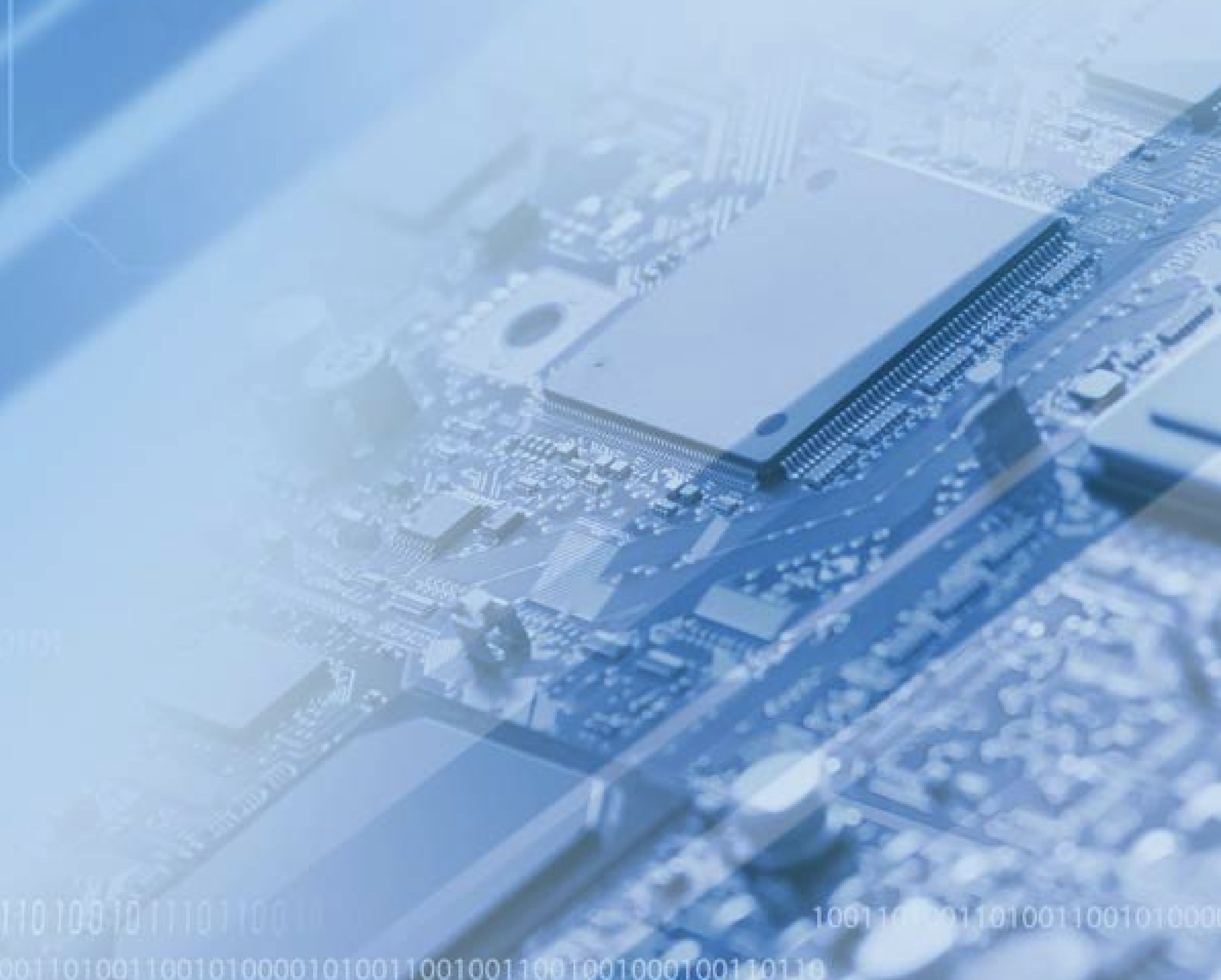
CML Microsystems Plc



CML Microsystems Plc

Annual Report and Accounts FY21

USER GUIDE

Welcome to the CML Microsystems Annual Report FY21. 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.

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DOCUMENT CONTROLS

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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.

About us

We develop mixed-signal, RF and microwave semiconductors for global communications markets.

Vision

The first choice semiconductor partner to technology innovators, together transforming how the world communicates.

Strategic report

Directors' report

Financial statements

Other information

Financial highlights

Figure	Measure	Change	2020
12.50	Revenue (£m)	(17)%	2020: 15.00
0.01	Pre-tax profit[1] – continuing operations (£m)	(99)%	2020: 1.17
4.81	Basic earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company (p)	(40)%	2020: 8.02
2.73	Adjusted EBITDA[2] (£m)	(39)%	2020: 4.50
53.45	Shareholders' equity (£m)	+26%	2020: 42.39
31.91	Net cash (£m)	+276%	2020: 8.48
22.77	Pre-tax profit[1] – continuing and discontinued operations (£m)	+1599%	2020: 1.34
141.13	Basic earnings per share for profit attributable to the ordinary equity holders of the Company (p)	+1472%	2020: 8.98

1. Change in research and development estimates, see accounting policies note r.
2. For definition and reconciliation see note 12.

Operational highlights

- Sale of Storage division for US$49m in cash.
- Expanded customer engagements through enhanced strategy.
- Launch of SμRF product range for microwave/millimetre wave applications.
- Returned over £10m to shareholders via share buyback, dividends and return of capital.
- Record net cash of £32m at year end.
- Proposed move to AIM market listing.

At a glance

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 strong routes to market.

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**

Key stats

Established		Employees worldwide	Engineers
1968	**3** Design facilities	**147**	**>40%**

2021 revenue split by region

40%	**47%**	**13%**
Far East	Europe	Americas

The first choice semiconductor partner to technology innovators, together transforming how the world communicates.

Our brands

CML Microcircuits

SICOMM

PRFI

Our markets

Find out more on page 08

CML Microcircuits is a supplier of high performance RF products and mixed-signal baseband/modem processors across multiple wireless voice and data communication markets.

Wireless & Satellite

Public service, satellite, maritime & critical, voice and data wireless communications depend on CML

Network Infrastructure

CML SHF RF devices are building the 5G and satellite infrastructure for the next decade

Internet of Things

CML devices are fuelling the IoT and M2M revolution

Aerospace & Defence

We enable communication in mission critical applications worldwide

We are driven by our values and guiding principles; they steer our ways of working across our global operations and empower a combined sense of purpose in every facet of our business.

Values

- Trust
- Respect
- Commitment
- Creativity

Guiding principles

- Strong business ethics.
- Culture of quality with a sense of urgency.
- Live and breathe the customer experience.
- A passion for excellence.
- Inspire our people to innovate.

Chairman's statement

> Against a challenging backdrop, the Group has developed a platform for sustainable growth.

Nigel Clark
Executive Chairman

Introduction

I have never witnessed a year with more challenges and opportunities than we have faced this last year, and I am proud of the way in which we have responded. At a macro level we have the COVID-19 pandemic and the continuation of the geo-political trade issues that were present when the year began and still remain today. In addition, Brexit was implemented and what was already a difficult year, finished with the well-publicised semiconductor supply shortages extending delivery times throughout the supply chain and increasing costs. At an operational level, having just acquired PRFI Ltd, it needed to be assimilated through the first COVID-19 lock down in conjunction with successfully executing the divestment of the Storage Division. There were challenges for us across the entire year, however, the Board is of the firm belief that the performance of the business from both a trading and operational standpoint has been resilient.

