CML Microsystems Plc

Growth in a connected world

Half Yearly Report

FY18

Growth in a connected world

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

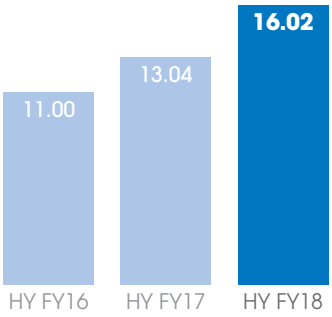
Founded in 1968, CML operates internationally with subsidiaries across the UK, the USA, Germany, China, Singapore and Taiwan.

Contents

Financial highlights

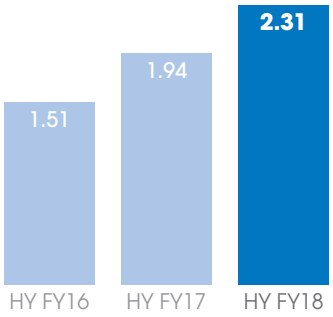
Revenue (£m)

16.02 +23%



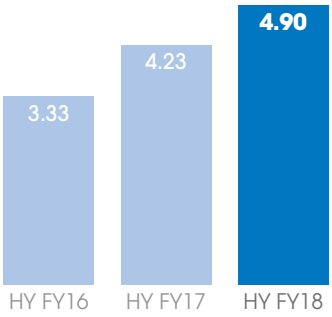
Pre-tax profit (£m)

2.31 +19%



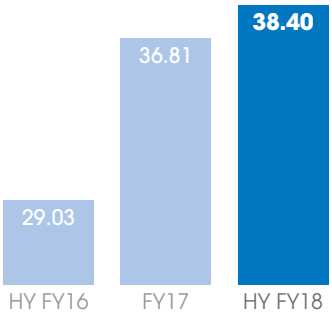
Adjusted EBITDA (£m)

4.90 +16%



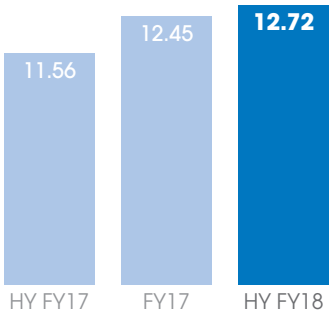
Net assets (£m)

38.40 +4%



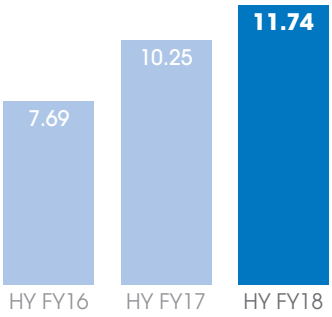
Net cash (£m)

12.72 +2%



Basic earnings per share (p)

11.74 +15%



- Introduction of a maiden interim dividend of 2.0p per ordinary share

Operational highlights

- Investment strategy paying off; continuing high level of R&D activity
- Growth from an assortment of customers addressing a number of end-applications
- Product range continues to expand; three new products launched across Storage and Communications markets
- Release of the Group's first RF semiconductor product operating in microwave bands (3GHz)
- Customer adoption of application programming interface (API) that was launched during the prior financial year has been very encouraging
- Expansion and enhancement of the sales channels

Chairman's statement

The strong financial performance this half remains a reflection of the investments made in previous years

It has been our stated objective to achieve long-term, sustainable growth and I am pleased to report that the results for the first half of this financial year clearly demonstrate that we have an effective strategy in place and are on the right path.

The main driver of our success continues to be the Group's consistent focus on R&D, working closely with our customers to understand their requirements and deliver market leading products. The strong financial performance this half remains a reflection of the investments made in previous years, whilst further investments have been made in the period and will continue to be made to deliver our strategy.

The markets in which we operate remain robust and it is pleasing to note that the solid performance was delivered across both of our target sectors, namely Storage and Communications. There continues to be firm underlying growth drivers in each of these markets.

Revenue in the period grew by 23% to £16.02m (H1 2016: £13.04m) against a strong comparative half which itself had experienced 19% growth. Pre-tax profits grew by 19% to £2.31m (H1 2016: £1.94m), particularly driven by our operating performance, whilst maintaining high levels of investment. This period also reflects the higher cost base from senior personnel hires made over the last 18 months. Profit after tax grew by 15% to £1.98m despite the Group incurring a higher level of corporation tax than the previous year, which was expected. Cash levels, which are always a key management focus, increased to £12.72m (31 March 2017: £12.45m) after a dividend payment of £1.24m (FY 2017: £1.13m). We continue to have no borrowings.

