramp whilst in the Far East, China was adversely affected by weaker local manufacturing and to some extent by reduced government spending on infrastructure-related projects such as power networks and railways. Europe also posted a weaker performance, partly due to the one or two project delays that have previously been communicated.

Wireless goals for the year were underpinned by a focus on securing significant chip-set design-wins, in all regions, capable of driving sustainably higher business levels. Continuing effort was put into positioning the Group to participate in the growth expected to come from voice-centric markets as they transition from analogue technology to the newer digital standards. Within wireless data, additional revenues from chip-set solutions for satellite M2M applications made a meaningful contribution.

The majority of IC shipments categorised as Wireless were delivered to customers who manufactured professional voice communication terminals and industrial quality radio equipment for the transmission and reception of data. Customers deployed varying combinations of our baseband, modem and RF ICs into these applications and particularly pleasing was the strong performance from our RF product portfolio. Evolving from a pure baseband/modem semiconductor supplier, CML is now an established provider of complementary high performance RF ICs to a growing number of the leading companies in each of the chosen target markets.

Our strategy within Wireless communications application areas has been to continue evolving the product range so that we can target new end-applications and expand the total available market. We progressed well with this strategy through the year, releasing two new RF products; one of which raised the bar in terms of direct conversion receiver performance, and one which offered the customer base greater flexibility in reducing power consumption within applications that are not as technically demanding. We launched a baseband processor IC specifically targeted at the DMR standard which is predicted to be the dominant choice for non-public safety applications as customers replace currently installed analogue terminals and base stations.

Engineering capabilities within the baseband and modem teams were enhanced through the year with specific investments being made in prototyping systems and, more generally for enhanced internal information systems. We have a multi-site, multi-disciplinary engineering team and these investments will help minimise the risks and costs associated with developing new products on increasingly lower geometry silicon processes.

Current R&D programmes are focussed on being able to offer the customers elements of our existing RF product portfolio across a wider range of radio frequencies and to ensure our baseband and modem platforms are suitably advanced to cope with the demanding performance requirements that our customers need in the future.

As with our Storage resource levels, we made specific investments in customer-facing application engineering roles during the year to provide key support to our customers and help to minimise their development timelines. CML is renowned for the superior levels of technical support we provide and it is important to maintain that reputation as we grow.

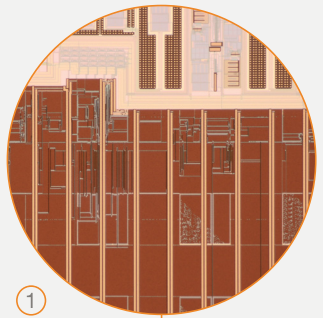
Application areas

- 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

Typical applications



Wireless semiconductor applications typically involve mission-critical public safety and high performance industrial automation applications.

1. The Software Defined Radio ("SDR") is the forward direction in the wireless market. CML's RF Building Block ICs are a key enabler for small, low-power voice-centric and data-centric wireless communication systems.
2. FirmASIC® reconfigurable component technology is at the core of many of CML's innovative wireless products, standard products and a growing number of custom implementations.
3. Satellite data communication is a growing market sector that enables global critical data exchange coverage, for transport logistics, asset tracking and general commercial safety applications.

WIRELINE TELECOM

Each major region saw advances for the full year. Within China, shipments into higher speed point of payment terminals were stronger and the Group reaped the rewards from design-wins secured for our higher data rate modem ICs.

Revenues from the Wireline Telecom product portfolio delivered a pleasing growth rate of 13% following a somewhat weaker previous year. A full year figure £2.57m was posted (2015: £2.28m).

Each major region saw advances for the full year. Within China, shipments into higher speed point of payment terminals were stronger and the Group reaped the rewards from design-wins secured for our higher data rate modem ICs. In North America, sales improved for telephone signalling and data transfer ICs used within residential and commercial alarm communicators. These products typically have dual mode telephone line & 3G/4G wireless connectivity capabilities and Group products handle the wireline communications functionality.

We are one of a reducing number of semiconductor companies supplying dedicated solutions for inclusion within equipment intended for operation on analogue telephony networks. This continues to present us with new design-in opportunities and customers value the longevity of product supply the Group typically offers. This is an important advantage when dealing with multi-national industrial organisations who are constantly concerned about component level product obsolescence.

Aside from the Storage, Wireless and Wireline Telecom revenue generating markets already reviewed, the Group received additional revenue from the sale of miscellaneous semiconductor products and services derived from historic operational activities. The sale of products classified under this category amounted to £0.40m (2015: £0.43m) for the year under review.

Application areas

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

Markets served

Security
Industrial
Medical
Telephony
POS

Pension scheme

The Group operates a number of pension schemes globally which are generally money purchase type schemes with a minimum employee contribution level required in order to trigger a company contribution. The one exception is an historic UK final salary scheme that has been closed to both new members and future accruals for a number of years. At the time of publishing the 2015 Annual Report, the Group was taking professional advice relating to this scheme with the objective of achieving the right balance between adequate scheme funding and business growth objectives. As a result, the scheme funding position has improved and, with a higher discount rate of 3.8% (2015: 3.6%) being applied for the IAS19 accounting standard, a net deficit of £2.07m has been recorded (2015: net deficit of £3.62m). The pension assets increased through the year and the liabilities decreased. The company also benefited from a reduction in annual contributions to clear the deficit.

Customer dependency

There was relatively little movement through the year in terms of customer dependency. Only two customers contributed greater than 10% to Group turnover. These customers each purchase Storage semiconductors from us and then manufacture and supply a storage module/product to a wide range of end-customers. Together, these two customers have a combined contribution of approximately 27% of overall revenues. Customer number three contributed approximately 6% and all remaining customers are below the 4% threshold.

Property

The Group headquarters is located on a 28 acre freehold site in Essex with existent planning permission for additional commercial space. A residential planning application directed at a separate part of the site is currently awaiting determination following an appeal inquiry in October 2015.

Summary and outlook

Financial year 2016 represented a steady period of organic progress and delivered a return to sales and profit growth, as expected. It was a record year of R&D investment, with an amount equal to 27% of Group turnover invested in new products that will ultimately position the Group to increase its market share. New ICs that were launched during the year offered either enhanced performance or closed a gap in the existing product range.

Operationally, important investments were made in sales, marketing and engineering support resources to handle the increasing customer engagement levels that an expanding product range demands.

Internally, structural changes took place that will maximise efficiency, increase productivity and provide a scalable operating structure in anticipation of focussed bolt-on acquisitions.

For the 2017 financial year, we currently expect a firmer revenue contribution from those customer projects that have already commenced production shipments in the last twelve months or so. Our customer facing resources will be supporting our more recent product introductions through the promotion, sampling and multiple qualification processes that are required prior to end-customers launching their own products to market.

Taking a medium term view, it is important to mention that the gestation period from initial customer contact through to shipping production quantities against a specific customer project typically exceeds one year and, for some industrial markets, can extend beyond three. Although this lengthy gestation period can sometimes be frustrating, we are not at the start of the process and have been seeding a number of customer projects for some time. Conversely, typical Group customers do not rapidly re-design their own products which usually results in a multi-year revenue generating period for us.

Our main market areas for Storage and Wireless continue to offer compelling growth opportunities. For Storage, we are making steady progress within the automotive market and for telecoms/infrastructure applications, the product range we have is well suited to the needs of the customer base. The number of top tier equipment manufacturers approving our ICs for use within their own products is increasing.

In Wireless end-markets, the transition from analogue voice to digital is now gathering pace and for our data communication solutions, the chip-set design wins that we have already secured are now beginning to contribute revenues. Within our industrial markets, the move by some regulatory authorities to increase RF performance requirements should play to our strengths.

Over the current year, the Board expects a further advance in revenues and profitability and a continuing pipeline of new semiconductor solutions that address a wider range of end-customer requirements and additional market areas. Our goal is to be the first choice key component supplier within our chosen end-markets.

C A Gurry
Group Managing Director
24 June 2016

CML Microsystems Plc Annual Report and Accounts FY16

Directors and advisors

Nigel Clark

Group Non-Executive Chairman

Aged 62, 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 52, 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

Group Financial Director and Company Secretary

Aged 44, Neil joined the Company in January 2015. He 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

Group Sales and Marketing Director

Aged 56, Hugh joined the Company in June 2014. He 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 82, 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 59, 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

CML Microsystems Plc

Oval Park
Langford
Maldon
Essex CM9 6WG

Registrars

Neville Registrars Limited

Neville House
18 Laurel Lane
Halesowen B63 3DA

Auditor

RSM 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 2016.

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 27 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 a 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 16 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 29 to 61 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 15 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 29. The Group's pre-tax profit was £3.32m (2015: profit of £3.18m) and the profit attributable to equity owners of the parent was £2.93m (2015: profit of £2.70m).

Group turnover for the year to 31 March 2016 amounted to £22.83m representing an increase of 5% against the prior full year (2015: £21.80m). Sales in the second half of the year improved by 8% compared to the first six-month period and new order bookings in the final months of the year were notably stronger.

Stable gross margins delivered a gross profit for the period of £16.25m (2015: £15.47m).

Distribution and administration (D&A) costs rose to £13.27m (2015: £12.78m) due partly to an increase in staff costs, associated with the investment in sales, marketing and engineering support resources (£0.29m) but also resulting from the lack of the prior year IAS19 pension credit (£0.22m). The overall amortisation level was higher at £3.33m (2015: £3.22m), with the positive effect of aligning amortisation and capitalisation procedures across the Group cancelled out by a £0.58m negative swing in foreign exchange benefit compared to the previous year.

Results continued

R&D costs for the year were markedly higher, as expected. Total expenditure for the year amounted to £6.09m and represents an increase of 16% (2015: £5.21m). Of this total, £0.73m was expensed and is included within the D&A figure (2015: £0.85m).

Other income consists of amounts received from the commercial rental of Group-owned property assets that are now surplus to operational requirements and from the award of EU grants associated with specific engineering development activities. The amount recorded this year was £0.41m (2015: £0.42m). Rental income increased through the year and EU funding decreased.