The disposal of the Storage division for US$49m, announced in December 2020, completed in February 2021 was, in the opinion of the Directors, at a price reflecting its true value and a very successful outcome for CML.

The Board were of the firm opinion that this was strategically the right time to evaluate the expected future returns and the risks in achieving those returns against the potential opportunity that existed in the communications market with the benefit of the focus and proceeds that could be generated through a disposal. The transaction has materially strengthened the balance sheet and net cash position, with the sale price achieved being more than three times the division's prior year revenues. This provides the Group with the scope to drive organic growth through enhanced investment in the communications market supplemented, as appropriate, with acquisitions to strengthen the breath and depth of the Group's offering.

As indicated at the interim stage, the COVID-19 pandemic has hit the voice centric radio manufacturers hard and as CML is a component supplier into this market our revenues here have suffered accordingly. This is seen as a transient problem for the traditional markets we address, and they are expected to return to historic levels and growth trends as the world normalises hopefully through the financial year just commenced. Despite these global and operational problems, work on R&D, the life blood of future revenues, has not diminished with new product releases continuing as planned.

Timeline

2002	2003	2013
Formation of Systems Group Specialising in DSP software and RG design.	**Acquisition of Hyperstone GmbH** CML Microsystems Plc acquires Hyperstone, German semiconductor company.	**Exit of Equipment segment** The Group successfully exits the Radio Data Technology (RDT) equipment business.

Governance highlights

The Governance Report on pages 27 and 28 describes the Group's approach to governance and how it supports the delivery of our strategy. During the year, the following took place:

Audit Committee

- 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 2021 financial statements.

Remuneration Committee

- reviewed the framework for executive remuneration; and
- approved the Executive Directors' 2021 remuneration and bonus payments.

Find out more on pages 29 to 34

The enhanced business strategy adopted has expanded the addressable communications markets for CML into areas that are expected to grow significantly over the next five years. These markets are already understood to be a step change larger than the historic markets addressed and provide ample opportunity for growth of a significant magnitude. Additionally, these are markets where our already established global market reach is well established to capitalise without the need for major changes. It is therefore very pleasing that, despite all the headwinds, the assimilation of PRFI was achieved very successfully and the first of our new products addressing RF, Microwave and Millimetre-wave application areas ("SµRF") are coming to market now, with further new products on the way and a full future road map for the range.

Results

With the business now fully focusing on the communications semiconductor markets, these results are reported against the continuing business, with the comparatives adjusted where appropriate to reflect this.

Revenues were down 16.7% to £12.5m (2020: £15.0m) reflecting the effect of COVID 19 on the voice centric markets yielding what was essentially a break-even outcome of £0.01m (2020: £1.2m profit). This break-even position was assisted by the profit resulting from a triennial revaluation of the Group's investment properties which yielded a gain of £0.6m (2020: £Nil) and a change in accounting estimates that yield a net reduction in costs of £0.75m (2020: £Nil). A tax credit in the year means the profit on the continuing business after tax was £0.8m (2020: £1.4m). After adding a profit on disposal for the discontinued business of £22.8m (2020: £Nil), the profit attributable to the Shareholders amounted to £23.6m (2020: £1.5m). Net cash levels, after a US loan, were £31.9m (2020: £8.5m) after accounting for an £8.3m capital redemption, £0.7m paid out as dividends and a share buyback costing £1.6m. Net assets have increased to £53.4m (2020: £42.4m).

Acquisition of Sicomm Technologies
China based Wuxi Sicomm Technologies Ltd acquired.
2016

Acquisition of PRFI Ltd
PRFI Ltd ("PRFI"), a UK-based design house is acquired.
2020

Exit of Storage division
Announcement that the disposal of Hyperstone has been completed.
2021

Chairman's statement continued

"We start the new financial year with the strongest balance sheet on record."

Dividend

For a number of years, the Group has maintained a progressive dividend policy with a keen eye on annual profitability and cash generation. That said, the dividend has on occasion been maintained when profits did not directly support the decision, reflecting the Board's confidence in the future.

We have always endeavoured to ensure adequate cash resources were maintained to cover legal obligations, organic growth and strategic acquisitions. Today the financial strength of the Company is clear and the Board is confident in the future. Based upon the opportunities currently visible, the Board believes that growth will be driven organically for the coming period, with selective acquisitions only expected if they offer increased potential and accelerate delivery of the Group's strategy.

Accordingly, the Board is recommending a final special dividend payment of 50p per ordinary 5p share, equating to a total for the year of 52p (2020: 4p). If approved this will be paid to shareholders on 13 August 2021 whose names appear on the register at close of business 30 July 2021, the shares will go ex-dividend on 29 July 2021.

COVID-19 Governmental Support

The COVID-19 pandemic has led to Governments around the world supporting industries in various ways, if needed and as a Group we have only taken advantage of these measures where we felt it was appropriate to do so. In the UK we did not furlough any staff, take assistance from the UK Government Coronavirus Job Retention Scheme or make use of any UK Government backed loans. In the USA we did take advantage of a loan under the Paycheck Protection Program of £0.28m (2020: £Nil), whilst in Singapore we received grants under the Job Support Scheme of £0.05 (2020: £Nil). Our China operation received a very minor amount of support from their Stabilizing and Enlarging Employment Policy. Across all global operations our staff have continued to work through the whole year with no pandemic related redundancies made.

Employees

Our employees, across the globe, are key to the success of CML and with the challenges presented through this year their support and co-operation has been paramount. It has been a year of significant change for the Group, and I am proud of how our employees have shown resilience and purpose with incredible determination and courage during this pandemic, achieving the goals set and adapting to needs as they arose. On behalf of the Board, I would like to put on record our gratitude and thanks to each and every one of them.

The Board

In February 2021 we announced that our Group Sales and Marketing Director, Hugh Rudden, had chosen to retire. Hugh joined us in 2014 and has been a valued member of our Board since then. We wish him a healthy, happy and long retirement and thank him for his service. Hugh's role has been disseminated across a number of executive and senior management personnel as part of the organisational changes necessary for the continuing business.

As advised in January 2020 and in light of the numerous corporate activities underway at that time, I took on the additional role of CFO on an interim basis. As of today, the Company is a different entity, being of reduced scale and management complexity having disposed of the Storage Division. In conjunction with the finance capabilities on the Board and considering the strength in depth of the function across the organisation globally, the Board is currently of the opinion that the Group has sufficient capability to achieve its objectives without recruiting a dedicated CFO. In support of this decision, it was announced on 1 June 2021 that I had accepted the Board's proposal to move from Non-Executive Chairman to Executive Chairman. Simultaneously, we announced that Non-Executive Director Geoff Barnes would take up the post of the Senior Independent Non-Executive Director and Jim Lindop would join the Audit Committee, both with immediate effect. The Board will keep under constant review the needs of the business and requirement for additional bandwidth through the appointment of additional executive and non-executive directors onto the Board.

"As a Company we are well placed to return to meaningful results improvements."

