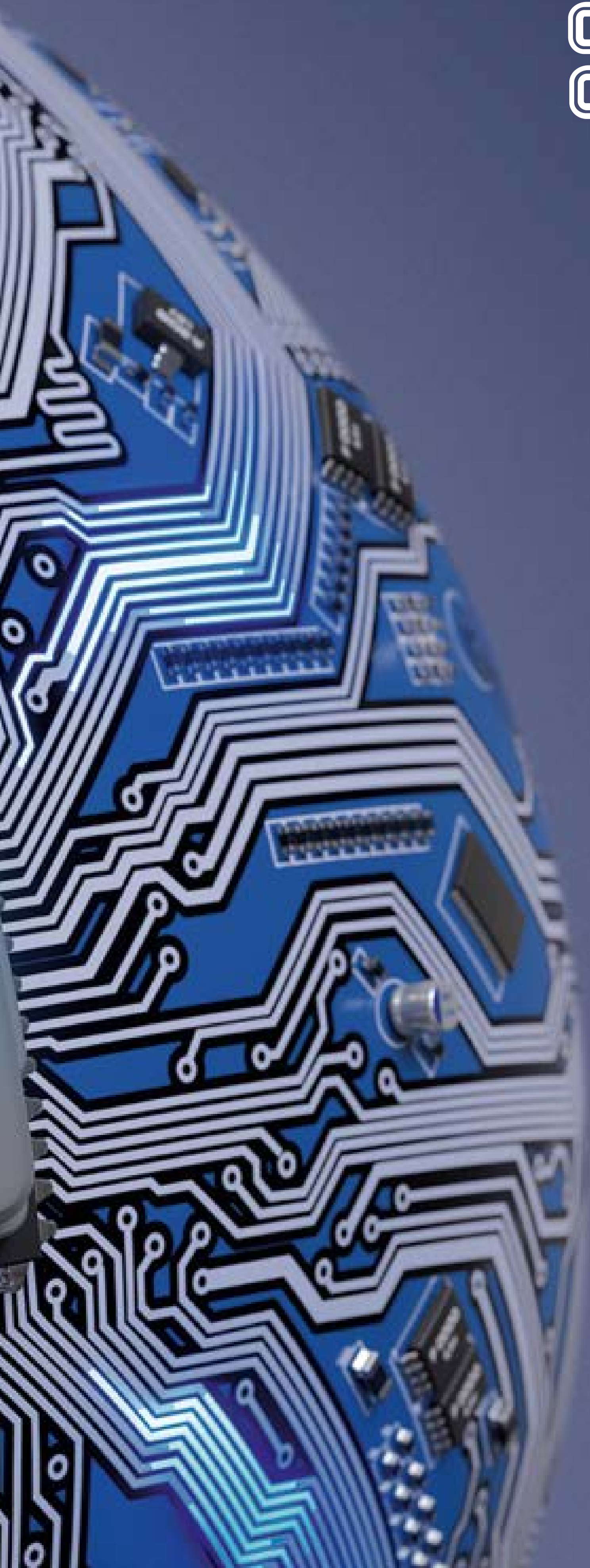


CML Microsystems Plc

Semiconductors for a connected world

Annual Report and Accounts

FY19

USER GUIDE

Welcome to the CML Microsystems Annual Report FY19. 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.

Semiconductors for a connected world

CML Microsystems Plc designs, manufactures and markets semiconductors, primarily for global communication and solid state storage markets.

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

Section 1
Strategic report

Section 2
Directors' report

Section 3
Financial statements

Section 4
Other information

FINANCIAL HIGHLIGHTS

Revenue (£m)

28.14 -11.15%

2015	21.80
2016	22.83
2017	27.74
2018	31.67
2019	**28.14**

Pre-tax profit (£m)

2.98 -34.93%

2015	3.18
2016	3.32
2017	4.21
2018	4.58
2019	**2.98**

Adjusted EBITDA[1] (£m)

8.76 -12.4%

2015	6.70
2016	6.97
2017	8.84
2018	10.00
2019	**8.76**

Shareholders' equity (£m)

42.32 +1.32%

2015	28.97
2016	32.58
2017	37.64
2018	41.77
2019	**42.32**

Net cash (£m)

12.81 -7.31%

2015	13.19
2016	13.60
2017	12.45
2018	13.82
2019	**12.81**

Basic earnings per share (p)

15.77 -35.69%

2015	16.71
2016	18.03
2017	23.09
2018	24.52
2019	**15.77**

1. For definition and reconciliation see Note 12.

OPERATIONAL HIGHLIGHTS

Communications

- 54% of Group revenue (2018: 51%).
  - Revenue £15.14m (2018: £16.17m).
  - Solid performance from mission critical and commercial mobile radio customers.
  - Encouraging contribution from chip-set shipments into data-centric wireless networking.
  - Post period end release of Group's first 2.4GHz wireless transceiver solution.

Find out more on page 13

Storage

- 46% of Group revenue (2018: 49%).
  - Revenue £12.87m (2018: £15.43m).
  - Sales into Cellular infrastructure and Industrial Automation markets were firmer.
  - Shipments into Automotive infotainment and networking markets weaker.
  - New industrial SATA3 controller launched and selectively sampled.

Find out more on page 14

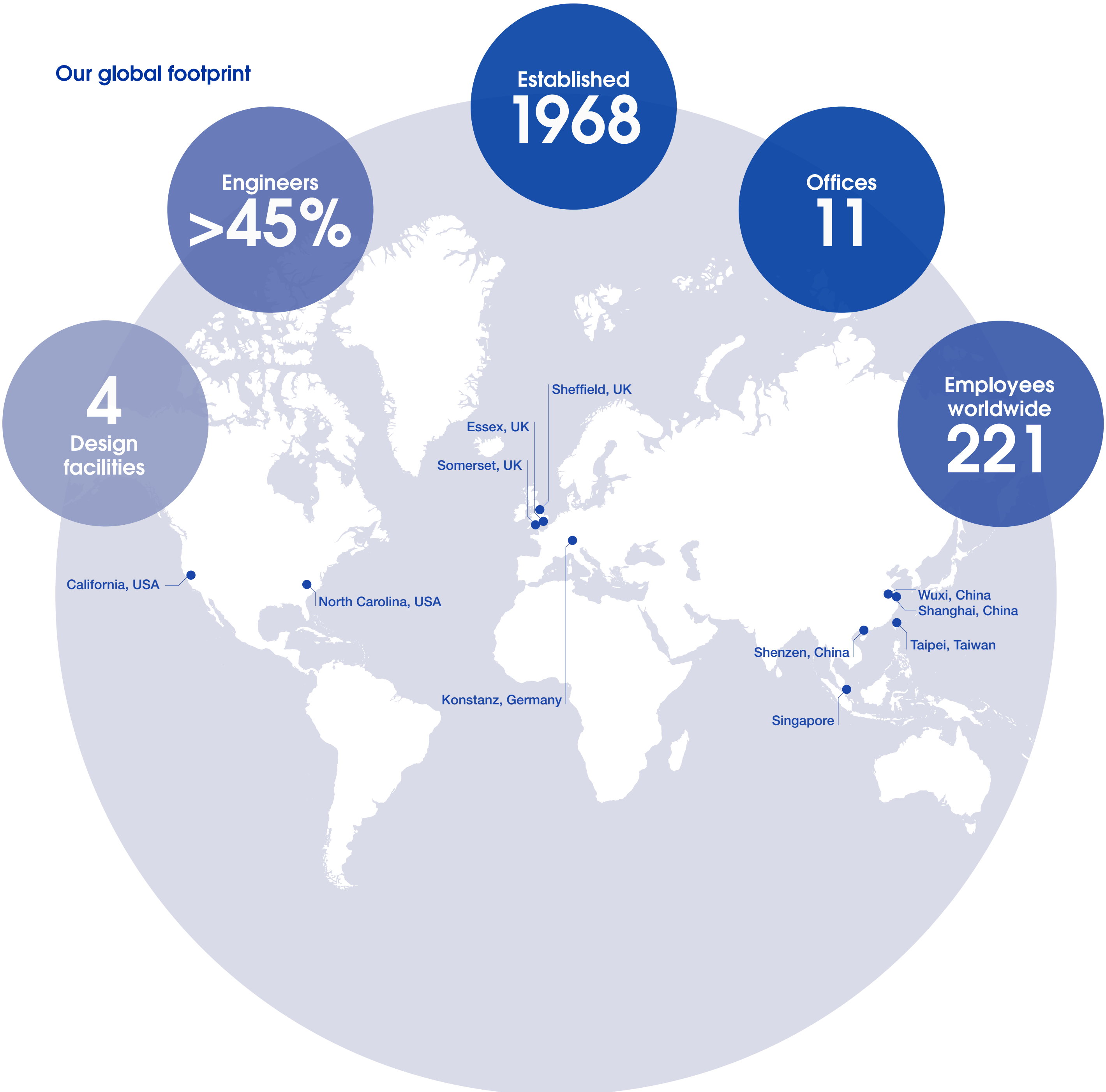
Strategic report
Directors' report
Financial statements
Other information

AT A GLANCE

Global reach and world-class customers

The Company has long held an outstanding reputation for the quality of its engineering and development teams, supported by a clear strategy, depth of management and a strengthened global sales team.

Our global footprint



● **Group operations**

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

Our growth strategy is to ensure we retain our existing customers, developing our product range and adding new customers to expand the total addressable market.

Our brands

Communications

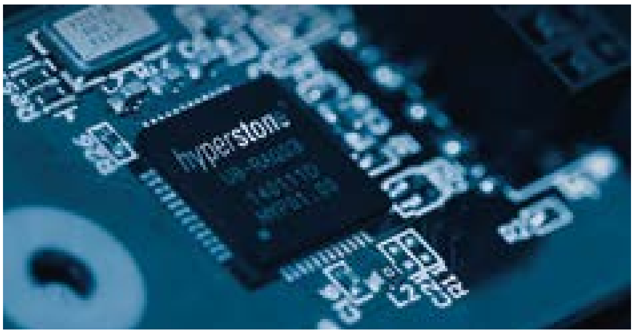
CML Microcircuits

SICOMM

Find out more on page 13

Storage

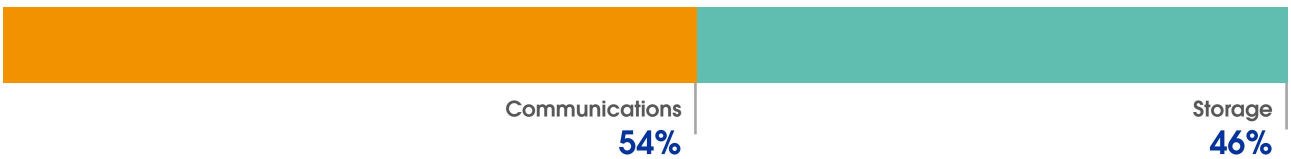
hyperstone®



Find out more on page 14

2019 revenue split by region (%)

2019 revenue split by application area (%)



GROUP CHAIRMAN'S STATEMENT

"

Our stated strategic focus of investing strongly in R&D to deliver future sales growth remains unchanged.

Nigel Clark
Group Non-Executive Chairman

Introduction

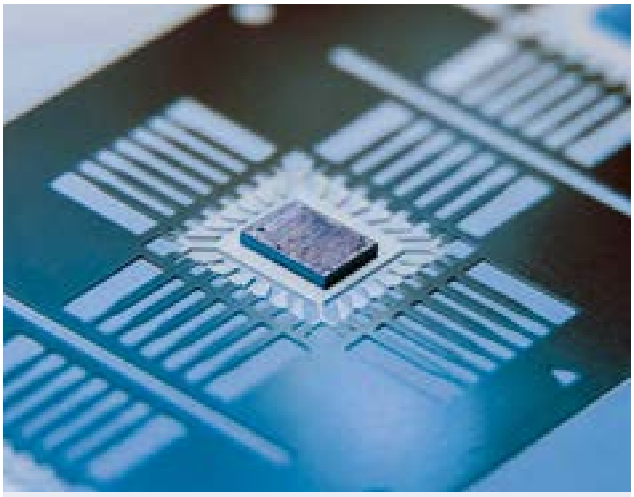
The Group has continued to make strong strategic progress during the course of the year. However, it has proved a frustrating year in terms of performance. The financial momentum that was building through previous years has been impeded by a number of macroeconomic factors outside of the Company's control. Extended raw material supply chain lead times, weaker automotive sales, a softening of the Chinese economy and ongoing geopolitical issues have been some of the headwinds that we have had to endure.

While this has been disappointing, the depth of our product portfolio, customer base and sales operation, have mitigated the impact to some extent, and the opportunity for the Company is undiminished. Our stated strategic focus of investing strongly in R&D to deliver future sales growth remains unchanged.

Results and Dividend

Revenues for the year fell by 11% to £28.14m (2018: £31.67m), with profit before taxation falling by 35% and basic earnings per share ("EPS") by 36%. Operating cash generation was strong, given the circumstances, and it is a credit to the financial management of the Company that net cash at the year end was only £1.0m lower than the previous year at £12.8m, despite the fall in revenues, a share buy-back, dividend payments of £1.33m and increased investment in R&D.

In recent years the Company has operated a progressive dividend policy, in line with sequentially higher revenues and profitability. In balancing shareholder returns with ongoing trading patterns and the future needs of the business, the Board is recommending a final dividend of 5.8p per 5p ordinary share maintaining the total for the year at 7.8p (2018: 7.8p). If approved, this will be paid on 5 August 2019 to shareholders whose names appear on the register at close of business 5 July 2019.



Employees

Despite the challenges that we have faced, our employees have worked tirelessly and their commitment and dedication have not waivered. On behalf of the Board I would like to thank them all.

Prospects and Outlook

The medium to long-term prospects for the Company continue to strengthen and the pipeline of opportunity builds year on year. The Board believes that as and when conditions normalise, sales will recover and return to growth. We have invested in raw material inventory to be able to meet such levels of demand as they occur, however, trying to estimate when that might happen is difficult and the trading environment at the start of this new financial year remains challenging. Current expectations are that conditions should stabilise through the year and that, when they do, we will be ideally placed to deliver growing returns.

Governance highlights

The governance report on pages 20 to 21 describes the Group's approach to governance and how it supports the delivery of our strategy. During the year, the following took place:

- supported the Board in providing the viability statement;
- monitored the Group's systems of risk management and internal controls; and
- reviewed significant judgements made by management in preparing the 2019 financial statements.

Remuneration committee

- Reviewed the framework for executive remuneration.
- Approved the Executive Directors' 2019 remuneration and bonus payments.

Read more on pages 22 to 27

Nigel Clark

Group Non-Executive Chairman

21 June 2019

MARKET OPPORTUNITY

Addressing growing market sectors

The need to transmit and store ever greater amounts of data, more quickly and securely is driving both markets.

Key market trends

1: Demand for data

The connected world is driving the insatiable appetite for data in the industrial arena.

2: Speed

Increasing amounts of data need to be retrieved, communicated and stored, faster and more securely.

3: Reliability

Extremely low field failure rates underpin the Group's enviable reputation for quality.

Our market application areas:

Communications

54%
Revenues

Incorporates Wireless and Wireline business

Application areas:
Professional and industrial voice and/or data communications products

Key end markets:
Voice-centric mission/business critical communications (military, commercial, construction, transportation)

Non-cellular wireless data communications; satellite M2M; Asset tracking; SCADA

Market growth drivers:
- Need for higher data rates
- IP connectivity
- Analogue to digital migration

Find out more on page 13

Storage

46%
Revenues

Hyperstone-branded products

Application areas:
Industrial flash memory cards; solid state drives; embedded storage

Key end markets:
Telecoms/network infrastructure; industrial automation; in-vehicle infotainment; IIoT

Market growth drivers:
- Acceleration of HDD to SSD transition
- Need for increased speed and highest reliability within "mission critical" applications

Find out more on page 14

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

Our areas of expertise:

Superior performance for targeted application areas

- Communications: high performance RF products, mixed-signal baseband/modem processors.
- Storage: class leading endurance and reliability; patented techniques; flash memory agnostic.

Time-to-market

- "Off the shelf" integrated circuits for focused niche application areas.
- Integrates many engineer-years of hardware and software development.
- Reduces the development cycle for the customer.

Proprietary Intellectual Property (IP)

- We have full control of the functionality and subsequent partitioning of silicon and software: this means we can deliver the optimum design mix for a specific target application.
- Through our depth of experience, we have extensive overall "system" knowledge, irrespective of our "component" supplier status.
- Proprietary silicon and software developments produce internal IP that does not attract third-party royalty payments.

High levels of customer design-in support and service

- We are viewed as a one-stop shop for support with hardware, software and system expertise; often regarded as an extension of the customer's own engineering team.
- We have the ability to provide backwards compatibility for customer-developed legacy systems.
- We have key relationships with complementary integrated circuit providers.

Customer relationships

- We enjoy high levels of trust with our customers. This translates and promotes long-term relationships.
- Through repeat design wins, we have upsell opportunities.
- Many of our customers are multi-national "blue-chip" companies.
- We have extensive, established global routes to market.

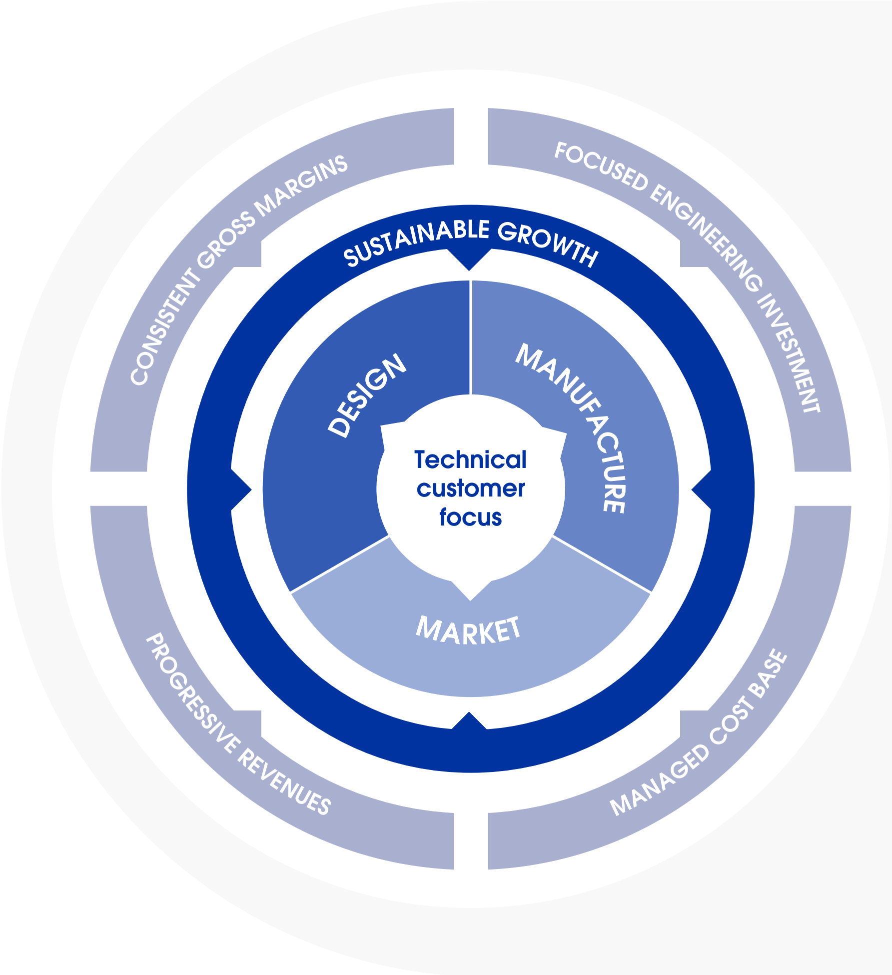
Focus on research and development and scalability

- Multi-year investment in the business, along with normal levels of R&D refresh, has significantly expanded our pipeline of products and total addressable market.
- Design is supported by a mixture of in-house and outsourced assembly and testing.
- Majority of manufacturing is outsourced, thus providing scalability for the business.