Profit from operations increased by 9% to £3.39m compared to a figure of £3.11m for the prior year. Despite healthy cash balances, finance income reflected the low prevailing interest rates that exist globally. After accounting for share-based payments, a profit before tax of £3.32m was posted (2015: £3.18m) representing growth of 4%.

Dividends

The Directors are proposing a dividend in respect of the year ended 31 March 2016 of 7.0p per 5p ordinary share (2015: 6.9p 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 2016 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, no ordinary shares (2015: 295,610 ordinary shares) in the Company were issued under the terms of the various share option schemes.

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 2015 AGM, to purchase in the market up to 2,438,480 of the Company's issued share capital, as permitted under the Company's Articles. On 10 June 2015, the Company purchased 50,000 ordinary shares of 5p each at a price of 376.5p per ordinary share (Year ended 31 March 2015: no shares were bought back under this authority). The shares are to be held in treasury for the benefit of various employee share plans. This standard authority is renewable annually; the Directors will seek to maintain the authority for 2,438,480 ordinary shares of 5p at this year's AGM.

The Directors were granted authority at the 2015 AGM to allot relevant securities up to a nominal amount of £541,884. 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 10 June 2016, 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	16.08%
Cazenove Capital Management Limited	Institutional investor	11.73%
J. M. Gurry	Private investor	9.72%
M. I. Gurry	Private investor	6.00%
T. M. R. Dean	Private investor	5.53%
Hargreave Hale Limited	Institutional investor	5.44%
Herald Investment Management	Institutional investor	5.16%
Legal and General Investment Management Limited	Institutional investor	4.54%
J. M. Finn Nominees Limited	Institutional investor	4.03%
Prudential Portfolio Managers Limited	Institutional investor	3.86%
Slater Investments Limited	Institutional investor	3.79%

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 (2015: 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 at a valuation of £3,550,000. The Directors are of the opinion that the market value of operational properties would exceed the net book values included in the financial statements, but they are unable to quantify this excess in the absence of a further professional valuation, the costs of which are not considered justifiable in view of the Group's intention to retain ownership of its existing properties for use in its business for the foreseeable future.

Directors and their interests

The Directors of the Company at 31 March 2016, all of whom have served throughout the year, together with their interests in the shares of the Company were:

	Ordinary shares of 5p each	
	31 March 2016	31 March 2015
N. G. Clark	**24,600**	24,600
C. A. Gurry	**917,567**	917,567
N. B. Pritchard	**—**	—
H. F. Rudden	**—**	—
R. J. Shashoua	**145,500**	145,500
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 2016 and 10 June 2016. 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 2016, 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 6 and also special business comprising of one ordinary resolution, 7 and two special resolutions, 8 and 9 relating to the following matters:

Special business ordinary resolution

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

Special business special resolutions

8. To disapply the pre-emption provisions of the Companies Act 2006.
9. To disapply the pre-emption provisions of the Companies Act 2006 for the purposes of financing an acquisition or capital investment.
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.

Internal control and risk management systems in relation to the process of preparing consolidated accounts continued

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

	2016			2015		
	Male	Female	Total	Male	Female	Total
Plc Board Directors	6	–	6	6	–	6
Senior management	12	1	13	12	1	13
Staff	117	43	160	116	41	157
Total	135	44	179	134	42	176

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 RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP), Chartered Accountants, as auditor of the Company will be put to the members at the forthcoming Annual General Meeting.

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	2016	% of total emissions	2015	% of total emissions
Scope 1	138.58	19.74%	149.81	20.37%
Scope 2	563.55	80.26%	585.61	79.63%
Total controlled emissions	702.13	100.00%	735.42	100.00%

Source of emissions

Tonnes of CO_2e	2016	% of total emissions	2015	% of total emissions
Scope 1				
Fuel – Company owned vehicles	23.13	3.29%	31.16	4.24%
Gas – heating	115.44	16.45%	118.64	16.13%
Refrigerant	0.01	0.00%	0.01	0.00%
Total scope 1 emissions	138.58	19.74%	149.81	20.37%
Scope 2				
Electricity – office and manufacturing	563.55	80.26%	585.61	79.63%
Total scope 2 emissions	563.55	80.26%	585.61	79.63%

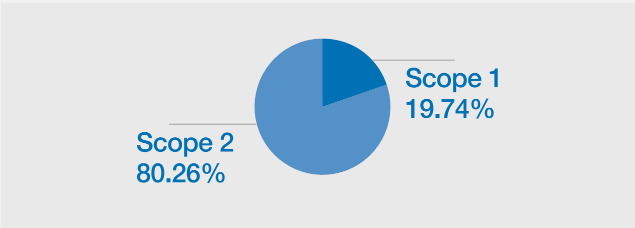
Geographical breakdown

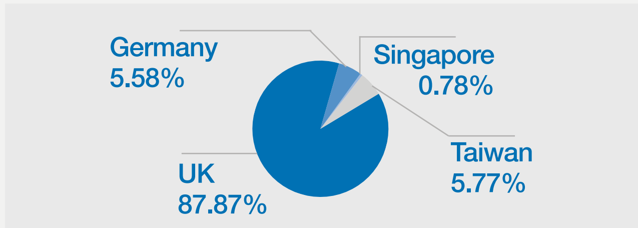
2016 Tonnes of CO_2e	Scope 1	Scope 2	Total	Percentage
UK	120.06	496.88	616.94	87.87%
Taiwan	10.05	30.43	40.48	5.77%
Singapore	0.00	5.51	5.51	0.78%
Germany	8.47	30.73	39.20	5.58%
Total emissions	138.58	563.55	702.13	100.00%

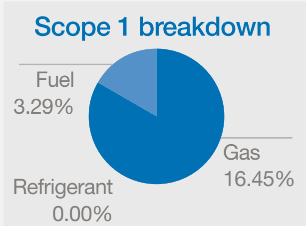
2015 Tonnes of CO_2e	Scope 1	Scope 2	Total	Percentage
UK	126.31	517.95	644.26	87.61%
Taiwan	11.23	32.27	43.50	5.91%
Singapore	0.00	5.40	5.40	0.73%
Germany	12.27	29.99	42.26	5.75%
Total emissions	149.81	585.61	735.42	100.00%

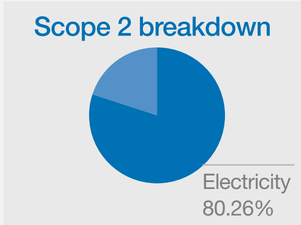
Intensity of emissions

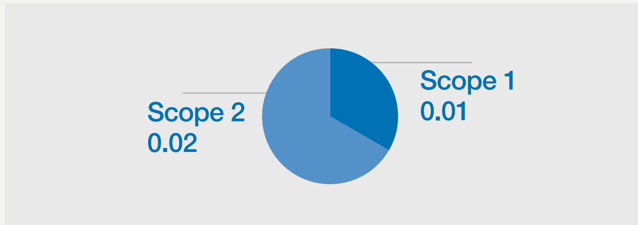
Tonnes of CO_2e/£'000 turnover	2016	2015
Scope 1	0.01	0.01
Scope 2	0.02	0.02
Total	0.03	0.03











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
24 June 2016

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 Group's 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 R. J. Shashoua (committee Chairman), C. A. Gurry and N. G. Clark. C. A. Gurry does not participate in deciding his 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 pensions or as an adjusted amount of salary in lieu.	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. N. G. Clark elected in the year to make payments into a personal pension plan in lieu of salary awarded.

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.

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:

2016	Salary £'000	Bonus £'000	Benefits in kind £'000	Total excluding pension £'000	Pension contribution £'000	Total £'000
N. G. Clark	75	—	1	76	—	76
C. A. Gurry	201	35	26	262	27	289
N. B. Pritchard	130	27	13	170	8	178
H. F. Rudden	140	25	19	184	10	194
R. J. Shashoua	25	—	—	25	—	25
J. A. Lindop	20	—	1	21	—	21
	591	87	60	738	45	783

2015	Salary £'000	Bonus £'000	Benefits in kind £'000	Total excluding pension £'000	Pension contribution £'000	Total £'000
N. G. Clark	191	33	19	243	32	275
C. A. Gurry	201	35	24	260	27	287
N. B. Pritchard[1]	28	—	1	29	1	30
H. F. Rudden[2]	111	19	16	146	6	152
R. J. Shashoua	25	—	—	25	—	25
J. A. Lindop	20	—	—	20	—	20
	576	87	60	723	66	789

1. N. B. Pritchard joined the Company in January 2015.
2. H. F. Rudden joined the Company in June 2014.

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 %
2016	C. A. Gurry	289	17.5%/50%	n/a
2015	C. A. Gurry	287	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

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.

	2016 £'000	2015 £'000	Change %
Basic salary	201	201	—
Taxable benefits and pension	53	51	+3.92
Annual bonus	35	35	—
Total remuneration of Group Managing Director	289	287	+0.70
Total remuneration of employees	9,999	9,655	+3.56

Directors’ remuneration report continued

Share options (audited)

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

	Number of options at 1 April 2015 '000	Options exercised in year '000	Gain on options exercised in year '000	Options granted in year '000	Number of options at 31 March 2016 '000	Exercise price	Exercise date
C. A. Gurry	20	—	—	—	**20**	£2.20	15 June 2014 to 14 June 2021
	—	—	—	30	**30**	£3.51	25 Sept 2018 to 25 Sept 2025
N. B. Pritchard	—	—	—	20	**20**	£3.45	2 April 2018 to 2 April 2025
	—	—	—	25	**25**	£3.475	25 Sept 2018 to 25 Sept 2025
H. F. Rudden	20	—	—	—	**20**	£3.125	17 Sept 2017 to 17 Sept 2024
	—	—	—	25	**25**	£3.475	25 Sept 2018 to 25 Sept 2025
	40	—	—	100	**140**		

On 2 April 2015, the Company granted N. B. Pritchard 20,000 share options at an exercise price of £3.45. On 25 September 2015, the Company granted: C. A. Gurry 30,000 share options at an exercise price of £3.51, N. B. Pritchard 25,000 share options at an exercise price of £3.475 and H. F. Rudden 25,000 share options at an exercise price of £3.475.