Move to the Alternative Investment Market (AIM) of the London Stock Exchange

In accordance with the announcement on 1 June 2021, the Company is planning to cancel its standard listing on the Main Market of the London Stock Exchange and move to AIM, subject to shareholder approval at the Company's AGM. Having disposed of the Storage Division the Group is now fully focused on a much larger global opportunity within the wireless communications market and the Board believes that AIM provides a more appropriate regulatory environment for the Company at the start of this exciting growth phase.

The move to AIM will enable the Company to improve its flexibility in relation to future corporate actions and although organic growth is the immediate focus, the possibility of further small acquisitions cannot be ruled out. Additionally, as an AIM company there should be advantages to private individual shareholders who should benefit from inheritance tax and stamp duty reserve tax exemptions not available to a company listed on the Main Market.

Prospects and Outlook

COVID-19 is omnipresent although there appears to be a light at the end of the tunnel. The geo-political trade issues between the USA and China have not subsided and ongoing semiconductor supply chain issues remain well publicised. Despite this, I am pleased to say that CML has never been in a stronger position.

We start the new financial year with the strongest balance sheet on record, including a large element of cash, a record order book for the continuing business and a materially increased addressable market.

For our existing product markets, we believe our customers are holding reduced inventory levels and as we move through the year, we expect to see those markets recovering back towards more normalised levels, driving good growth. These positive prospects are further enhanced by the fact we have the marketing, sales and distribution network already in place to support the new "SµRF" range of products as they are launched to market through the coming year. Though growth in this new market will take time, we are already engaged with existing and new customers that offer exciting growth prospects.

Even though we remain in uncertain times, the Board is confident that the strategy in place will lead to significant, sustainable growth. As a Company we are well placed to return to meaningful results improvements.

Nigel Clark
Executive Chairman
25 June 2021

Market opportunity
Addressing growing markets

"Connected everything" is propelling exponential increases in data consumption – driving growth across wireless communications markets globally.

Our customers embed our innovative solutions within their products to enable reliable transmission, and reception of voice, data and control information in the connected world.

Mega trends:

01:
5G

Small/pico cells, fixed-link broadband access

Radio Access Network (RAN)

Satellite communications
Satellite terminals, global broadband networks

02:
Private mobile radio

Commercial, professional, mission critical

Transportation
Railways, vehicle tracking, marine

03:
Critical infrastructure

Public utilities, AMI, smart meter/grid, RFID, long-range data links

Military

SμRF by CML

CML's new SμRF range of high frequency, high bandwidth MMICs targeting RF and mmWave, support emerging markets such as 5G, Satellite and IoT.

High Frequency RF Design Capability

Full Spectrum Supply

Fast product development and fast to manufacture

Building an opportunity pipeline

R&D 1–2 years	Product deployment commences years 2–4	Customer products ship for 5–10+ years

Investment Phase

Design Win Phase

Revenue Generation Phase

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. Putting the customer at the heart of everything we do – never losing sight of what is important.

Investment case:

Superior performance for targeted application areas

- High performance RF and millimetre wave products, mixed-signal baseband/modem processors.

Time-to-market

- "Off the shelf" integrated circuits for focused 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.

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 outsourced assembly and in house-testing.
- The business model supports scalability.

Business model and strategy

The business model is to design, manufacture and market a range of semiconductors for global industrial and professional applications within global communication market areas.

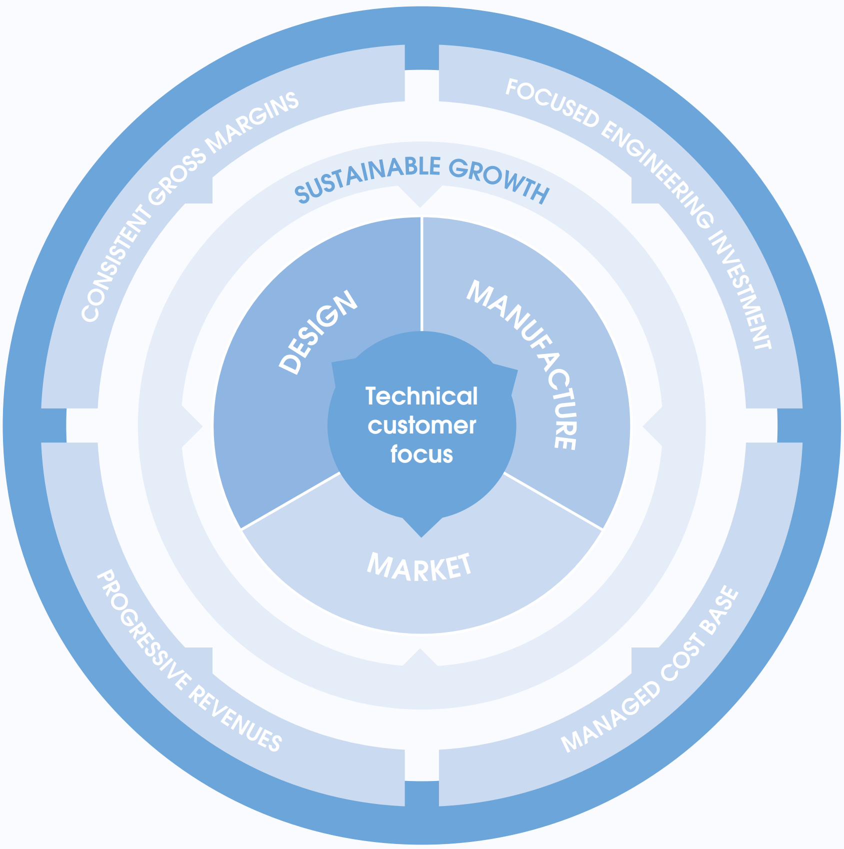
Inputs

Our people
Highly experienced people working together to foster a company we can all be proud of.

Our engineering innovation
We work closely with our customers to align our engineering resources to the right applications and markets where our differentiated capabilities are valued by our customers in delivering a compelling, commercially attractive communication solution.

Our sales and distribution footprint
It is a key trait that our customers associate our customer support and distribution footprint as an important factor in their decision-making process when selecting us as a long-term partner.

How we do it



Underpinned by our vision:

The first choice semiconductor partner to technology innovators, together transforming how the world communicates.

Strategic pillars

Principles:
We have three key principles behind executing our strategy:

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 on.

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.

Strategic focus

The Group's strategic focus is to deliver technologically innovative market-leading solutions through timely and effective market research and engineering development, focusing our resources effectively to enhance our customer relationships.

We seek to expand our total addressable market through existing customer proliferation and new customer adoption in current and adjacent market areas.

We grow customer share and expand the customer base through R&D investments that increase the functionality that our integrated circuits (ICs) deliver within the customers' end product. This includes growing the product portfolio to include ICs with performance characteristics intended to widen the addressable market.

Cascaded strategy

The Group puts the customer at the heart of everything we do. By focusing on their aims, we ensure that we never lose sight of what's important. It is a fabless semiconductor company with worldwide reach and operations.

- Partner with our customers to solve technology problems in voice and data communication applications.
- Leverage our world-beating systems and IC design knowledge to provide innovative solutions.
- Prioritise our customers' needs, ensuring we remain vigilant in designing products and capabilities that support their objectives.

