CML Microsystems Plc

Half Yearly Report

FY17

CML Microsystems Plc designs, manufactures and markets mixed-signal and Radio Frequency (RF) semiconductors, primarily for global communication and solid state storage markets.

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

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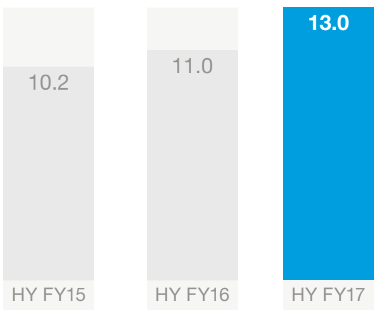
Financial highlights

FURTHER PROGRESS

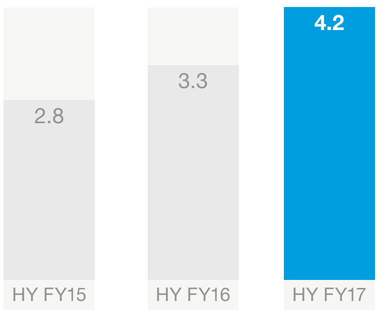
Revenue (£m)

13.04 +19%



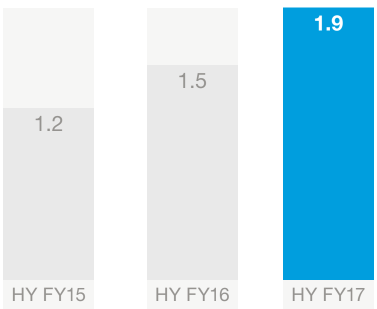
Adjusted EBITDA[1] (£m)

4.23 +27%



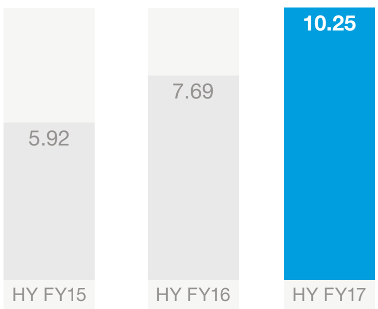
Pre-tax profit (£m)

1.94 +28%



Basic earnings per share (p)

10.25 +33%



The revenues and pre-tax profits for the HY FY17 period above include two months' contribution from the acquisition of Sicomm.

1. See Note 11 for definition and reconciliation

SUSTAINABLE GROWTH

> “With our focus on **R&D** and **customer support**, we have a more diverse customer base, an **excellent customer reputation**, and are delivering leading products within our market niches through our **global distribution network.**”

Strong revenue growth coupled with stable gross margins has meant that our first half unaudited results have materially exceeded initial expectations. This revenue uplift, assisted by weak Sterling and a two month contribution from Wuxi Sicomm Technologies Ltd (“Sicomm”), was underpinned by good growth in the underlying businesses, which is extremely pleasing. Our objective is to achieve long-term, sustainable revenue growth which, due to the natural gearing within our business, provides the ability to generate accelerated profit growth.

It is evident that we are now beginning to see the results of the strategic investments that we have made into the business over the last few years. With our focus on R&D and customer support, we have a more diverse customer base, an excellent customer reputation, and are delivering leading products within our market niches through our global distribution network.

One of the important strategic and operational highlights during the first half of the year was the completion of the acquisition of Sicomm, a Chinese fabless semiconductor and solutions provider for the global wireless communications markets. Sicomm’s product range, trading relationships and technical support abilities complement and enhance the Group’s existing skills and strategy. These are expected to enable compelling technical and commercial benefits for our customers. We have been pleased with the success of the integration thus far and look forward to further growth from the business.

The Group delivered a good trading performance, with growth from both Storage and Communications market sectors (Communications formerly reported separately as Wireless and Wireline Telecom). Revenues grew 19% in the half year to £13.04m (H1 2015: £11.00m). Organic growth, excluding the Sicomm contribution, was 15%. The operational gearing within the business contributed to a 28% growth in profit before tax to £1.94m (H1 2015: £1.51m), while maintaining high levels of investment into R&D. Cash levels, which are always a key management focus, stood at £11.56m (31 March 2016: £13.60m), representing a very positive outcome following payment of an increased dividend and the cash element of the purchase of Sicomm during the first half. We have no borrowings.

Considering this strong performance, I must thank our employees for their dedication and hard work. They and our growing customer base remain fundamental to the future growth of the business.