Depending on the share option scheme, options are granted at an exercise price not less than the market price on the last dealing day prior to the date of grant or the average for the last three dealing days prior to 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 2016 was 391.0p (2015: 347.5p) and the range for the year was 312.5p to 407.5p.

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:

	2016 Number	2015 Number
Defined contributions scheme	**3**	3
Defined benefit scheme	**0**	1

C. A. Gurry was the only Director who was a member of the defined benefit scheme operated by the Company during the prior year and subsequently transferred the pension out of the defined benefit scheme during that year.

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 £45,000 (2015: £66,000) were made towards the defined contribution scheme during the year in respect of the Executive Directors as detailed earlier in this report.

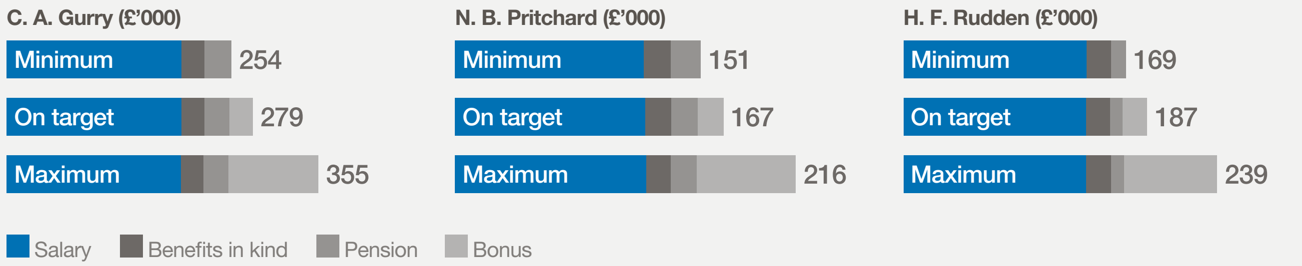
Normal retirement age for all Company pension schemes is 65 years (2015: 65 years). There are no additional benefits that will become receivable by a Director in the event of early retirement.

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.

Remuneration scenarios

An indication of the possible level of remuneration that would be received by each Executive Director in the year commencing 1 April 2016 in accordance with the Directors’ remuneration policy and contractual terms, is shown below:



The “minimum” remuneration consists of the base salary, benefits and pension as disclosed in the remuneration table for 2016 contained within this report. 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 written service contracts that provide 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 service contract effective from 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 2016. No 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:

	2016 £'000	2015 £'000	Movement £'000
Employee remuneration	**11,136**	10,798	+338
Distributions to shareholders	**1,118**	1,013	+104

Shareholder voting

At the Annual General Meeting on 29 July 2015, 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	98.46	1.54	—

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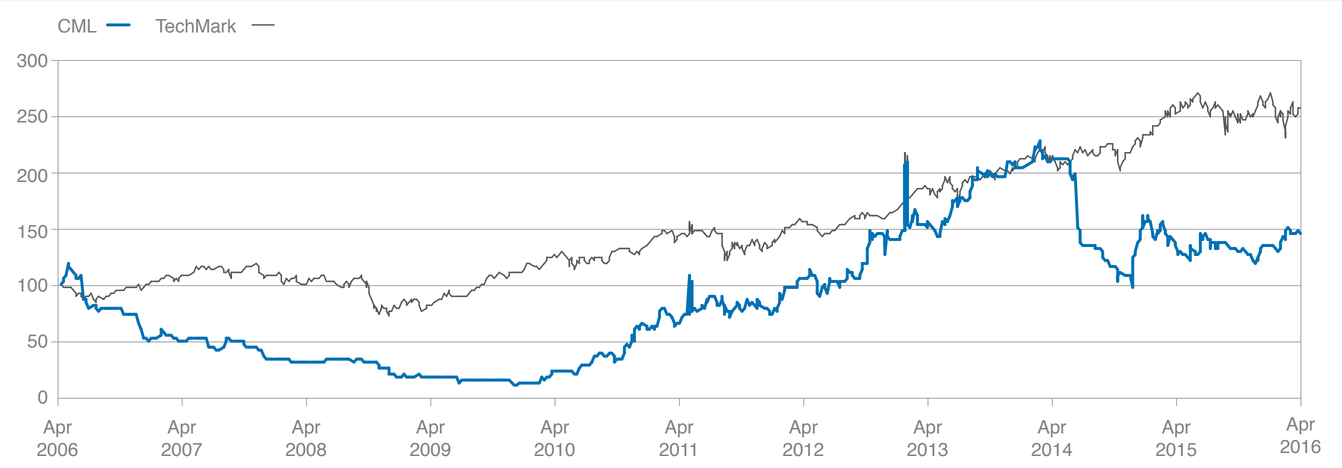
Directors' remuneration report continued

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 2016.

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
24 June 2016

Corporate Governance

Statement of the application of principles in the UK Corporate Governance Code 2012 (the "Code")

The Board acknowledges 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 16. The Group Non-Executive 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 2016, eight 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 17 to 21 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
24 June 2016

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 29 to 61. 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 17, 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 2016 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.

Graham Ricketts
(Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP), Statutory Auditor
Chartered Accountants
25 Farringdon Street
London EC4A 4AB
24 June 2016

Consolidated income statement
for the year ended 31 March 2016

	Notes	2016 £'000	2015 £'000
Continuing operations			
Revenue	3	22,833	21,804
Cost of sales	4	(6,580)	(6,339)
Gross profit		16,253	15,465
Distribution and administration costs	4	(13,272)	(12,777)
		2,981	2,688
Other operating income	4	405	419
Profit from operations		3,386	3,107
Share-based payments	24	(117)	(95)
Profit after share-based payments		3,269	3,012
Revaluation of investment properties	12	–	100
Finance income	7	55	66
Profit before taxation from continuing operations		3,324	3,178
Income tax expense	8	(399)	(476)
Profit after taxation from continuing operations		2,925	2,702
Profit after taxation attributable to equity owners of the parent	10	2,925	2,702
Basic earnings per share			
From profit for year	10	18.03p	16.71p
Diluted earnings per share			
From profit for year	10	17.94p	16.51p

Consolidated statement of total comprehensive income
for the year ended 31 March 2016

	Notes	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Profit for the year			2,925		2,702
Other comprehensive income, net of tax					
Items that will not be reclassified subsequently to profit or loss					
Actuarial gain/(loss) on retirement benefit obligations	11	1,570		(1,133)	
Deferred tax on actuarial (gains)/losses	22	(283)		227	
Items reclassified subsequently to profit or loss upon derecognition					
Foreign exchange differences		584		(477)	
Other comprehensive income/(expense) for the year net of taxation attributable to equity owners of the parent			1,871		(1,383)
Total comprehensive income for the year attributable to the equity holders of the parent			4,796		1,319

Consolidated statement of financial position
as at 31 March 2016

	Notes	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Assets					
Non-current assets					
Property, plant and equipment	12		5,171		4,976
Investment properties	12		3,550		3,550
Development costs	12		9,292		6,984
Goodwill	12		3,512		3,512
Deferred tax asset	22		893		1,310
			22,418		20,332
Current assets					
Inventories	15	1,571		1,763	
Trade receivables and prepayments	16	3,458		2,864	
Current tax assets	21	830		628	
Cash and cash equivalents	17	13,596		13,188	
			19,455		18,443
Total assets			41,873		38,775
Liabilities					
Current liabilities					
Trade and other payables	20		4,190		3,471
Current tax liabilities	21		39		196
			4,229		3,667
Non-current liabilities					
Deferred tax liabilities	22	3,001		2,513	
Retirement benefit obligation	11	2,067		3,624	
			5,068		6,137
Total liabilities			9,297		9,804
Net assets			32,576		28,971
Capital and reserves attributable to equity owners of the parent					
Share capital	23		813		813
Share premium	24		5,700		5,700
Treasury shares – own share reserve	24		(190)		—
Share-based payments reserve	24		388		287
Foreign exchange reserve	24		318		(266)
Accumulated profits	24		25,547		22,437
Total shareholders' equity			32,576		28,971

The financial statements on pages 29 to 61 were approved and authorised for issue by the Board on 24 June 2016 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 2016

	Notes	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Operating activities					
Net profit for the year before taxation		3,324	3,178	106	221
Adjustments for:					
Depreciation		254	267	83	87
Amortisation of development costs		3,330	3,224	—	—
Revaluation of investment properties		—	(100)	—	(100)
Movement in pensions net costs		13	(207)	—	—
Share-based payments		117	95	117	95
Dividends received from Group companies		—	—	1,650	1,214
Profit on sale of plant and equipment		—	(4)	—	—
Finance income		(55)	(66)	(6)	(17)
Movement in working capital	27	317	852	(2,420)	(1,353)
Cash flows from operating activities		7,300	7,239	(470)	147
Income tax received/(paid)		279	(270)	—	—
Net cash flows from operating activities		7,579	6,969	(470)	147
Investing activities					
Purchase of property, plant and equipment		(443)	(318)	(213)	—
Investment in development costs		(5,356)	(4,363)	—	—
Payment of escrow cash deposit		(331)	—	—	—
Disposal of property, plant and equipment		—	12	—	—
Finance income		55	66	6	17
Net cash flows from investing activities		(6,075)	(4,603)	(207)	17
Financing activities					
Issue of ordinary shares		—	645	—	645
Purchase of treasury shares		(190)	—	(190)	—
Dividend paid to shareholders		(1,118)	(1,013)	(1,118)	(1,013)
Net cash flows from financing activities		(1,308)	(368)	(1,308)	(368)
Increase/(decrease) in cash and cash equivalents		196	1,998	(1,985)	(204)
Movement in cash and cash equivalents:					
At start of year	17	13,188	11,373	2,154	2,358
Increase/(decrease) in cash and cash equivalents		196	1,998	(1,985)	(204)
Effects of exchange rate changes		212	(183)	—	—
At end of year	17	13,596	13,188	169	2,154