BUSINESS MODEL

Delivering long-term sustainable growth

The business model is to design, manufacture and market a range of semiconductors for global industrial and professional applications within the storage and communications market areas. It incorporates our objectives towards sustainable growth, namely of focused engineering investment, managed cost base, progressive revenues and consistent gross margins.



Innovation

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

Quality

Superiority and excellence are important definitions of quality within our organisation and are widely applicable across numerous activities. Whether it is product design, manufacturing, selling or stakeholder relationship management, we strive to be a quality company operating with the high levels of business acumen and ethical practices that the business was founded 50 years ago.

Support

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

Our growth strategy is to be the first choice key-component supplier within our chosen end-markets.

We have a range of performance measures to monitor and manage the business, some of which are considered key performance indicators ("KPIs").

KPIs[1]

Revenue (£m)

2015	21.80
2016	22.83
2017	27.74
2018	31.67
2019	**28.14**

Net cash (£m)

2015	13.19
2016	13.60
2017	12.45
2018	13.82
2019	**12.81**

Gross profit (£m)

2015	15.47
2016	16.25
2017	19.82
2018	22.24
2019	**20.25**

Profit from operations (£m)

2015	3.11
2016	3.39
2017	4.31
2018	4.55
2019	**2.82**

Basic EPS (p)

2015	16.71
2016	18.03
2017	23.09
2018	24.52
2019	**15.77**

Adjusted EBITDA[2] (£m)

2015	6.70
2016	6.97
2017	8.84
2018	10.00
2019	**8.76**

1. The above KPIs are of a financial nature. Management use financial KPIs to monitor the business performance, together with a combination of internally focussed financial and non-financial KPIs .
2. For definition and reconciliation please see Note 12.

These KPIs include revenue, gross profit, profit from operations, basic EPS and cash, summary details of which are shown above and discussed within the Group Chairman's statement on page 4 and the Group Managing Director's review on page 10.

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 has 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.

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, 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 (including the UK's withdrawal from the European Union, or 'Brexit'), political risk, 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), anti-corruption and bribery matters 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 other disclosures and corporate social responsibility sections of this Annual Report.

GROUP MANAGING DIRECTOR'S REVIEW

"With an enlarged customer base, more products ready to enter the ramping phase, expanded global sales coverage and a stronger pipeline of opportunities than ever before, the foundations are in place to capitalise as the trading environment improves.

Chris Gurry
Group Managing Director

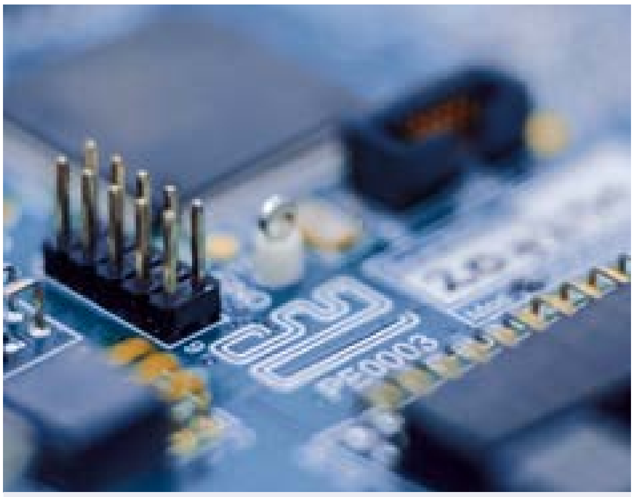
Operational and Financial Review

Introduction

The disappointing financial performance this year is a reflection of a trading environment which became increasingly difficult as the period progressed. At the start of the financial year we warned that raw material supplier issues had started to become a feature and that we therefore expected revenue and profit generation in this year to be weighted towards the second half. Nevertheless, strong financial management and a favourable product mix enabled the Company to report encouraging levels of profitability at the half year stage, but it was clear that the second half of the year would need to witness improved market conditions to achieve expectations.

A softening of the Chinese economy, along with ongoing geo-political issues further dampened demand, with some customers choosing to delay orders due to uncertainty and others remaining in an inventory correction pattern. This resulted in a full year performance that fell below our objectives.

Measures have been taken throughout the year, including increasing levels of raw material inventory to mitigate the long lead times, which we believe are prudent in these circumstances. While market conditions across the year have not been favourable, we are confident our underlying strategy is working, as evidenced by the continued strong growth in our project pipeline and widening of our customer base. Previous investments into our sales and marketing capabilities have delivered a consistently higher level of design wins over the last two years, building a solid opportunity base for long-term sustainable revenue growth.



Financial review

Sales revenue for the year amounted to £28.14m, representing a decrease of 11% when compared to the record prior full year period (2018: £31.67m). The reduction was across both main market application areas although the drop in sales from semiconductor products targeted at Storage applications contributed most to the decline. Sales in the second half of the year were lower than the first six-months as order intake was impacted further by a combination of industry, market sector and political headwinds.

Shipments into the Group's two largest customers fell materially as a result of the aforementioned headwinds whilst pleasingly, across the broader customer base, just over half of the top 40 customers increased their absolute spend.

Despite a reduction in sales revenue, the product mix favoured solutions that are well suited to applications where quality, reliability and technical performance command a premium, leading to improved gross profit margins of 72% (2018: 70%). Gross profit for the year was £20.25m (2018: £22.24m).

Distribution and administration costs fell to £18.07m for the year, a £0.45m reduction on the comparable period (2018: £18.52m). A gain on foreign exchange of £0.25m (2018: £0.45m loss) and a tight focus on operational spend more than compensated for an increase in the amortisation of development costs to £5.15m (2018: £4.75m) and the effect of accounting for pensions under International Accounting Standards (IAS 19), which impacted costs by £0.16m (2018: £0.1m credit).

In recent years the Group has operated at an elevated level of research and development investment with a policy designed to maximise growth potential through the development of new products that will expand the size of the Group's serviceable market. At the same time, there is also a need to protect existing revenue streams through the periodic refresh of the product portfolio to cope with changes in customer needs and market requirements. Throughout the year we committed to new developments to complement the underlying core roadmap programmes already underway. This resulted in a 20% increase in spend on research and development costs for the year to £8.24m (2018: £6.87m) with £1.07m expensed (2018: £1.19m) and £7.17m capitalised under the Group's long-standing policy (2018: £5.68m).

Highlights

- Communications:
  - revenue £15.14m (2018: £16.17m);
  - solid performance from mission critical and commercial mobile radio customers;
  - encouraging contribution from chip-set shipments into data-centric wireless networking; and
  - post period-end release of Group's first 2.4GHz wireless transceiver solution.
- Storage:
  - revenue £12.87m (2018: £15.43m);
  - Sales into Cellular infrastructure and Industrial automation markets were firmer;
  - shipments into Automotive infotainment and networking markets weaker; and
  - new industrial SATA3 controller launched and selectively sampled.
- Record R&D investment of £8.24m (2018: £6.87m)
- Progress with diversifying customer base
- Expanded sales and marketing capabilities

The Group receives other income from a combination of rental income (commercial rental of non-operational property assets), grant income associated with specific engineering development activities and royalty income (sale of third party technology incorporated within semiconductor solutions). The amount recorded for the year was £0.64m (2018: £0.83m).

Profit from operations fell £1.74m to £2.81m (2018: £4.55m).

During the first six-months of the year, the Group completed the sale of a non-operational property asset in Essex, generating a profit on disposal of £0.22m. There were no such transactions in the comparable year, although the Group's investment properties did receive an uplift in valuation amounting to £0.14m. After accounting for share-based payments and net finance income, a profit before tax of £2.98m was recorded (2018: £4.58m).

Contribution from the top two customers fell significantly with both of these customers operating in the Storage sector and themselves impacted by the market dynamics that remained a feature across the year. Similar to the prior year, only one customer contributed more than 10% of the Group's revenues.

GROUP MANAGING DIRECTOR'S REVIEW CONTINUED

Operational and Financial Review continued

Financial review continued

A higher UK tax credit associated with the Group's research and development activities was the primary driver behind a lower than average rate of taxation, at 10% (2018: 10%), leading to an income tax expense of £0.29m being recorded (2018: £0.44m).

Profit after tax equated to £2.70m (2018: £4.14m) representing a reduction of 35%. Basic EPS was 15.77p (2018: 24.52p) with a slightly higher number of shares in issue.

Cash management across the Group throughout the year was an important focus area. At 31 March 2019, Group net cash balances amounted to £12.81m, a reduction of £1.01m from the start of the financial year (1 April 2018: £13.82m). This is a particularly pleasing performance following the need to navigate current and potential future inventory issues, another record year of R&D spend (£8.24m) and payment of a £1.33m dividend in respect of the prior financial year. Included in the cash balance is a conditional customer prepayment of £0.70m made against future product purchases.

At the beginning of the year, we communicated that the semiconductor industry as a whole had been experiencing extended lead times for raw materials. In varying forms, this message permeated the year and suitable measures were initiated to mitigate any impact where possible.

Resulting inventory levels at 31 March 2019 were £2.88m (2018: £2.35m).

As reported within the prior year's Annual Report, the deficit associated with the Group's historic final salary pension scheme, as calculated under IAS 19, had fallen to £2.07m. For this financial year, whilst the assets of the scheme have remained fairly stable at £20.63m (2018: £20.68m), the assumptions used within the calculation of liabilities has had a significant impact. Predominantly, a movement in the discount rate used at the end of the financial year drove the net pension liability up to £3.55m. Additionally, for this year, an IAS19 expense of £0.16m was charged to the income statement in part associated with the recent mandatory introduction of Guaranteed Minimum Pension (GMP) gender equalization rules.

Separately from the IAS19 calculation, the most recent triennial actuarial valuation on the scheme carried out by an independent professionally qualified actuary, as at 31 March 2017, resulted in a net pension surplus of £1.89m. An approximate update of the funding position was carried out as at 31 March 2018 which, when viewed as a continuing scheme, showed a net surplus of £3.17m. The report further stated that the scheme assets were sufficient to cover 118% of the benefits accrued to members, after allowing for future increases in these benefits.

Revenue (£m)

28.14 -11.15%

2015	21.80
2016	22.83
2017	27.74
2018	31.67
2019	**28.14**

Gross profit (£m)

20.25 -8.95%

2015	15.47
2016	16.25
2017	19.82
2018	22.24
2019	**20.25**

Profit from operations (£m)

2.82 -38.02%

2015	3.11
2016	3.39
2017	4.31
2018	4.55
2019	**2.82**

Adjusted EBITDA[1] (£m)

8.76 -12.4%

2015	6.70
2016	6.97
2017	8.84
2018	10.00
2019	**8.76**

Shareholders' equity (£m)

42.32 +1.32%

2015	28.97
2016	32.58
2017	37.64
2018	41.77
2019	**42.32**

Dividend (p)

7.80p

2015	6.90
2016	7.00
2017	7.40
2018[2]	7.80
2019[2]	**7.80**

1. For definition and reconciliation see Note 12.
2. 2019 incorporates an interim dividend of 2.0p and a proposed final dividend of 5.8p, providing a total dividend of 7.8p (see Note 10).

Communications

The ongoing strategy within Communications markets is to develop new products that enable us to grow customer share, widen the customer base and expand the size of the serviceable market through enabling new functionality and improved performance within the customers' end product.

The ongoing strategy within Communications markets is to develop new products that enable us to grow customer share, widen the customer base and expand the size of the serviceable market through enabling new functionality and improved performance within the customers' end product.

The Group's Communication semiconductor portfolio now exceeds 70 solutions and our continued system-level focus permits a single customer wireless product to contain up to five separate CML devices. This increases our content value within the end product but, importantly, with the aid of focused demonstration platforms and global technical support teams, helps our customers get to market faster and at a lower overall cost.

Revenue from the sale of semiconductors into the Communications sector amounted to £15.14m (2018: £16.17m), a decline of 6% over the previous full year. At the interim stage, an advance of 1% had been recorded against a particularly strong comparable period which serves to highlight the trading deterioration through the final months of the year. Shipments into both the Americas and Asia were lower and reflected a combination of the aforementioned headwinds and associated customer inventory level dynamics.

Application areas

Professional and industrial voice and/or data communications products

Markets served

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

Digital baseband processors, modem IC's and radio frequency (RF) solutions contributed the bulk of shipments through the year with some application sectors achieving good results despite challenging circumstances. A solid performance came from a number of professional and commercial mobile radio customers, where the Group produces focussed solutions for standards such as TETRA, P25 and DMR along with regional derivatives, targeted at emergency warning applications as an example.

An encouraging contribution was made from the use of CML chip sets within data-centric proprietary wireless network solutions that are deployed for a variety of secure data control, monitoring and logging requirements on a fairly localised basis. Included within this are Real-Time Kinematic (RTK) products for enhanced GPS positioning uses and narrowband wireless products for monitoring and utility substation automation. The sale of products specifically into satellite applications was softer year-on-year, as were revenues from the mature wireline telecom portfolio.

The Group released a selection of new products across the year supported by appropriate demonstration platforms to aid the design-in process. These new products are expected to follow the typical multi-year cycle from customer introduction through to meaningful revenue generation. Our ultra-low power audio codec that was released in the second half of the year fits neatly into current application areas but, as a general purpose audio codec plus class-D amplifier solution, should also serve to expand our market sector reach. Following the financial year end, and in keeping with our stated strategy to widen the serviceable market size, the Group released its first focussed 2.4GHz wireless transceiver solution, the SCT2400. Its long-range low power credentials and security features make it an ideal solution for digital voice and data applications that require traditional mobile radio functionality but on globally accepted, license-free radio channels.

GROUP MANAGING DIRECTOR'S REVIEW CONTINUED

Storage

Over recent years, we have significantly expanded the Storage product portfolio to encompass most of the interface standards used within the high reliability markets that remain a strong focus for growth.

Over recent years we have significantly expanded the Storage product portfolio to encompass most of the interface standards used within the high reliability markets that remain a strong focus for growth. Investment levels have been high but that has positioned us well to capture the increasing number of opportunities that a wider target market presents. However, from a purely financial performance viewpoint, the contribution this year from the Storage sector fell well short of management expectations.

Sales revenues were £12.87m equating to a disappointing 17% reduction against the prior year (2018: £15.43m). It is particularly frustrating to report a fall of this magnitude given that the principal causes were either related to specific market dynamics or as a result of the uncertainties associated with ongoing geo-political issues. Our customer purchasing patterns continued to be impacted by the hangover from pricing and supply fluctuations associated with NAND flash memory technology itself, which sits alongside our controller in the customers' end product. This affected the majority of our customers to a degree, with some managing the situation more successfully than others. Sales into the automotive infotainment market were weaker following a globally reported weakness in that particular sector, but also due to the limited customer base the Group has in this relatively new market for us.

Application areas

Industrial flash memory cards; solid state drives; embedded storage

Markets served

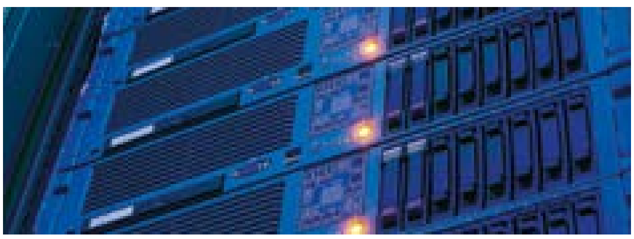
- Automotive
- Industrial
- Medical
- Infrastructure
- Infotainment
- Gaming
- Security
- Telecoms
- Utilities
- Mobile and POS payment

Further analysis of the total revenue number for Storage shows that the situation was mixed, with a selection of mature products experiencing a decline that was partially countered by an increased contribution from more recent product introductions.

Despite the broad-based fall in Storage revenues and the prevailing market conditions, a number of our customers supplying solutions into the Telecom Infrastructure and Industrial Automation markets increased their spend with us. We received notification that storage solutions based upon our semiconductors passed qualification at four of the top five cellular infrastructure manufacturers and subsequent shipment volumes grew across the year as a whole. Additionally, and in keeping with our stated strategy for growth, we secured design-wins in several new areas, including voting machines, cashier systems and black box "dataloggers" for railway applications.

In February we announced a new SATA 3 product, the X1, which is designed to satisfy the specific needs of the industrial, high reliability markets. It is the first dual-core product we have produced and uses our proprietary processor technology offering enhanced levels of data security. Compatible with current and next generation NAND flashes, the solution offers class-leading endurance at speeds up to 6.0Gb/s and is ideal for customers who have power and space constraints. The X1 significantly increases the size of the Group's serviceable market and is expected to be a major growth contributor in future years. A selection of early stage lead customers are already evaluating the product whilst a number of qualification and compliance activities are underway ahead of mass production availability later in the calendar year.

Whilst the X1 is seen as a flagship product both technically and in terms of future revenue generation, R&D spend through the period was simultaneously focussed on enhancements and roadmap developments for the Group's HyMap controller firmware and towards refreshing certain existing products to ensure future compatibility with commercially available NAND flash technology.



Operational and Financial Review continued

Strategy overview

The Group's strategy today remains consistent with that previously communicated. Our business is focused on two important markets, namely industrial Communications and industrial Storage, 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 extensive sales network and expanded presence globally, will enable us to scale further once current market conditions ease.

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

Market developments

The underlying growth trends within our two main industrial application areas continue to strengthen and underpin confidence in our strategy. The persistent demand for increasing amounts of data to be transmitted and stored more quickly and securely remains.

The Communications market continues to exhibit a multitude of growth areas. Demand for inexpensive and reliable land mobile radios, growing significance of efficient critical communications operations, application of land mobile radios in diverse industries and the transition of communication devices from analogue technology to digital are some of the factors driving the voice-centric market. For M2M and IIoT applications, internet connectivity for intelligent transportation, data accuracy and continuity for agricultural and construction sectors, control and data acquisition for Public Utilities and the increasing data throughput requirements from terrestrial and satellite communications applications all combine to drive growth through the years ahead.

Within the industrial data storage market, there are several exciting opportunities demonstrating solid growth characteristics. The Industrial control and factory automation market is growing through the increasing use of enabling technologies in manufacturing, rising adoption of industrial robots in the manufacturing sector and the connected supply chain. In Telecoms Infrastructure, the 5G rollout has commenced and is expected to start gathering pace by the end of the calendar year. The global enterprise Networking market is expected to expand significantly driven by the surge in connected devices that will generate a need for secure & real-time communication between devices such as networking switches and routers. A common feature of each of these markets is the need for secure, localised data storage.

An overriding facet encompassing both main markets addressed is that security is playing an increasing role in the customers' decision making process.