Investments made in the business have resulted in improvements in all of our key metrics, including revenue, pre-tax profits, earnings per share, adjusted EBITDA and net assets and the Board expects to continue along this path. Organic growth is the cornerstone of our stated strategy, but we continue to monitor and review acquisition opportunities that will support further growth.

The dedication and hard work of our employees deserves special thanks once again. Their commitment and our growing customer base remain fundamental to the future growth of the business.

Following a solid performance during the first half, I am pleased to announce that the Company will be paying this year's dividend in two stages, with the introduction of an interim dividend to shareholders. This decision underlines our confidence in achieving expectations for the full year, supported by our growing order book and sales pipeline. The maiden interim dividend will be 2.0p per ordinary share and will be payable on 15 December 2017 to shareholders on the Register on 1 December 2017.

N G Clark
Group Non-Executive Chairman
20 November 2017

Operational and financial review

The financial and operational progress made in the first half of the year is firm evidence that we are delivering on our growth strategy

Introduction

The first six months have shown a continuation of the momentum in the business and further evidence of delivering on our stated strategy. The product range has continued to grow with three new products launched in the period. All of our key indicators have improved and it is particularly pleasing that this growth is broad based. Last year, as well as our continued investment in R&D, we added senior personnel in sales and marketing to build scale resulting in increased activity levels, reinforcing our confidence in the future.

Financial Review

Group revenues for the first half of the financial year were £16.02m representing growth of 23% compared to the first half of the prior year (H1 2016: £13.04m). Gross margin as a percentage fell slightly due to product mix leading to a gross profit advance of 21% year-on-year to £11.23m (H1 2016: £9.31m).

The increase in revenues was across an assortment of customers operating in multiple geographic regions addressing a number of end-application areas. Further detail is provided under the Storage and Communications sections later in this review.

As expected, and in accordance with previously announced investments in resources and operational structure, distribution and administration costs increased to £9.25m (H1 2016: £7.81m). The main reasons for the increase were higher direct staff costs, higher amortisation charges associated with research and development activities and a foreign exchange loss of £0.17m compared to a gain of £0.65m in the prior year first half.

Excluding other operating income, profit from operations equated to £1.98m (H1 2016: £1.51m) reflecting a gain of 31% over the comparable reporting period.

Other income fell to £0.39m (H1 2016: £0.49m) largely due to a one-off receipt in the prior year first half period associated with the acquisition we made in China.

At the pre-tax level, profit amounted to £2.31m (H1 2016: £1.94m).

Cash balances improved from £12.45m at 31 March 2017 to £12.72m at 30 September 2017. This follows payment of a £1.24m dividend in respect of the previous year (H1 2016: £1.13m) and an R&D cash spend in the period of £3.13m (H1 2016: £3.34m). After allowing for rounding effects, inventory levels were unchanged from 31 March 2017 at £2.15m.

Basic earnings per share advanced to 11.74p (H1 2016: 10.25p).

Strategy Overview

Our business continues to be focused on two important markets, namely industrial Storage and industrial Communications, 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 we continue to supply a growing world class customer base. This coupled with an impressive sales network and expanding presence in our chosen territories will enable us to scale further.

Growth in both markets is ultimately being driven by the persistent 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. The Company has a proven track record of successful acquisitions and will continue to seek further appropriate opportunities to complement our organic growth.

Operational and financial review continued

Storage

The key objectives of our strategy within Storage are to increase the penetration of our existing customers' product portfolio whilst simultaneously adding new customers through the timely introduction of innovative new products that will enlarge the serviceable market. Our focus continues to be the expansion of the product range to include all major interface standards used within our target industrial end markets and ensure interoperation with all of the relevant Flash Memory devices produced by the major suppliers.

In recent years, 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.

During the period under review, revenue derived from Storage semiconductor products increased by 23% to £8.09m (H1 2016: £6.56m). Primary drivers included automotive infotainment and industrial automation end market applications. In automotive, our customers continue to expand their penetration of the market for in-car navigation systems; both in terms of factory fit and more recently, after market data storage requirements. It is noteworthy that the advances made come amidst an environment first reported in the second half of the last financial year where some of our customers have reported flash memory availability constraints.