Consolidated statement of changes in equity
for the year ended 31 March 2016

	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	21,519	27,925
Profit for year						2,702	2,702
Other comprehensive income net of taxes							
Foreign exchange differences					(477)		(477)
Net actuarial loss recognised directly to equity						(1,133)	(1,133)
Deferred tax on actuarial loss						227	227
Total comprehensive income for year	—	—	—	—	(477)	1,796	1,319
	798	5,070		327	(266)	23,315	29,244
Transactions with owners in their capacity as owners							
Issue of ordinary shares	15	630					645
Dividend paid						(1,013)	(1,013)
Total transactions with owners in their capacity as owners	15	630	—	—	—	(1,013)	(368)
Share-based payments in year				95			95
Cancellation/transfer of share-based payments				(135)		135	—
At 31 March 2015	813	5,700	—	287	(266)	22,437	28,971
Profit for year						**2,925**	**2,925**
Other comprehensive income net of taxes							
Foreign exchange differences					**584**		**584**
Net actuarial gain recognised directly to equity						**1,570**	**1,570**
Deferred tax on actuarial gain						**(283)**	**(283)**
Total comprehensive income for year	**—**	**—**	**—**	**—**	**584**	**4,212**	**4,796**
	813	**5,700**	**—**	**287**	**318**	**26,649**	**33,767**
Transactions with owners in their capacity as owners							
Dividend paid						**(1,118)**	**(1,118)**
Purchase of treasury shares			**(190)**				**(190)**
Total transactions with owners in their capacity as owners	**—**	**—**	**(190)**	**—**	**—**	**(1,118)**	**(1,308)**
Share-based payments in year				**117**			**117**
Cancellation/transfer of share-based payments				**(16)**		**16**	**—**
At 31 March 2016	**813**	**5,700**	**(190)**	**388**	**318**	**25,547**	**32,576**

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 2016

	Notes	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Assets					
Non-current assets					
Property, plant and equipment	12		**4,809**		4,679
Investment properties	12		**3,550**		3,550
Investments	13		**9,329**		7,209
Deferred tax asset	22		**100**		122
			17,788		15,560
Current assets					
Trade receivables and prepayments	16	**405**		28	
Cash and cash equivalents	17	**169**		2,154	
			574		2,182
Total assets			**18,362**		17,742
Liabilities					
Current liabilities					
Trade and other payables	20		**632**		555
			632		555
Non-current liabilities					
Deferred tax liabilities	22		**611**		679
Total liabilities			**1,243**		1,234
Net assets			**17,119**		16,508
Equity					
Share capital	23		**813**		813
Share premium	24		**5,700**		5,700
Treasury shares – own share reserve	24		**(190)**		—
Share-based payments reserve	24		**388**		287
Merger reserve	24		**316**		316
Accumulated profits	24		**10,092**		9,392
Total shareholders' equity			**17,119**		16,508

The financial statements on pages 29 to 61 were approved and authorised for issue by the Board on 24 June 2016 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 2016

	Share capital £'000	Share premium £'000	Treasury shares £'000	Share-based payments £'000	Merger reserve £'000	Accumulated profits £'000	Total £'000
At 31 March 2014	798	5,070	—	327	316	8,866	15,377
Profit for year						1,404	1,404
Total comprehensive income for year	—	—	—	—	—	1,404	1,404
Transactions with owners in their capacity as owners							
Issue of ordinary shares	15	630					645
Dividend paid						(1,013)	(1,013)
Total transactions with owners in their capacity as owners	15	630	—	—	—	(1,013)	(368)
Share-based payments in year				95			95
Cancellation/transfer of share-based payments				(135)		135	—
At 31 March 2015	813	5,700	—	287	316	9,392	16,508
Profit for year						1,802	1,802
Total comprehensive income for year	**—**	**—**	**—**	**—**	**—**	**1,802**	**1,802**
	813	**5,700**	**—**	**287**	**316**	**11,194**	**18,310**
Transactions with owners in their capacity as owners							
Dividend paid						**(1,118)**	**(1,118)**
Purchase of treasury shares			**(190)**				**(190)**
Total transactions with owners in their capacity as owners	**—**	**—**	**(190)**	**—**	**—**	**(1,118)**	**(1,308)**
Share-based payments in year				**117**			**117**
Cancellation/transfer of share-based payments				**(16)**		**16**	**—**
At 31 March 2016	**813**	**5,700**	**(190)**	**388**	**316**	**10,092**	**17,119**

Notes to the financial statements
for the year ended 31 March 2016

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 17 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 acquisition 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 as 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 is focussed purely on one primary reporting 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 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 it is 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 finite 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.

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Notes to the financial statements continued
for the year ended 31 March 2016

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 benefit 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 immediately recognised in other comprehensive income and charged or credited directly to equity. For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

n) Employee benefits – share-based payments

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 costs

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

t) 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.

u) 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 until the associated revaluation reserve is extinguished.

v) 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.

Notes to the financial statements continued
for the year ended 31 March 2016

w) Acquisitions

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of acquisition is measured at the aggregate of the fair values, at the date of change of control, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs relating to the issue of debt or equity securities. Any costs directly attributable to the business combination are expensed to the consolidated income statement. The acquiree's identifiable assets, liabilities, and contingent liabilities are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

x) Adoption of International Accounting Standards

New standards, amendments to published standards and interpretations to existing standards effective in 2016, with their dates of adoption adopted by the Group and brief description:

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	Clarifies that preparers should not use revenue-based methods to calculate charges for the depreciation or amortisation of items of property, plant and equipment or intangible assets.
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	Introduces guidance as to how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 Business Combinations. Proposes that a joint operator should apply the relevant principles for business combinations accounting in IFRS 3 and other relevant IFRSs when accounting for these acquisitions.
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016	Bearer plants brought into the scope of IAS 16 because their operation is similar to manufacturing. Initial measurement at cost, then accounting choice either cost or revaluation model may be applied to each class of bearer plant. Related agricultural produce remains in scope of IAS 41.
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016	The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016	Restoration of the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities*	1 January 2016	Clarifies that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity. This clarification extends to the equity method for entities that are subsidiaries and that hold interests in associates and joint ventures. IFRS 12 clarifies that an investment entity is not excluded from the scope of the standard.

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

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017	Clarifies deferred tax on unrealised losses generated by debt instruments carried at fair value.
Amendments to IAS 7: Disclosure Initiative*	1 January 2017	The amendments clarify and improve information provided to users of financial statements.
IFRS 9 Financial Instruments*	1 January 2018	Replacement to IAS 39 and is built on a logical, single classification and measurement approach for financial assets which reflects both the business model in which they are operated and their cash flow characteristics. Also addresses the so-called 'own credit' issue and includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.
IFRS 15 Revenue from Contracts with Customers*	1 January 2018	Introduces requirements for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Also results in enhanced disclosure about revenue and provides or improves guidance for transactions that were not previously addressed comprehensively and for multiple-element arrangements.
IFRS 16 Leases*	1 January 2019	The new standard recognises a leased asset and a lease liability for almost all leases and requires them to be accounted for in a consistent manner. This introduces a single lessee accounting model and eliminates the previous distinction between an operating lease and a finance lease.

* Not yet endorsed in the EU.

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.

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

	2016		2015	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000
Revenue				
By origin	**35,924**	**35,924**	34,031	34,031
Inter-segmental revenue	**(13,091)**	**(13,091)**	(12,227)	(12,227)
Total segmental revenue	**22,833**	**22,833**	21,804	21,804
Segmental result	**3,269**	**3,269**	3,012	3,012
Revaluation of investment properties		**—**		100
Finance income		**55**		66
Income tax expense		**(399)**		(476)
Profit after taxation		**2,925**		2,702
Assets and liabilities				
Segmental assets	**36,600**	**36,600**	33,287	33,287
Unallocated corporate assets				
Investment properties		**3,550**		3,550
Deferred tax assets		**893**		1,310
Current tax assets		**830**		628
Consolidated total assets		**41,873**		38,775
Segmental liabilities	**4,190**	**4,190**	3,471	3,471
Unallocated corporate liabilities				
Deferred tax liabilities		**3,001**		2,513
Current tax liabilities		**39**		196
Retirement benefit obligation		**2,067**		3,624
Consolidated total liabilities		**9,297**		9,804

Other segmental information

	2016		2015	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000
Property, plant and equipment additions	**443**	**443**	318	318
Development cost additions	**5,356**	**5,356**	4,363	4,363
Depreciation	**254**	**254**	267	267
Amortisation	**3,330**	**3,330**	3,224	3,224
Other non-cash (expense)/income	**(13)**	**(13)**	307	307

Notes to the financial statements continued
for the year ended 31 March 2016

2 Segmental analysis continued

Geographical information

	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2016					
Revenue by origination	**10,563**	**11,647**	**4,858**	**8,856**	**35,924**
Inter-segmental revenue	**(5,526)**	**(7,565)**	**—**	**—**	**(13,091)**
Revenue to third parties	**5,037**	**4,082**	**4,858**	**8,856**	**22,833**
Property, plant and equipment	**4,997**	**143**	**12**	**19**	**5,171**
Investment properties	**3,550**	**—**	**—**	**—**	**3,550**
Development costs	**3,121**	**6,171**	**—**	**—**	**9,292**
Goodwill	**3,512**	**—**	**—**	**—**	**3,512**
Total assets	**28,281**	**10,100**	**1,412**	**2,080**	**41,873**
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
Development costs	2,440	4,544	—	—	6,984
Goodwill	3,512	—	—	—	3,512
Total assets	27,060	8,388	1,370	1,957	38,775