For Communications systems, there are security benefits to using proprietary radio standards where the over-air radio protocols are confidential to the OEM and the unauthorised interception and/or manipulation of customer data becomes more difficult. Within Storage applications, security conscious customers are increasingly reticent to provide detailed requirement specifications to a third-party. Using our proprietary API toolkit, customers have the ability to purchase one of our standard off-the-shelf Controller solutions and then enhance the features themselves through in-house software development, in complete confidence.

Through our continued strong focus on R&D, we have a relevant and growing suite of products developed to meet the needs of the developing market.

Operational developments

We added new customers to our already impressive list of leading OEMs and the diversification of our customer base has helped us to mitigate some of the short-term impact on these results. The Group retains a strong balance sheet and growing product portfolio. These factors have provided us with the confidence to maintain our investments into the business, to ensure we emerge from these market conditions in a position of strength.

We have expanded our Sales and Marketing capabilities in the year, securing additional routes to market through one of the leading global online distributors, Digi-Key, additional regional distributors in Asia and the hiring of a VP sales for Storage products in the Americas. Actions are underway to further augment our routes to market in that region and to ensure that globally we maintain sales channel partners that fit well with the expanded product portfolio.

Outlook

The Board is confident that the medium to long-term drivers remain strong. With an enlarged customer base, more products ready to enter the ramping phase, expanded global sales coverage and a stronger pipeline of opportunities than ever before, the foundations are in place to capitalise as the trading environment improves. Whilst the timing of this improvement is difficult to foresee, we do not currently expect further deterioration.

The strength of our balance sheet provides us with the security of being able to continue to invest in R&D to maximise the long-term opportunities, rather than react to short-term forces which would impact future growth objectives.

We currently anticipate revenues will advance as we progress through the year ahead although the necessity for a continued high level of R&D investment is expected to put downward pressure on the Group's overall profitability. Though the Board and senior management team will be working to minimise the impact of this pressure, the current trading year looks likely to be one of stabilisation.

As and when conditions show a significant pattern of change we will update shareholders accordingly. In the meantime, the Board believes we continue to be well placed for future growth as market conditions become more favourable.

Chris Gurry
Group Managing Director
21 June 2019

CORPORATE SOCIAL RESPONSIBILITY

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

Employees

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

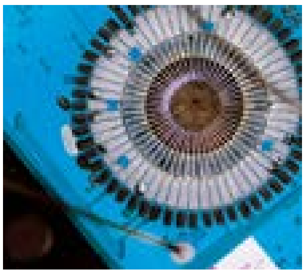
	2019			2018		
	Male	**Female**	**Total**	Male	Female	Total
Plc Board Directors	**6**	**—**	**6**	6	—	6
Senior management	**14**	**2**	**16**	14	1	15
Staff	**140**	**59**	**199**	139	62	201
Total	**160**	**61**	**221**	159	63	222

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

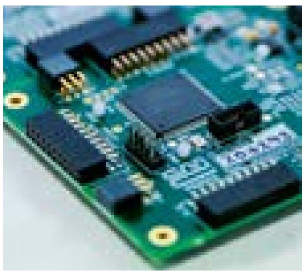
The Group encourages employees to participate directly in the success of the business through a free flow of information and ideas, along with Company share ownership. Options over shares in employee share plans do not hold the rights of the ordinary shares themselves.











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.

Greenhouse gas emissions in tonnes of CO_2 equivalents

Tonnes of CO_2e	**2019**	**% of total emissions**	2018	% of total emissions
Scope 1	**112.51**	**26.85%**	133.84	25.95%
Scope 2	**306.58**	**73.15%**	381.93	74.05%
Total controlled emissions	**419.09**	**100.00%**	515.77	100.00%

Source of emissions

Tonnes of CO_2e	**2019**	**% of total emissions**	2018	% of total emissions
Scope 1				
Fuel – Company owned vehicles	**26.26**	**6.27%**	21.12	4.10%
Gas – heating	**86.24**	**20.58%**	112.71	21.85%
Refrigerant	**0.01**	**0.00%**	0.01	0.00%
Total scope 1 emissions	**112.51**	**26.85%**	133.84	25.95%
Scope 2				
Electricity – office and manufacturing	**306.58**	**73.15%**	381.93	74.05%
Total scope 2 emissions	**306.58**	**73.15%**	381.93	74.05%

Geographical breakdown

2019 Tonnes of CO_2e	**Scope 1**	**Scope 2**	**Total**	**% of total emissions**
UK	**99.42**	**263.23**	**362.65**	**86.53%**
Taiwan	**7.60**	**13.77**	**21.37**	**5.10%**
Singapore	**0.00**	**3.00**	**3.00**	**0.71%**
China	**5.49**	**9.86**	**15.35**	**3.66%**
Germany	**0.00**	**16.72**	**16.72**	**4.00%**
Total emissions	**112.51**	**306.58**	**419.09**	**100.00%**

2018 Tonnes of CO_2e	Scope 1	Scope 2	Total	% of total emissions
UK	118.21	325.64	443.85	86.06%
Taiwan	7.58	18.16	25.74	4.99%
Singapore	0.00	3.75	3.75	0.73%
China	8.05	17.04	25.09	4.86%
Germany	0.00	17.34	17.34	3.36%
Total emissions	133.84	381.93	515.77	100.00%

Intensity of emissions

Tonnes of CO_2e/£'000 turnover	**2019**	2018
Scope 1	**0.00**	0.00
Scope 2	**0.01**	0.01
Total	**0.01**	0.01

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.

DIRECTORS

The Board is collectively responsible for the long-term success of the Company.

Nigel Clark
Group Non-Executive Chairman
Aged 65, 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. Nigel is Chairman of the Remuneration Committee and member of the Audit Committee.

R A

Chris Gurry
Group Managing Director
Aged 55, 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. He is a member of the Remuneration Committee.

R

Neil Pritchard
Group Financial Director and Company Secretary
Aged 47, 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.

Key:
R Chairman of the Remuneration Committee
A Chairman of the Audit Committee
R Member of the Remuneration Committee
A Member of the Audit Committee

Hugh Rudden
Group Sales and Marketing Director

Aged 59, 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.

Jim Lindop
Non-Executive Director

Aged 62, 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.

Geoff Barnes
Non-Executive Director

Aged 74, Geoff joined the Company in April 2017.

He is currently a Director of Baker Tilly International having transitioned to the role in June 2016 after serving as its CEO and President for 16 years. He is also Non-Executive Chairman of the Supervisory Board of Baker Tilly South-East Europe Ltd, strategic advisor on international matters to a major city law firm and chairman of the International Advisory Panel of the Institute of Chartered Accountants in England and Wales.

In 2015, Geoff was awarded the prestigious life-time achievement award by the International Accounting Bulletin for services to global public accounting. Previous roles include 18 years with Casson Beckman, culminating in the position of Executive Chairman, and 6 years with Deloitte Haskins & Sells in London where he qualified as a chartered accountant. Geoff is Chairman and member of the Audit Committee and is a member of the Remuneration Committee.

A R

CORPORATE GOVERNANCE

> The Company is committed to high standards of corporate governance.

Board	
Audit Committee	**Remuneration Committee**
Geoff Barnes (Chair)	Nigel Clark (Chair)
Nigel Clark	Geoff Barnes
	Chris Gurry

Statement of the application of principles in the UK Corporate Governance Code 2014 (the "Code")

The Board acknowledges the importance of the UK Corporate Governance Code 2014 (the "Code") revised in September 2014. 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 pages 18 and 19. 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 2019, eight Board meetings were held where all Directors in post participated (2018: eight).

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

On pages 28 to 31 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 ongoing process in place for identifying, evaluating and managing the Group's significant risks. Further details of our financial risk management policy are provided in note 23.

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. (see Directors section). During the year ended 31 March 2019, two Audit Committee meetings were held where all Directors in post participated (2018: two meetings).

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 and private client 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 ("AGM") 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

Nigel Clark

Group Non-Executive Chairman

21 June 2019

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 AGM 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. Therefore, there has been no change in remuneration policy in 2019.

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 currently comprises Nigel Clark (committee Chairman), Geoff Barnes, and Chris Gurry. Chris Gurry does not participate in deciding his personal remuneration package. During the year ended 31 March 2019, two Remuneration Committee meetings were held where all Directors in post participated (2018: one meeting).

Remuneration policy

Set out in the following table 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 similarly sized companies.

Remuneration policy

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.	No specific performance conditions, no maximum salary and no minimum or maximum rate of increase.
Contribution to 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[1]	To provide a competitive benefits package.	Includes 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.

1. 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. Contributions to pension figures may include where Executive Directors elect to make payments into a personal pension plan in lieu of salary awarded.

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.
Contribution to 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.

The Company has no long-term incentive plans for Directors and no separate share option scheme exists solely for Executive Directors and they therefore only participate in share option plans that are eligible to all employees. The committee believes that share option schemes for all employees maximise shareholder value over time and therefore no specific performance conditions attach to the number of options granted to Executive Directors on an individual basis.

DIRECTORS' REMUNERATION REPORT CONTINUED

Policy on payment for loss of office

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

Single total figure of remuneration (audited)

Individual Directors' remuneration was as follows:

2019	**Salary £'000**	**Bonus £'000**	**Benefits in kind £'000**	**Total excluding pension £'000**	**Contribution to pension £'000**	**Benefits total £'000**
Nigel Clark	**69**	**—**	**1**	**70**	**—**	**70**
Chris Gurry	**214**	**43**	**32**	**289**	**25**	**314**
Neil Pritchard	**149**	**29**	**21**	**199**	**14**	**213**
Hugh Rudden	**147**	**30**	**9**	**186**	**14**	**200**
Geoff Barnes	**25**	**—**	**1**	**26**	**—**	**26**
Jim Lindop	**23**	**—**	**1**	**24**	**—**	**24**
	627	**102**	**65**	**794**	**53**	**847**

2018	Salary £'000	Bonus £'000	Benefits in kind £'000	Total excluding pension £'000	Contribution to pension £'000	Benefits total £'000
Nigel Clark	60	—	1	61	—	61
Chris Gurry	214	47	29	290	25	315
Neil Pritchard	141	31	18	190	12	202
Hugh Rudden	147	32	14	193	13	206
Geoff Barnes	25	—	—	25	—	25
Jim Lindop	23	—	1	24	—	24
	610	110	63	783	50	833

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 %
2019	**Chris Gurry**	**314**	**20.0%/50%**	**n/a**
2018	Chris Gurry	315	22.0%/50%	n/a
2017	Chris Gurry	313	22.0%/50%	n/a
2016	Chris Gurry	289	17.5%/50%	n/a
2015	Chris Gurry	287	17.5%/50%	n/a

Change in Group Managing Director's remuneration:

The table below shows the Group Managing Director's total remuneration from the two prior years to the current year compared to the total remuneration for the Group.

	2019 £'000	2018 £'000	2017 £'000
Basic salary	**214**	214	214
Taxable benefits and pension	**57**	54	52
Annual bonus	**43**	47	47
Total remuneration of Group Managing Director	**314**	315	313
Total remuneration of employees	**13,530**	14,118	12,636

Single total figure of remuneration (audited)

Share options (audited)

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

	Number of options at 1 April 2018 '000	Options exercised in year '000	Gain on options exercised in year '000	Options granted in year '000	**Number of options at 31 March 2019 '000**	Exercise price	Exercise date
Chris Gurry	20	—	—	—	**20**	£2.20	15 June 2014 to 14 June 2021[1]
	30	—	—	—	**30**	£3.51	25 Sept 2018 to 25 Sept 2025
	—	—	—	75	**75**	£2.79	19 Mar 2022 to 18 Mar 2029
Neil Pritchard	20	(7.5)	12	—	**12.5**	£3.45	2 April 2018 to 2 April 2025[1]
	25	—	—	—	**25**	£3.475	25 Sept 2018 to 25 Sept 2025[1]
	55	—	—	—	**55**	£5.20	28 Mar 2021 to 28 Mar 2028
	—	—	—	75	**75**	£2.79	19 Mar 2022 to 18 Mar 2029
Hugh Rudden	20	(8)	15.4	—	**12**	£3.125	17 Sept 2017 to 17 Sept 2024[1]
	25	—	—	—	**25**	£3.475	25 Sept 2018 to 25 Sept 2025[1]
	55	—	—	—	**55**	£5.20	28 Mar 2021 to 28 Mar 2028
	—	—	—	75	**75**	£2.79	19 Mar 2022 to 18 Mar 2029
	250	(15.5)	27.4	225	**459.5**		

1. These share options are potentially exercisable.

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. Options have been granted in the year to directors over 225,000 shares with an exercise price of 279p as at the date of grant, the fair value of these options at the date of grant being £126,000. The directors have been granted options under the same conditions as other employees, and details of these grants have been disclosed in notes 29 and 30. The market price of the Company's shares as at on 31 March 2019 was 279p (2018: 520p) and the range for the year was 279p to 520p.

Pensions (audited)

The Group operates several pension schemes throughout the UK and overseas in which some of the Directors are included. Full details of these schemes are given in note 27 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:

	2019 Number	2018 Number
Defined contributions scheme	**3**	3
Defined benefit scheme	**—**	—

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 was provided under a separate policy for the year ended 31 March 2019.

Company contributions of £53,000 (2018: £50,000) 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 (2018: 65 years). There are no additional benefits that will become receivable by a Director in the event of early retirement.

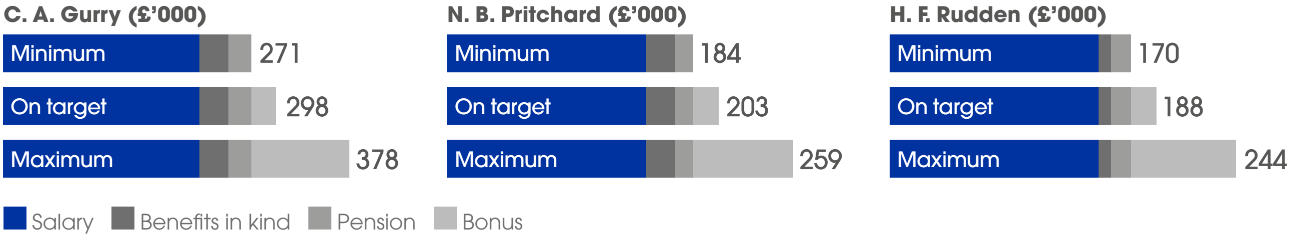
DIRECTORS' REMUNERATION REPORT CONTINUED

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 2019 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 2019 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

Chris Gurry is employed by the Company under a written contract of employment that provides for termination by either party giving twelve months' notice. Neil Pritchard and Hugh Rudden are employed by the Company under written service contracts that provide for termination by either party giving six months' notice.

Jim Lindop has a service contract effective from 1 April 2019. Nigel Clark has a service contract effective from 19 January 2015. Geoff Barnes has a service contract effective from 1 April 2017. All Directors are subject to re-appointment at the first AGM after their appointment and thereafter, apart from the Group Managing Director, one-third of the remaining Directors shall retire by rotation at the AGM.

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 2019. Any movements awarded to salary are shown on page 24 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 6) is shown below:

	2019 £'000	2018 £'000	Movement £'000	Movement %
Employee remuneration	**13,530**	14,118	(588)	-4.16
Group Managing Director remuneration	**314**	315	(1)	-0.31
Distributions to shareholders (interim and final dividends paid)	**1,332**	1,581	(249)	-15.74

An interim dividend was initiated in the year ended 31 March 2018 and therefore cash paid out was greater in that year as it recognised the payment of the final dividend payment for year ending 31 March 2017 and the interim dividend payment for year ending 31 March 2018.

Shareholder voting

At the AGM on 1 August 2018, there was an advisory vote on the resolution to approve the remuneration report the result of which is detailed below:

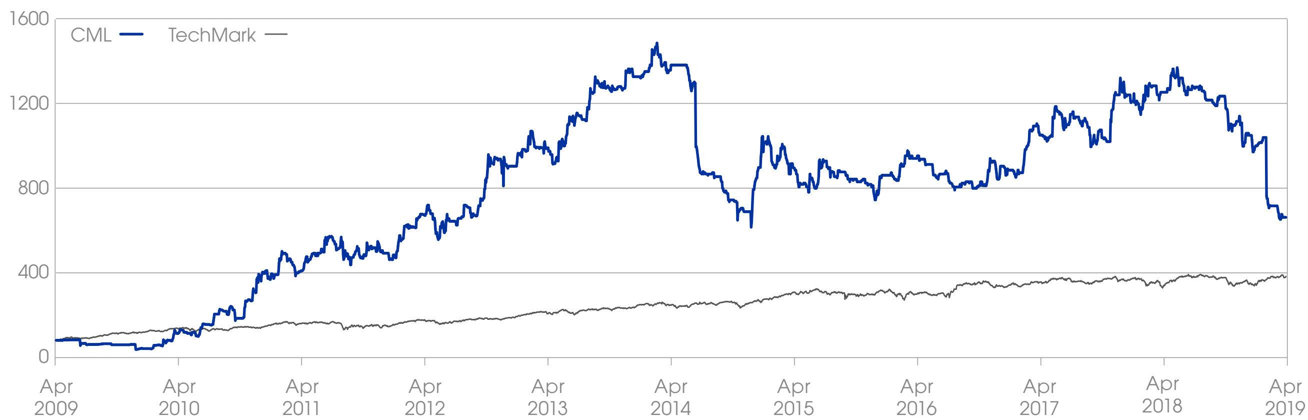
	% of votes for	% of votes against	% of votes withheld
Resolution to approve the remuneration report	96.03	3.97	0.00

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 AGM in July 2019.

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

Nigel Clark
Group Non-Executive Chairman and
Chairman of the Remuneration Committee

21 June 2019

OTHER DISCLOSURES

Report of the Directors

The Directors submit their report and Group financial statements for the year ended 31 March 2019 in addition to the Directors' Remuneration Report on pages 22 to 27.

The Directors referred to on pages 18 and 19 all served throughout the year ended 31 March 2019.

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 36 to 79 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.

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 17 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 page 9.

Results

The results for the Group for the current and comparative periods are discussed in the Financial Review section of the Group Managing Director's review within the strategic report. 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.

Dividends

An interim dividend of 2.0p per 5p ordinary share was paid on 14 December 2018 to shareholders on the Register on 30 November 2018.

The Directors are proposing to pay a final dividend of 5.8p per 5p ordinary share taking the total dividend amount in respect of the year ended 31 March 2019 to 7.8p (2018: 7.8p total dividends).

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 Corporate Social Responsibility section on page 17. In accordance with S414C (11) of the Companies Act 2006; included in the strategic report is the disclosure of future developments. 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 2019 comprised a single class of ordinary shares. Details of movements in the issued share capital can be found in note 29 to the financial statements. Each share carries the right to one vote at general meetings of the Company. During the period 63,143 ordinary shares (2018: 251,667 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 2018 AGM, to purchase in the market up to 2,566,803 of the Company's issued share capital, as permitted under the Company's Articles. This standard authority is renewable annually; the Directors will seek to maintain the authority for 2,576,274 ordinary shares of 5p at this year's AGM.

The Directors were granted authority at the 2018 AGM to allot relevant securities up to a nominal amount of £570,343. 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 £572,505.