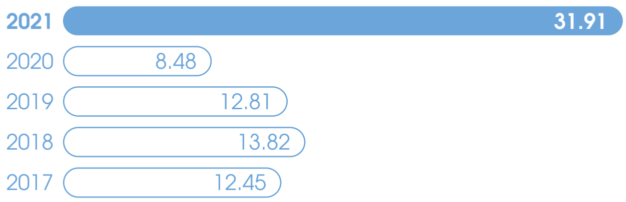
Key performance indicators and risks

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

KPIs[1]

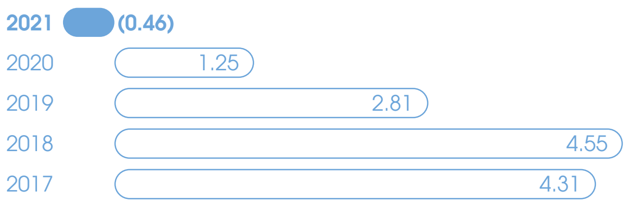
Revenue (£m)

Net cash (£m)

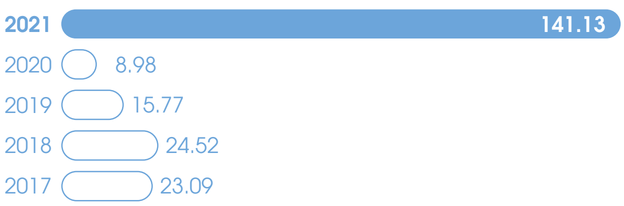


Gross profit (£m)

(Loss)/Profit from operations[2] (£m)

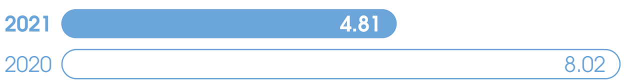


Basic earnings per share for profit attributable to the ordinary equity holders of the Company (p)



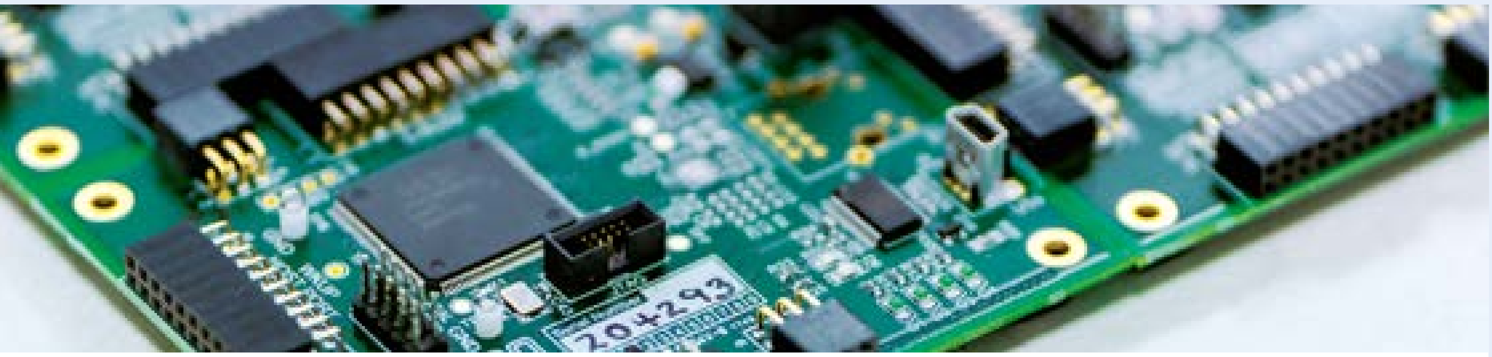
Adjusted EBITDA[3] (£m)

Basic earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company (p)



These KPIs include revenue, gross profit, profit from operations, basic EPS and cash, summary details of which are shown above and discussed within the Executive Chairman's Statement on page 04 and the Group Managing Director's Review on page 14.

1. The above KPIs are of a financial nature. Management use financial KPIs to monitor the business performance, together with a combination of internally focused financial and non-financial KPIs.
2. Change in research and development estimates, see accounting policies note r.
3. For definition and reconciliation please see note 12.



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. 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.

COVID-19

During the pandemic the Group ensured that its critical infrastructure, resources and activities were organised to provide continuity of our operations which enabled us to implement our responsive approach to COVID-19. All non-essential operational employees worked from home and the Group did not make use of the government's staff retention schemes in the UK. In the United States the government provided support in the form of a loan under the Paycheck Protection Program ($388,400) which could be forgiven, in Singapore there was support from job retention schemes ($62,300) and in China there was minor support from the stabilising and enlarging employment policy which was taken up. The Board continues to closely monitor the impact of COVID-19 and is taking prudent steps to mitigate any potential impacts to our employees, customers, suppliers and other stakeholders.

The Group is following the guidance of the World Health Organization and other government health agencies. The Group remains prepared to implement appropriate mitigating strategies to minimise any potential business disruption and continues to carry out regular assessments of the modelled scenarios based on management's current understanding of potential income and mitigating actions within the control of management, including reductions in discretionary spend along with tighter internal controls, but no fixed costs reductions have been assumed.

Given the nature of the markets we operate within, we anticipate our end customers being insulated from a consumer downturn to some extent, although the roll-out of some of the new products may be delayed, dampening demand for our semiconductors. Even in these difficult times, we still maintain the belief that the Group is well placed to move positively forward in the medium to long term. This belief is underpinned by a strong balance sheet and no debt, along with a product portfolio that addresses markets that have a positive outlook.

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. The Group's 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

The Directors do not believe that environmental matters (including the impact of the Company's business on the environment), details of the Company's employees (including gender) and social, community and human rights issues are needed for an understanding of the development, performance or position of the Company's business and accordingly have not included this within the Strategic Report, but have added these to the Directors' Report and Environment, social and governance sections of this Annual Report.

Brexit

The United Kingdom's exit from the European Union is anticipated to have a low impact on the Group. The Group's main functional currency and presentational currency are both Sterling and our foreign currency risk is as noted in note 24.

Group Managing Director's review

This has clearly been a transformational year for the business.

Chris Gurry
Group Managing Director

Introduction

This has been a transformational year for the business, both strategically and fiscally.

Following a frustrating period during which the financial benefit from the underlying progress being made had been stymied by global events, we entered the year under review with a relatively healthy order book and a business tuned to react swiftly to a revival in demand.

Through the first six-month period there was a stark contrast in performance from the main sectors being addressed. Storage markets were rebounding after a period of underperformance whilst Communications markets had deteriorated, largely driven by a reduction in demand from voice-centric radio manufacturers as a result of the pandemic.

Shortly after the interim results were released, the Group announced the sale of the Storage Division. That transaction, together with the already announced strategic move into microwave and millimetre wave product technology, represented the catalyst for the Group's next stage of growth, a singular focus on the communications market sector and the enlarged market opportunity that it represents.

Disposal of the Storage Division

The Company announced on 5 February 2021 that it had successfully completed the sale of Hyperstone, the Group's storage division ("the Disposal"), for US$49m. The Disposal reflected a deliberate decision made by the Board to refocus exclusively on the global Communications market, with all efforts directed at capturing the exciting growth opportunities that it presents.