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	2016 £'000	2015 £'000
Geographical classification of turnover (by destination):		
United Kingdom	**950**	853
Rest of Europe	**5,621**	5,220
Far East	**10,704**	10,438
Americas	**5,122**	4,804
Others	**436**	489
	22,833	21,804

4 Profit from continuing operations

	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Profit from operations is stated after charging or crediting:				
Cost of sales:				
Depreciation		**75**		92
Amount of inventories written down		**—**		—
Cost of inventories recognised as expense		**5,767**		5,998
Distribution costs (mainly staff costs)		**2,822**		2,674
Administration costs:				
Amortisation	**3,330**		3,224	
Depreciation	**179**		175	
Auditor's fees (see below)	**142**		143	
Rentals under operating leases:				
Land and buildings	**344**		326	
Other operating leases	**89**		93	
Research and development expensed	**732**		850	
Other expenses (mainly staff costs)	**5,634**		5,292	
		10,450		10,103
		13,272		12,777

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

	2016 £'000	2015 £'000
Audit services		
Statutory audit of Company's annual accounts and Group consolidation	**60**	57
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 RSM UK Audit LLP or its associates	**13**	11
Audit of associated pension schemes	**11**	10
Other services supplied pursuant to such legislation	**7**	7
Tax services		
Tax compliance services	**14**	13
	105	98
Amounts payable to other auditors in respect of both audit and non-audit services:		
Statutory audit services	**33**	33
Tax compliance services	**2**	11
Other services	**2**	1
	37	45

Notes to the financial statements continued
for the year ended 31 March 2016

4 Profit from continuing operations continued

Other operating income

Continuing business	2016 £'000	2015 £'000
Rental income	270	236
Profit on sale of property, plant and equipment	—	4
Profit on sale of US property held for sale (see note 12)	—	13
EU grants and consulting	71	110
Other income	64	56
	405	419

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

5 Employees

	2016 £'000	2015 £'000
Staff costs, including Directors, during the year amounted to:		
Wages and salaries	9,067	8,818
Social security costs	1,020	1,048
Other pension and health care costs	932	837
Share-based payments	117	95
	11,136	10,798

	2016 Number	2015 Number
The average number of employees, including Directors, during the year was:		
Administration	33	34
Engineering	83	81
Manufacturing	33	34
Selling	29	27
	178	176

6 Directors' emoluments

	2016 £'000	2015 £'000
Remuneration (including fees)	783	789
Emoluments in respect of the highest paid Director amounted to:		
Remuneration	289	287

Further details on Directors' emoluments can be found in the Directors' remuneration report on pages 22 to 26.

7 Finance income

	2016 £'000	2015 £'000
Bank interest receivable	55	66

8 Income tax expense

a) Analysis of tax expense in period

	2016 £'000	2015 £'000
Current tax		
UK corporation tax on results of the period	(501)	(597)
Adjustment in respect of previous periods	—	(1)
	(501)	(598)
Foreign tax on results of the period	433	430
Foreign tax – adjustment in respect of previous periods	(2)	—
Total current tax	(70)	(168)
Deferred tax		
Current period movement	453	652
Adjustments to deferred tax charge in respect of previous periods	16	(8)
Total deferred tax	469	644
Tax charge on profit on ordinary activities (note 8b)	399	476

b) Factors affecting tax expense for period

Tax assessed for the period is lower than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

	2016 £'000	2015 £'000
Profit before tax	3,324	3,178
Profit before tax multiplied by the standard rate of UK corporation tax of 20% (2015: 21%)	665	667
Effects of:		
Capital allowances less than depreciation	15	5
Expenses not deductible for tax purposes	69	67
Share-based payments – tax effect	3	(27)
Research and development tax credits	(562)	(457)
Different tax rates in countries in which the Group operates	251	293
Adjustments to current tax charge in respect of previous periods	(2)	(1)
Adjustments to deferred tax charge in respect of previous periods	16	(8)
Reduction in deferred tax rate	(10)	(4)
Non-taxable income	(46)	(59)
Tax expense for period (note 8a)	399	476

9 Dividend – proposed

It is proposed to pay a dividend of 7.0p per ordinary share of 5p in respect of the year ended 31 March 2016. During the year a dividend of 6.9p per ordinary share of 5p was paid in respect of the year ended 31 March 2015.

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.

	2016			2015		
	Profit £'000	Weighted average number of shares Number	Profit per share p	Profit £'000	Weighted average number of shares Number	Profit per share p
Basic earnings per share	2,925	16,219,037	18.03	2,702	16,167,635	16.71
Diluted earnings per share						
Basic earnings per share	2,925	16,219,037	18.03	2,702	16,167,635	16.71
Dilutive effect of share options	—	86,877	(0.09)	—	200,100	(0.20)
Diluted earnings per share	2,925	16,305,914	17.94	2,702	16,367,735	16.51

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 on 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:

	2016 £'000	2015 £'000
Pension contributions		
UK defined benefit pension	151	257
Defined contribution pension schemes (UK and overseas)	446	413
	597	670

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

	2016	2015
Discount rate	3.8%	3.6%
Future salary increases	N/A	N/A
Expected duration of liabilities (years)	18	18
Pension revaluation in deferment post 2001 (Consumer Prices Index – max. 5.0%)	1.8%	1.8%
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%	2.8%

b) Demographic assumptions

	2016	2015
Assumed life expectancy in years, on retirement at 65		
Retiring today		
Males	22.1	22.1
Females	24.1	24.1
Retiring in 20 years		
Males	23.5	23.5
Females	25.6	25.6

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 2016 and 31 March 2015 are as follows:

	2016 £'000	2015 £'000
Amounts recognised in the income statement are as follows:		
Administration expense	(127)	(142)
Net interest on deficit	(126)	(122)
Total	(253)	(264)
Amounts recognised in the statement of total comprehensive income ("OCI")		
Actual return on assets less return implied by net interest income	475	507
Experience gains on liabilities	460	472
Change in assumptions:		
Discount rate	635	(2,935)
Inflation rate	—	381
Demographic assumptions	—	442
Net actuarial gain/(loss) recognised in OCI/re-measurement	1,570	(1,133)

	2016 £'000	2015 £'000
Amounts recognised in the statement of financial position:		
Present value of funded obligations	(19,111)	(19,976)
Fair value of plan assets	17,044	16,352
Deficit as reported by the actuary	(2,067)	(3,624)

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	19,111	N/A
Discount rate +0.5%	17,553	(8%)
RPI +0.5%	19,687	3%
Mortality improvement +0.5%	19,548	2%

11 Retirement benefit obligations continued

Sensitivity to key assumptions continued

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

	2016 £'000	2015 £'000
Opening defined benefit obligation	19,976	18,473
Expenses incurred	127	142
Interest cost	710	845
Actuarial (gain)/loss	(1,095)	1,643
Benefits paid (including expenses)	(607)	(1,127)
Closing defined benefit obligation	19,111	19,976
Comprising:		
Deferred members	13,068	14,856
Pension members	6,043	5,120

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:

	2016 £'000	2015 £'000
Opening fair value of plan assets	16,352	15,775
Expected return on assets	584	726
Actuarial gain on assets	475	507
Contributions by employer	240	471
Benefits paid	(480)	(985)
Expenses paid	(127)	(142)
Closing fair value of plan assets	17,044	16,352

The actual return on plan assets was £1,059,000 (2015: £1,233,000). 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 (2015: £151,200) 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:

	2016 IAS 19(r) £'000	2015 IAS 19(r) £'000	2014 IAS 19(r) £'000	2013 IAS 19(r) £'000	2012 IAS 19 £'000
Defined benefit obligation	19,111	19,976	18,473	21,679	18,565
Plan assets	17,044	16,352	15,775	15,557	14,023
Deficit	(2,067)	(3,624)	(2,698)	(6,122)	(4,542)
Experience adjustments on plan liabilities	460	472	1,108	129	240
Actuarial gain on plan assets	475	507	200	1,098	(915)

12 Non-current assets

Property, plant and equipment and investment properties

	Investment properties £'000	Freehold and long leasehold premises £'000	Short leasehold improvements £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Group						
Cost/valuation						
At 1 April 2014	3,450	5,849	44	10,592	81	20,016
Additions	—	—	—	307	11	318
Disposals	—	—	—	(13)	(10)	(23)
Revaluation	100	—	—	—	—	100
Foreign exchange difference	—	—	4	(151)	—	(147)
At 31 March 2015	3,550	5,849	48	10,735	82	20,264
Additions	—	213	—	195	35	443
Foreign exchange difference	—	—	1	159	—	160
At 31 March 2016	3,550	6,062	49	11,089	117	20,867
Depreciation						
At 1 April 2014	—	1,100	40	10,436	55	11,631
Charge for the year	—	75	—	182	10	267
Relating to disposals	—	—	—	(7)	(9)	(16)
Foreign exchange difference	—	—	4	(148)	—	(144)
At 31 March 2015	—	1,175	44	10,463	56	11,738
Charge for the year	—	78	—	167	9	254
Foreign exchange difference	—	—	1	153	—	154
At 31 March 2016	—	1,253	45	10,783	65	12,146
Net book value						
At 31 March 2016	3,550	4,809	4	306	52	8,721
At 31 March 2015	3,550	4,674	4	272	26	8,526

Investment properties in both the Group and Company comprise £3,550,000 (2015: £3,550,000) 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. The Directors do not consider that the present valuation has materially changed as at 31 March 2016 having considered the local property market.