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 9 June 2019 , 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	15.90%
Schroder Investment Management Limited	Institutional investor	11.30%
J. M. Gurry	Private investor	9.18%
M. I. Gurry	Private investor	5.63%
Otus Capital Management	Institutional Investor	5.43%
T. M. R. Dean	Private investor	5.40%
Herald Investment Management	Institutional investor	4.98%
Ruffer Investment Management	Institutional investor	4.90%
Legal and General Investment Management Limited	Institutional investor	3.60%
Slater Investments Limited	Institutional investor	3.60%

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, other than Director share options.

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 is not a trading entity and as such has no trade payables outstanding at the end of the financial year, the Company's practice in respect of the year with regard to its payment of creditors has been zero days (2018: 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 on a tri-ennial basis the Company's investment properties on the basis of open market value as at 31 March 2018, at a valuation of £3,690,000. Burghey Brook Farm has been disposed of in the year and this has reduced the amount stated to £3,170,000 which has been recognised as the current market valuation.

OTHER DISCLOSURES CONTINUED

Directors and their interests

The Directors of the Company at 31 March 2019, 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 2019	31 March 2018
Nigel Clark	**24,600**	24,600
Chris Gurry[1]	**908,816**	908,816
Neil Pritchard	**—**	—
Hugh Rudden	**—**	—
Geoff Barnes	**12,000**	12,000
Jim Lindop	**—**	—

1. Chris Gurry's shareholding amounts to 5.32% of the issued share capital.

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 2019 and 10 June 2019. 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 2019, 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 8 and also special business comprising one ordinary resolution, 9 and three special resolutions, 10, 11 and 12 relating to the following matters:

Special business ordinary resolution

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

Special business special resolutions

- To disapply the pre-emption provisions of the Companies Act 2006.
- To disapply the pre-emption provisions of the Companies Act 2006 for the purposes of financing an acquisition or capital investment. The Prospectus Rules were amended in July 2017 whereby a Prospectus is not required for additional shares being issued as part of an acquisition where those shares are below 20% of the total equity holding less treasury shares. Accordingly, the numbers in this resolution are revised to provide for the additional flexibility afforded by this amendment.
- 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 29. Although 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 23.

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 Group has zero tolerance towards bribery and corruption in its business dealings. The controlling activities to ensure the accuracy and reliability of the accounting include analytical reviews as well as the execution and control of important and complex transactions by different people. The separation of administrative, executive, accounting and authorisation functions and their performance by different individuals (dual signatures) reduces the risk of fraud.

Internal guidelines also govern specific formal requirements made of the consolidated financial statements. Establishing the group of consolidated companies is defined in detail, as are the components of the reports to be drawn up by the Group companies and their transmission to the central consolidation system.

The formal requirements relate to the mandatory use of a standardised and complete set of reporting forms and a uniform account framework for the Group. The internal guidelines also include concrete instructions on presenting and carrying out netting procedures within the Group and confirming the resulting account balances.

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

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, Chartered Accountants, as auditor of the Company will be put to the members at the forthcoming Annual General Meeting.

By order of the Board

Neil Pritchard
Company Secretary
21 June 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in respect of the financial statements

The Directors submit their report and Group financial statements for the year ended 31 March 2019.

The Directors are responsible for preparing the Strategic Report, the Directors' Report (which includes the Corporate Governance Statement, the Directors' Remuneration Report and Other Disclosures) on pages 1 to 31 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.

Each of the Directors, whose names and functions are listed on pages 18 and 19 confirm that, to the best of each person's knowledge:

a. the financial statements, prepared in accordance with the applicable set of accounting standards, 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

b. the Strategic Report contained in the Annual Report 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT
to the members of CML Microsystems Plc

Opinion
We have audited the financial statements of CML Microsystems Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the consolidated income statement, the consolidated statement of total comprehensive income, the consolidated and company statements of financial position, the consolidated and company cash flow statements, the consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) 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.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs 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.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Group key audit matters
Goodwill risk

The Group carries goodwill amounting to £9.2m with £5.7m arising in respect of the acquisition in the year ended 31 March 2017. As set out in note 13 of the financial statements, the recoverability of the goodwill arising is dependent on the underlying businesses generating sufficient cash flows in the future. Due to the significant management judgement in forecasting the cash flows and selecting an appropriate discount rate there is a high level of estimation uncertainty which results in there being a significant risk associated with determining whether goodwill is impaired.

Our response

Our audit procedures included reviewing the discounted cash flow models, testing and challenging the judgements and assumptions used by management in their assessment of whether goodwill had been impaired and assessing management's sensitivity analysis on the cash flow model.

We have used our knowledge of comparable companies and market data to challenge the assumptions and inputs in determining the discount rate used to calculate the present value of projected future cash flows. We have audited the validity of the model and challenged the valuation model and the basis of management's impairment considerations.

INDEPENDENT AUDITOR'S REPORT CONTINUED
to the members of CML Microsystems Plc

Group key audit matters continued

Our response continued

We considered the historical accuracy of key assumptions by comparing the accuracy of the previous estimates of profitability and related cash flows to the actual amounts realised. We assessed management's sensitivity analysis of key assumptions, including the revenue growth forecasts and the discount rate and considered whether the disclosures about the sensitivity of the outcome of the impairment assessment to reasonably possible changes in key assumptions were adequate and properly reflected the risks inherent in the assessment of the carrying value of goodwill.

Key observations

We have no other key observations, other than those already considered in this audit report.

Parent company key audit matters

No key audit matters were identified in respect of the parent company.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the group statements as a whole was calculated as £199,000 which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £152,000, which was not changed significantly during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £5,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Group and its control environment, including Group-wide controls, and assessing the risks of material misstatement. Based on our assessment we focused our Group audit scope on the businesses in the UK and Germany which were subject to a full scope statutory audit and business in China which was subject to a full scope group audit. This covered 78% of consolidated profit before tax and 91% of consolidated net assets. All other components have been covered by desktop review and analytical procedures. The parent company was subject to full scope statutory audit.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 32, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit, we will consider the susceptibility of the group and parent company to fraud and other irregularities, taking account of the business and control environment established and maintained by the directors, as well as the nature of transactions, assets and liabilities recorded in the accounting records. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. However, the principal responsibility for ensuring that the financial statements are free from material misstatement, whether caused by fraud or error, rests with management who should not rely on the audit to discharge those functions.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the members in 1988 to audit the financial statements for the year ending 31 March 1988 and subsequent financial periods.

The period of total uninterrupted engagement is 32 years, covering the years ending 1988 to 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

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.

David Clark
Senior Statutory Auditor

For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

21 June 2019

CONSOLIDATED INCOME STATEMENT
for the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
Continuing operations			
Revenue	3	**28,140**	31,674
Cost of sales	4	**(7,887)**	(9,438)
Gross profit		**20,253**	22,236
Distribution and administration costs	4	**(18,074)**	(18,518)
		2,179	3,718
Other operating income	5	**635**	829
Profit from operations		**2,814**	4,547
Share-based payments	30	**(117)**	(143)
Profit after share-based payments		**2,697**	4,404
Profit on disposal of property	16	**222**	—
Revaluation of investment properties	16	**—**	140
Finance income	8	**64**	39
Finance expense	8	**(1)**	—
Profit before taxation		**2,982**	4,583
Income tax expense	9	**(288)**	(444)
Profit after taxation		**2,694**	4,139
Profit after taxation attributable to equity owners of the parent		**2,694**	4,139
Basic earnings per share			
From profit for year	11	**15.77p**	24.52p
Diluted earnings per share			
From profit for year	11	**15.36p**	23.95p

Adjusted EBITDA[1]			
Adjusted EBITDA	12	**8,754**	9,998

1. See Note 12 for definition and reconciliation.

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

for the year ended 31 March 2019

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Profit for the year			**2,694**		4,139
Other comprehensive (expense)/income:					
Items that will not be reclassified subsequently to profit or loss:					
Actuarial (loss)/gain on retirement benefit obligations	27	**(1,317)**		911	
Deferred tax on actuarial loss/(gain)	26	**224**		(155)	
Items reclassified subsequently to profit or loss upon derecognition:					
Foreign exchange differences		**104**		(84)	
Other comprehensive (expense)/income for the year net of taxation attributable to equity owners of the parent			**(989)**		672
Total comprehensive income for the year attributable to the equity owners of the parent			**1,705**		4,811

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2019

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Assets					
Non-current assets					
Goodwill	13		**9,235**		9,190
Other intangible assets	14		**1,775**		1,570
Development costs	18		**14,495**		12,542
Property, plant and equipment	15		**5,307**		5,410
Investment properties	16		**3,170**		3,690
Investments	17		**83**		83
Deferred tax assets	26		**908**		1,068
			34,973		33,553
Current assets					
Inventories	19	**2,882**		2,351	
Trade receivables and prepayments	20	**3,430**		3,112	
Current tax assets	25	**1,118**		675	
Cash and cash equivalents	21	**13,471**		13,816	
			20,901		19,954
Total assets			**55,874**		53,507
Liabilities					
Current liabilities					
Bank loans and overdrafts	22		**662**		—
Trade and other payables	24		**4,634**		5,292
Current tax liabilities	25		**77**		48
Provisions – current	28		**195**		181
			5,568		5,521
Non-current liabilities					
Deferred tax liabilities	26	**4,420**		3,950	
Retirement benefit obligation	27	**3,548**		2,070	
Provisions – non-current	28	**16**		196	
			7,984		6,216
Total liabilities			**13,552**		11,737
Net assets			**42,322**		41,770
Capital and reserves attributable to equity owners of the parent					
Share capital	29		**859**		856
Share premium	30		**9,279**		9,068
Capital redemption reserve	30		**9**		9
Treasury shares – own share reserve	30		**(342)**		(190)
Share-based payments reserve	30		**507**		443
Foreign exchange reserve	30		**1,406**		1,302
Accumulated profits reserve	30		**30,604**		30,282
Total shareholders' equity			**42,322**		41,770

The financial statements on pages 36 to 79 were approved and authorised for issue by the Board on 21 June 2019, and signed on its behalf by:

Chris Gurry
Director

Neil Pritchard
Director

Registered in England and Wales: 000944010

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
for the year ended 31 March 2019

	Notes	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Operating activities					
Profit for the year before taxation		**2,982**	4,583	**2,966**	(74)
Adjustments for:					
Depreciation		**400**	411	**81**	79
Amortisation of development costs		**5,146**	4,745	**—**	—
Amortisation of intangibles recognised on acquisition and purchased		**172**	155	**16**	—
Profit on disposal of property		**(222)**	—	**(222)**	—
Revaluation of investment properties		**—**	(140)	**—**	(140)
Movement in non-cash items (pension)		**161**	(103)	**—**	—
Share-based payments		**117**	143	**117**	143
Movement in provisions		**(193)**	(48)	**—**	—
Finance income		**(64)**	(39)	**(2)**	—
Finance expense		**1**	—	**—**	—
Movement in working capital	33	**(1,743)**	(874)	**(2,051)**	(377)
Cash flows from/(used in) operating activities		**6,757**	8,833	**905**	(369)
Income tax received		**454**	309	**—**	—
Net cash flows from/(used in) operating activities		**7,211**	9,142	**905**	(369)
Investing activities					
Payment of warranty retention		**—**	(320)	**—**	—
Purchase of property, plant and equipment		**(294)**	(488)	**(22)**	—
Investment in development costs		**(7,169)**	(5,680)	**—**	—
Investment in intangibles		**(368)**	(392)	**(235)**	(392)
Proceeds from disposal of property		**750**	—	**750**	—
Finance income		**64**	39	**2**	—
Finance expense		**(1)**	—	**—**	—
Net cash flows (used in)/from investing activities		**(7,018)**	(6,841)	**495**	(392)
Financing activities					
Issue of ordinary shares		**214**	762	**214**	762
Purchase of own shares for treasury		**(152)**	—	**(152)**	—
Dividends paid to shareholders[1]		**(1,332)**	(1,581)	**(1,332)**	—
Net cash flows (used in)/from financing activities		**(1,270)**	(819)	**(1,270)**	762
(Decrease)/increase in cash equivalents and cash		**(1,077)**	1,482	**130**	1
Movement in cash and cash equivalents:					
At start of year	21	**13,816**	12,447	**172**	171
(Decrease)/increase in cash and cash equivalents		**(1,077)**	1,482	**130**	1
Effects of exchange rate changes		**70**	(113)	**(8)**	—
At end of year	33	**12,809**	13,816	**294**	172

1. The comparative period dividend cash outflow included the full year dividend plus initiation of an interim dividend.

Cash flows presented exclude sales taxes. Further cash related disclosure details are provided in Notes 21, 22, 23 and 33.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Foreign exchange reserve £'000	Accumulated profits reserve £'000	Total £'000
At 31 March 2017	843	8,319	9	(190)	504	1,386	26,764	37,635
Profit for year							4,139	4,139
Other comprehensive income								
Foreign exchange differences						(84)		(84)
Net actuarial gain recognised directly to equity on retirement benefit obligations							911	911
Deferred tax on actuarial gain							(155)	(155)
Total comprehensive income for year	—	—	—	—	—	(84)	4,895	4,811
	843	8,319	9	(190)	504	1,302	31,659	42,446
Transactions with owners in their capacity as owners								
Issue of ordinary shares	13	749						762
Dividend paid							(1,581)	(1,581)
Total transactions with owners in their capacity as owners	13	749	—	—	—	—	(1,581)	(819)
Share-based payments					143			143
Cancellation/transfer of share-based payments					(204)		204	—
At 31 March 2018	856	9,068	9	(190)	443	1,302	30,282	41,770
Profit for year							**2,694**	**2,694**
Other comprehensive income								
Foreign exchange differences						**104**		**104**
Net actuarial gain recognised directly to equity on retirement benefit obligations							**(1,317)**	**(1,317)**
Deferred tax on actuarial gain							**224**	**224**
Total comprehensive income for year	**—**	**—**	**—**	**—**	**—**	**104**	**1,601**	**1,705**
	856	**9,068**	**9**	**(190)**	**443**	**1,406**	**31,883**	**43,475**
Transactions with owners in their capacity as owners								
Issue of ordinary shares	**3**	**211**						**214**
Purchase of own shares – treasury				**(152)**				**(152)**
Dividend paid							**(1,332)**	**(1,332)**
Total transactions with owners in their capacity as owners	**3**	**211**	**—**	**(152)**	**—**	**—**	**(1,332)**	**(1,270)**
Share-based payments					**117**			**117**
Cancellation/transfer of share-based payments					**(53)**		**53**	**—**
At 31 March 2019	**859**	**9,279**	**9**	**(342)**	**507**	**1,406**	**30,604**	**42,322**

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 2019

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Assets					
Non-current assets					
Intangible assets	14		**611**		392
Property, plant and equipment	15		**4,591**		4,651
Investment properties	16		**3,170**		3,690
Investments	17		**12,964**		12,092
Deferred tax assets	26		**210**		151
			21,546		20,976
Current assets					
Trade receivables and prepayments	20	**1,153**		69	
Cash and cash equivalents	21	**294**		172	
			1,447		241
Total assets			**22,993**		21,217
Liabilities					
Current liabilities					
Trade and other payables	24		**654**		749
			654		749
Non-current liabilities					
Deferred tax liabilities	26		**604**		579
Total liabilities			**1,258**		1,328
Net assets			**21,735**		19,889
Equity					
Share capital	29		**859**		856
Share premium	30		**9,279**		9,068
Capital redemption reserve	30		**9**		9
Treasury shares – own share reserve	30		**(342)**		(190)
Share-based payments reserve	30		**507**		443
Merger reserve	30		**316**		316
Accumulated profits reserve	30		**11,107**		9,387
Total shareholders' equity			**21,735**		19,889

The parent company profit for the financial year attributed in the financial statements of the parent company was £2,999,000 (2018: £1,456,000). The financial statements on pages 36 to 79 were approved and authorised for issue by the Board on 21 June 2019 and signed on its behalf by:

Chris Gurry
Director

Neil Pritchard
Director

Registered in England and Wales: 000944010

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Merger reserve £'000	Accumulated profits £'000	Total £'000
At 31 March 2017	843	8,319	9	(190)	504	316	9,308	19,109
Profit for year							1,456	1,456
Total comprehensive income for year	—	—	—	—	—	—	1,456	1,456
	843	8,319	9	(190)	504	316	10,764	20,565
Transactions with owners in their capacity as owners								
Issue of ordinary shares	13	749						762
Dividend paid							(1,581)	(1,581)
Total transactions with owners in their capacity as owners	13	749	—	—	—	—	(1,581)	(819)
Share-based payments					143			143
Cancellation/transfer of share-based payments					(204)		204	—
At 31 March 2018	856	9,068	9	(190)	443	316	9,387	19,889
Profit for year							**2,999**	**2,999**
Total comprehensive income for year	**—**	**—**	**—**	**—**	**—**	**—**	**2,999**	**2,999**
	856	**9,068**	**9**	**(190)**	**443**	**316**	**12,386**	**22,888**
Transactions with owners in their capacity as owners								
Issue of ordinary shares	**3**	**211**						**214**
Purchase of own shares – treasury				**(152)**				**(152)**
Dividend paid							**(1,332)**	**(1,332)**
Total transactions with owners in their capacity as owners	**3**	**211**	**—**	**(152)**	**—**	**—**	**(1,332)**	**(1,270)**
Share-based payments					**117**			**117**
Cancellation/transfer of share-based payments					**(53)**		**53**	**—**
At 31 March 2019	**859**	**9,279**	**9**	**(342)**	**507**	**316**	**11,107**	**21,735**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2019

1 Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards and interpretations issued by the IFRIC interpretations committee 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 and preparation

The financial statements have been prepared under the historical cost convention with the exception of investment properties that are carried at valuation.

The financial statements have been prepared 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.

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 and are rounded to the nearest thousand pounds.

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.

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. Dormant subsidiaries are not included in the consolidated financial statements on the basis that they are not material to the Group.

c) Segmental reporting

The Group is focused for management purposes on one primary reporting segment, being the semiconductor segment, with similar economic characteristics, risks and returns and the Directors therefore consider there to be one business segment classification.

d) Revenue

The Group recognises revenues from semiconductor products at the point of satisfaction of its performance obligation and at a determined transaction price. Revenues are recognised when invoices are raised and goods have been despatched to the customer and it is probable that the Group will collect the consideration. 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. The Group recognises its revenue in any given period in accordance with these measures and therefore does not recognise future revenues within current revenue. Product sales meet the definition of a distinct service whereby the associated revenue is to be recognised at a point in time, evidenced by the delivery of the products to the customer, i.e. when control passes to the customer. Pricing is fixed and determinable pursuant to agree upon pricing lists that establish stand-alone selling prices. There are no further performance obligations associated with these sales. Warranties 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, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

e) Intangibles

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 First time Adoption of International Financial Reporting Standards, the Group elected to adopt the 31 March 2005 balance sheet amortised value prepared under UK GAAP for Hyperstone-related goodwill relating and carry out annual impairment reviews as required under IAS 36 and in accordance with IAS 38. Goodwill was recognised for the Sicomm acquisition in August 2016. Goodwill is reviewed annually for impairment by comparing its carrying value to the value in use or 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.