Market conditions appear to have improved and importantly there are solid underlying growth drivers within each of our target markets. This coupled with our strong financial position, positive trading momentum, expanded business and strengthened management team provide us with the opportunity to continue our pursuit of growth both organically and through targeted acquisitions. I am confident we are progressively putting in place the building blocks for the long-term success of CML.

Nigel Clark
Group Non-Executive Chairman
21 November 2016

PROFITABLE PROGRESS

> "Our **strong financial position,** with a healthy cash balance, tangible assets and no borrowings provides us with the **confidence** to continue to invest in the **expansion of our business.**"

Introduction

This has been a good first half of operational progress. We have continued to expand our product range through the launch of three new products across our Storage and Communications market sectors. We have increased sales revenue from the existing customer base, secured new customers, made good progress with the integration of the Sicomm acquisition and successfully implemented a new operational structure within our American business.

Financial Review

Total Group revenues for the six-month period amounted to £13.04m (H1 2015: £11.00m) which included a two month contribution of £0.40m from newly acquired Sicomm. Gross margins remained relatively stable leading to a 17% increase in gross profit to £9.31m (H1 2015: £7.98m). The Group has a somewhat natural hedge in respect of US dollar and euro exchange rate exposure.

Revenue growth was driven predominantly by increased shipments with existing long-term customers, with a significant number of our top 40 customers increasing their spend. In particular, our USB storage products started to generate meaningful revenues whilst our digital voice and data modem IC's contributed strongly.

Distribution and administration costs increased to £7.81m (H1 2015: £6.62m) due to a combination of a general increase in direct staff costs, higher amortisation levels for the R&D investment, and the addition of Sicomm.

Profit from operations climbed 29% to £1.99m (H1 2015: £1.54m). This increase consisted of 11% from the improved trading performance, with the balance derived from government grants received outside of the UK and rental income from the letting of commercial properties that the Group no longer trades from.

Profit before taxation amounted to £1.94m (H1 2015: £1.51m) with £1.81m generated from non-acquired operations and the remainder attributable to Sicomm.

Following payment of a £1.13m dividend in respect of the previous year (H1 2015: £1.12m) and a net cash outflow, including all costs relating to the Sicomm acquisition of £3.47m, cash balances fell from £13.60m at the 31 March 2016 to £11.56m at 30 September 2016. Inventory levels were £1.81m against £1.57m at 31 March 2016.

The basic earnings per share recorded from overall operations was 10.25p including a 0.75p contribution from Sicomm (H1 2015: 7.69p).

Strategy Overview

Our business is focused on two important niche markets, the industrial storage market and the industrial communications market, where our proprietary IP along with the quality and reliability of our technology sets us apart from our peers and makes us an integral part of our customers' products. We have developed a strong reputation in both of these markets and have a world-class customer base and an established sales network.

Growth in both markets is ultimately being driven by the on-going demand for increasing amounts of data to be delivered faster and stored more reliably and securely. We are committed to generating a diverse revenue stream across a broad range of customers and products. We are a single-source supplier to our customers, meaning that once designed in, the displacement of our chips would require end-product redesign.

R&D is a key tenet of our growth strategy. Our focus is on developing products which will lead to design wins with new and existing customers that we believe have the potential to develop into long-term, significant revenue generators. We intend to complement our organic growth with appropriate acquisitions.

Operational and financial review continued

Storage

The main element of our strategy within Storage is to ensure that the Group continues to increase business with our existing customers whilst simultaneously adding new customers through R&D investment. Our focus has been on expanding our product portfolio to include all major interface standards used within our target industrial end-markets and interoperation with all relevant third-party Flash Memory devices from the global tier 1 flash memory suppliers.

We have transitioned from a narrow "Controller" product portfolio with only CompactFlash as the available interface, to an enlarged product range that now also includes USB, SD, SATA & MMC interface technologies.

Through the period, Storage revenue increased by 17% to £6.56m (H1 2015: £5.60m). In line with our strategy, in the first half of the year we added our proprietary hyMap technology to the USB product range which greatly improves the reliability of non-industrial class flash memory technology. The flash memory itself is typically the most expensive component of the solid-state storage device and, as the capacity of the storage devices increase, hyMap enables our industrial customers to use memory that has a lower "cost per bit".

Communications

Our strategy within Communications (previously referred to as our Wireless and Wireline markets) has been to grow customer share and expand the customer base through R&D investments that increase the addressable chip content within the customers' end product. This includes expanding our product portfolio to include separate IC's with additional functionality and operation over a larger Radio Frequency (RF) range capable of addressing wider bandwidth applications. This significantly expands the size of the market that can be addressed.