12 Non-current assets continued

Property, plant and equipment and investment properties continued

	Equipment £'000	Investment properties £'000	Freehold and long leasehold premises £'000	Total £'000
Company				
Cost/valuation				
At 1 April 2014	49	3,450	5,849	9,348
Revaluation	—	100	—	100
At 31 March 2015	49	3,550	5,849	9,448
Additions	—	—	213	213
At 31 March 2016	**49**	**3,550**	**6,062**	**9,661**
Depreciation				
At 1 April 2014	32	—	1,100	1,132
Charge for the year	12	—	75	87
At 31 March 2015	44	—	1,175	1,219
Charge for the year	5	—	78	83
At 31 March 2016	**49**	**—**	**1,253**	**1,302**
Net book value				
At 31 March 2016	**—**	**3,550**	**4,809**	**8,359**
At 31 March 2015	5	3,550	4,674	8,229

Investment properties

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 implementing 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 £'000	Valuation technique	Key observable inputs	Range (weighted average) 2016
Investment properties	**3,550**	Income capitalisation	Estimated rental value	£5 – £9 per sq ft
			Per sq ft p.a.	9% – 11%
			Equivalent yield	7.5%
	3,550			

The prior period comparative values were as follows:

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

Non-current assets classified as held for sale

	Group 2016 £'000	Group 2015 £'000
Non-current assets classified as held for sale – properties		
At 1 April	**—**	100
Disposal	**—**	(100)
	—	—

The US-owned land in Winston-Salem, classified as held for sale in the year ended 31 March 2014, was disposed of in the prior period for total proceeds of £112,000 (being net cash of £22,000 and the remainder in promissory notes) generated a profit on disposal, after a small foreign exchange movement, in the comparative period of £13,000.

Intangible assets

	2016 £'000	2015 £'000
Group – goodwill		
Cost and net book value		
At 1 April and at 31 March	**3,512**	3,512

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.

	2016 £'000	2015 £'000
Group – development costs		
Cost		
At 1 April	**23,487**	24,344
Additions:		
Internal sources	**3,864**	3,046
External sources	**1,492**	1,317
Disposals	**(2,019)**	(4,876)
Foreign exchange difference	**283**	(343)
At 31 March	**27,107**	23,488
Amortisation		
At 1 April	**16,504**	18,156
Charged in the year	**3,330**	3,224
Relating to disposals	**(2,019)**	(4,876)
At 31 March	**17,815**	16,504
Net book value		
At 31 March	**9,292**	6,984
At 31 March 2014		6,188

No EU grants have been credited to the cost of development in arriving at the net book value at the year end (2015: £Nil).

In light of the Group's commitment to increasing investment in R&D, the accounting procedures adopted for capturing the completeness of development costs being capitalised and the basis of amortising such costs in the year of expenditure were reviewed and aligned across Group companies. The impact of these improvements is to increase the reported current year operating profit by £0.58m although no adjustments have been made to previously reported figures as the impact of the changes in accounting for R&D is not material to the prior year.

Notes to the financial statements continued
for the year ended 31 March 2016

13 Non-current assets – investments

	Company 2016 £'000	Company 2015 £'000
Cost of investment in subsidiary undertakings:		
As at 1 April	4,960	4,960
As at 1 April and 31 March	4,960	4,960
Advances to subsidiary undertakings:		
As at 1 April	2,249	846
Increase in advances	2,120	1,403
As at 31 March	4,369	2,249
Net book value		
As at 31 March	9,329	7,209

The Group is headed by the Company, CML Microsystems Plc. Details of the subsidiary undertakings of the Company are as follows:

Name	Country of incorporation	Percentage held		Holding
CML Microsystems Inc	USA	100%	Trading in USA	Direct
CML Microcircuits (UK) 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
Applied Technology (UK) Ltd	England	100%	Dormant	Direct
Integrated Micro Systems Ltd	England	100%	Dormant	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 holding or trading companies involved in the design, manufacture and marketing of specialised electronic devices for use in the telecommunications, radio and data communications industries, or dormant as stated. 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	2016 £'000	2015 £'000
Management fees charged to subsidiary undertakings by parent:		
CML Microcircuits (UK) Ltd	1,000	1,000
CML Microcircuits (USA) Inc	134	123
Hyperstone GmbH	183	196
	1,317	1,319
Dividends paid to parent:		
Received from CML Microsystems Inc	199	310
Received from Hyperstone GmbH	1,098	699
Received from CML Microcircuits (Singapore) Pte Ltd	314	186
	1,611	1,195
Advances to subsidiary undertakings:		
CML Microcircuits (UK) Ltd	4,369	2,249
	4,369	2,249

The outstanding amounts at the current and comparative year end are unsecured.

Group	2016 £'000	2015 £'000
Inter group sales:		
CML Microcircuits (UK) Ltd:		
To CML Microcircuits (Singapore) Pte Ltd	4,034	3,732
To CML Microcircuits (USA) Inc	1,493	1,304
Hyperstone GmbH:		
To Hyperstone USA	3,043	3,010
To Hyperstone Asia Pacific Ltd	4,521	4,180
Hyperstone Asia Pacific Ltd:		
To CML Microcircuits (UK) Ltd	—	1
	13,091	12,227

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	2016 £'000	2015 £'000
Employee benefits	885	809
Pension contributions	45	66
Share-based payments	16	4
	946	879

15 Inventories

	Group 2016 £'000	Group 2015 £'000
Raw materials	752	701
Work in progress	184	199
Finished goods	635	863
	1,571	1,763

16 Trade receivables and prepayments

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Amounts falling due within one year:				
Trade receivables	2,771	2,318	—	—
Other receivables	182	379	18	28
Prepayments and accrued income	505	167	387	—
	3,458	2,864	405	28

Included within Company prepayments and accrued income above is £339,000 for an escrow cash deposit in relation to the Sicomm acquisition (note 28) paid by another group undertaking.

17 Cash and cash equivalents

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Cash on deposit	**10,562**	10,172	**88**	2,032
Cash at bank	**3,034**	3,016	**81**	122
	13,596	13,188	**169**	2,154

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 (2015: £750,000); US$100,000 (2015: US$100,000); €Nil (2015: €Nil) and is subject to renewal annually. In addition, the Group's German subsidiary has, through its principal bankers, a €1m gross overdraft facility (2015: €1m), renewable on an annual basis; together with a loan facility of €3m subject to review.

Foreign currency risk

The Group has overseas subsidiary 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 2016, the Group had monetary assets denominated in foreign currencies of approximately £11.3m (2015: £10.3m), of which approximately 70% (2015: 57%) was denominated in US Dollars and 25% (2015: 36%) was denominated in Euros. It also had monetary liabilities denominated in foreign currencies of £Nil (2015: £0.2m) wholly denominated in Euros. The effects of foreign exchange recognised in the income statement amounted to a gain of £259,000 (2015: gain of £835,000).

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 1t).

	Group		Company	
	2016 Loans and receivables £'000	2015 Loans and receivables £'000	**2016 Loans and receivables £'000**	2015 Loans and receivables £'000
Current financial assets				
Trade and other receivables	**2,953**	2,697	**18**	28
Cash and cash equivalents	**13,596**	13,188	**169**	2,154
Total	**16,549**	15,885	**187**	2,182

Trade and other receivables are all due within six months.

	Group		Company	
	2016 Other financial liabilities £'000	2015 Other financial liabilities £'000	**2016 Other financial liabilities £'000**	2015 Other financial liabilities £'000
Current financial liabilities				
Trade and other payables	**1,102**	1,262	**225**	270
Accruals	**2,804**	1,899	**336**	200
Total	**3,906**	3,161	**561**	470

Trade receivables are as follows:

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Trade receivables	**2,771**	2,318	**–**	–
	2,771	2,318	**–**	–

The average credit period was 44 days (2015: 39 days). There were no allowances 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 (2015: no allowances).

At 31 March 2016, £Nil (2015: £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 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.

	2016 £'000	2015 £'000
Up to 90 days	**–**	164
Up to 150 days	**–**	–
	–	164

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

At 31 March 2016, £281,000 (2015: £168,000) of receivables was denominated in Sterling, £1,892,000 (2015: £1,852,000) in US Dollars, £598,000 (2015: £665,000) in Euros, £Nil in Taiwanese Dollars (2015: £13,000). The Directors consider that the carrying amount of trade and other receivables approximate to their fair value. Cash and cash equivalents of £13,596,000 (2015: £13,188,000) comprise cash and short-term deposits held by the Group treasury function. The carrying amount of these assets approximates to 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 £108,000 (2015: increased by £99,000); or
- lower and all other variables were constant, the Group's profit before taxation would have decreased by £55,000 (2015: decreased by £66,000); or
- higher and all other variables were constant, the Group's other equity and reserves would have increased by £86,000 (2015: increased by £78,000); or
- lower and all other variables were constant, the Group's other equity and reserves would have decreased by £44,000 (2015: decreased by £52,000).

19 Derivatives and other financial instruments continued

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	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
10% movement in rates will have an impact on:				
Profit before taxation	2,215	1,569	334	374
Equity	2,042	1,506	237	266

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	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Amounts falling due within one year:				
Trade payables	815	906	–	–
Other taxation and social security costs	284	310	71	85
Other payables and deferred income	287	356	225	270
Accruals	2,804	1,899	336	200
	4,190	3,471	632	555

In relation to the defined contribution scheme and included within accruals, the Group had outstanding contributions of £Nil (2015: £24,000) and the Company had outstanding contributions of £Nil (2015: £Nil).

21 Current tax liabilities/assets

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Current tax liabilities	39	196	–	–
Current tax assets	830	628	–	–

£502,000 (2015: £597,000) of the current tax asset is an R&D claim that by its nature is subject to HMRC approval.

22 Deferred tax

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Provision for deferred taxation comprises:				
Accelerated capital allowances	(620)	(681)	(612)	(678)
Tax losses carried forward	382	459	27	64
Pensions	372	725	–	–
Share-based payments	74	57	74	57
Research and development	(2,381)	(1,827)	–	–
Provisions	24	25	–	–
Other	41	39	–	–
	(2,108)	(1,203)	(511)	(557)
Deferred tax asset	893	1,310	100	122
Deferred tax liability	(3,001)	(2,513)	(611)	(679)
	(2,108)	(1,203)	(511)	(557)
At 1 April	(1,203)	(954)	(557)	(525)
Foreign exchange difference	(153)	168	–	–
Deferred tax (charged)/credited in income statement for year (see note 8)	(469)	(644)	46	(32)
Deferred tax (charged)/credited to statement of total comprehensive income	(283)	227	–	–
At 31 March	(2,108)	(1,203)	(511)	(557)

The financial statements include a deferred tax asset of £893,000 (2015: £1,310,000) of which £382,000 (2015: £459,000) 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 charge of £283,000 (2015: deferred tax credit of £227,000) relates to the retirement benefit obligation (see note 11). The Directors consider 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.