Other intangibles

Externally acquired intangible assets have been recognised in accordance with the provisions of IFRS 3 Business Combinations in relation to the acquisition of Sicomm. These acquired intangibles have been amortised in accordance with the following:

- brands — 10 years from date of acquisition
- customer relationships — 9 years from date of acquisition
- intellectual property — 10 years from date of acquisition

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

1 Accounting policies continued
e) Intangibles continued
Software

The Group is progressively implementing an Enterprise Resource Planning system across all companies within the Group business functions. The purchased intangible will be amortised over its useful economic life of 15 years from its date of implementation.

The Group has also purchased a license for the use of external software for vocoder purposes. This has been capitalised as an intangible asset and amortised over 10 years in line with acquired intellectual property rights above.

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

f) Research and development
Development expenditures that satisfy the recognition criteria as set out in IAS 38 Intangible Assets 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.

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 Investment Properties, 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 separately 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.

The current service cost, which is the increase in the present value of the retirement benefit obligation resulting from employee service in the current year, and gains and losses on settlements and curtailments, which arise on transactions that eliminate part or all of the benefits provided or when there are amendments to terms such that a significant element of future service will no longer qualify for benefits or will qualify only for reduced benefits, are included within operating profit in the consolidated income statement. Past service credits/costs are those service credits/costs in relation to prior years' service costs as a result of changes of future benefits earned by members. Past service credits/costs are recognised immediately in the consolidated income statement.

Re-measurement of the UK defined benefit scheme due to 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 in the consolidated income statement 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) Government grants

Government grants receivable to assist the Group with costs in respect of development work are credited against capitalised development costs or capitalised property, plant and equipment 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

1 Accounting policies continued

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

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. 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 assumptions made (for example mortality, inflation and discount rates) for the UK defined benefit pension scheme and the impairment of goodwill are considered to be critical accounting estimates and judgements; details of which are referred to in this accounting policies note, sections e, f, h, m and t. Deferred tax assets are only recognised when there is a reasonable expectation of recovery.

- Impairment of goodwill

  An annual review is carried out (as set out in note 13) as to whether the current carrying value of goodwill is impaired. Detailed calculations are performed based on (i) discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate; and/or (ii) the comparison of carrying value to the net selling price of the cash generating unit; the determination of these factors require the exercise of judgement.
- UK defined benefit pension scheme

  Actuarial assumptions are made in valuing future benefit pension obligations (as set out in note 27). The principal significant assumptions relate to the rate of inflation, the discount rate and life expectancy of members. Estimates are used for these factors in determining the pension costs and liabilities in the financial statements.
- Research and development – measurement and amortisation

  Distinguishing whether development expenditure satisfies the recognition requirements for the capitalisation of development costs requires the exercise of judgement. The corresponding amortisation period is derived from existing developed products in the markets served and therefore the assumption is that new products will provide economic benefit for similar periods of time. Depending on these factors judgement is exercised whether research and development costs are impaired.
- Recognition of deferred tax assets

  The extent to which deferred tax assets can be recognised is based on an assessment of probabilities that future taxable incomes in jurisdictions will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised in the future.

s) Financial instruments

(i) Recognition of financial instruments

Financial assets and financial liabilities are recognised when the company becomes party to the contractual provisions of the instrument.

(ii) Financial assets

Initial and subsequent measurement of financial assets

(a) Trade, group and other receivables

Trade receivables are initially measured at their transaction price. Group and other receivables are initially measured at fair value plus transaction costs. Receivables are held to collect the contractual cash flows which are solely payments of principal and interest. Therefore, these receivables are subsequently measured at amortised cost using the effective interest rate method.

(iii) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Initial and subsequent measurement of financial liabilities

(a) Trade, Group and other payables

Trade, Group and other payables are initially measured at fair value, net of direct transaction costs and subsequently measured at amortised cost.

(b) Bank overdrafts

Bank overdrafts are initially measured at fair value, net of direct transaction costs and are subsequently measured at amortised cost. Finance charges, including premiums payable on settlement or redemption, are recognised in profit or loss over the term of the loan using an effective rate of interest.

(c) Equity instruments

Equity instruments issued by the Company are recorded at fair value on initial recognition net of transaction costs.

(iv) Derecognition of financial assets (including write-offs) and financial liabilities

A financial asset (or part thereof) is derecognised when the contractual rights to cash flows expire or are settled, or when the contractual rights to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership are transferred to another party.

When there is no reasonable expectation of recovering a financial asset it is derecognised.

The gain or loss on derecognition of financial assets measured at amortised cost is recognised in profit or loss.

A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Any difference between the carrying amount of a financial liability (or part thereof) that is derecognised and the consideration paid is recognised in profit or loss.

t) Impairment of property, plant and equipment, development costs 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.

u) 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. Provisions are discounted where material to do so.

v) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company has purchased its own equity share capital, the consideration paid, including directly attributable incremental costs, is deducted from retained earnings until the shares are cancelled. On cancellation, the nominal value of the shares is deducted from share capital and the amount is transferred to the capital redemption reserve.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

1 Accounting policies continued

x) Adoption of International Accounting Standards

New standards, amendments to published standards and interpretations to existing standards effective in 2018, with their dates of adoption adopted by the Group and brief description:

Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017/ 1 January 2018	The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.
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 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.
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	Provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance.
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018	Amendments to provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The implementation of these standards did not have a material impact on the Group's consolidated financial statements.

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

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.
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019	Provides clarification on the accounting for uncertainties in income taxes and the interpretation to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under ISA12 .
Amendments to IAS 19 Plan Amendment, Curtail or Settlement	1 January 2019	Amendments to provide requirements on the accounting for the effects of how companies determine pension expenses when changes to a defined benefit pension plan occur. To use updated assumptions from this re measurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019	The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have little or no material impact on the financial statements of the Group, subject to any future business combinations, and with the exception of IFRS 16 Leases where our review of the impact is ongoing as described overleaf.

(i) IFRS 15 Revenue from Contracts with Customers

With effect from 1 April 2018, the Group adopted a full retrospective transition approach of IFRS 15 Revenue from Contracts with Customers which introduces a new five step approach to measuring and recognising revenue from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It has replaced existing revenue recognition guidance, including IAS 18 Revenue.

The Group performed a review and an impact assessment of this Standard. It was concluded that the Group's revenue streams are currently recognised at the point of its performance obligation and at a determined transaction price and therefore under IFRS 15, there was no material change in the timing and recognition of its revenue. Microchips involve both hardware and embedded software within a chip product, and revenues are recognised when invoices are raised and chip products are despatched. The Group recognises its revenue in any given period in accordance with these measures and therefore does not recognise future revenues within current revenue. Therefore, there is no need to restate prior year revenue recognised from contracts in the statement of comprehensive income.

While many of our companies have warranty arrangements with their customers, having reviewed the details of the warranty arrangements, these have been determined to be of an assurance nature and as such there is no material change in accounting required by IFRS 15.

(ii) IFRS 9 Financial Instruments

With effect from 1 April 2018 the Group adopted a full retrospective transition approach of IFRS 9 Financial Instruments which introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment and hedge accounting. It has replaced existing standard IAS 39 'Financial Instruments: Recognition and Measurement'.

Following a review and further impact assessment, it was concluded that the Group's use of financial instruments is limited to short-term trading balances such as receivables and payables. The Group has no net financial borrowings and does not have complex financial instruments in place in relation to foreign exchange. Given the straightforward nature of the financial assets for the Group, there have been no material changes in any level of impairment recognised compared to that based on current procedures and, due to the Group's receivable profile at the end of the reporting period in the current and prior year and history of bad debts, there have been no material changes arising from the adoption of the expected losses impairment model or loss allowance provisions made. Therefore, there is no requirement to restate prior year balances in the consolidated statement of comprehensive income.

Impairment of financial assets

An impairment loss is recognised for the expected credit losses on financial assets when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both.

The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability-weighted amount determined from a range of outcomes and takes into account the time value of money.

For trade receivables, expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the aging of the receivable. The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables ("the lifetime expected credit losses"). Different provision rates and periods are used based on groupings of historic credit loss experience by product type, customer type and location.

(iii) IFRS 16 Leases

The Group will adopt a modified retrospective approach of IFRS 16 Leases with effect from 1 April 2019. IFRS 16 eliminates the classification of leases as either operating or finance leases for lessees and introduces a single accounting model which is similar to the current account model for finance leases under IAS 17 Leases. The half year results for the six months ended 30 September 2019 will be the first results to be produced in accordance with IFRS 16, with the first Annual Report published in accordance with IFRS 16 being for the year ending 31 March 2020.

Lessees will be required to recognise on the financial position a "right-of-use" assets which represent the right to use underlying assets during the lease term and a lease liability representing the minimum lease payment for all leases. Depreciation of "right-of-use" assets and interest on lease liabilities will be charged to the income statement, replacing the corresponding operating lease rentals.

The Group has assessed the impact of the new standard. The most significant impact identified is in relation to the Group's land and buildings leases which are taken up as lessees that will now be brought on to the balance sheet as assets and lease liabilities, along with motor vehicles and office equipment which are currently leased. The current carrying onerous lease provision would also be eliminated with the impact of the new standard. The aggregated discounted amount to be recognised as assets on the financial position is £931,000 along with a liability amount of £1,280,000. (Adjusted) EBITDA, as discussed above, sees rental costs being replaced by depreciation and the Group's rental costs for the year ended 31 March 2019 amounted to £525,000, a right-of-use depreciation impact of £543,000. IFRS 16 is not anticipated to have a material effect on the Group where it is acting in its capacity as lessor.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

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 (Chris Gurry). The measurement policies the Group uses for segmental reporting under IFRS 8 are the same as those used in its financial statements.

The Group is focused for management purposes on one primary reporting segment, being the semiconductor segment, with similar economic characteristics, risks and returns and the Directors therefore consider there to be one business segment classification.

Information about revenue, profit/loss, assets and liabilities

	2019		2018	
	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000
Total segmental revenue	**28,140**	**28,140**	31,674	31,674
Profit				
Segmental result	**2,697**	**2,697**	4,404	4,404
Finance income		**64**		39
Finance expense		**(1)**		—
Profit on disposal of property		**222**		—
Revaluation of investment properties		**—**		140
Income tax expense		**(288)**		(444)
Profit after taxation		**2,694**		4,139
Assets and liabilities				
Segmental assets	**50,678**		48,074	
		50,678		48,074
Unallocated corporate assets				
Investment properties		**3,170**		3,690
Deferred tax assets		**908**		1,068
Current tax assets		**1,118**		675
Consolidated total assets		**55,874**		53,507
Segmental liabilities	**5,507**		5,669	
		5,507		5,669
Unallocated corporate liabilities				
Deferred tax liabilities		**4,420**		3,950
Current tax liabilities		**77**		48
Retirement benefit obligation		**3,548**		2,070
Consolidated total liabilities		**13,552**		11,737

	2019		2018	
	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000
Property, plant and equipment additions	**294**	**294**	488	488
Development cost additions	**7,169**	**7,169**	5,680	5,680
Intangible additions	**368**	**368**	392	392
Depreciation	**400**	**400**	411	411
Amortisation of development costs	**5,146**	**5,146**	4,745	4,745
Amortisation of acquired and purchased intangibles	**172**	**172**	155	155
Other non-cash (expenditure)/income (pension)	**(161)**	**(161)**	103	103

Geographical information (by origin)

	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2019					
Revenue to third parties – by origin	**7,419**	**6,051**	**5,207**	**9,463**	**28,140**
Property, plant and equipment	**4,941**	**260**	**66**	**40**	**5,307**
Investment properties	**3,170**	**—**	**—**	**—**	**3,170**
Development costs	**5,359**	**9,136**	**—**	**—**	**14,495**
Intangibles – software and intellectual property	**611**	**—**	**—**	**—**	**611**
Goodwill	**—**	**3,512**	**—**	**5,723**	**9,235**
Other intangible assets arising on acquisition	**—**	**—**	**—**	**1,164**	**1,164**
Total assets	**25,174**	**16,070**	**1,594**	**13,036**	**55,874**
Year ended 31 March 2018					
Revenue to third parties – by origin	5,073	7,355	5,848	13,398	31,674
Property, plant and equipment	5,024	290	65	31	5,410
Investment properties	3,690	—	—	—	3,690
Development costs	4,424	8,118	—	—	12,542
Intangibles – software and intellectual property	392	—	—	—	392
Goodwill	—	3,512	—	5,678	9,190
Other intangible assets arising on acquisition	—	—	—	1,178	1,178
Total assets	23,915	15,556	2,582	11,454	53,507

Revenue contribution from the top two customers provided a combined contribution of approximately 20% (2018: 28% of revenues), although only one of these customers was above the 10% threshold (2018: one customer).

3 Revenue

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

Continuing business	2019 £'000	2018 £'000
Europe	**7,201**	9,477
Far East	**15,348**	15,764
Americas	**5,251**	5,919
Others	**340**	514
	28,140	31,674

In accordance with IFRS 15, the group's revenue of £28,140,000 is made up of revenue from customers which falls into one of the market application areas of communications or storage only and does not include any other significant revenue. Goods and services are transferred at a point in time, not over time, as detailed in the group's revenue recognition policy (see note 1).

The Group does not have any contract assets at 31 March 2019 (nil at 31 March 2018) as the group does not fulfil any of its performance obligations in advance of invoicing to its customer. The group however does have contractual balances in the form of trade receivables. See note 20 for disclosure of this. The group also has contractual liabilities of £0.7m at 31 March 2019 (£1.1m at 31 March 2018).

The Group also does not have any contractual costs capitalised at 31 March 2019 (nil at 31 March 2018) or have any outstanding performance obligations at 31 March 2019 (nil at 31 March 2018).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

4 Profit from continuing operations

	2019		2018	
	£'000	£'000	£'000	£'000
Profit from operations is stated after charging or crediting:				
Cost of sales:				
Depreciation	**101**		105	
Amount of inventories written down	**20**		24	
Cost of inventories recognised as expense	**7,672**		9,051	
Other (stock) movements	**94**		258	
		7,887		9,438
Distribution and administration costs:				
Distribution costs (mainly staff costs)		**3,374**		3,444
Administration costs:				
Amortisation of development costs	**5,146**		4,745	
Research and development expensed	**1,073**		1,191	
Amortisation of acquired and purchased intangibles	**172**		155	
Depreciation	**299**		306	
Foreign exchange (gains)/losses	**(255)**		445	
Rentals under operating leases:				
Land and buildings	**435**		494	
Other operating leases	**90**		91	
Auditor's fees (see below)	**188**		174	
Other expenses (mainly staff costs)	**7,552**		7,473	
		14,700		15,074
		18,074		18,518

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

	2019 £'000	2018 £'000
Audit services:		
Statutory audit of Company's annual accounts and Group consolidation	**70**	63
Other services:		
The auditing of accounts of associates of the Company pursuant to legislation (including that of countries and territories outside the UK)		
This includes:		
Audit of subsidiaries where such services are provided by RSM UK Audit LLP	**16**	16
Audit of associated pension schemes	**15**	11
Other services supplied pursuant to such legislation	**5**	8
	106	98
Amounts payable to other auditors in respect of both audit and non-audit services:		
Statutory audit services	**61**	42
Tax compliance services	**20**	33
Other services	**1**	1
	82	76

5 Other operating income

	2019 £'000	2018 £'000
Rental income	**326**	315
Government grants and consulting	**55**	205
Other income	**254**	309
	635	829

All conditions relating to the government grants have been fulfilled and there are no other contingencies. Other income relates to ancillary business in the Chinese subsidiary and other miscellaneous income.

6 Employees

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Staff costs, including Directors, during the year amounted to:				
Wages and salaries	**11,292**	11,482	**1,060**	1,060
Social security costs	**1,312**	1,353	**130**	132
Other pension and health care costs	**809**	1,140	**80**	75
Share-based payments	**117**	143	**40**	29
	13,530	14,118	**1,310**	1,296

	Group		Company	
	2019 Number	2018 Number	**2019 Number**	2018 Number
The average number of employees, including Directors, during the year was:				
Administration	**54**	55	**9**	9
Engineering	**105**	101	**—**	—
Manufacturing	**34**	35	**—**	—
Selling	**28**	29	**—**	—
	221	220	**9**	9

7 Directors' emoluments

	2019 £'000	2018 £'000
Remuneration (including fees)	**847**	833
Emoluments in respect of the highest paid Director amounted to:		
Remuneration	**314**	315

Further details on Directors' emoluments, including contributions to pension, can be found in the Directors' remuneration report on pages 22 to 27.

8 Finance income and expense

Finance income

	2019 £'000	2018 £'000
Bank interest receivable	**64**	39

Finance expense

	2019 £'000	2018 £'000
Bank interest payable	**1**	—

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

9 Income tax expense

a) Analysis of tax expense in period

	2019 £'000	2018 £'000
Current tax		
UK corporation tax on results of the year	**(722)**	(595)
Adjustment in respect of previous years	**4**	44
	(718)	(551)
Foreign tax on results of the year	**92**	626
Foreign tax – adjustment in respect of previous years	**4**	(12)
Total current tax	**(622)**	63
Deferred tax		
Current year movement	**913**	387
Adjustments to deferred tax charge in respect of previous years	**(3)**	(6)
Total deferred tax	**910**	381
Tax charge on profit on ordinary activities (note 9b)	**288**	444

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 19% (2018: 19%). The differences are explained below:

	2019 £'000	2018 £'000
Profit before tax	**2,982**	4,583
Profit before tax multiplied by the standard rate of UK corporation tax of 19% (2018: 19%)	**567**	871
Effects of:		
Capital allowances less than depreciation	**15**	16
Expenses not deductible for tax purposes	**61**	25
Share-based payments – tax effect	**(7)**	(12)
Research and development tax credits	**(720)**	(711)
Reversal of recognition of deferred tax assets on losses	**413**	—
Different tax rates in countries in which the Group operates	**100**	244
Adjustments to current tax charge in respect of previous years	**8**	32
Adjustments to deferred tax charge in respect of previous years	**(3)**	(6)
Reduction in deferred tax rate	**(59)**	56
Non-taxable income and other	**(87)**	(71)
Tax expense for period (note 9a)	**288**	444

A deferred tax credit of £224,000 was recognised on an actuarial loss of £1,317,000 on a retirement benefit net obligation and was recognised in the year in the consolidated statement of total comprehensive income (2018: deferred tax charge of £155,000 on an actuarial gain of £911,000 on a retirement benefit net obligation).

10 Dividend – proposed

During the year, a final dividend of 5.8p per ordinary share of 5p was paid in respect of the year ended 31 March 2018. An interim dividend of 2.0p per ordinary share was paid on 14 December 2018 to shareholders on the Register on 30 November 2018.

It is proposed to pay a final dividend of 5.8p per ordinary share of 5p, taking the total dividend amount in respect of the year ended 31 March 2019 to 7.8p (2018: total of 7.8p). It is proposed to pay the final dividend of 5.8p, if approved, on 5 August 2019 to shareholders registered on 5 July 2019 (2018: 6 August 2018 to shareholders registered on 6 July 2018).

11 Earnings per ordinary share

	2019 p	2018 P
Basic earnings per share		
From profit for year	**15.77**	24.52
Diluted earnings per share		
From profit for year	**15.36**	23.95

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 shown below:

	2019			2018		
Basic earnings per share	**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 – from profit for year	**2,694**	**17,087,788**	**15.77**	4,139	16,876,684	24.52
Diluted earnings per share						
Basic earnings per share	**2,694**	**17,087,788**	**15.77**	4,139	16,876,684	24.52
Dilutive effect of share options		**448,311**	**(0.41)**	—	402,348	(0.57)
Diluted earnings per share – from profit for year	**2,694**	**17,536,099**	**15.36**	4,139	17,279,032	23.95

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.