We have progressed well with this strategy in the first half of the year evidenced by a 22% increase in revenue to £6.38m (H1 2015: £5.21m) with 15% coming from organic growth. We released two new products; one which is ideally suited to voice-over IP (VoIP) applications and digital voice interconnect systems and one enhanced Analogue Front End (AFE) IC for software defined radio (SDR) that bridges the gap between digital radio's RF section and the customers signal progressing circuitry.

In the second half of the year, we are planning to release a new Flash Memory controller, further hyMap enhancements and three new Communications products – all in keeping with our strategy for sustainable growth.

In total, the Group has released nine new products in the last three years, however it is important to note that first half revenues are predominantly from products that were released pre-2013. The more recent products provide us with a pipeline of additional future revenue, with numerous design wins already having been secured.

Market Developments

As previously stated, the Group is focused on two industrial markets which each show solid long-term underlying growth trends. The overriding factor in both is the incessant demand for ever-greater amounts of data, to be transmitted and stored more quickly and securely.

Within the industrial data storage market there are several specific areas which are going through exciting transitions, and for which we have secured design wins or are in the process of developing new products. These areas include the telecoms/network infrastructure market, industrial automation and the in-vehicle infotainment market.

A number of the major original equipment manufacturers (OEMs) or tier 1 suppliers to those OEMs in each of these markets are our customers meaning we are well positioned to benefit from the growing demand.

Within the Communications market, the exciting growth areas include: the transition to higher-capacity digital networks within voice-centric markets and, in data-centric markets, the increasing data throughput requirements within terrestrial and satellite communications applications. The latter is required to meet the needs of the growing Machine to Machine (M2M) and the Industrial Internet of Things sectors (IIoT).

Again, we are already suppliers to or working with many of the leading OEMs in these areas and believe we are well placed for future growth.

Key customer developments

During the period we were pleased that a substantial amount of our top 40 current customers increased their business with CML, predominantly through delivery of our more established semiconductor products but also through entering the shipping phase of relatively recent new products. By maintaining a high level of R&D spend we are constantly ensuring that we stay ahead of customer demand across our two market sectors. We believe we are in a strong position and have an increasing number of opportunities at all stages of our new business pipeline.

Products entering the early ramping phase include our latest USB controller; with one of the global leaders in flash memory technology adopting the solution and expected to complete full qualification in the second half.

For the Communications sector, prior design-wins achieved with customers for both wireless voice and wireless data products have commenced volume production and are in the early stages of growth.

Operational and financial review continued

Operational Development

Sicomm acquisition and integration

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 acquisition of Sicomm. This is an important strategic move targeted to give a long-term benefit. 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 complimentary product line, with excellent cross-selling potential, demonstrates the compelling nature of this acquisition.

Throughout this year we will continue integrating Sicomm but this will not detract from pursuing suitable acquisition opportunities.

New Sales and Marketing structure

Operationally, important investments and enhancements were made in sales, marketing and engineering support resources to ensure the Group is positioned appropriately to handle the increasing customer engagement levels that an expanding product range demands. Our Americas business is already benefiting from efficiencies that arise from having dedicated resources allocated to specific sectors and products. Additionally, our structure is now inherently scalable to facilitate future growth objectives. In the second half of the year, we intend to continue enhancing our global operating structure through the investment in people and practices that will maximise our opportunities for success.

Outlook

Our strong financial position, with a healthy cash balance, tangible assets and no borrowings provides us with the confidence to continue to invest in the expansion of our business. Trading in the second half of the year has begun well and we are confident of a full-year advance in both revenues and profitability.

Chris Gurry
Group Managing Director
21 November 2016

Condensed consolidated income statement
for the six months ended 30 September 2016