Our strategy necessitates that a portion of our R&D spend is periodically invested into refreshing the existing product range. As anticipated, in August we released a class-leading Compact Flash controller to market targeted at industrial and embedded applications. This product enables the use of our proprietary hyMap firmware amongst those customers and applications that have standardised on the Compact Flash interface and supports the more recently available memory technologies along with the benefits that they bring.

Market adoption of our application programming interface (API) that was launched during the prior financial year has been very encouraging.

Communications

Our strategy for the Communications market continues to run in parallel with the Storage market approach. The main objectives are to grow customer share and expand the customer base through new product introductions that increase the functionality that our ICs deliver and serve to widen the addressable market.

In recent years we have introduced a number of new products that have been conceived to operate either on a "stand alone" basis or as part of an optimised CML chip set. Enhanced through acquisition in the prior financial year, the consolidated product portfolio now offers customers a greater selection of technical functionality whilst improving commercial competitiveness.

Progress for the first six months of the year against our planned objectives has been encouraging. Revenue advanced to £7.86m representing a 23% increase against the first half of last year (H1 2016: £6.38m). This increase is delivered as a growing number of individual customer projects reach production status having been developed upon multiple CML ICs and comes despite the comparable first half receiving a boost from the effect of a last time buy programme.

A number of new product releases took place, some of which were delayed from the second half of the prior financial year. Particularly noteworthy was the release of the Group's first RF semiconductor product operating up to a frequency of 3.6GHz, designed to consume very little power. Additional releases included a second RF Power Amplifier for mobile/portable radio applications and the enhancement of the Group's marine AIS product portfolio through an agreement announced with a leading provider of satellite AIS data services, exactEarth.

From an operational perspective, improvements were made to the way in which the Communications products are marketed across the Americas. An agreement was signed with RFMW Ltd, a specialised distributor of RF and microwave components and multiple changes to our regional manufacturers' representative network were made. These changes complement our internal resources and position the business well to support further growth.

Market Development

We have seen no change to the solid, long-term underlying growth trends which continue to exist within the two main industrial application areas addressed. The principal factor for both remains the persistent demand for increasing amounts of data to be transmitted and stored more quickly and securely.

The industrial data storage market has several specific areas which are exhibiting exciting opportunities for which we have either secured design wins or are at the somewhat earlier stage of qualifying products with our customers. These areas include the telecoms/network infrastructure market, industrial automation, various security applications and the in-vehicle infotainment market. A number of the major original equipment manufacturers (OEMs) or tier 1 suppliers to those OEMs are our customers meaning we are well positioned to benefit from the growing demand.

The Communications market is exhibiting a number of growth areas including the transition to higher-capacity digital networks within voice-centric markets and, in data-centric markets, the increasing data throughput requirements from terrestrial and satellite communications applications. The latter is required to meet the needs of the growing Machine-to-Machine (M2M) and 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, which is supported by our performance to date and the growing pipeline of opportunities.

Customer dependency for the period was broadly unchanged against the prior year. Two customers contributed greater than 10% to Group revenues with a combined contribution of approximately 29%. All other customers were below the 6% threshold.

Operational Developments

As previously highlighted, last year the Group invested in additional people to support our business globally, with appointments across a range of skills, including senior management, engineering support and particularly in sales and marketing. These hires were largely completed by the end of the last financial year and therefore this represents the first period of trading with the enlarged headcount.

The semiconductor market as a whole is in a growth phase at the moment and the knock on effect of that is for a general tone of caution around raw material lead times. That said, management is acting appropriately to minimise any effect this might have on the business.

It is pleasing to be able to report a positive impact from the investments made supported by tangible evidence seen from the pipeline of opportunities having grown meaningfully through the first six months of this financial year.

Outlook

The financial and operational progress made in the first half of the year is firm evidence that we are delivering on our growth strategy and the momentum that we are seeing in the business has continued into the start of the second half. With a number of customer products now in the ramping-up phase, and supportive end application dynamics, the Board has confidence in meeting expectations for the full year and remains excited about the Group's future prospects.