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 370p per share for cancellation. These shares were cancelled on 18 January 2017 (see note 30).

On 8 December 2017, the staff exercised 233,026 staff options under the terms of the staff share option schemes at a price of 5p per share.

On 11 February 2019, the Company purchased 50,000 ordinary shares of 5p each in the Company at a price of 302.5p 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.

The Company issued 703,400 share options over its own 5p ordinary shares at a price of 279p per share on 19 March 2019 to staff and management.

During the year, the Company and staff exercised 63,143 staff share options under the terms of the staff share option schemes at a weighted average price of 4.82p per 5p share.

12 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 years presented:

	2019 £'000	2018 £'000
Profit after taxation (earnings)	**2,694**	4,139
Adjustments for:		
Finance income	**(64)**	(39)
Finance expense	**1**	—
Income tax expense	**288**	444
Depreciation	**400**	411
Amortisation of development costs	**5,146**	4,745
Amortisation of purchased and acquired intangibles recognised on acquisition	**172**	155
Share-based payments	**117**	143
Adjusted EBITDA	**8,754**	9,998

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

13 Goodwill

	2019 £'000	2018 £'000
Cost and net book value		
At 1 April	**9,190**	9,306
Foreign exchange difference	**45**	(116)
At 31 March	**9,235**	9,190

The 2017 opening goodwill of £3,512,000 arose on the Hyperstone acquisition that was amortised under UK GAAP until 31 March 2004 when the Group transitioned to IFRS. The additional goodwill in the prior year related to the acquisition of the Sicomm group of companies in August 2016. Goodwill arising on acquisitions after the date of transition to IFRS such as this Sicomm goodwill is attributable to operational synergies and earnings potential expected to be realised over the longer term. This Sicomm goodwill above of £5,678,000 is held in RMB upon Group consolidation and therefore is subject to foreign exchange fluctuations between periods.

Annual impairment testing

Goodwill is not amortised under IFRS but instead tested annually for impairment. An annual impairment review is carried out in accordance with the accounting policies set out in note 1, namely: the Group reviews the carrying amounts of its goodwill and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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. The recoverable amount is the higher of fair value less costs to sell and value in use. Goodwill and other intangibles are allocated to cash generating units, which represent the appropriate level that those cash generating units are monitored for internal management purposes. In assessing value in use, the estimated future cash flows are discounted to their present value utilising a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset, in addition to the basis of the weighted average cost of capital for the Group. Projections are based on budgets for year one and cash flow projections for the following four years extrapolations using growth rates and terminal cash flows considered to be in line with the economic environment in which the cash generating unit operates, past and current local management experience. In accordance with IAS 36 Impairment of Assets, growth rates do not exceed the long-term average growth rates for the industry in that jurisdiction. If the recoverable amount of the cash generating unit is estimated to be less than its carrying amount, the carrying amount of the 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.

Evaluation of Hyperstone goodwill and Sicomm goodwill

The Directors consider no impairment is required for either business. The recoverable amount of Hyperstone related goodwill is determined using the fair value less cost of disposal and recoverable amount of Sicomm related goodwill is determined using the value in use methodologies. Net selling price in respect of the Hyperstone goodwill is determined using a five-year average of projected future earnings as applied to the price earnings ratio prevailing for the technology sector (14-18x) operating in industrial markets (2018: similar metric range). For Sicomm related goodwill, the pre-tax discount rate used was 16% and growth rates vary from 7% to 15% over a five year prospective period (2018: similar metric range). Management consider these key assumptions do not differ from past experience or external sources of information.

Sensitivity analysis

The Group has not identified any reasonable potential changes to key assumptions that would cause the carrying value of the goodwill or other intangibles to exceed its recoverable amount. Fair value less cost of disposal price earnings ratio benchmarks are widely and publicly available in active markets. For value in use methodology in respect of the Sicomm impairment review, the key assumptions are growth rates and discount rate. Long-term growth rates would have to average 1.2% or less or pre-tax discount rates move to 22.09% for carrying value to be impacted by any impairment. Sensitivity analysis of these key assumptions are built into our annual impairment testing modelling.

14 Other intangibles

	Intangible assets acquired in business combinations			Intangible assets capitalised / purchased		
	Brands £'000	Customer relationships £'000	Intellectual property £'000	Intellectual property £'000	Software £'000	Total £'000
Group						
Cost/valuation						
At 1 April 2017	96	940	405	—	—	1,441
Additions	—	—	—	—	392	392
Foreign exchange difference	—	(5)	(2)	—	—	(7)
At 31 March 2018	96	935	403	—	392	1,826
Additions	**—**	**—**	**—**	**133**	**235**	**368**
Foreign exchange difference	**1**	**8**	**3**	**—**	**—**	**12**
At 31 March 2019	**97**	**943**	**406**	**133**	**627**	**2,206**
Amortisation						
At 1 April 2017	6	69	27	—	—	102
Charge for the year	10	105	40	—	—	155
Foreign exchange difference	—	(1)	—	—	—	(1)
At 31 March 2018	16	173	67	—	—	256
Charge for the year	**10**	**104**	**40**	**2**	**16**	**172**
Foreign exchange difference	**—**	**2**	**1**	**—**	**—**	**3**
At 31 March 2019	**26**	**279**	**108**	**2**	**16**	**431**
Net book value						
At 31 March 2019	**71**	**664**	**298**	**131**	**611**	**1,775**
At 31 March 2018	80	762	336	—	392	1,570

The intangible assets acquired above were recognised on the acquisition of Sicomm in accordance with the provisions of IFRS 3 Business Combinations. There were additional intangibles purchased in the year and these have been shown in accordance with IAS 38 Intangible Assets.

	Software £'000	Total £'000
Company		
Cost		
At 31 March 2018	392	392
Additions	**235**	**235**
At 31 March 2019	**627**	**627**
Amortisation		
At 31 March 2018	—	—
Charge for the year	**16**	**16**
At 31 March 2019	**16**	**16**
Net book value		
At 31 March 2019	**611**	**611**
At 31 March 2018	392	392

The Group is progressively implementing an Enterprise Resource Planning system for use by all companies in the Group across business functions. This purchased intangible is amortised over its projected useful economic life from the dates of implementation.

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for the year ended 31 March 2019

15 Property, plant and equipment

	Freehold and long leasehold premises £'000	Short leasehold improvements £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Group					
Cost					
At 1 April 2017	6,062	58	11,987	178	18,285
Additions	—	—	488	—	488
Disposals	—	—	(168)	—	(168)
Foreign exchange difference	—	(5)	(19)	(1)	(25)
At 31 March 2018	6,062	53	12,288	177	18,580
Additions	**—**	**—**	**278**	**16**	**294**
Disposals	**—**	**—**	**(1,320)**	**(11)**	**(1,331)**
Foreign exchange difference	**—**	**2**	**(8)**	**—**	**(6)**
At 31 March 2019	**6,062**	**55**	**11,238**	**182**	**17,537**
Depreciation					
At 1 April 2017	1,332	54	11,433	136	12,955
Charge for the year	79	—	320	12	411
Disposals	—	—	(168)	—	(168)
Foreign exchange difference	—	(5)	(22)	(1)	(28)
At 31 March 2018	1,411	49	11,563	147	13,170
Charge for the year	**80**	**—**	**313**	**7**	**400**
Disposals	**—**	**—**	**(1,320)**	**(11)**	**(1,331)**
Foreign exchange difference	**—**	**2**	**(11)**	**—**	**(9)**
At 31 March 2019	**1,491**	**51**	**10,545**	**143**	**12,230**
Net book value					
At 31 March 2019	**4,571**	**4**	**693**	**39**	**5,307**
At 31 March 2018	4,651	4	725	30	5,410

	Equipment £'000	Freehold and long leasehold premises £'000	Total £'000
Company			
Cost			
At 1 April 2017 and 31 March 2018	49	6,062	6,111
Additions	**21**	**—**	**21**
At 31 March 2019	**70**	**6,062**	**6,132**
Depreciation			
At 1 April 2017	49	1,332	1,381
Charge for the year	—	79	79
At 31 March 2018	49	1,411	1,460
Charge for the year	**1**	**80**	**81**
At 31 March 2019	**50**	**1,491**	**1,541**
Net book value			
At 31 March 2019	**20**	**4,571**	**4,591**
At 31 March 2018	—	4,651	4,651

16 Investment properties

Group and Company	Investment properties £'000	Total £'000
Valuation		
At 1 April 2018	3,690	3,690
Disposal	**(520)**	**(520)**
At 31 March 2019	**3,170**	**3,170**
Net book value		
At 31 March 2019	**3,170**	**3,170**
At 31 March 2018	3,690	3,690

On the 12 September 2018, the Company disposed of one its investment properties, Burghey Brook Farm, for a consideration of £750,000, previously held with a carrying value of £520,000 by the Company, and before incidental transaction costs.

Investment properties are measured at fair value and are revalued annually by the Directors and in 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. During the period, the disposal of Burghey Brook Farm has accordingly reduced the open market valuation value of the investment properties recognised to £3,170,000 (2018: £3,690,000). No formal market valuation was conducted in the year.

The value of the investment properties were they to be held at historic cost would be £2,462,000 (2018: £2,792,000). The Group/Company does not incur significant costs not otherwise recharged to its tenants for its 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) 2019
Investment properties	**3,170**	Income capitalisation	Estimated rental value	£4 – £8 per sq ft
			Per sq ft p.a.	8% – 15%
			Equivalent yield	11.1%
	3,170			

The prior year comparative values were as follows:

	Carrying/ fair value £'000	Valuation technique	Key observable inputs	Range (weighted average) 2018
Investment properties	3,690	Income capitalisation	Estimated rental value	£4 – £8 per sq ft
			Per sq ft p.a.	8% – 10%
			Equivalent yield	7.9%
	3,690			

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17 Investments

Group – investments	2019 £'000	2018 £'000
Cost and net book value		
At 1 April	**83**	85
Foreign exchange difference	**—**	(2)
At 31 March	**83**	83

The investment represents the Group's 14.29% equity investment measured at cost (not at valuation) in Quanzhou Cybercomm Wireless Communication Technologies Institute Co., Inc., a Chinese industrial institutional body, acquired with the acquisition of the Sicomm group of companies.

Company – investments	2019 £'000	2018 £'000
Cost of investment in subsidiary undertakings:		
As at 1 April	**12,964**	12,964
As at 31 March	**12,964**	12,964
Advances to subsidiary undertakings	**—**	(872)
Net book value		
As at 31 March	**12,964**	12,092

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	Status	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
Wuxi Sicomm Technologies, Inc	China	100%	Trading in China	Indirect
Shanghai Futiake Investment Consulting Co., Ltd	China	100%	Holding company	Direct
Wuxi Shilian Communications Technologies, Inc	China	100%	Trading in China	Indirect
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 where holding or trading companies are 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, with the exception of the three Chinese subsidiaries above which have, in line with Chinese laws and regulations, a 31 December year end. The Group has accordingly taken up the financial results and financial position of these Chinese subsidiaries up to 31 March 2019.

Company registered addresses/locations are as follows:

CML Microsystems Inc	486 N Patterson Avenue, Suite 301, Winston-Salem, NC 27101, USA
CML Microcircuits (UK) Ltd	Oval Park, Langford, Maldon, Essex, CM9 6WG England
CML Microcircuits (USA) Inc	486 N Patterson Avenue, Suite 301, Winston-Salem, NC 27101, USA
CML Microcircuits (Singapore) Pte Ltd	150 Kampong Ampat, 05-03A KA Centre, Singapore 368324
Wuxi Sicomm Technologies, Inc	2/F Building B, 21 Changjiang Road, Wuxi, Jiangsu, China
Shanghai Futiake Investment Consulting Co., Ltd	Room B02, F16, No. 2188 Huangxing Road, Yangpu District, Shanghai, China
Wuxi Shilian Communications Technologies, Inc	Room 201, Building L, 21 Changjiang Road, Wuxi, Jiangsu, China
Applied Technology (UK) Ltd	Oval Park, Langford, Maldon, Essex, CM9 6WG England
Integrated Micro Systems Ltd	Oval Park, Langford, Maldon, Essex, CM9 6WG England
Hyperstone GmbH	Line-Eid-Strasse 3, 78467 Konstanz, Germany
Hyperstone Inc.	486 N Patterson Avenue, Suite 301, Winston-Salem, NC 27101, USA
Hyperstone Asia Pacific Ltd	3F, No.501, Sec.2, Tiding Boulevard, Neihu District, Taipei City 114, Taiwan

18 Development costs

Group - Developments	**2019 £'000**	2018 £'000
Cost		
At 1 April	**31,503**	29,249
Additions	**7,169**	5,680
Fully amortised costs	**(2,759)**	(3,854)
Foreign exchange difference	**(393)**	428
At 31 March	**35,520**	31,503
Amortisation		
At 1 April	**18,961**	17,848
Charged in the year	**5,146**	4,745
Fully amortised costs	**(2,759)**	(3,854)
Foreign exchange difference	**(323)**	222
At 31 March	**21,025**	18,961
Net book value		
At 31 March	**14,495**	12,542
At 31 March 2017		11,401

No government grants have been credited to the cost of development in arriving at the net book value at the year end (2018: £Nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

19 Inventories

	Group	
	2019 £'000	2018 £'000
Raw materials	**889**	1,036
Work in progress	**647**	343
Finished goods	**1,346**	972
	2,882	2,351

20 Trade receivables and prepayments

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Amounts falling due within one year:				
Trade receivables	**2,581**	2,540	**273**	—
Other receivables	**152**	139	**659**	52
Prepayments and accrued income	**697**	433	**221**	17
	3,430	3,112	**1,153**	69

Disclosure of credit risk and associated disclosures are provided in Note 23.

21 Cash and cash equivalents

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Cash on deposit	**9,895**	9,429	**103**	83
Cash at bank	**3,576**	4,387	**191**	89
	13,471	13,816	**294**	172

Disclosure of foreign currency risk is provided in Note 23.

22 Bank loans and overdrafts

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Bank overdraft	**662**	—	**—**	—
	662	—	**—**	—

Undrawn facility details are provided in Note 23.

23 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 overall objective of the Board is to reduce risks where possible within a competitive, dynamic and flexible trading environment.

Capital market risk is discussed below. 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.

Credit and cash flow risk

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 IFRS 9 Financial Instruments, 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. Credit risk on cash and cash equivalents is managed by depositing funds with high rated banks.

Capital market risk

The Board considers capital to be the carrying amount of equity and debt. The Group presently does not have any debt. Its overall capital objective is, in the light of changes in economic conditions, to maintain a strong and efficient capital base to support the Group's strategic growth objectives, provide progressive returns to shareholders and safeguard the Group's status as a going concern.

Interest rate and 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 (2018: £750,000); and US$100,000 (2018: US$100,000); and is subject to renewal annually. In addition, the Group's German subsidiary has, through its principal bankers, a €1m gross overdraft facility (2018: €1m), renewable on an annual basis.

Foreign currency risk

The Group has overseas subsidiary operations in Germany, the US, China, Taiwan and Singapore. As a result, the Group's Sterling statement of financial position could be affected by movements in the Euro, US Dollar, Chinese Renminbi, Singapore Dollar and Taiwan Dollar to Sterling exchange rates. At 31 March 2019, the Group had cash and cash equivalents denominated in foreign currencies of approximately £5.7m (2018: £6.4m), of which approximately 41% (2018: 76%) was denominated in US Dollars, 55% in Chinese Renminbi (2018: 21%) and 0% (2018: 2%) was denominated in Euros. As national currency of China, the Chinese Renminbi is subject to foreign exchange controls made by that country. The effects of foreign exchange recognised in the income statement amounted to a gain of £255,000 (2018: loss of £445,000).

Financial instruments recognised in the consolidated statement of financial position

Group and Company	2019 £'000	2018 £'000
Non-current financial assets		
Equity investment (see note 17)	**83**	83
Total	**83**	83

The term "Financial assets" in the following table refers to financial assets measured at amortised cost in accordance with IFRS 9 definitions.

	Group		Company	
	2019 Amortised cost £'000	2018 Amortised cost £'000	2019 Amortised cost £'000	2018 Amortised cost £'000
Current financial assets				
Trade and other receivables	**2,733**	2,679	**273**	52
Cash and cash equivalents	**13,471**	13,816	**294**	172
Total	**16,204**	16,495	**567**	224

Trade and other receivables are all due within six months.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

23 Financial instruments continued

Financial instruments recognised in the consolidated statement of financial position continued

The average credit period was 33 days (2018: 29 days). There were no impairment losses recognised on any financial assets measured at amortised cost at 31 March 2019 (2018: £Nil). Based on the profile of the Group's trade receivables and history of bad debts, no loss allowance provision has been recognised on the basis this would be highly immaterial. At 31 March 2019, of the £2,581,000 trade receivables outstanding, the vast majority were classed as within 30-60 days.

At 31 March 2019, £499,000 (2018: £394,000) of trade receivables were denominated in Sterling, £1,402,000 (2018: £1,724,000) in US Dollars, £652,000 (2018: £317,000) in Euros, and £28,000 in Chinese Renminbi (2018: £105,000). The Directors consider that the carrying amount of trade and other receivables approximate to their fair value. Cash and cash equivalents of £13,471,000 (2018: £13,816,000) comprise cash and short-term deposits held by the Group treasury function. The carrying amount of these assets approximates to their fair values.

Impairment of financial assets

The Company's credit risk management practices and how they relate to the recognition and measurement of expected credit losses is set out below.

Definition of default

The loss allowance on all financial assets is measured by considering the probability of default.

Receivables are considered to be in default when the principal or any interest is significantly more than the associated credit terms past due, based on an assessment of past payment practices and the likelihood of such overdue amounts being recovered.

Determination of credit-impaired financial assets

The Company considers financial assets to be "credit-impaired" when the following events, or combinations of several events, have occurred before the year end:

- significant financial difficulty of the counterparty arising from significant downturns in operating results and/or significant unavoidable cash requirements when the counterparty has insufficient finance from internal working capital resources, external funding and/or Group support;
- a breach of contract, including receipts being more than materially past due; or
- it becoming probable that the counterparty will enter bankruptcy or liquidation.

Write-off policy

Receivables are written off by the Group when there is no reasonable expectation of recovery, such as when the counterparty is known to be going bankrupt, or into liquidation or administration. Receivables will also be written off when the amount is more than materially past due.

Impairment of trade receivables

The Company calculates lifetime expected credit losses for trade receivables using a portfolio approach. Receivables are grouped based on the credit terms offered and the type of product sold. The probability of default is determined at the year end based on the aging of the receivables and historical data about default rates on the same basis. That data is adjusted if the Company determines that historical data is not reflective of expected future conditions due changes in the nature of its customers and how they are affected by external factors such as economic and market conditions.

The term "Financial liabilities" in the following table refer to financial liabilities measured at amortised cost in accordance with IFRS 9 definitions.