	Unaudited 6 months end 30/09/16 £'000	Unaudited 6 months end 30/09/15 £'000	Audited Year end 31/03/16 £'000
Continuing operations			
Revenue	**13,044**	11,003	22,833
Consisting of:			
Revenue – excluding acquisition	**12,642**	11,003	22,833
Revenue – acquisition	**402**	—	—
Cost of sales	**(3,733)**	(3,027)	(6,580)
Gross profit	**9,311**	7,976	16,253
Distribution and administration costs	**(7,805)**	(6,623)	(13,272)
	1,506	1,353	2,981
Other operating income	**487**	190	405
Profit from operations	**1,993**	1,543	3,386
Share-based payments	**(72)**	(49)	(117)
Profit after share-based payments	**1,921**	1,494	3,269
Finance income	**17**	20	55
Profit before taxation	**1,938**	1,514	3,324
Consisting of:			
Profit before taxation – excluding acquisition	**1,811**	1,514	3,324
Profit before taxation – acquisition	**127**	—	—
Income tax expense	**(217)**	(266)	(399)
Profit after taxation	**1,721**	1,248	2,925
Profit after taxation for period attributable to equity owners of the parent	**1,721**	1,248	2,925
Basic earnings per share			
From operations excluding acquisition	**9.50p**	7.69p	18.03p
From profit for the period	**10.25p**	7.69p	18.03p
Diluted earnings per share			
From operations excluding acquisition	**9.34p**	7.65p	17.94p
From profit for the period	**10.08p**	7.65p	17.94p
Adjusted EBITDA[1]	**4,226**	3,325	6,970
Consisting of:			
Adjusted EBITDA – excluding acquisition	**3,858**	3,325	6,970
Adjusted EBITDA – acquisition	**368**	—	—

1. See Note 11 for definition and reconciliation

Condensed consolidated statement of total comprehensive income
for the six months ended 30 September 2016

	Unaudited 6 months end 30/09/16 £'000	Unaudited 6 months end 30/09/15 £'000	Audited Year end 31/03/16 £'000
Profit for the period	**1,721**	1,248	2,925
Other comprehensive income, net of tax:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on retirement benefit obligations	**–**	–	1,570
Deferred tax movement on actuarial gain	**–**	–	(283)
Items reclassified subsequently to profit or loss upon derecognition:			
Foreign exchange differences	**946**	65	584
Other comprehensive income for the period net of taxation attributable to equity holders of the parent	**946**	65	1,871
Total comprehensive income for the period attributable to the equity holders of the parent	**2,667**	1,313	4,796

Condensed consolidated statement of financial position
as at 30 September 2016

	Unaudited 30/09/16 £'000	Unaudited 30/09/15 £'000	Audited 31/03/16 £'000
Assets			
Non-current assets			
Goodwill	**9,181**	3,512	3,512
Other intangible assets arising on acquisition	**1,382**	—	—
Property, plant and equipment	**5,250**	5,146	5,171
Investment properties	**3,550**	3,550	3,550
Equity investment	**84**	—	—
Development costs	**10,846**	8,289	9,292
Deferred tax asset	**1,158**	1,301	893
	31,451	21,798	22,418
Current assets			
Inventories	**1,812**	1,779	1,571
Trade receivables and prepayments	**3,451**	2,525	3,458
Current tax assets	**598**	767	830
Cash and cash equivalents	**11,557**	12,263	13,596
	17,418	17,334	19,455
Total assets	**48,869**	39,132	41,873
Liabilities			
Current liabilities			
Trade and other payables	**6,427**	3,583	4,190
Current tax liabilities	**46**	246	39
	6,473	3,829	4,229
Non-current liabilities			
Deferred tax liabilities	**3,516**	2,654	3,001
Retirement benefit obligation	**2,067**	3,624	2,067
	5,583	6,278	5,068
Total liabilities	**12,056**	10,107	9,297
Net assets	**36,813**	29,025	32,576
Capital and reserves attributable to equity owners of the parent			
Share capital	**851**	813	813
Share premium	**8,294**	5,700	5,700
Treasury shares – own share reserve	**(190)**	(190)	(190)
Share-based payments reserve	**456**	336	388
Foreign exchange reserve	**1,264**	(201)	318
Accumulated profits	**26,138**	22,567	25,547
Total shareholders' equity	**36,813**	29,025	32,576

Condensed consolidated cash flow statement
for the six months ended 30 September 2016