C A Gurry
Group Managing Director
20 November 2017

Condensed consolidated income statement
for the six months ended 30 September 2017

	Unaudited 6 months end 30/09/17 £'000	Unaudited 6 months end 30/09/16 £'000	Audited Year end 31/03/17 £'000
Continuing operations			
Revenue	**16,016**	13,044	27,737
Consisting of:			
Revenue – excluding acquisition in prior period	**16,016**	12,642	26,076
Revenue – acquisition in prior period	**—**	402	1,661
Cost of sales	**(4,782)**	(3,733)	(7,922)
Gross profit	**11,234**	9,311	19,815
Distribution and administration costs	**(9,253)**	(7,805)	(16,116)
	1,981	1,506	3,699
Other operating income	**385**	487	614
Profit from operations	**2,366**	1,993	4,313
Share-based payments	**(71)**	(72)	(139)
Profit after share-based payments	**2,295**	1,921	4,174
Finance income	**16**	17	34
Profit before taxation	**2,311**	1,938	4,208
Consisting of:			
Profit before taxation – excluding acquisition in prior period	**2,311**	1,811	3,728
Profit before taxation – acquisition in prior period	**—**	127	480
Income tax expense	**(336)**	(217)	(341)
Profit after taxation	**1,975**	1,721	3,867
Profit after taxation for period attributable to equity owners of the parent	**1,975**	1,721	3,867
Basic earnings per share			
From profit for the period	**11.74p**	10.25p	23.09p
Diluted earnings per share			
From profit for the period	**11.56p**	10.08p	22.84p
Adjusted EBITDA[1]	**4,902**	4,226	8,840
Consisting of:			
Adjusted EBITDA – excluding acquisition in prior period	**4,902**	3,858	8,247
Adjusted EBITDA – acquisition in prior period	**—**	368	593

1. See Note 10 for definition and reconciliation.

Condensed consolidated statement of total comprehensive income
for the six months ended 30 September 2017

	Unaudited 6 months end 30/09/17 £'000	Unaudited 6 months end 30/09/16 £'000	Audited Year end 31/03/17 £'000
Profit for the period	**1,975**	1,721	3,867
Other comprehensive income, net of tax:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss on retirement benefit obligations	**—**	—	(1,048)
Deferred tax on actuarial loss	**—**	—	178
Items reclassified subsequently to profit or loss upon derecognition:			
Foreign exchange differences	**(57)**	946	1,068
Other comprehensive (expense)/income for the period net of taxation attributable to equity holders of the parent	**(57)**	946	198
Total comprehensive income for the period attributable to the equity holders of the parent	**1,918**	2,667	4,065

Condensed consolidated statement of financial position
as at 30 September 2017

	Unaudited 30/09/17 £'000	Unaudited 30/09/16 £'000	Audited 31/03/17 £'000
Assets			
Non-current assets			
Goodwill	**9,134**	9,181	9,306
Other intangible assets arising on acquisition	**1,242**	1,382	1,339
Property, plant and equipment	**5,371**	5,250	5,330
Investment properties	**3,550**	3,550	3,550
Investment	**82**	84	85
Development costs	**12,053**	10,846	11,401
Deferred tax asset	**1,352**	1,158	1,419
	32,784	31,451	32,430
Current assets			
Inventories	**2,154**	1,812	2,154
Trade receivables and prepayments	**2,607**	3,451	2,697
Current tax assets	**1,085**	598	971
Cash and cash equivalents	**12,716**	11,557	12,447
	18,562	17,418	18,269
Total assets	**51,346**	48,869	50,699
Liabilities			
Current liabilities			
Trade and other payables	**5,163**	6,427	5,757
Current tax liabilities	**446**	46	57
Provision – current	**142**	—	51
	5,751	6,473	5,865
Non-current liabilities			
Deferred tax liabilities	**3,813**	3,516	3,692
Retirement benefit obligation	**3,084**	2,067	3,084
Provision – non current	**299**	—	423
	7,196	5,583	7,199
Total liabilities	**12,947**	12,056	13,064
Net assets	**38,399**	36,813	37,635
Capital and reserves attributable to equity owners of the parent			
Share capital	**843**	851	843
Share premium	**8,338**	8,294	8,319
Capital redemption reserve	**9**	—	9
Treasury shares – own share reserve	**(190)**	(190)	(190)
Share-based payments reserve	**558**	456	504
Foreign exchange reserve	**1,329**	1,264	1,386
Accumulated profits	**27,512**	26,138	26,764
Total shareholders' equity	**38,399**	36,813	37,635

Condensed consolidated cash flow statement
for the six months ended 30 September 2017