	Group		Company	
	2019 Amortised cost £'000	2018 Amortised cost £'000	**2019 Amortised cost £'000**	2018 Amortised cost £'000
Current financial liabilities				
Bank loans and overdrafts	**662**	—	**—**	—
Trade and other payables	**1,761**	2,038	**194**	301
Accruals	**1,776**	2,910	**359**	325
Provisions – current	**195**	181	**—**	—
Total	**4,394**	5,129	**553**	626

	Group		Company	
	2019 Amortised cost £'000	2018 Amortised cost £'000	**2019 Amortised cost £'000**	2018 Amortised cost £'000
Non-current financial liabilities				
Provisions – non-current	**16**	196	**—**	—
Total	**16**	196	**—**	—

The maturity of the gross contractual undiscounted cash flows due on the Group's and Company's financial liabilities is all in less than six months, with the possible exception of £662,000 of the provision which is due between in less than twelve months and £Nil due in more than twelve months. The gross contractual cash flows for the Group total £5,104,000 and for the Company £553,000 respectively.

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 £79,000 (2018: increased by £78,000);
- lower and all other variables were constant, the Group's profit before taxation would have decreased by £39,000 (2018: decreased by £39,000);
- higher and all other variables were constant, the Group's other equity and reserves would have increased by £64,000 (2018: increased by £63,000); or
- lower and all other variables were constant, the Group's other equity and reserves would have decreased by £31,000 (2018: decreased by £31,000).

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		RMB impact	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
10% movement in rates will have an impact on:						
Profit before taxation	**1,120**	1,529	**262**	357	**93**	81
Cash	**236**	484	**—**	14	**315**	132
Equity	**1,406**	1,741	**972**	894	**484**	376

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 held and available to the Group are disclosed in this note above.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

24 Trade and other payables

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Amounts falling due within one year:				
Trade payables	**1,688**	1,525	**187**	—
Other taxation and social security costs	**387**	344	**102**	123
Other payables and deferred income	**73**	513	**6**	301
Accruals	**2,486**	2,910	**359**	325
	4,634	5,292	**654**	749

25 Current tax liabilities/assets

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Current tax liabilities	**77**	48	**—**	—
Current tax assets	**1,118**	675	**—**	—

£721,000 (2018: £595,000) of the current tax asset is an R&D claim that by its nature is subject to HMRC approval.

26 Deferred tax

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Provision for deferred taxation comprises:				
Accelerated capital allowances	**(588)**	(534)	**(603)**	(579)
Tax losses carried forward	**117**	497	**113**	67
Pensions	**603**	352	**—**	—
Share-based payments	**96**	84	**96**	84
Research and development	**(3,604)**	(3,145)	**—**	—
Provisions	**19**	19	**—**	—
Intangible assets	**(172)**	(177)	**—**	—
Other	**17**	22	**—**	—
	(3,512)	(2,882)	**(394)**	(428)
Deferred tax asset	**908**	1,068	**210**	151
Deferred tax liability	**(4,420)**	(3,950)	**(604)**	(579)
	(3,512)	(2,882)	**(394)**	(428)
At 1 April	**(2,882)**	(2,273)	**(428)**	(465)
Foreign exchange difference	**56**	(73)	**—**	—
Deferred tax (charged)/credited in income statement for year (see note 9)	**(910)**	(381)	**34**	37
Deferred tax credited/(charged) to statement of total comprehensive income	**224**	(155)	**—**	—
At 31 March	**(3,512)**	(2,882)	**(394)**	(428)

The financial statements include a deferred tax asset of £908,000 (2018: £1,068,000) of which £99,000 (2018: £480,000) 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 credit of £224,000 (2018: deferred tax charge of £155,000) relates to the retirement benefit obligation (see note 27). 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 Act 2016 provides that the rate of corporation tax from 1 April 2017 will be 19% and from 1 April 2020 would be 17%. The Directors consider it appropriate to use 19% and 17% 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 £136,000 and (£38,000) respectively (2018: £44,000 and (£37,000) respectively). Deferred tax assets recoverable/(liabilities) expected to be settled over twelve months are £772,000 and (£4,382,000) respectively (2018: 1,024,000 and (£3,913,000) respectively). Deferred tax assets/(liabilities) expected net by jurisdiction consist of the Far East (£168,000) (2018: (£79,000)), Europe (£3,413,000) (2018: (£2,902,000)) and the Americas £69,000 (2018: £99,000). Unprovided deferred tax includes £335,000 in respect of UK tax losses brought forward.

In accordance with the requirement of IAS 12 Income Taxes the Directors have considered the likely recovery of any deferred tax asset as part of this process. The Directors are of the view that £1,973,000 of tax losses brought forward were now unlikely to be recoverable in the foreseeable future, due to the continued investment in research and development. Therefore, a deferred tax asset has no longer been provided for these losses. The Directors nevertheless have satisfied themselves that it is appropriate to recognise the remaining tax assets as they expect profitability to be sustained.

27 Retirement benefit obligations

Explanation of current pension schemes in operation worldwide – defined contribution schemes

The Group operates several pension schemes, mostly of a defined contribution nature, around the world. Today the majority of the Group's employees are members of defined contribution schemes. All schemes are operated by trustees, independent of operation by the Company and Group. The Trustees are responsible for the operation and governance of the schemes.

Defined contribution pension schemes pay fixed contributions from Group companies (where applicable) to employees' individual investment funds. There is therefore no further liability on the Group balance sheet relating to defined contribution pension schemes. 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:

	2019 £'000	2018 £'000
Pension contributions		
UK defined benefit pension scheme (discussed further below)	**—**	151
Defined contribution pension schemes (UK and overseas)	**547**	521
	547	672

In relation to the UK defined contribution scheme, the Group had outstanding contributions of £56,000 (2018: £59,000). Contributions to the UK defined benefit pension scheme for administrative expenses are discussed further below in this note.

Explanation of UK defined benefit pension scheme (closed to new members on 1 April 2002)

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

This part of the note therefore details the financial and demographic assumptions made in estimating the defined benefit obligation, together with an analysis of the components of the pension liability. The consolidated balance sheet therefore includes a retirement benefit liability which is the expected future cash flows to be paid out by the UK defined benefit scheme, offset by assets held by that scheme to meet those liabilities.

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. Under the UK defined benefit pension 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. The Trustees of this defined benefit pension scheme are also responsible for the scheme's investment strategy, as well as the operation and governance of that scheme.

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27 Retirement benefit obligations continued

Triennial actuarial funding valuation and IAS 19 Employee Benefits accounting valuation

The pension scheme is subject to a full actuarial valuation every three years using assumptions agreed between the Trustees and the Company. The latest available triennial actuarial funding valuation of the defined benefit scheme in the UK was prepared as at 31 March 2017. The purpose of this valuation is to design a funding plan to ensure that the pension scheme has sufficient funds available to meet future defined benefit payments. This most recent triennial actuarial valuation carried out by an independent professionally qualified actuary, as at 31 March 2017, resulted in a net pension surplus of £1,890,000 (1 April 2014: net pension deficit of £1,544,000). The market value of the assets of the scheme as at 31 March 2017 was £19,490,000 (1 April 2014: £15,727,000) and the actuarial valuation showed that these assets were sufficient to cover 111% (1 April 2014: 91%) of the benefits which accrued to members, after allowing for expected future increases in these benefits.

The main actuarial assumptions used were: allowance for future investment returns; i.e. the discount rate, of 4.8% p.a. both before and after retirement; pensions accrued prior to 6 April 1997 and after April 2005 will increase in payment at 3% p.a. compound; pension accrued between 6 April 1997 and 6 April 2005 will increase in payment at 3.7% p.a.; i.e. in line with RPI capped at 5% p.a., minimum 3% p.a. and early leaver revaluations will be at 2.85% p.a.

The valuation calculated under the funding valuation basis of £1,890,000 pension surplus above is different to the accounting valuation presented in the Group consolidated balance sheet of a net pension liability of £3,548,000. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions to value the liabilities to be in accordance with the accounting standard IAS 19 Retirement Benefits, together with any changes in market conditions between the two valuation dates of 31 March 2017 and 31 March 2019. Therefore for funding valuation purposes the liabilities are determined based on assumptions set by the Trustee following consultation with the Company and scheme actuaries. For example, the discount rate used for the most recent funding valuation is based on a 4.8% discount rate. Whereas, in the financial statements the liabilities are determined in accordance with IAS 19 and this accounting valuation uses a discount rate predicated on high quality (AA) corporate bond yields of an appropriate term equating to 2.4%.

Funding of the defined benefit scheme is agreed with the Trustees following each triennial actuarial valuation and the following funding agreement has been put in place from 1 April 2018 until the earlier of any revised settlement arising from the next triennial valuation or by 31 January 2023 ("future revised date"); all administration expenses of running the Scheme are met directly by the Employer and all PPF levies (and any minor Scheme expenses e.g. Pensions Regulator levies) will be paid from the Scheme and will not be reimbursed by the Employer. The next triennial actuarial funding valuation will take place as at 31 March 2020.

The net pension liability recognised in these consolidated financial statements has been calculated reflecting the most recent accounting valuation under IAS 19 to reflect the assets and liabilities of the scheme as at 31 March 2019, using assumptions further in this note.

Risk management

The cost of the UK defined benefit pension scheme depends on a number of assumptions of future events. Future contribution requirements may emerge in future if those estimated assumptions are not borne out in practice or if different assumptions are agreed in future. Specific risks mitigated by the Trustees where possible in the investment strategy include: any changes in future expectations of price inflation, including reducing real rates of return; changes in the discount rate used to value the pension liabilities; interest rate risk on pension asset matching liabilities held; the return on assets being different to that assumed; concentration of plan assets in equities versus liquidity risk of holding assets which may be difficult to sell; counterparty credit risk including, but not limited to, fund manager risk; currency risks where investments are held in overseas markets via pooled investment vehicles; impact of bond rate on liabilities held; any movements in asset values not matched by similar movements in the value of liabilities, perhaps caused by pricing risks; and any unanticipated changes in life expectancy which may have a bearing on the size of the scheme liabilities. The investment strategy for the defined benefit pension scheme is discussed further in this note.

GMP equalisation

On 26 October 2018, the High Court ruled in the Lloyds Banking Group case that the trustees are under a duty to make sure that equal benefits are paid, including where these benefits are in the form of Guaranteed Minimum Pension (GMP) payments. As a result, all schemes with GMP rights will have to act to allow for equalisation of benefits for the effect of unequal GMPs. This is known as GMP equalisation.

As a result of the judgement, companies now need to make an allowance for the increase in the defined benefit obligation that they expect as a result of GMP equalisation. For this first reporting results since the judgement, the GMP equalisation allowance has been estimated by making allowance for scheme specifics such as benefit structure and liability profile. This results in a GMP equalisation allowance of 0.3% of the defined benefit obligation, which equates to £68,000 as at the date of the judgement. This increase in the defined benefit obligation has been recognised as a past service cost in the P&L account. Any future adjustments in respect of GMP equalisation, will be adjusted for within the consolidated statement of total comprehensive income.

Financial and demographic assumptions

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages), the discount rate of liabilities applied being the most significant:

a) Financial assumptions

	2019	2018
Discount rate	**2.4%**	2.8%
Future salary increases	**n/a**	n/a
Expected duration of liabilities (years)	**15**	14
Pension revaluation in deferment (Consumer Prices Index – max. 5.0%)	**2.2%**	2.1%
Pension escalation in payment (Retail Prices Index – max. 5.0%, min. 3.0% from 6 April 1997 to 5 April 2005)	**3.2%**	3.1%
Proportion of employees opting for early retirement	**0%**	0%
Inflation assumption	**3.2%**	3.1%

The difference between the expected investment returns on the Scheme's assets and the actual investment loss was £205,000 (2018:gain £823,000).

b) Demographic assumptions

	2019	2018
Assumed life expectancy in years, on retirement at 65		
Retiring today		
Males	**21.5**	21.9
Females	**23.4**	23.8
Retiring in 20 years		
Males	**22.8**	23.3
Females	**24.9**	25.4

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

27 Retirement benefit obligations continued

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 2019 and 31 March 2018 are as follows:

	2019 £'000	2018 £'000
Amounts recognised in the consolidated income statement are as follows:		
Administration expenses (see details above)	**(43)**	(50)
Past service cost – GMP equalisation	**(68)**	—
Net interest on deficit	**(60)**	(87)
Total	**(171)**	(137)
Amounts recognised in the consolidated statement of total comprehensive income:		
Actual (loss)/return on assets less return implied by net interest income	**(205)**	823
Experience (loss)/gain on liabilities	**(47)**	145
Change in assumptions:		
Discount rate	**(1,342)**	(358)
Inflation rate	**(202)**	556
Demographic assumptions	**479**	(255)
Net actuarial (loss)/gain recognised in equity	**(1,317)**	911

	2019 £'000	2018 £'000
Amounts recognised in the consolidated statement of financial position:		
Present value of funded obligations	**(24,176)**	(22,747)
Fair value of plan assets	**20,628**	20,677
Deficit under IAS 19 as reported by the actuary	**(3,548)**	(2,070)

The main reason for the increased deficit in the IAS 19 accounting position relates to the changes in assumptions in using a lower discount rate due to the fall in corporate bond yields at the period end, the Scheme's investments return was lower than the requirement in the IAS 19 mandated increase in the obligation over the year, along with the additional liability for the GMP equalisation. 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 significant assumptions

Significant assumptions	Change in assumption %	Change in defined benefit obligation %
Discount rate	+/- 0.5% p.a.	- 6.9%/+ 7.7%
RPI	+/- 0.5% p.a.	+ 3.5%/- 3.2%
Assumed life expectancy	+ 1 year	+ 3.3%

These sensitivities have been derived by the actuary using similar methodologies consistent with the rest of the disclosure.

Analysis of changes in the funded status of the scheme over the period:

	2019 £'000	2018 £'000
Funded status at start of period	**(2,070)**	(3,084)
Amount charged to income statement	**(171)**	(137)
Employer contributions	**10**	240
Amount recognised in other comprehensive income	**(1,317)**	911
Funded status at end of period	**(3,548)**	(2,070)

The weighted average duration of scheme liabilities at the end of the year is 15 years (2018: 14 years).

Present value of the defined benefit obligation

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

	2019 £'000	2018 £'000
Opening defined benefit obligation	22,747	22,547
Expenses incurred (including GMP equalisation)	111	50
Interest cost	633	649
Actuarial loss/(gain)	1,102	(88)
Benefits paid (including expenses)	(417)	(411)
Closing defined benefit obligation	24,176	22,747
Comprising:		
Deferred members	17,429	15,966
Pension members	6,747	6,781

Fair value of defined benefit plan assets

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

	2019 £'000	2018 £'000
Opening fair value of plan assets	20,677	19,463
Interest income on assets	573	562
Actuarial (loss)/ gain on assets	(205)	823
Contributions by employer	10	240
Benefits paid	(384)	(361)
Expenses paid	(43)	(50)
Closing fair value of plan assets	20,628	20,677

The actuarial gain due to the change in demographic assumptions was £479,000 (2018: actuarial loss of £255,000) and the actuarial loss due to the change in financial assumptions was £1,544,000 (2018: actuarial gain of £198,000).

The return on plan assets excluding net interest was £368,000 (2018: £1,385,000). The interest income 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 £Nil (2018: £Nil) as contributions to the CML Microsystems Plc Retirement Benefits Scheme in the next accounting year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

27 Retirement benefit obligations continued
Fair value of defined benefit plan assets continued

The following is a breakdown of Plan assets held at each respective balance sheet date:

	Year ended 31 March 2019		Year ended 31 March 2018	
Asset class	**Market value £'000**	**% of total assets**	Market value £'000	% of total assets
Equities (all quoted)	**9,425**	**46%**	9,663	47%
Cash	**603**	**3%**	1,216	6%
Diversified growth funds	**6,808**	**33%**	6,678	32%
Diversified credit funds	**1,406**	**7%**	1,209	6%
Liability driven investments	**1,900**	**9%**	1,911	9%
Other	**486**	**2%**	—	—
Closing fair value of plan assets	**20,628**	**100%**	20,677	100%

Note: all assets listed above have a quoted market price in an active market and are valued using their bid values in accordance with IAS 19. The pension scheme no longer invests in bonds or property following a change in investment strategy.

The Trustees' investment strategy has the objectives to generate an appropriate level of investment returns to improve the financial position of the Scheme (thereby improving security for its members); to manage cash flow requirements to ensure there are sufficient assets and cash flows available (to pay for member benefits as they arise); and, to protect the financial position (in so doing limiting the scope for adverse investment experience impacting on members). The Trustees' strategic asset allocation is determined after considering written advice from the investment advisor and is designed to strike the appropriate balance between these objectives. Liability matching assets are selected by the Trustees having regard to the nature of the Scheme's liability profile and are expected to react to changes in market conditions in a similar way to liabilities. Growth assets are expected to deliver long-term returns in excess of liability growth. Current allocations are 15% of liability matching assets and 85% growth assets but this is monitored and rebalanced at the discretion of the Trustees and, moreover, on a day-to-day basis management of the assets delegated to the investment managers who have knowledge and experience for managing the investments. The Trustees, in conjunction with the investment advisor, regularly review each of the investment managers to ensure that the managers remain competent and assets continue to be managed in accordance with the managers' mandates (the Scheme objectives being implemented within an acceptable level of risk).

Assets are held predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level. To ensure the safekeeping of assets, ownership and day-to-day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

Five year comparison

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

	2019 IAS 19 £'000	2018 IAS 19 £'000	2017 IAS 19 £'000	2016 IAS 19 £'000	2015 IAS 19 £'000
Defined benefit obligation	**24,176**	22,747	22,547	19,111	19,976
Plan assets	**20,628**	20,677	19,463	17,044	16,352
Deficit	**(3,548)**	(2,070)	(3,084)	(2,067)	(3,624)
Experience adjustments on plan liabilities	**(47)**	145	1,361	460	472
Actuarial (loss)/gain on plan assets	**(205)**	823	2,007	475	507

28 Provisions

	£'000
At 31 March 2017	474
Utilisation	(48)
Foreign exchange	(49)
At 31 March 2018	377
Utilisation	**(193)**
Foreign exchange	**27**
At 31 March 2019	**211**
Analysed as:	
Current liabilities	**195**
Non-current liabilities	**16**
At 31 March 2019	**211**

The above provision relates to onerous lease and property obligations held by Group subsidiaries. The provision has not been discounted on the grounds of materiality. The majority of cash outflows to settle the above provision are expected to be over the next year (2018: two years).