Under CML's ownership, Hyperstone had grown to become a significant player within the industrial solid state storage market, supplying some of the world's largest OEM's with class-leading solutions. However, following a strategic review, the Board identified that change was required if the Group was to achieve its sustainable growth ambitions.

The Storage Division lacked the scale of its principal competitors but, critically, synergies between it and the communications division were rapidly reducing. The relatively high product development costs, periodically extreme market dynamics and the divergence of the customer base, routes to market and engineering disciplines were all important factors in the decision-making process.

The Board decided that an exit from the storage market was the optimum solution for all stakeholders, enabling the Group to fully focus on a much larger global opportunity within the wireless communications market, with the potential for strong growth on a sustainable basis.

Proceeds from the disposal have provided the Group with the financial flexibility to maximise this opportunity.

COVID-19

The welfare and safety of our employees has been of paramount importance throughout the pandemic and remains a priority. Our operations remain fully functional although travel restrictions in some regions have affected our sales teams' ability to mobilise and physically meet with customers.

The positive response by our people to the changes we have been required to implement to our working practices has been very supportive. Once again, the CML teams across the world have proven their resilience and dedication, for which we, the Board, are extremely grateful. They have continued to work tirelessly under difficult circumstances and their dedication both to CML and our customers has not wavered.

It is noteworthy that a number of new colleagues joined the Group either just prior to, or during, the pandemic. While many of us have not been able to meet them physically, they have integrated well and we have enjoyed welcoming them.

As we continue to face the challenges of COVID-19, including the risk of rolling lockdowns, we do so with the support of a dedicated, talented team around the world.

....the fundamental growth factors are positive...

Highlights

- Sale of Storage division for US$49m in cash.
- Expanded customer engagements through enhanced strategy.
- Launch of SμRF product range for microwave/ millimetre wave applications.
- Returned over £10m to shareholders via share buyback, dividends and return of capital.
- Record net cash of £32m at year end.
- Proposed move to AIM market listing.

Strategy overview

The Group's vision is to be the first-choice semiconductor partner to technology innovators, together transforming how the world communicates.

The focus is on our customers' success by delivering advantages through the improved functionality and performance of class leading IC solutions. R&D activity is targeted at developing the product portfolio to support emerging and evolving customer requirements for size, cost and performance whilst striving to remain our customer's first choice supplier within their advanced communication platforms.

Overall, the strategy was enhanced during the year through the sale of the storage division and the successful development and market launch of the SμRF product portfolio to address microwave/millimetre wave wireless applications. The Group has a clear pipeline of future products to drive organic growth and the capital resources to invest in the appropriate level of R&D now it is solely focused on communications.

In today's world, 'connected everything' is propelling exponential increases in data consumption – driving growth across wireless communications markets globally. We are expanding our total addressable market having enlarged our market focus to include applications within the so-called mega trend areas of Industrial Internet of Things (IIoT), 5G and Industry 4.0. This complements the historic market areas of public safety, maritime and mission critical wireless voice and data communications, leveraging our systems knowledge, engineering capabilities and routes to market.

Markets and operations

During the first six months of the year, revenues from voice-centric wireless applications were heavily impacted by the COVID-19 crisis whilst the situation across a wide range of data-centric IIoT customers was somewhat mixed. Pleasingly, through the second half, the order intake progressively improved, culminating in a record order book for the continuing business as at 31 March 2021.

The communications market is exhibiting a number of growth areas including the transition to higher-capacity digital networks within voice-centric markets and, in data-centric markets, the increasing data throughput requirements from terrestrial and satellite communications applications. The latter is required to meet the needs of the growing M2M and IIoT sectors. Ancillary markets continue to develop which serves to maintain the very fragmented nature of the Group's traditional communications markets. New product releases in recent years are expected to capture a higher share of a growing market over time.

Customer and market intelligence suggests that conditions for voice applications should improve as the 2021 calendar year progresses. A number of bellwether players in the voice communication space are indicating stronger order backlogs themselves and, in the US in particular, government stimulus packages that are predicted to be available over the current and future years underpins confidence levels.

In addition to the traditional wireless voice and data market areas served, our enhanced strategy to significantly widen the product portfolio and address broader application areas is being achieved through a combination of resource blend and new customer engagements.

Prior to the disposal of the storage division, the Group was addressing an annual serviceable market of close to $360m, split almost 50/50 between communication and storage application areas. Post-disposal, under our enhanced strategy, the addressable market has expanded to include a number of key growth areas over the coming years, including critical infrastructure (public utilities, smart grid, RFID), 5G (repeaters, small/pico cells, fixed wireless access, distributed antenna systems) and satellite communications (terminals, broadband access). As a result, the Group's annual addressable market has increased substantially.

As one example, the 5G network itself is being rolled out in two phases. The first of them, operating on frequency bands below 6GHz, is already being deployed in a selection of different countries. In the years that follow, the rollout involves the introduction of millimetre wave frequencies that span 24GHz to 40GHz.

Group Managing Director's review continued

Application areas:

Professional and industrial voice and/or data communications products

Markets served:

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

Markets and operations continued

These higher frequencies will offer much higher data rates, greater capacity, better quality and lower latency. Customer product designs for a number of millimetre wave applications will benefit from the use of compound semiconductor technologies, such as gallium nitride (GaN) or gallium arsenide (GaAs), rather than silicon. Independent market statistics estimate that the GaN RF device market alone is expected to grow from circa $740m to $2bn through to 2025. While this represents a double digit CAGR across the period, the market is a new one for CML, thus putting into perspective the opportunity it represents.

The feedback from early customer engagements for our SμRF product range has been very positive and endorses the approach being taken. Aside from technical performance and commercial competitiveness, the focus on our customers' success and our inherent partnership capabilities are key factors that bode well for the future of the business.

The Group's return on investment (ROI) profile relating to R&D expenditure is evolving as the full benefit of the expanded strategy and related performance enhancements take hold. Product lifecycles within the traditional market areas being addressed can be typically characterised as a two-year development cycle, a further two year customer engagement and adoption timeframe, followed by multiyear revenue generating period as the product gains success across the customer base. This is typical for a complex system-on-chip (SoC) semiconductor.

For the SμRF product range, development, market launch and subsequent customer adoption is already occurring more rapidly, due to a combination of internal design and operational capabilities, ease of use from a user perspective and the leveraging of existing sales channels. Overall, the Group's resulting ROI profile is now a 'blended' approach, improving the timing for a return on the investments being made.

In recent years, the Group invested significant effort in ensuring sales channels globally were appropriate for the direction of travel that the business was taking. The enhanced strategy that is now being followed, allows the Group to drive forward and leverage those extensive routes to market, without the associated disruption and inefficiency that can sometimes accompany new product line introductions within adjacent market areas.

Through the year ahead work remains to be done, particularly in Asia, but the intent is to translate the early successes from other regions and rapidly capture new opportunities.

A general lengthening of lead times from raw material suppliers and third-party manufacturing services companies has been in play across the semiconductor industry for some time. The business has navigated that comparatively well so far, supported by the prior decision to maintain higher levels of raw material inventory.

However, it should be noted that Group semiconductor products are just one of a number of electronic components that customers need in order to successfully produce their own products. Their failure to secure any one of the needed components could have an impact on Group sales. Capacity constraints in the supply chain are not expected to ease until next calendar year.