	Unaudited 6 months end 30/09/17 £'000	Unaudited 6 months end 30/09/16 £'000	Audited Year end 31/03/17 £'000
Operating activities			
Net profit for the period before taxation	**2,311**	1,938	4,208
Adjustments for:			
Depreciation	**195**	358	325
Amortisation of development costs	**2,263**	1,849	4,100
Amortisation of intangibles recognised on acquisition	**78**	26	102
Movement in non-cash items	**—**	—	(31)
Share-based payments	**71**	72	139
Movement in provisions	**—**	—	474
Finance income	**(16)**	(17)	(34)
Movement in working capital	**(504)**	2,002	1,745
Cash flows from operating activities	**4,398**	6,228	11,028
Income tax (paid)/received	**(33)**	367	(224)
Net cash flows from operating activities	**4,365**	6,595	10,804
Investing activities			
Purchase of acquisition, net of cash acquired	**—**	(3,576)	(3,576)
Purchase of property, plant and equipment	**(233)**	(413)	(450)
Investment in development costs	**(2,692)**	(2,900)	(5,763)
Receipt of escrow cash deposit	**—**	385	385
Disposal of property, plant and equipment	**—**	—	17
Finance income	**16**	17	34
Net cash flows from investing activities	**(2,909)**	(6,487)	(9,353)
Financing activities			
Issue of ordinary shares	**19**	—	25
Purchase of own shares for cancellation	**—**	—	(669)
Dividend paid to Group shareholders	**(1,244)**	(1,134)	(1,134)
Net cash flows from financing activities	**(1,225)**	(1,134)	(1,778)
Increase/(decrease) in cash and cash equivalents	**231**	(1,026)	(327)
Movement in cash and cash equivalents:			
At start of period/year	**12,447**	13,596	13,596
Increase/(decrease) in cash and cash equivalents	**231**	(1,026)	(327)
Effects of exchange rate changes	**38**	(1,013)	(822)
At end of period	**12,716**	11,557	12,447

During the year ended 31 March 2017 (and the respective half year ended 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. 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 2017

Unaudited	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Foreign exchange reserve £'000	Accumulated profits £'000	Total £'000
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	39	2,594						2,633
Total of transactions with owners in their capacity as owners	39	2,594	—	—	—	—	(1,134)	1,499
Share-based payments					72			72
Cancellation/transfer of share-based payments					(4)		4	—
At 30 September 2016	852	8,294	—	(190)	456	1,264	26,138	36,814
Profit for period							2,146	2,146
Other comprehensive income net of taxes								
Foreign exchange differences						122		122
Actuarial loss on retirement benefit obligation							(1,048)	(1,048)
Deferred tax movement on actuarial loss							178	178
Total comprehensive income for the period	—	—	—	—	—	122	1,276	1,398
Transactions with owners in their capacity as owners								
Issue of ordinary shares		25						25
Share purchase cancellation	(9)		9				(669)	(669)
Total of transactions with owners in their capacity as owners	(9)	25	9	—	—	—	(669)	(644)
Share-based payments					67			67
Cancellation/transfer of share-based payments					(19)		19	—
At 31 March 2017	843	8,319	9	(190)	504	1,386	26,764	37,635
Profit for period							**1,975**	**1,975**
Other comprehensive income net of taxes								
Foreign exchange differences						**(57)**		**(57)**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**(57)**	**1,975**	**1,918**
Transactions with owners in their capacity as owners								
Dividend paid							**(1,244)**	**(1,244)**
Issue of ordinary shares		**19**						**19**
Total of transactions with owners in their capacity as owners	**—**	**19**	**—**	**—**	**—**	**—**	**(1,244)**	**(1,225)**
Share-based payments					**71**			**71**
Cancellation/transfer of share-based payments					**(17)**		**17**	**—**
At 30 September 2017	**843**	**8,338**	**9**	**(190)**	**558**	**1,329**	**27,512**	**38,399**

Notes to the condensed consolidated financial statements
for the six months ended 30 September 2017