The Finance (No.2) Act 2015 provides that the rate of corporation tax from 1 April 2017 will be 19% and from 1 April 2020 would be 18%. The Directors consider it appropriate to use 20%, 19% and 18% as the rate deferred tax should be provided for depending on when the timing differences are expected to be reversed.

Deferred tax assets recoverable/liabilities expected to be settled under twelve months are £64,000 and £10,000 respectively (2015: £110,000 and £48,000 respectively). Deferred tax assets recoverable/liabilities expected to be settled over twelve months are £829,000 and £2,991,000 respectively (2015: £1,200,000 and £2,465,000 respectively). Deferred tax assets/liabilities expected net by jurisdiction consist of the Far East £5,000 (2015: £3,000), Europe (£2,149,000) (2015: (£1,247,000)) and the Americas £36,000 (2015: £41,000).

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for the year ended 31 March 2016

23 Share capital

	2016 £'000	2015 £'000	2014 £'000
Authorised			
25,000,000 ordinary shares of 5p each (2015: 25,000,000 ordinary shares of 5p each)	1,250	1,250	1,250
Issued and fully paid			
At 1 April 2015			
16,256,537 ordinary shares of 5p each	813	798	794
Issued in year: Nil ordinary shares (2015: 295,610) of 5p were issued in the year as a result of employees exercising their options	—	15	4
At 31 March 2016			
16,256,537 ordinary shares of 5p	813	813	798

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				
	2015 Number	Granted Number	Exercised Number	Forfeited Number	2016 Number
From 18 June 2010 to 17 June 2017 at £1.16	3,063	—	—	—	3,063
From 15 June 2014 to 14 June 2021 at £2.20	88,833	—	—	—	88,833
From 15 June 2014 to 14 June 2021 at £2.30	12,500	—	—	—	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	294,491	—	—	(15,553)	278,938
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 2013 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
From 2 April 2018 to 2 April 2025 at £3.45	—	20,000	—	—	20,000
From 25 September 2018 to 25 September 2025 at £3.51	—	446,451	—	—	446,451
From 25 September 2018 to 25 September 2025 at £3.475	—	100,000	—	—	100,000
	500,418	566,451	—	(35,553)	1,031,316

No options were exercised in the year (2015: 295,610 options). The weighted average exercise market price of the share options exercised in the year is therefore £Nil (2015: 312.5p). The weighted average exercise price of options exercised in the year was therefore £Nil (2015: 219.2p). Options are forfeited due to the employees concerned leaving employment with the Group. The weighted average share option price of the share options forfeited in the year was 451.9p (2015: 310.7p).

24 Other equity reserves

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Share premium				
At 1 April	5,700	5,070	5,700	5,070
Issued in year: Nil ordinary shares (2015: 295,610) of 5p were issued in the year as a result of employees exercising their options	—	630	—	630
At 31 March	5,700	5,700	5,700	5,700

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

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Treasury shares – own share reserve				
At 1 April	—	—	—	—
Purchased in the year	(190)	—	(190)	—
At 31 March	(190)	—	(190)	—

On 10 June 2015, the Company purchased 50,000 ordinary shares of 5p each at a price of 376.5p per ordinary share plus associated transaction costs (2015: no shares were bought back under this authority). The shares are to be held in treasury for the benefit of various employee share plans.

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Share-based payments reserve				
At 1 April	287	327	287	327
Options exercised or released	(16)	(135)	(16)	(135)
Charged in year	117	95	117	95
At 31 March	388	287	388	287

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.

Notes to the financial statements continued
for the year ended 31 March 2016

24 Other shareholders' funds continued

Share based payments reserve continued

The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	25/09/15	25/09/15	02/04/15	17/09/14	01/07/13	01/05/13
Share price at grant date	3.475	3.475	3.45	£3.125	£4.80	£3.88
Exercise price	3.475	3.51	3.45	£3.125	£0.00	£3.84
Number of employees	4	169	1	1	2	7
Shares under option	100,000	446,451	20,000	20,000	5,311	31,220
Vesting period (years)	3	3	3	3	1	3
Expected volatility	33.20%	33.20%	38.00%	26.84%	n/a	43.30%
Option life (years)	10	10	10	10	10	10
Expected life (years)	3	3	3	3	1	3
Risk-free rate	1.83%	1.83%	2.09%	2.43%	n/a	3.60%
Expected dividend yield	1.92%	1.92%	1.57%	1.26%	n/a	1.20%
Possibility of ceasing employment before vesting	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Fair value per option	0.74	0.73	0.87	£0.60	£4.80	£0.71

Grant date	01/10/12	01/10/12	01/09/12	15/06/11	15/06/11	18/06/07
Share price at grant date	£3.34	£3.34	£2.84	£2.30	£2.20	£1.16
Exercise price	£3.34	£3.22	£2.84	£2.20	£2.20	£1.16
Number of employees	1	142	1	1	25	1
Shares under option	5,000	278,938	20,000	12,500	88,833	3,063
Vesting period (years)	3	3	3	3	3	3
Expected volatility	29.36%	29.36%	29.36%	35.70%	35.70%	24.60%
Option life (years)	10	10	10	10	10	10
Expected life (years)	3	3	3	3	3	3
Risk-free rate	3.09%	3.09%	3.09%	4.28%	4.28%	5.78%
Expected dividend yield	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%
Fair value per option	£0.67	£0.67	£0.67	£0.58	£0.58	£0.22

The weighted average exercise price of all options is £3.26 (2015: £3.08) and the weighted average expected remaining contractual life is three years (2015: three years).

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.

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Merger reserve				
At 1 April and 31 March	**—**	—	**316**	316

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.

	Group	
	2016 £'000	2015 £'000
Foreign exchange reserve		
At 1 April	**(266)**	211
Retranslation of overseas subsidiaries	**584**	(477)
At 31 March	**318**	(266)

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

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Accumulated profits				
At 1 April	**22,437**	21,519	**9,392**	8,866
Profit for the year	**2,925**	2,702	**1,802**	1,404
Dividend paid	**(1,118)**	(1,013)	**(1,118)**	(1,013)
Cancellation/transfer of share-based payments	**16**	135	**16**	135
Net actuarial gain/(loss)	**1,570**	(1,133)	**—**	—
Deferred tax (loss)/gain on actuarial gain/(loss)	**(283)**	227	**—**	—
At 31 March	**25,547**	22,437	**10,092**	9,392

25 Capital commitments

Capital commitments which have been authorised by the balance sheet date, primarily representing a three year purchasing commitment with a supplier, but for which no provision has been made in these financial statements are £3,889,000 (2015: £853,000).

26 Operating lease arrangements

The Group as a lessee

	2016 £'000	2015 £'000
Land and buildings		
Minimum lease payments under operating leases recognised in income statement as an expense for the period	**354**	326

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

	2016 £'000	2015 £'000
Within one year	**330**	324
In the second to fifth year inclusive	**580**	792
After five years	**—**	14
	910	1,130

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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.

	2016 £'000	2015 £'000
Other		
Minimum lease payments under operating leases recognised in income statement as an expense for the period	89	93

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

	2016 £'000	2015 £'000
Within one year	93	71
In the second to fifth year inclusive	111	38
	204	109

The Group and Company as a lessor

Property rental income earned during the year was £270,000 (2015: £236,000). 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 shorter term yields are expected to be 7%.

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

	2016 £'000	2015 £'000
Within one year	263	203
In the second to fifth year inclusive	366	302
After five years	33	78
	662	583

27 Notes to the cash flow statement

	2016 £'000	2015 £'000
Group		
Movement in working capital:		
Decrease/(increase) in inventories	192	(634)
(Increase)/decrease in receivables	(594)	523
Increase in payables	719	963
	317	852

Included within receivables is a promissory note receivable as consideration in respect of the property disposed of in the comparative period (see note 12).

Analysis of changes in net cash:

	Net cash at 1 April 2015 £'000	Cash flow £'000	Exchange movement £'000	Net cash at 31 March 2016 £'000
Cash and cash equivalents	13,188	196	212	13,596
	13,188	196	212	13,596

	2016 £'000	2015 £'000
Company		
Movement in working capital:		
Increase in advance to subsidiary undertaking	(2,120)	(1,403)
Increase in receivables	(377)	(19)
Increase in payables	77	69
	(2,420)	(1,353)

Analysis of changes in net cash:

	Net cash at 1 April 2015 £'000	Cash flow £'000	Exchange movement £'000	Net cash at 31 March 2016 £'000
Cash and cash equivalents	2,154	(1,985)	–	169
	2,154	(1,985)	–	169

28 Post balance sheet event: Acquisition subject to regulatory clearance

On 27 May 2016 the Company announced that it has entered into a definitive agreement to acquire China-based Wuxi Sicomm Technologies Ltd ("Sicomm") and affiliated companies.

Founded in 2003, Sicomm is a fabless semiconductor company and solutions provider specialising in the development of integrated baseband processors and RF semiconductors for global wireless communication markets. Sicomm has approximately 30 employees and is headquartered in Wuxi, China, with offices in Shanghai and Quanzhou. The company's product range, which partially competes with existing CML solutions, is targeted for use within consumer, industrial and professional radio products and focusses on the customer need to achieve the right balance between cost, functionality and technical performance.

This acquisition expands the Group's product portfolio, strengthens its Far Eastern regional support resources and reinforces CML's position as a leader in the professional and industrial wireless communication semiconductor market.