	Unaudited 6 months end 30/09/16 £'000	Unaudited 6 months end 30/09/15 £'000	Audited Year end 31/03/16 £'000
Operating activities			
Net profit for the period before taxation	**1,938**	1,514	3,324
Adjustments for:			
Depreciation	**358**	121	254
Amortisation of development costs	**1,849**	1,661	3,330
Amortisation of intangibles recognised on acquisition	**26**	—	—
Movement in pension net costs	**—**	—	13
Share-based payments	**72**	49	117
Finance income	**(17)**	(20)	(55)
Movement in working capital	**2,002**	435	317
Cash flows from operating activities	**6,228**	3,760	7,300
Income tax received/(paid)	**367**	(174)	279
Net cash flows from operating activities	**6,595**	3,586	7,579
Investing activities			
Purchase of acquisition, net of cash acquired	**(3,576)**	—	—
Purchase of property, plant and equipment	**(413)**	(290)	(443)
Investment in development costs	**(2,900)**	(2,905)	(5,356)
Receipt/(payment) of escrow cash deposit	**385**	—	(331)
Finance income	**17**	20	55
Net cash flows from investing activities	**(6,487)**	(3,175)	(6,075)
Financing activities			
Purchase of treasury shares	**—**	(190)	(190)
Dividend paid to Group shareholders	**(1,134)**	(1,118)	(1,118)
Net cash flows from financing activities	**(1,134)**	(1,308)	(1,308)
(Decrease)/increase in cash and cash equivalents	**(1,026)**	(897)	196
Movement in cash and cash equivalents:			
At start of period/year	**13,596**	13,188	13,188
(Decrease)/increase in cash and cash equivalents	**(1,026)**	(897)	196
Effects of exchange rate changes	**(1,013)**	(28)	212
At end of period	**11,557**	12,263	13,596

During the six month period ending 30 September 2016, 774,181 shares in CML Microsystems Plc were issued in part consideration for the acquisition of Sicomm equity to the value of £2,632,000 (see note 8). As a significant non-cash transaction, this is not reflected in the above consolidated cash flow statement.

Condensed consolidated statement of changes in equity
for the six months ended 30 September 2016

Unaudited	Share capital £'000	Share premium £'000	Treasury shares £'000	Share-based payments £'000	Foreign exchange reserve £'000	Accumulated profits £'000	Total £'000
At 31 March 2015	813	5,700	—	287	(266)	22,437	28,971
Profit for period						1,248	1,248
Other comprehensive income net of taxes							
Foreign exchange differences					65		65
Total comprehensive income for the period	—	—	—	—	65	1,248	1,313
Transactions with owners in their capacity as owners							
Dividend paid						(1,118)	(1,118)
Purchase of treasury shares			(190)				(190)
Total of transactions with owners in their capacity as owners	—	—	(190)	—	—	(1,118)	(1,308)
Share-based payments				49			49
At 30 September 2015	813	5,700	(190)	336	(201)	22,567	29,025
Profit for period						1,677	1,677
Other comprehensive income net of taxes							
Foreign exchange differences					519		519
Actuarial gain on retirement benefit obligation						1,570	1,570
Deferred tax movement on actuarial gain						(283)	(283)
Total comprehensive income for the period	—	—	—	—	519	2,964	3,483
Transactions with owners in their capacity as owners							
Issue of ordinary shares	—	—					—
Total of transactions with owners in their capacity as owners	—	—	—	—	—	—	—
Share-based payments				68			68
Cancellation/transfer of share-based payments				(16)		16	—
At 31 March 2016	**813**	**5,700**	**(190)**	**388**	**318**	**25,547**	**32,576**
Profit for period						**1,721**	**1,721**
Other comprehensive income net of taxes							
Foreign exchange differences					**946**		**946**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**946**	**1,721**	**2,667**
Transactions with owners in their capacity as owners							
Dividend paid						**(1,134)**	**(1,134)**
Issue of ordinary shares	**38**	**2,594**					**2,632**
Total of transactions with owners in their capacity as owners	**38**	**2,594**	**—**	**—**	**—**	**(1,134)**	**1,498**
Share-based payments				**72**			**72**
Cancellation/transfer of share-based payments				**(4)**		**4**	**—**
At 30 September 2016	**851**	**8,294**	**(190)**	**456**	**1,264**	**26,138**	**36,813**

Notes to the condensed consolidated financial statements
for the six months ended 30 September 2016