1 Segmental analysis

Information about revenue, profit/loss, assets and liabilities

	Unaudited 6 months end 30/09/17		Unaudited 6 months end 30/09/16		Audited Year end 31/03/17	
	Semi-conductor components £'000	**Group £'000**	Semi-conductor components £'000	Group £'000	Semi-conductor components £'000	Group £'000
Total segmental revenue	**16,016**	**16,016**	13,044	13,044	27,737	27,737
Consisting of:						
Segmental revenue – excluding acquisition in prior period	**16,016**	**16,016**	12,642	12,642	26,076	26,076
Segmental revenue – acquisition in prior period	**—**	**—**	402	402	1,661	1,661
Profit/(loss)						
Segmental result	**2,295**	**2,295**	1,921	1,921	4,174	4,174
Consisting of:						
Segmental result – excluding acquisition in prior period	**2,295**	**2,295**	1,794	1,794	3,694	3,694
Segmental result – acquisition in prior period	**—**	**—**	127	127	480	480
Finance income		**16**		17		34
Income tax expense		**(336)**		(217)		(341)
Profit after taxation		**1,975**		1,721		3,867
Assets and liabilities						
Segmental assets	**45,359**	**45,359**	43,563	43,563	44,759	44,759
Unallocated corporate assets						
Investment properties		**3,550**		3,550		3,550
Deferred tax assets		**1,352**		1,158		1,419
Current tax assets		**1,085**		598		971
Consolidated total assets		**51,346**		48,869		50,699
Segmental liabilities	**5,604**	**5,604**	6,427	6,427	6,231	6,231
Unallocated corporate liabilities						
Deferred tax liabilities		**3,813**		3,516		3,692
Current tax liabilities		**446**		46		57
Retirement benefit obligation		**3,084**		2,067		3,084
Consolidated total liabilities		**12,947**		12,056		13,064

Other segmental information

	Unaudited 6 months end 30/09/17		Unaudited 6 months end 30/09/16		Audited Year end 31/03/17	
	Semi-conductor components £'000	**Group £'000**	Semi-conductor components £'000	Group £'000	Semi-conductor components £'000	Group £'000
Property, plant and equipment additions	**233**	**233**	413	413	450	450
Development cost additions	**2,692**	**2,692**	2,900	2,900	5,763	5,763
Depreciation	**195**	**195**	358	358	325	325
Amortisation of development costs	**2,263**	**2,263**	1,849	1,849	4,100	4,100
Amortisation of acquired intangibles	**78**	**78**	—	—	102	102
Other non-cash income	**—**	**—**	—	—	31	31

Notes to the condensed consolidated financial statements
for the six months ended 30 September 2017 continued

1 Segmental analysis continued
Geographical segments

Unaudited	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Six months ended 30 September 2017					
Revenue to third parties	**3,865**	**3,737**	**2,868**	**5,546**	**16,016**
Property, plant and equipment	**4,989**	**314**	**31**	**37**	**5,371**
Investment properties	**3,550**	**—**	**—**	**—**	**3,550**
Development costs	**4,148**	**7,905**	**—**	**—**	**12,053**
Goodwill	**—**	**3,512**	**—**	**5,622**	**9,134**
Other intangible assets arising on acquisition	**—**	**—**	**—**	**1,242**	**1,242**
Total assets	**21,216**	**16,496**	**1,804**	**11,830**	**51,346**

Unaudited	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Six months ended 30 September 2016					
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	20,031	15,812	1,602	11,424	48,869

Audited	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2017					
Revenue to third parties	6,744	4,856	6,047	10,090	27,737
Property, plant and equipment	5,056	243	16	15	5,330
Investment properties	3,550	—	—	—	3,550
Development costs	3,827	7,574	—	—	11,401
Goodwill	—	3,512	—	5,794	9,306
Other intangible assets arising on acquisition	—	—	—	1,339	1,339
Total assets	22,147	14,994	1,969	11,589	50,699

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.

Revenue

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

	Unaudited 6 months end 30/09/17 £'000	Unaudited 6 months end 30/09/16 £'000	Audited Year end 31/03/17 £'000
Europe	**4,823**	3,716	7,600
Far East	**8,006**	6,110	13,460
Americas	**2,918**	2,930	6,117
Other	**269**	288	560
	16,016	13,044	27,737

2 Dividend paid and interim dividend

A dividend of 7.4p per 5p ordinary share in respect of the year ended 31 March 2017 was paid on 7 August 2017 (2016: 7.0p per 5p ordinary share in respect of the year ended 31 March 2016).

The Board is declaring a maiden interim dividend of 2.0p per 5p ordinary share, payable on 15 December 2017 to shareholders on the Register on 1 December 2017.