Outlook

This has clearly been a transformational year for the business.

Having disposed of a division that had been a substantial contributor to Group performance over the years, in favour of focussing on an expanded communications market opportunity, the Board believes that the Group can now scale without the distraction of conflicting divisional and operational investment needs.

Fiscally, the Group starts the new trading year to 31 March 2022 in a much stronger position than one year ago, notwithstanding the returns to shareholders that have been made or are planned. Headwinds remain, including the pandemic, trade uncertainty between China and the USA and the ongoing semiconductor capacity issues that are widely reported. That said, the underlying feeling within the Company is one of opportunity and optimism evidenced by our day-to-day activities and the pipeline of opportunity that we see.

CML has a decades long history of innovation and adaptation as markets have evolved and new opportunities for growth present themselves. The various decisions made to navigate the business through fluctuating fortunes in more recent years have laid the foundations for a new chapter. A total focus on communications markets backed by solid financial resources allows us to capitalise and the Board is steadfast in its commitment to support and achieve challenging growth objectives over the years ahead.

As we move through the year ahead with an arsenal of new products, intellectual property, skills and market intelligence, the Group intends to capture share in much larger application areas. Economic uncertainty aside, the fundamental growth factors are positive and subject to unforeseen circumstances, we expect a good year of progress for the continuing business, both from a revenue and a profitability perspective.

Financial review

For the financial year to 31 March 2021, the Group's profitability was overwhelmingly dominated by the exceptional gain arising on the sale of the Storage Division, including the trading contribution of £1.03m.

Gross sale proceeds of US$49m generated a cash inflow of £35.83m and, following inclusion of associated transaction costs, taxation and the £8.74m valuation of assets forming part of the sale, led to a net profit of £22.76m from the discontinued operation.

For the continuing business, the financial review that follows includes comparison figures that have been restated from those published for the year to 31 March 2020 in accordance with the relevant accounting standards.

Revenues for the year were £12.47m representing a 17% reduction (FY20: £14.96m) amidst the backdrop of regional variations caused by the pandemic, ongoing uncertainties with China/USA trade and, towards the latter part of the year, a more general semiconductor shortage.

At the Gross Profit level, a reduction in revenue of circa £2.5m along with the effects of higher inventory costs, an element of services revenue and a static fixed element within the cost of sales, all combined to produce a drop in gross profits to £9.27m (FY20: £11.70m).

Geographically, sales were lower in each of the three regions serviced, with Asia being hit the hardest in absolute terms. It is noteworthy, however, that a number of the Group's customers make use of Far Eastern manufacturers for their production requirements and Group revenues are classified geographically in terms of shipping destination.

Distribution and administration expenses reduced to £10.57m (FY20: £11.06m) largely due to lower selling expenses relating to reduced travel through the pandemic, and the change in accounting estimate relating to the treatment of development expenditure which yielded a net reduction in expenditure of £0.75m (see accounting policies note r).

The combined research and development expenditure for the year amounted to £4.9m, of which, £0.93m was expensed (FY20: £4.84m of which £0.53m expensed).

The Group receives other income from a combination of the commercial rental of non-operational property assets and royalty income on the sale of third-party technology incorporated within Group semiconductor solutions. Other operating income rose to £0.83m (FY20: £0.63m) and included a one-off contribution for operational services to support the discontinued business.

Lower revenues along with cost of sales pressures delivered a fall in profit from operations to £0.46m (FY20: £1.25m).

In accordance with statutory requirements, the Group's non-operational property assets have been revalued as at 31 March 2021, using independent commercial property consultants. The open market valuation recognised is £3.78m resulting in a profit of £0.58m against the prior year (FY20: £3.17m).

After accounting for share-based payments and net finance income, a minor profit before tax of £0.01m was recorded (FY20: £1.18m profit).

A higher UK tax credit associated with the Group's investment in research and development activities was the primary driver behind a lower-than-average rate of taxation. An income tax credit of £0.79m (FY20: £0.19m) was recorded. Under substantial shareholding exemption rules, the Group does not anticipate a charge relating to the UK profit upon disposal of the discontinued business, although a charge of less than US$200k was incurred in the USA along with a negligible charge relating to the Taiwanese subsidiary that was divested.

The Group's balance sheet has been considerably enhanced through events of the past year, placing the business in a strong financial position to support its growth objectives. Following the cash inflow from the sale of the storage division and, after giving due consideration to the Group's ongoing needs, in March 2021 the Board returned £8.28m to shareholders by way of a return of capital. That aside, the Group conducted a share buyback of £1.59m, rendered dividend payments totalling £0.67m and invested strongly in the development of future products (£4.9m). Cash and cash equivalents at the year end totalled £32.20m (FY20: £8.48m).

Inventory levels have been maintained at relatively high levels, helping to reduce the impact of an ongoing capacity issue within the semiconductor market generally. At 31 March 2021, inventory levels were £1.45m (FY20: £1.46m relating to continuing operations).

The Group currently has a retirement benefit obligation in respect of its historic defined benefit pension scheme, which was closed to new members and future accruals in 2002 and 2009 respectively. The most recent triennial actuarial funding valuation of the scheme carried out by an independent professionally qualified actuary, as at 31 March 2020, resulted in a net pension deficit of £2.24m (1 April 2017: £1.89m net surplus). The market value of the assets of the scheme was £19.14m (1 April 2017: £19.49m).

Using the same valuation methodology, an annual update to the schemes position, as at 31 March 2021, showed that the shortfall of £2.24m had improved to a surplus of £0.47m.

The £0.47m pension surplus calculated under the funding valuation basis above is different to the accounting valuation presented in the Group consolidated balance sheet, which shows a net pension liability of £5.57m. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions in valuing the liabilities in accordance with the accounting standard IAS 19 Retirement Benefits.

All administrative expenses of running the scheme are met directly by the scheme along with pension protection fund levies. However, during the year a voluntary, one-off advance contribution of £0.23m was made towards the running expenses of the scheme.

Chris Gurry

Group Managing Director

25 June 2021

Environment, social and governance

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

Our employees

Employees

The positive response by our teams to the changes we have been required to implement to our working practices as a result of the pandemic has been very supportive. Once again, the CML teams across the world have proven their resilience and dedication, for which we, the Board, are extremely grateful. They have continued to work tirelessly under difficult circumstances and their dedication both to CML and our customers has not wavered. While many of us have not been able to meet our new colleagues face to face, they have integrated well and we have enjoyed welcoming them into the Group. As we continue to face the challenges of COVID-19, we do so with the support of a dedicated, talented team around the world. Our Company has a rich culture, having been in operation for over 50 years, which runs through all of our operations and with a combined sense of purpose is evident in every facet of our business.