1 Segmental analysis

Information about revenue, profit/loss, assets and liabilities

	Unaudited 6 months end 30/09/16		Unaudited 6 months end 30/09/15		Audited year end 31/03/16	
	Semi-conductor components £'000	Group £'000	Semi-conductor components £'000	Group £'000	Semi-conductor components £'000	Group £'000
Revenue						
By origin	20,537	20,537	17,423	17,423	35,924	35,924
Inter-segmental revenue	(7,493)	(7,493)	(6,420)	(6,420)	(13,091)	(13,091)
Total segmental revenue	13,044	13,044	11,003	11,003	22,833	22,833
Consisting of:						
Segmental revenue – excluding acquisition	12,642	12,642	11,033	11,033	22,833	22,833
Segmental revenue – acquisition	402	402	—	—	—	—
Profit/(loss)						
Segmental result	1,921	1,921	1,494	1,494	3,269	3,269
Consisting of:						
Segmental result – excluding acquisition	1,794	1,794	1,494	1,494	3,269	3,269
Segmental result – acquisition	127	127	—	—	—	—
Finance income		17		20		55
Income tax expense		(217)		(266)		(399)
Profit after taxation		1,721		1,248		2,925
Assets and liabilities						
Segmental assets	43,563	43,563	33,514	33,514	36,600	36,600
Unallocated corporate assets						
Investment properties		3,550		3,550		3,550
Deferred tax assets		1,158		1,301		893
Current tax assets		598		767		830
Consolidated total assets		48,869		39,132		41,873
Segmental liabilities	6,427	6,427	3,583	3,583	4,190	4,190
Unallocated corporate liabilities						
Deferred tax liabilities		3,516		2,654		3,001
Current tax liabilities		46		246		39
Retirement benefit obligation		2,067		3,624		2,067
Consolidated total liabilities		12,056		10,107		9,297

Other segmental information

Property, plant and equipment additions	413	413	290	290	443	443
Development cost additions	2,900	2,900	2,905	2,905	5,356	5,356
Depreciation	358	358	121	121	254	254
Amortisation of development costs	1,849	1,849	1,661	1,661	3,330	3,330

Notes to the condensed consolidated financial statements
for the six months ended 30 September 2016 continued

Geographical segments

The acquired Sicomm Group of Companies are included within the 'Far East' classification below.

	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Unaudited					
Six months ended 30 September 2016					
Revenue by origin	**6,223**	**6,481**	**2,878**	**4,955**	**20,537**
Inter-segmental revenue	**(3,443)**	**(4,050)**	**—**	**—**	**(7,493)**
Revenue to third parties	**2,780**	**2,431**	**2,878**	**4,955**	**13,044**
Property, plant and equipment	**5,043**	**189**	**12**	**6**	**5,250**
Investment properties	**3,550**	**—**	**—**	**—**	**3,550**
Development costs	**3,487**	**7,359**	**—**	**—**	**10,846**
Goodwill	**—**	**3,512**	**—**	**5,669**	**9,181**
Other intangible assets arising on acquisition	**—**	**—**	**—**	**1,382**	**1,382**
Total assets	**32,741**	**12,300**	**1,602**	**2,226**	**48,869**
Unaudited					
Six months ended 30 September 2015					
Revenue by origin	5,101	5,577	2,562	4,183	17,423
Inter-segmental revenue	(2,518)	(3,902)	—	—	(6,420)
Revenue to third parties	2,583	1,675	2,562	4,183	11,003
Property, plant and equipment	5,022	97	11	16	5,146
Investment properties	3,550	—	—	—	3,550
Development costs	2,906	5,383	—	—	8,289
Goodwill	—	3,512	—	—	3,512
Other intangible assets arising on acquisition	—	—	—	—	—
Total assets	25,538	10,162	1,325	2,107	39,132
Audited					
Year ended 31 March 2016					
Revenue by origin	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
Other intangible assets arising on acquisition	—	—	—	—	—
Total assets	28,281	10,100	1,412	2,080	41,873

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

Notes to the condensed consolidated financial statements
for the six months ended 30 September 2016 continued

Revenue

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

	Unaudited 6 months end 30/09/16 £'000	Unaudited 6 months end 30/09/15 £'000	Audited Year end 31/03/16 £'000
United Kingdom	**366**	495	950
Rest of Europe	**3,350**	2,379	5,621
Far East	**6,110**	5,205	10,704
Americas	**2,930**	2,745	5,122
Other	**288**	179	436
	13,044	11,003	22,833

2 Dividend paid and proposed

A dividend of 7.0p per 5p ordinary share in respect of the year ended 31 March 2016 was paid on 29 July 2016 (2015: 6.9p per 5p ordinary share in respect of the year ended 31 March 2015). No dividend is proposed in respect of the six months period ended 30 September 2016 (2015: £Nil per 5p ordinary share in respect of the period ended 30 September 2015).