The acquisition, which is subject to normal Chinese domestic regulatory clearance, has an agreed consideration of US$11m and will be funded from a mixture of existing cash resources and the issue of 774,181 new CML shares. The majority of the shares are subject to specific lock-in restrictions over a three year period and are provided under existing AGM resolution approval. The deal is expected to close during the first half of the current financial year to 31 March 2017 and a further announcement will be made at that time. Consequently, further disclosures will be made when the initial accounting of the business combination, in line with IFRS and CML Group policies, is able to be completed.

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 24 June 2016.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of CML Microsystems Plc (the "Company") will be held at Essex County Cricket Ground, New Writtle Street, Chelmsford, Essex CM2 0PG on Wednesday 27 July 2016 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 2016.
2. To receive and approve the Directors' remuneration report for the year ended 31 March 2016.
3. To declare a final dividend of 7.0p per 5p ordinary share for the year ended 31 March 2016 to be paid on 29 July 2016 to shareholders whose names appear on the register at the close of business on 24 June 2016.
4. To re-appoint J. A. Lindop, who retires by rotation, as a Director of the Company.
5. To re-appoint RSM UK Audit LLP as auditor of the Company (formerly known as Baker Tilly UK Audit LLP).
6. 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 resolution as an ordinary resolution:

7. 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 £540,212 (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 £270,106 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph a) of this resolution in excess of £270,106, 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:

8. That, subject to the passing of resolution 7 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 7 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 7, 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 7 or sale of treasury shares (in each case, otherwise than pursuant to paragraph a) of this resolution) up to an aggregate nominal amount of £40,516, 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).
9. Subject to resolution 7 being passed, and in addition to any authority granted under resolution 8 to allot equity securities (pursuant to the 2006 Act) for cash under the authority given by that resolution, to authorise the directors to allot equity securities (pursuant to sections 570 and 573 of the 2006 Act) for cash under the authority given by resolution 7 and/or to sell treasury shares as if section 561(1) of the 2006 Act did not apply to any such allotment or sale, provided that this power shall be:
   a. limited, in the case of the authority granted under paragraph a) of resolution 7 and/or in the case of any sale of treasury shares, to the allotment of equity securities or sale of treasury shares up to a nominal amount of £40,435 (being 4.99% of the Company's issued ordinary share capital, excluding treasury shares); and
   b. used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

   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.
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 2,430,980;
    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

24 June 2016

Registered office

CML Microsystems plc
Oval Park
Langford
Maldon
Essex CM9 6WG

Registered in England and Wales: 944010

CML Microsystems Plc Annual Report and Accounts FY16

Notice of Annual General Meeting continued

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 25 July 2016.

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 25 July 2016 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 25 July 2016 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 25 July 2016 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 25 July 2016 (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 10 June 2016 (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 10 June 2016 were 16,206,537 votes.

12 Payment of dividend
It is proposed to pay the dividend, if approved, on 29 July 2016 to shareholders registered on 24 June 2016.

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 Essex County Cricket Ground, New Writtle Street, Chelmsford, Essex CM2 0PG from 10.30am until the conclusion thereof.

Five-year record

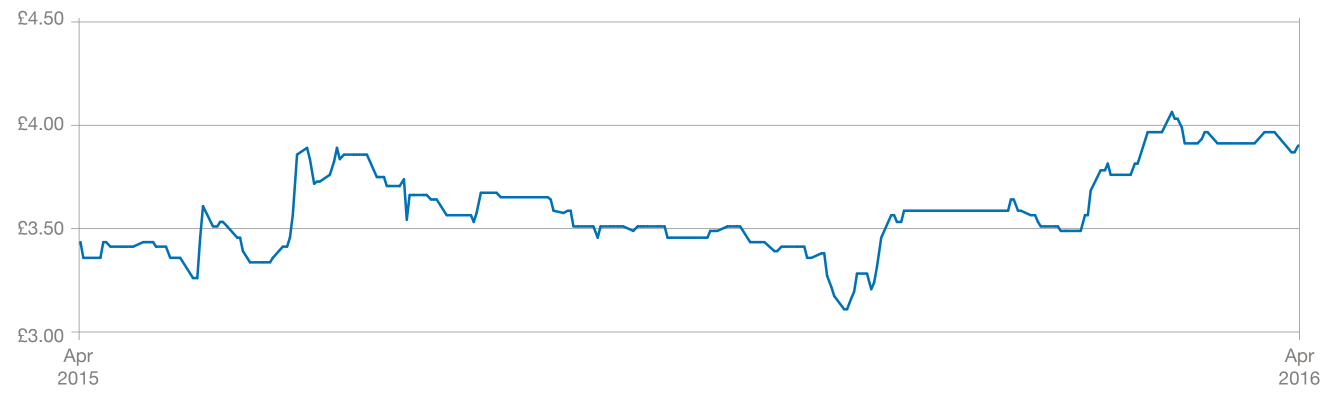
	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Income statement					
Revenue (continuing operations)	**22,833**	21,804	24,394	24,648	22,651
Revenue (discontinued operations)	**—**	—	282	590	758
Total revenue[1]	**22,833**	21,804	24,676	25,238	23,409
Gross profit[1]	**16,253**	15,465	17,882	17,564	16,213
Gross profit percentage[1]	**71.18%**	70.93%	72.47%	69.59%	69.26%
Profit before taxation[1]	**3,324**	3,178	5,792	5,071	3,950
Earnings per share[1]					
Basic	**18.03p**	16.71p	29.96p	25.59p	21.06p
Diluted	**17.94p**	16.51p	29.20p	25.18p	20.94p
Statement of financial position					
Shareholders' equity[1]	**32,576**	28,971	27,926	21,366	18,911
Dividend per ordinary share					
Dividend proposed/paid per 5p ordinary share[1]	**7.00p**	6.90p	6.25p	5.50p	4.00p

1. As reported in the years' Annual Report.

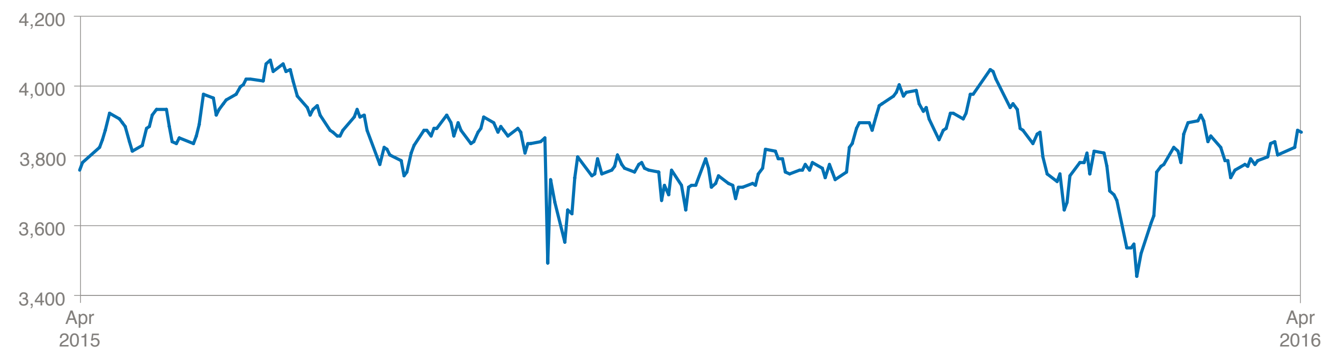
	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
Issued 5p ordinary shares (including treasury shares)	**16,256,537**	16,256,537	15,960,027	15,872,598	15,762,341

Shareholder information

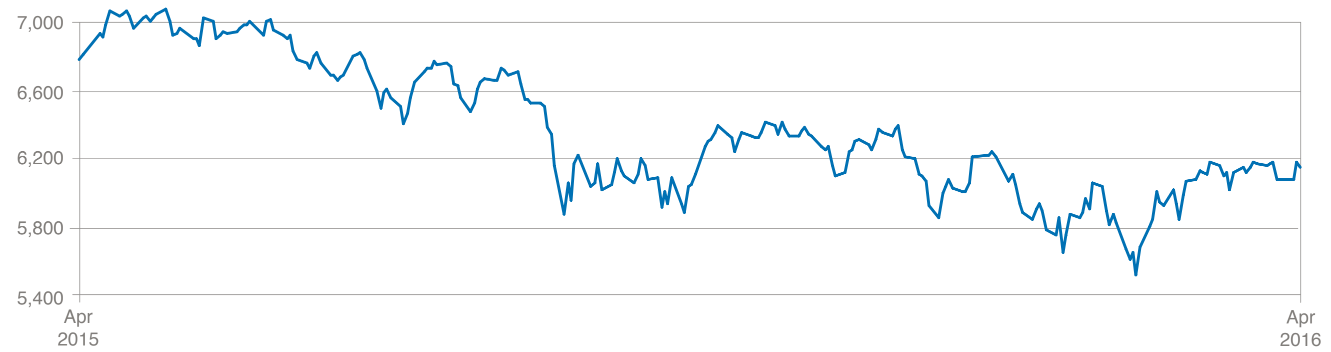
CML Microsystems plc share price – for the year ended 31 March 2016



Techmark 100 Index – for the year ended 31 March 2016



FTSE 100 Index – for the year ended 31 March 2016



Financial calendar

2016

27 July	Annual General Meeting
30 September	Half-year end
22 November	Anticipated date for half-year results

2017

31 March	Year end
13 June	Anticipated date for preliminary announcement of year-end 2017 results

Glossary

ASIC	application-specific integrated circuit
ATA	an advanced technology attachment
D&A	distribution and administration
DEFRA	Department for Environment, Food and Rural Affairs
DMR	digital mobile radio
dPMR	digital private mobile radio
DSP	digital signal processor
DTR	Disclosure and Transparency Rules
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
IVI	in-vehicle entertainment
M2M	machine-to-machine
NAND	not and
NRE	non-refundable engineering
NXDN	a common air interface technical protocol for mobile communications
PABX	public access branch exchange
POS	point-of-sale
R&D	research and development
RF	radio frequency
SATA	serial ATA interface
SD card	secure digital card
SDR	software defined radio
SSD	solid state drives
TSR	total shareholder return
USB	universal serial bus

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