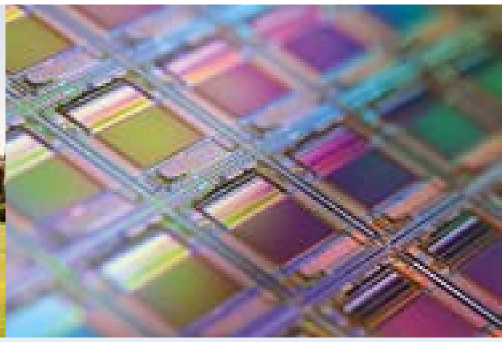
The Board aims to ensure that all employees work in an environment that supports diversity and fosters a culture of dignity and respect. We are committed to supporting employment policies and practices that support equal opportunities, non-discrimination, and that comply with relevant local legislation and accepted employment practice codes. Policies and practices of equal opportunities and non-discrimination will ensure that an individual's ability, aptitude and talent are the sole determinants in recruitment, training, career development and progression opportunities, rather than on the grounds of age, beliefs, disability, ethnic origin, gender, marital status, race, religion or sexual orientation.

Breakdown of employees as at 31 March by gender and management

	2021			2020		
	Male	**Female**	**Total**	Male	Female	Total
Plc Board Directors	**5**	**—**	**5**	5	—	5
Senior managers	**9**	**3**	**12**	17	4	21
Staff	**90**	**40**	**130**	133	52	185
Total	**104**	**43**	**147**	155	56	211

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.



Vision
The first choice semiconductor partner to technology innovators, together transforming how the world communicates.

Values
- Trust
- Respect
- Commitment
- Creativity

Guiding principles
- Strong business ethics.
- Culture of quality with a sense of urgency.
- Live and breathe the customer experience.
- A passion for excellence.
- Inspire our people to innovate.

Our environment

Our environmental, social and governance (ESG) framework captures our commitment to have a positive impact not only on our business but on our wider stakeholders, including our employees and broader society.

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.

Over the course of the year, we have needed to continue evolving operationally, with over 60% of our employees working remotely. Our priority during the pandemic has been, and remains, the welfare and safety of our employees and the support of our global customer base.

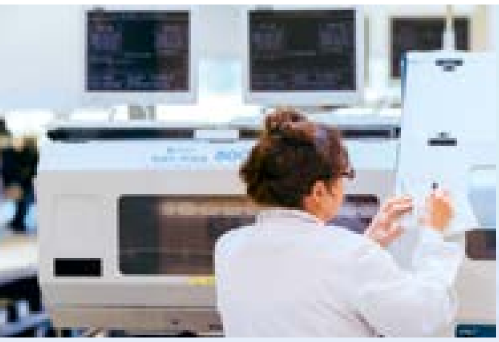
Environmental
The Group is exploring ways to improve its carbon footprint; currently, 20% of company vehicles are either hybrid or electric, with a view over the next five years to increase this to the majority of the fleet along with the investment into solar panels at the UK head office. Remote and flexible working has had some impact on reducing the pressure on local society, but more work is required to better understand how we can have a greater positive impact.

Social
As a Group we aim to create an environment where everyone can reach their full potential. Our key values are trust, respect, commitment and creativity to our employees and customers alike. We encourage our employees to work as a team with our customers in the knowledge that the better understanding we have of our customers and their values, the better placed we are to help them thrive. In working together, we expect collaboration, innovation and diversity.

Governance
As a Group we adhere to the Corporate Governance Code which is detailed on page 27.

An ESG framework has been developed following a scorecard method and recorded throughout the year.

Environmental	Units	Company	Comments
Energy consumption	MWh/£m	0.12	Energy consumption per unit of revenue
CO_2 production	tonnes/£m	0.02	CO_2 production per unit of revenue
Water consumption	m^3/£m	0.10	Water consumption per unit of revenue
Waste production	tonnes/£m	0.09	Waste production per unit of revenue



Environment, social and governance continued

Our environment continued

Governance continued

Social	Units	Company	Comments
Employee turnover rate	%	1.7%	Proportion of employees leaving the business in the last FY
% tax paid	%	(5.6)%	Percentage of profits paid in corporation taxes
Has discrimination policy?	yes/no	yes	
Has community outreach policy?	yes/no	no	
Has ethics policy?	yes/no	yes	

Governance	Units	Company	Comments
% women in senior management positions	%	18%	Proportion of women currently in senior management positions
% Independent Directors on Board	%	40%	Proportion of Independent Directors on the Board
CEO pay as multiple of UK median	times	7.47 times	CEO cash compensation divided by UK median pay of £30,000
Is CEO and Chairman/President role split?	yes/no	yes	
Corporate governance	yes/no	yes	Follow a code appropriate to a Standard listed company on the London Stock Exchange (see Corporate governance section)

Greenhouse gas emissions in tonnes of CO_2 equivalents

Tonnes of CO_2e	2021	% of total emissions	2020	% of total emissions
Scope 1	**129.06**	**33.22%**	127.43	33.47%
Scope 2	**259.47**	**66.78%**	253.27	66.53%
Total controlled emissions	**388.53**	**100.00%**	380.70	100.00%

Source of emissions

Tonnes of CO_2e	2021	% of total emissions	2020	% of total emissions
Scope 1				
Fuel – vehicles	**33.55**	**8.64%**	32.97	8.66%
Gas – heating	**95.50**	**24.58%**	94.46	24.81%
Refrigerant	**0.01**	**0.00%**	0.00	0.00%
Total scope 1 emissions	**129.06**	**33.22%**	127.43	33.47%
Scope 2				
Electricity – office and manufacturing	**259.47**	**66.78%**	253.27	66.53%
Total scope 2 emissions	**259.47**	**66.78%**	253.27	66.53%

Geographical breakdown

2021 tonnes of CO_2e	Scope 1	Scope 2	Total	% of total emissions
UK	**108.85**	**205.35**	**314.20**	**80.87%**
Taiwan	**4.01**	**7.22**	**11.23**	**2.89%**
US	**0.00**	**23.13**	**23.13**	**5.95%**
Singapore	**0.00**	**2.14**	**2.14**	**0.55%**
China	**3.74**	**8.33**	**12.07**	**3.11%**
Germany	**12.46**	**13.30**	**25.76**	**6.63%**
Total emissions	**129.06**	**259.47**	**388.53**	**100.00%**

Total emissions for the year include discontinued operations up to the date of disposal.

2020 tonnes of CO_2e	Scope 1	Scope 2	Total	% of total emissions
UK	109.16	208.03	317.19	83.32%
Taiwan	7.01	12.60	19.61	5.15%
Singapore	0.00	2.68	2.68	0.70%
China	2.66	8.04	10.70	2.81%
Germany	8.60	21.92	30.52	8.02%
Total emissions	127.43	253.27	380.70	100.00%

Intensity of emissions

Tonnes of CO_2e/£'000 turnover	2021	2020
Scope 1	**0.00**	0.00
Scope 2	**0.01**	0.01
Total	**0.01**	0.01

Greenhouse gas reporting methodology

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; scope 1 being emissions from combustion of fuel and refrigerant gas losses, and scope 2 being electricity (from location-based calculations), heat, steam and cooling purchased for the Group's own use. This includes all material emission sources which we deem ourselves to be responsible for. Scope 3 has not been reported upon as this is not applicable to our Group.

The table demonstrates, absolute emissions have increased by 2.06%; the Group continues to review its carbon footprint and introduce measures to reduce this going forward.

Energy consumption

kWh of energy consumed	2021	% of total emissions	2020	% of total emissions
UK	**1,429**	**90.85%**	1,335	84.71%
Overseas	**144**	**9.15%**	241	15.29%
Total energy consumed	**1,573**	**100.00%**	1,576	100.00%

The UK energy consumption relates to gas and electricity for manufacturing plants of 855 kWh (2020: 792 kWh) and offices of 574 kWh (2020: 544 kWh). Total energy consumed for the year includes discontinued operations up to the date of disposal.