3 Income tax expense

	Unaudited 6 months end 30/09/16 £'000	Unaudited 6 months end 30/09/15 £'000	Audited Year end 31/03/16 £'000
UK income tax credit	**(167)**	(167)	(501)
Overseas income tax charge	**268**	283	431
Total current tax charge/(credit)	**101**	116	(70)
Deferred tax charge	**116**	150	469
Reported income tax expense	**217**	266	399

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

4 Earnings per share

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

	Ordinary 5p shares	
	Weighted average number	Diluted number
Six months ended 30 September 2016	**16,787,173**	**17,066,490**
Six months ended 30 September 2015	16,219,037	16,295,008
Year ended 31 March 2016	16,219,037	16,305,914

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

Notes to the condensed consolidated financial statements
for the six months ended 30 September 2016 continued

5 Investment properties
Investment properties are revalued at each discrete period end by the Directors and every third year by independent Chartered Surveyors on an open market basis. No depreciation is provided on freehold investment properties or on leasehold investment properties. In accordance with IAS 40, gains and losses arising on revaluation of investment properties are shown in the income statement. At 31 March 2015 the investment properties were professionally valued by Everett Newlyn, Chartered Surveyors and Commercial Property Consultants, on an open market basis.

6 Analysis of changes in net cash

	Net cash at 01/04/15 £'000	6 months end 30/09/15 Cash flow £'000	Net cash at 30/09/15 £'000	6 months end 31/03/2016 Cash flow £'000	Net cash at 31/03/16 £'000	**6 months end 30/09/16 Cash flow £'000**	**6 months end 30/09/16 Acquisition £'000**	**Net cash at 30/09/16 £'000**
Cash and cash equivalents	13,188	(925)	12,263	1,333	13,596	**1,537**	**(3,576)**	**11,557**
	13,188	(925)	12,263	1,333	13,596	**1,537**	**(3,576)**	**11,557**

The cash flow above is a combination of the actual cash flow and the exchange movement.

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

8 Acquisition of Sicomm
Following the definitive agreement to acquire all its shares announced on 27 May 2016, and having satisfied the principal regulatory conditions and other transaction closing conditions, the Group took control of the China-based Wuxi Sicomm Technologies Ltd ("Sicomm") and affiliated companies on 3 August 2016. The total consideration was $11.05m (£8.01m), payable in cash and in shares (see below). The 774,181 new shares were also admitted for trading by the London Stock Exchange in August 2016. The majority of the shares are subject to specific lock-in restrictions over a three year period and were provided under existing AGM resolution approval.

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 focuses 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.

For the above reasons, combined with the anticipated profitability of Sicomm products in other Group markets, synergies to arise from integrating the Sicomm business into existing Group businesses, plus the ability to hire the workforce of the Sicomm group of companies (including the founder and management team), the Group paid a premium over the acquisition net assets, giving rise to goodwill. All intangible assets in accordance with IFRS3 Business Combinations were recognised at their provisional fair values on the date of acquisition, with the residual excess over net assets being recognised as goodwill. Intangibles arising from the acquisition consist of brand values, customer relationships and intellectual property and have been independently valued by professional advisors.

The following table summarises the consideration and provisional fair values of assets acquired and liabilities assumed at the date of acquisition:

	£'000
Property, plant and equipment	**20**
Long-term equity investment	**84**
Intangible fixed assets:	
Brands	**96**
Customer relationships	**934**
Intellectual property	**402**
Deferred tax assets	**191**
Inventories	**212**
Trade receivables and prepayments	**128**
Cash and cash equivalents	**1,456**
Trade and other payables	**(1,028)**
Deferred tax liabilities	**(154)**
Net assets acquired	**2,341**
Goodwill	**5,669**
Acquisition cost	**8,010**

Notes to the condensed consolidated financial statements
for the six months ended 30 September 2016 continued

There are no non-controlling interests in relation to the Sicomm acquisition. Fair values in the above table have only been determined provisionally and may be subject to change in the light of any subsequent new information becoming available in time. The review of the fair value of assets and liabilities acquired will be completed within twelve months of the acquisition date.

The acquisition cost satisfied by:

	£'000
Cash	5,378
Share consideration	2,632
Total consideration	**8,010**

Net cash outflow arising on acquisition:

	£'000
Cash consideration paid (less cash retention)	5,032
Cash returned under escrow due diligence deposit	(385)
Acquisition-related costs	277
Cash and cash equivalents within the Sicomm business on acquisition	(1,456)
Total net cash outflow on acquisition	**3,468**

The cash consideration excludes a £346,000 (RMB3m) retention which is included in other payables. Other costs relating to the acquisition have not been included in the consideration cost. Directly attributable acquisition costs include external legal and accounting costs incurred in compiling the acquisition legal contracts and the performance of due diligence activity and amount to £277,000. These costs have been charged in distribution and administrative expenses in the consolidated income statement.