3 Income tax expense

	Unaudited 6 months end 30/09/17 £'000	Unaudited 6 months end 30/09/16 £'000	Audited Year end 31/03/17 £'000
UK income tax credit	**(272)**	(167)	(420)
Overseas income tax charge	**508**	268	511
Total current tax charge	**236**	101	91
Deferred tax charge	**100**	116	250
Reported income tax expense	**336**	217	341

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

	Unaudited 6 months end 30/09/17	Unaudited 6 months end 30/09/16	Audited Year end 31/03/17
Basic earnings per share			
From profit for the period	**11.74p**	10.25p	23.09p
Diluted earnings per share			
From profit for the period	**11.56p**	10.08p	22.84p

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 2017	**16,815,949**	**17,087,298**
Six months ended 30 September 2016	16,787,173	17,066,490
Year ended 31 March 2017	16,745,457	16,929,156

During the year ended 31 March 2017 (and the respective half year ended 30 September 2016), the Company issued 774,181 of its own 5p ordinary shares at a price of 340p per share as part of its acquisition on 3 August 2016 of the Sicomm group of companies.

On 23 December 2016, the Company purchased 179,439 of its own 5p ordinary shares at a price of 370p per share for cancellation. These shares were cancelled on 18 January 2017.

Notes to the condensed consolidated financial statements
for the six months ended 30 September 2017 continued

5 Investment properties

Investment properties are revalued at each discrete year 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 01/04/16 £'000	6 months end 30/09/16 Cash flow £'000	Net cash at 30/09/16 £'000	6 months end 31/03/2017 Cash flow £'000	Net cash at 31/03/17 £'000	**6 months end 30/09/17 Cash flow £'000**	**Net cash at 30/09/17 £'000**
Cash and cash equivalents	13,596	(2,039)	11,557	890	12,447	**269**	**12,716**
	13,596	(2,039)	11,557	890	12,447	**269**	**12,716**

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 IAS 19 Employee Benefits report in respect of the defined benefit pension scheme for the purpose of this Half Yearly Report.

8 Principal risks and uncertainties

Key risks of a financial nature

The principal risks and uncertainties facing the Group are with foreign currencies and customer dependency. With the majority of the Group's earnings being linked to the US Dollar, a decline in this currency would have a direct effect on revenue, although since the majority of the cost of sales are also linked to the US Dollar, this risk is reduced at the gross profit line. Additionally, though the Group has a very diverse customer base in certain market segments, key 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, raw material availabilities, manufacturing capabilities and employment of qualified personnel will be key in the achievement of its objectives, but its ultimate success will depend on the demand for its customers' products since the Group is a component supplier.

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

9 Directors' statement pursuant to the Disclosure and Transparency Rules

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

a. the condensed financial statements, prepared in accordance with IFRS as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole; and
b. the condensed set of financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting; and
c. the Chairman's statement and Group Managing Director's statement and operational and financial review include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

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

10 Basis of preparation

The basis of preparation and accounting policies used in preparation of the Half Yearly Report are the same accounting policies set out in the year ended 31 March 2017 financial statements.

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 30/09/17 £'000	Unaudited 6 months end 30/09/16 £'000	Audited Year end 31/03/17 £'000
Profit after taxation (earnings)	**1,975**	1,721	3,867
Adjustments for:			
Finance income	**(16)**	(17)	(34)
Income tax expense	**336**	217	341
Depreciation	**195**	358	325
Amortisation of development costs	**2,263**	1,849	4,100
Amortisation of intangibles recognised on acquisition	**78**	26	102
Share-based payments	**71**	72	139
Adjusted EBITDA	**4,902**	4,226	8,840

11 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 Report.

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

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

This Half Yearly 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 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 2017.

The financial information contained in this Half Yearly Report has been prepared using International Financial Reporting Standards as adopted by the European Union. This Half Yearly 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 2017 is based on the statutory accounts for the financial year ended 31 March 2017 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 Report has not been audited or reviewed by the Group Auditor.

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

12 Approvals

The Directors approved this Half Yearly Report on 20 November 2017.

Glossary

AIS	Automatic Identification System
API	Application Programmers Interface
DTR	Disclosure and Transparency Rules
EU	European Union
FY	Full Year
H1	First Half (Financial Year)
IAS	International Accounting Standards
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 Card
USB	Universal Serial Bus

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