29 Share capital and share options

	2019 £'000	2018 £'000
Authorised		
25,000,000 ordinary shares of 5p each (2018: 25,000,000 ordinary shares of 5p each)	**1,250**	1,250
Issued and fully paid		
At 1 April		
17,112,023 ordinary shares of 5p each	**856**	843
Issued in year: 63,143 ordinary shares (2018: 251,667) of 5p were issued in the year as a result of employees exercising their options	**3**	13
At 31 March		
17,175,166 ordinary shares of 5p	**859**	856

The Company has only one class of ordinary share with no special rights, preferences or restrictions attached to them, including on the distribution of dividends or the repayment of capital.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

29 Share capital and share options continued

Share options

The Company has a number of approved and unapproved share option schemes in place for the benefit of its employees. On 2 August 2000 the Company approved at the AGM a scheme, which was UK Revenue & Customs Approved. This scheme was amended and reapproved at the Extraordinary General Meeting held on 10 February 2004. At the 2008 AGM a new Enterprise Management Incentive share option plan was approved. On 18 November 2011 a further scheme was approved which is UK 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				
	2018 Number	Granted Number	Exercised Number	Forfeited Number	**2019 Number**
From 15 June 2014 to 14 June 2021 at £2.20	57,165	—	(2,819)	—	**54,346**
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	26,872	—	(2,917)	—	**23,955**
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	28,720	—	(4,427)	—	**24,293**
From 17 September 2017 to 17 September 2024 at £3.125	20,000	—	(8,000)	—	**12,000**
From 2 April 2018 to 2 April 2025 at £3.45	20,000	—	(7,500)	—	**12,500**
From 25 September 2018 to 25 September 2025 at £3.51	400,131	—	(9,080)	(11,968)	**379,083**
From 25 September 2018 to 25 September 2025 at £3.475	100,000	—	(28,400)	—	**71,600**
From 22 December 2019 to 22 December 2026 at £3.70	20,000	—	—	—	**20,000**
From 1 August 2020 to 1 August 2027 at £4.58	84,521	—	—	(14,052)	**70,469**
From 28 March 2021 to 28 March 2028 at £5.20	110,000	—	—	—	**110,000**
From 19 March 2022 to 18 March 2025 at £2.79	—	156,673	—	—	**156,673**
From 19 March 2022 to 18 March 2025 at £2.79	—	546,727	—	—	**546,727**
	904,909	703,400	(63,143)	(26,020)	**1,519,146**

There were 904,909 share options outstanding at the beginning of the year and 1,519,146 share options at the end of the year. Of the total outstanding at the end of the year, 617,071 were potentially exercisable at the prices detailed in the table above (2018: 170,257 share options). 63,143 options were exercised in the year (2018: 251,667 options). The weighted average market price of the share options exercised in the year was 494.0p (2018: 497.0p). The weighted average exercise price of options exercised in the year was 338.9p (2018: 302.6p). 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 405.8p (2018: 369.5p). The weighted average exercise price of options granted in the year was 279.0p (2018: 491.0p). The weighted average exercise price of all options exercisable is £3.28 (2018: £3.69) and the weighted average expected remaining contractual life is three years (2018: three years).

30 Other equity reserves

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Share premium				
At 1 April	**9,068**	8,319	**9,068**	8,319
Issued in year: 63,143 ordinary shares (2018: 251,667) of 5p were issued in the year as a result of employees exercising their options	**211**	749	**211**	749
At 31 March	**9,279**	9,068	**9,279**	9,068

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

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Capital redemption reserve				
At 1 April	**9**	9	**9**	9
At 31 March	**9**	9	**9**	9

The capital redemption reserve represents the nominal value of own shares purchased by the Company. On 23 December 2016, the Company purchased 179,439 of its own 5p ordinary shares at a price of £3.70 per share for cancellation. These shares were cancelled on 18 January 2017. An amount equal to the nominal value of the cancelled shares was transferred to a capital redemption reserve.

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Treasury shares – own share reserve				
At 1 April	**(190)**	(190)	**(190)**	(190)
Purchased in the year	**(152)**	—	**(152)**	—
At 31 March	**(342)**	(190)	**(342)**	(190)

The Company purchased on 10 June 2015 50,000 ordinary shares of 5p each at a price of 376.5p per ordinary share plus associated transaction costs. On 11 February 2019, the Company purchased 50,000 ordinary shares of 5p each in the Company at a price of 302.5p per ordinary share. The shares are to be held in treasury for the benefit of various employee share plans.

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Share-based payments reserve				
At 1 April	**443**	504	**443**	504
Options exercised or released	**(53)**	(204)	**(53)**	(204)
Charged in year	**117**	143	**117**	143
At 31 March	**507**	443	**507**	443

Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of the grant. The contractual life of an option is ten years. Awards under the share option scheme are typically for all employees throughout the Group. Options granted under the share option scheme become exercisable on the third anniversary of the grant date. Options were valued using the Black-Scholes model. The share option charge for the year was £117,000 (2018: £143,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

30 Other equity reserves continued
The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	19/03/19	28/03/18	01/08/17	22/12/16	25/09/15	25/09/15	02/04/15
Share price at grant date (£)	2.79	5.20	4.58	3.70	3.475	3.475	3.45
Exercise price (£)	2.79	5.20	4.58	3.70	3.475	3.51	3.45
Number of employees	203	2	47	1	4	158	1
Shares under option	703,400	110,000	84,521	20,000	100,000	400,131	20,000
Vesting period (years)	3	3	3	3	3	3	3
Expected volatility	31.63%	23.31%	19.37%	16.02%	33.20%	33.20%	38.00%
Option life (years)	10	10	10	10	10	10	10
Expected life (years)	3	3	3	3	3	3	3
Risk-free rate	1.19%	1.37%	1.10%	1.15%	1.83%	1.83%	2.09%
Expected dividend yield	1.67%	1.40%	1.84%	1.86%	1.92%	1.92%	1.57%
Possibility of ceasing employment before vesting	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Fair value per option (£)	0.56	0.80	0.54	0.35	0.74	0.73	0.87

Grant date	17/09/14	01/05/13	01/10/12	01/10/12	01/09/12	15/06/11	15/06/11
Share price at grant date (£)	3.125	3.88	3.34	3.34	2.84	2.30	2.20
Exercise price (£)	3.125	3.84	3.34	3.22	2.84	2.20	2.20
Number of employees	1	7	1	124	1	1	22
Shares under option	20,000	28,720	5,000	26,872	20,000	12,500	57,165
Vesting period (years)	3	3	3	3	3	3	3
Expected volatility	26.84%	43.30%	29.36%	29.36%	29.36%	35.70%	35.70%
Option life (years)	10	10	10	10	10	10	10
Expected life (years)	3	3	3	3	3	3	3
Risk-free rate	2.43%	3.60%	3.09%	3.09%	3.09%	4.28%	4.28%
Expected dividend yield	1.26%	1.20%	1.49%	1.49%	1.49%	1.50%	1.50%
Possibility of ceasing employment before vesting	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Fair value per option (£)	0.60	0.71	0.67	0.67	0.67	0.58	0.58

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.

Company only	2019 £'000	2018 £'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	2019 £'000	2018 £'000
Foreign exchange reserve		
At 1 April	**1,302**	1,386
Retranslation of overseas subsidiaries	**104**	(84)
At 31 March	**1,406**	1,302

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

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Accumulated profits reserve				
At 1 April	**30,282**	26,764	**9,387**	9,308
Profit for the year	**2,694**	4,139	**2,999**	1,456
Dividend paid	**(1,332)**	(1,581)	**(1,332)**	(1,581)
Cancellation/transfer of share-based payments	**53**	204	**53**	204
Net actuarial (loss)/gain	**(1,317)**	911	**—**	—
Deferred tax gain/(loss) on actuarial (loss)/gain	**224**	(155)	**—**	—
At 31 March	**30,604**	30,282	**11,107**	9,387

31 Capital commitments

Capital commitments which have been authorised by the balance sheet date, represent a three-year purchasing commitment with a supplier for £1,269,311 (2018: £1,368,000), and £Nil (2018: £201,000) in relation to intangible assets. No provision has been made in these financial statements for these capital commitments.

32 Operating lease arrangements

The Group as a lessee

	2019 £'000	2018 £'000
Land and buildings		
Minimum lease payments under operating leases recognised in income statement as an expense for the year	**435**	494

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

	2019 £'000	2018 £'000
Within one year	**507**	517
In the second to fifth year inclusive	**359**	593
After five years	**67**	146
	933	1,256

Operating lease payments represent rentals payable by the Group for some of its office properties. Leases are normally negotiated for an initial term of three years and rentals are fixed for that period.

	2019 £'000	2018 £'000
Other		
Minimum lease payments under operating leases recognised in income statement as an expense for the year	**90**	91

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

	2019 £'000	2018 £'000
Within one year	**57**	69
In the second to fifth year inclusive	**48**	24
	105	93

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 March 2019

32 Operating lease arrangements continued

The Group and Company as a lessor

Property rental income earned during the year was £304,947 (2018: £290,000). Current commercial market conditions have improved and the Group now has all properties let albeit with fairly short leases. 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 typical 6-7% levels.

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

	2019 £'000	2018 £'000
Within one year	**308**	227
In the second to fifth year inclusive	**549**	306
After five years	**—**	4
	857	537

33 Notes to the cash flow statement

	2019 £'000	2018 £'000
Group		
Movement in working capital:		
(Increase) in inventories	**(701)**	(227)
(Increase) in receivables	**(877)**	(1,087)
(Decrease)/increase in payables	**(165)**	440
	(1,743)	(874)

Analysis of changes in net cash – Group:

	Net cash at 1 April 2018 £'000	Cash flow £'000	Exchange movement £'000	**Net cash at 31 March 2019 £'000**
Cash and cash equivalents	13,816	(1,077)	70	**12,809**
	13,816	(1,077)	70	**12,809**

	2019 £'000	2018 £'000
Company		
Movement in working capital:		
(Increase) in advance to subsidiary undertaking	**(872)**	(124)
(Increase) in receivables	**(1,084)**	(3)
(Decrease) in payables	**(95)**	(250)
	(2,051)	(377)
Movement in investments and dividends	**—**	—
	(2,051)	(377)

Analysis of changes in net cash – Company:

	Net cash at 1 April 2018 £'000	Cash flow £'000	Exchange movement £'000	**Net cash at 31 March 2019 £'000**
Cash and cash equivalents	172	130	(8)	**294**
	172	130	(8)	**294**

34 Related party transactions

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

Company	2019 £'000	2018 £'000
Management fees charged to subsidiary undertakings by parent:		
CML Microcircuits (UK) Ltd	**1,000**	1,000
CML Microcircuits (USA) Inc	**153**	151
Hyperstone GmbH	**220**	220
	1,373	1,371
Dividends paid to parent:		
Received from CML Microcircuits (UK) Ltd	**1,332**	—
Received from CML Microcircuits (USA) Inc	**493**	—
Received from Hyperstone GmbH	**879**	1,244
Received from CML Microcircuits (Singapore) Pte Ltd	**278**	251
	2,982	1,495

Contributions to the Group's pension schemes

Contributions to the Group's defined contribution pension schemes by the Group as employer consisted of £547,000 in the year (2018: £672,000). Contributions to the closed UK defined benefit scheme was £Nil (2018: £151,000).

Group and Company

Key management personnel consist of the Board of Directors and transactions during the year (included within remuneration disclosed in notes 6 and 7) were as follows:

Group and Company	2019 £'000	2018 £'000
Employee benefits	**887**	879
Pension contributions	**53**	50
Share-based payments	**35**	22
	975	951

35 Listings

CML Microsystems Plc's ordinary shares are traded on the Official List of the London Stock Exchange and the Company is incorporated and domiciled in the UK. The Company's registered address is: Oval Park, Langford, Maldon, Essex, CM9 6WG, England.

36 Approval of financial statements

These financial statements were formally approved by the Board of Directors on 21 June 2019.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the AGM of CML Microsystems Plc (the "Company") will be held at Pontlands Park Hotel, West Hanningfield Road, Great Baddow, Chelmsford, Essex CM2 8HR on 31 July 2019 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 2019.
2. To receive and approve the Directors' remuneration report for the year ended 31 March 2019.
3. To declare a final dividend of 5.8p per 5p ordinary share for the year ended 31 March 2019 to be paid on 5 August 2019 to shareholders whose names appear on the register at the close of business on 5 July 2019.
4. To re-appoint Hugh Rudden, who retires by rotation, as a Director of the Company.
5. To re-appoint Nigel Clark who retires by rotation, as a Director of the Company.
6. To send or supply all documents or information relating to the Company to members by making them available on a website.
7. To re-appoint RSM UK Audit LLP as auditor of the Company.
8. 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:

9. 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 £572,505 (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 £286,252 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph a) of this resolution in excess of £286,252, provided that (unless previously revoked, varied or renewed) these authorities shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or on the date which is 15 months after the date of the AGM 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. 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).

   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.

Special resolutions

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

10. That, subject to the passing of resolution 9 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 9 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 9, 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;
        iii. 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 9 or sale of treasury shares (in each case, otherwise than pursuant to paragraph a) of this resolution) up to an aggregate nominal amount of £42,937 and (unless previously revoked, varied or renewed) this power shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or on the date which is 15 months after the date of the AGM 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 Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

11. That, subject to resolution 9 being passed, and in addition to any authority granted under Resolution 10 to allot equity securities pursuant to the Companies Act 2006 (the "Act") for cash under the authority given by that resolution, the Directors be and are generally empowered to allot equity securities (pursuant to Sections 570 and 573 of the Act) for cash under the authority given by resolution 9 and/or to sell treasury shares as if Section 561(1) of the 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 b) of resolution 9 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 £128,727 (being 14.99% 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 AGM of the Company after the passing of this resolution or on the date which is 15 months after the date of the AGM 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 Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

Special business continued

Special resolutions continued

12. 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 2,576,274;
    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 UK Listing Authority, held as a treasury share, and
    e) (unless previously revoked, varied or renewed) this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or on the date which is 15 months after the date of the AGM 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

Neil Pritchard
Company Secretary
21 June 2019

Registered office
Oval Park
Langford
Maldon
Essex CM9 6WG

Registered in England and Wales: 000944010

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 Neville Registrars Limited, by writing to Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD.

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 29 July 2019.

Under Section 337(3) of the Act members may circulate and move a resolution at the AGM if members representing at least 5% of the total voting rights request it, of if at least 100 members request it, if those members hold shares in the Company in holdings on which an average of £100 per member has been paid up.

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 to the Company's Registrars, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD, or 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 29 July 2019 or if the AGM is adjourned, at least 48 hours before the time of the adjourned meeting.

If you do not have a proxy form and believe that you should have one, or you require additional proxy forms, please contact the Company's Registrars, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD.

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 29 July 2019 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.

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

4 Appointment of a proxy through CREST continued

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 29 July 2019 (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 19 June 2019 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consisted of 17,175,166 ordinary shares, carrying one vote each. The Company holds 100,000 shares in treasury meaning the total voting rights in the Company as at 19 June 2019 were 17,075,166 votes.

12 Payment of dividend

It is proposed to pay the dividend, if approved, on 5 August 2019 to shareholders registered on 5 July 2019.

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 Pontlands Park Hotel, West Hanningfield Road, Great Baddow, Chelmsford, Essex CM2 8HR from 10.30am until the conclusion thereof.

FIVE-YEAR RECORD

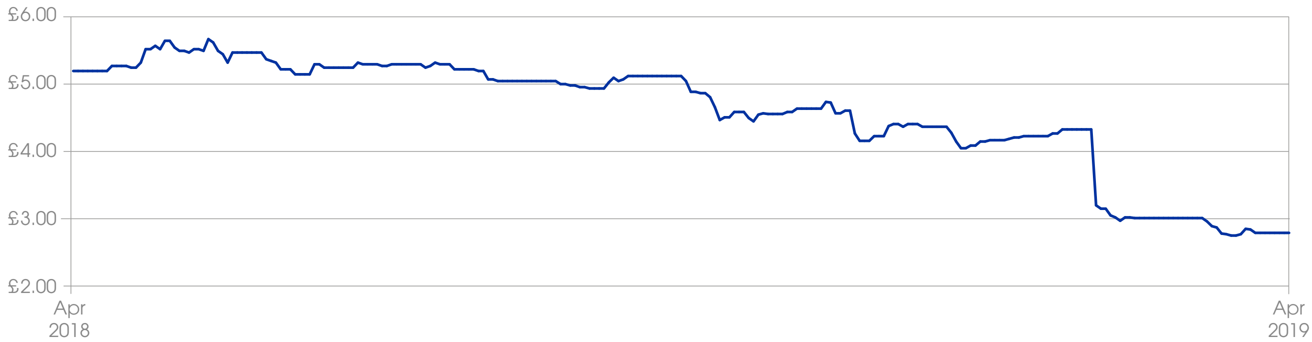
	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Income statement					
Revenue (continuing operations)	**28,140**	31,674	26,076	22,833	21,804
Revenue (acquisition)	**—**	—	1,661	—	—
Revenue (discontinued operations)	**—**	—	—	—	—
Total revenue[1]	**28,140**	31,674	27,737	22,833	21,804
Gross profit[1]	**20,253**	22,236	19,815	16,253	15,465
Gross profit percentage[1]	**71.97%**	70.20%	71.44%	71.18%	70.93%
Profit before taxation[1]	**2,982**	4,583	4,208	3,324	3,178
Adjusted EBITDA[2]	**8,754**	9,998	8,840	6,970	6,698
EPS[1]					
Basic	**15.77p**	24.52p	23.09p	18.03p	16.71p
Diluted	**15.36p**	23.95p	22.84p	17.94p	16.51p
Statement of financial position					
Shareholders' equity[1]	**42,322**	41,770	37,635	32,576	28,971
Dividends per ordinary share					
Dividends proposed/paid per 5p ordinary share[1]	**7.80p**	7.80p	7.40p	7.00p	6.90p

1. As reported in the years' Annual Report.
2. Adjusted EBITDA is defined as profit from operations before all interest, tax, depreciation and amortisation charges and before share-based payments.

	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
Issued 5p ordinary shares (including treasury shares)	**17,175,166**	17,112,023	16,860,356	16,256,537	16,256,537

SHAREHOLDER INFORMATION

CML Microsystems Plc share price – for the year ended 31 March 2019



Techmark 100 Index – for the year ended 31 March 2019

FTSE 100 Index – for the year ended 31 March 2019

Financial calendar

2019	
31 July	AGM
30 September	Half year end
20 November	Anticipated date for half year results
2020	
31 March	Year end
9 June	Anticipated date for preliminary announcement of year-end 2020 results

GLOSSARY

5G	Fifth Generation Cellular Network Technology
API	Application Programmers Interface
ASIC	Application-Specific Integrated Circuit
DMR	Digital Mobile Radio
DTR	Disclosure and Transparency Rules
EBITDA	Earnings before interest, tax, depreciation and amortisation
EU	European Union
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Practice
GMP	Guaranteed Minimum Pension
GPS	Global Positioning System
HDD	Hard Disk Drive
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IC	Integrated Circuit
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIoT	Industrial Internet of Things
IoT	Internet of Things
IP	Intellectual Property
ISA	International Standard on Auditing
M2M	Machine-to-Machine
NAND	Not And
OEM	Original Equipment Manufacturer
P25	Project 25 digital mobile radio public safety standard
POS	Point-of-Sale
R&D	Research and Development
RF	Radio Frequency
RTK	Real-Time Kinematic
SATA	Serial ATA Interface
SCADA	Supervisory Control And Data Acquisition
SSD	Solid State Drives
TETRA	Terrestrial Trunked Radio
TSR	Total Shareholder Return
VP	Vice-President

ADVISORS

Registered office
CML Microsystems Plc
Oval Park
Langford
Maldon
Essex CM9 6WG

Registrars
Neville Registrars Limited
Neville House
Steelpark Road
Halesowen
West Midlands B62 8HD

Joint Stockbrokers
Shore Capital Stockbrokers Ltd
Bond Street House
14 Clifford Street
London W1S 4JU

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

Auditor
RSM UK Audit LLP
25 Farringdon Street
London EC4A 4AB

Financial Public Relations
Alma PR
71-73 Carter Lane
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CML Microsystems Plc

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cmlmicroplc.com

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