Sicomm, in common with other Chinese companies, has a 31 December calendar year end. In the two months to 30 September 2016, Sicomm contributed revenue of £402,000 and net profit before taxation of £127,000. Had the acquisition taken place from the start of the Group's financial year (from 1 April 2016), management estimate that Sicomm would have contributed revenue of £959,000 and net profit before taxation of £211,000 at the half year to the Group results.

9 Principal risks and uncertainties

Key risks of a financial nature

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

Key risks of a non-financial nature

The Group is a small player operating in a highly-competitive global market, which is undergoing continual geographical change. The Group's ability to respond to many competitive factors including, but not limited to pricing, technological innovations, product quality, customer service, manufacturing capabilities and employment of qualified personnel will be key in the achievement of its objectives, but its ultimate success will depend on the demand for its customers' products since the Group is a component supplier.

A substantial proportion of the Group's revenue and earnings are derived from outside the UK and so the Group's ability to achieve its financial objectives could be impacted by risks and uncertainties associated with local legal requirements, the enforceability of laws and contracts, changes in the tax laws, terrorist activities, natural disasters or health epidemics.

10 Directors' statement pursuant to the Disclosure and Transparency Rules

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

a) the condensed financial statements, prepared in accordance with IFRS as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole; and

b) the condensed set of financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting; and

c) the Chairman's statement and Group Managing Director's statement and operational and financial review include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The Directors are also responsible for the maintenance and integrity of the CML Microsystems Plc website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Notes to the condensed consolidated financial statements
for the six months ended 30 September 2016 continued

11 Basis of preparation
The basis of preparation and accounting policies used in preparation of the Half Yearly Financial Report are the same accounting policies set out in the year ended 31 March 2016 financial statements, with the exception of the additional accounting policy item and presentation:

Externally acquired intangibles
Externally acquired intangible assets have been recognised in accordance with the provisions of IFRS3 Business Combinations in relation to the acquisition of Sicomm (Note 8). These acquired intangibles have been amortised in accordance with the following:

- Brand 10 years from date of acquisition
- Customer relationships 9 years from date of acquisition
- Intellectual property 10 years from date of acquisition

Amortisation of the above acquired intangibles assets is recognised on consolidation and reported in distribution and administration costs in the consolidated income statement.

Adjusted EBITDA
Adjusted earnings before interest, tax, depreciation and amortisation ('Adjusted EBITDA') is defined as profit from operations before all interest, tax, depreciation and amortisation charges and before share-based payments. The following is a reconciliation of the Adjusted EBITDA for the three periods presented:

	Unaudited 6 months end 30/09/16 £'000	Unaudited 6 months end 30/09/15 £'000	Audited Year end 31/03/16 £'000
Profit after taxation (earnings)	**1,721**	1,248	2,925
Adjustments for:			
Finance income	**(17)**	(20)	(55)
Income tax expense	**217**	266	399
Depreciation	**358**	121	254
Amortisation of development costs	**1,849**	1,661	3,330
Amortisation of intangibles recognised on acquisition	**26**	—	—
Share-based payments	**72**	49	117
Adjusted EBITDA	**4,226**	3,325	6,970

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

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

The principal risks and uncertainties within the business are contained within this report in note 9 above.

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

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

This Half Yearly Financial Report does not include all the information and disclosures required in the Annual Report, and should be read in conjunction with the consolidated Annual Report for the year ended 31 March 2016.

The financial information contained in this Half Yearly Financial Report has been prepared using International Financial Reporting Standards as adopted by the European Union. This Half Yearly Financial Report does not constitute statutory accounts as defined by Section 434 of the Companies Act 2006. The financial information for the year ended 31 March 2016 is based on the statutory accounts for the financial year ended 31 March 2016 that have been filed with the Registrar of Companies and on which the Auditor gave an unqualified audit opinion.

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

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

13 Approvals
The Directors approved this Half Yearly Report on 21 November 2016.

Glossary

ATA	an advanced technology attachment
DTR	Disclosure and Transparency Rules
EU	European Union
IAS	International Accounting Standard
IC	integrated circuit
IFRS	International Financial Reporting Standards
IIoT	Industrial Internet of Things
IP	intellectual property
M2M	machine-to-machine
MMC	multimedia card
OEM	original equipment manufacturer
R&D	research and development
RF	radio frequency
SATA	serial ATA interface
SD	secure digital
SDR	software defined radio
USB	universal serial bus
VoIP	Voice-over Internet Protocol

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