Energy reporting methodology

Energy consumption data is captured through monthly bills showing actual or estimated consumption. We continue to improve operational efficiency across the whole Group.

Energy from electricity, natural gas, gas oil and transport fuel has been included. We have used the conversion factors published in Greenhouse Gas Reporting: Conversion Factors 2020 Full Set published in June, revised July 2020 for business, energy and industrial strategy.

Environment, social and governance continued

We believe that effective engagement with our stakeholders is fundamental to maximising value and securing our long-term success.

How we engage with our stakeholders

Section 172 of the Companies Act 2006

The Board acknowledges that there is a legal requirement for the Company to report on how the Board and its Committees have considered the requirements of Section 172 of the Companies Act 2006 in their decision making.

We set out our key stakeholder groups, their material issues and how we engage with them. Each stakeholder group requires a tailored engagement approach to foster effective and mutually beneficial relationships.

The Board agreed, following the effect of the COVID-19 pandemic on the Group as a whole, that all non-essential operational employees should work from home, safeguarding the health and wellbeing of essential operational personnel. The Group followed the guidance of the World Health Organization and other government health agencies. The Group did not make use of the government's staff retention schemes in the UK, nor make any redundancies. The Board continues to closely monitor the impact of COVID-19 and is taking prudent steps to mitigate any potential impacts to our employees, customers, suppliers and other stakeholders.

Following a strategic review, the Board identified the need to change if the Group was to achieve its sustainable growth ambitions. The Board decided that an exit from the storage market was the optimum solution for all stakeholders, enabling the Group to fully focus on a much larger global opportunity within the wireless communications market, with the potential for strong growth on a sustainable basis. Proceeds from the disposal have provided the Group with the financial flexibility to maximise this opportunity.

Post-disposal, under our enhanced strategy, the addressable market has expanded to include a number of key growth areas over the coming years, including critical infrastructure (public utilities, smart grid, RFID), 5G (repeaters, small/pico cells, fixed wireless access, distributed antenna systems) and satellite communications (terminals, broadband access). As a result, the Group's annual addressable market has increased substantially and the Group's return on investment (ROI) profile relating to R&D expenditure is evolving as the full benefit of the expanded strategy and related performance enhancements take hold. Overall, the Group's resulting ROI profile is now a "blended" approach, improving the timing for a return on the investments being made.






	Why our stakeholders are important to us	How have we engaged with them?
Shareholders Group strategy is aimed at driving growth and creating value for our shareholders.	Understanding the views and priorities of our investors is key to the development of our strategy and their continued support. Our shareholders play an important role in monitoring and safeguarding the governance of the Group.	We engage with shareholders through our reports, regular news releases, website, Annual General Meeting, investor presentations and one-on-one meetings.
Employees We have an experienced, diverse and dedicated team of employees that are fundamental to the success of our business.	Interaction with our employees is the primary way customers and other third parties obtain an understanding of the Group and its aspirations. It is essential that our employees are positively aligned with the Group`s strategy.	We have an open, collaborative and inclusive structure and engage regularly with our employees. We try to foster a suitable environment to allow them to realise their full potential.
Customers We serve a broad spectrum of customers across a variety of end markets.	Without customers the Company cannot survive. They help drive innovation, quality and value.	We work closely with our customers to develop a deep understanding of their business, giving us the ability to anticipate and respond to their needs and foster long-term relationships.
Suppliers We utilise a number of world-class suppliers throughout the world. In terms of silicon raw material supply, we are invariably sole-sourced. For other supplies the Group operates multiple suppliers wherever practical.	Effective supplier management is important to gain a competitive advantage through achieving operating efficiencies, driving innovation and complying with legal and regulatory obligations. Strong working relationships enhance the efficiency of our business.	We engage with our suppliers regularly to ensure our quality and commercial objectives are met. We strive to maintain continuity of supply through varying global economic and market conditions.
Local government and communities We are committed to being a responsible member of the communities in which we operate, including local government, local businesses, residents and the wider public.	It is important to be a responsible employer who complies with applicable regulatory frameworks, provides a good place to work and has healthy links into the local community.	We attend a variety of regional business meetings throughout the year and attend council events linked to the local community. We work with local educational establishments and offer funding for research projects. As a Board, our intention is to behave responsibly and to ensure that management operate the business in a responsible manner, operating with high standards of business conduct and good governance that reflects our responsible behaviour, and our shareholders will benefit from the delivery of the long-term plan.

By understanding our stakeholders, the Board can discuss the potential impact of our decisions on each group, ensuring that we consider their needs and concerns in accordance with Section 172 of the Companies Act 2006. As a result, we can continue to supply fit-for-purpose semiconductor products that our customers need, work effectively with our colleagues and suppliers, make a positive contribution to the local community and achieve long-term sustainable returns for our shareholders.

Pages 01 to 23 form part of the Strategic Report, which has been reviewed and approved by the Board.

Michelle Jones
Company Secretary
25 June 2021

Board of Directors

The Board and senior management team are collectively responsible for the long-term success of the Company.

Nigel Clark

Executive Chairman

Nigel joined the Company in 1980.

Skills and experience

He was appointed Company Secretary in 1983 and Group Financial Director in 1985. Prior to joining CML, he was employed by 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. On 1 January 2020, Nigel took up the post of Group Finance Director on an interim basis, on 1 June 2021 resigned the interim position and took the position of Executive Chairman.

He holds a Mathematical Science degree from Royal Holloway College, University of London. Nigel is Chairman of the Remuneration Committee and has resigned from being a member of the Audit Committee.

R

Chris Gurry

Group Managing Director

Chris joined the Group in 1994.

Skills and experience

He 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 design and manufacturing industry leading organisations primarily focused on applications within radio communications markets, including machine-to-machine, CCTV and satellite television. Having originally trained as an electronics technician, Chris subsequently re-trained as a business software programmer/analyst and has over 30 years' experience within wireless communications markets. He is a member of the Remuneration Committee.

R

Hugh Rudden

Group Sales and Marketing Director

Hugh joined the Company in June 2014 and retired on 31 May 2021.

Skills and experience

He has over 30 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, Hugh 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 design 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

Jim joined the Company in April 2013.

Skills and experience

He 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. He is member of the Audit Committee.

A

Geoff Barnes

Senior Non-Executive Director

Geoff joined the Company in April 2017 and was appointed as Senior Non-Executive Director on 1 June 2021.

Skills and experience

He is a former 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 lifetime 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 six 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

A Chairman of the Audit Committee

R Chairman of the Remuneration Committee

A Member of the Audit Committee

R Member of the Remuneration Committee

Senior management team

The Board is supported by an experienced senior management team.

Mark McCabe
CML Microcircuits Managing Director

Mark joined the Group in December 2016 and is Managing Director of the Communications business division. Immediately prior to joining CML, Mark was UK business unit manager for Air Liquide, a world leader in the supply of gases to the nuclear, food and electronics markets. Previously he gained extensive experience within the electronics component industry serving as Managing Director of Semelab (a subsidiary of TT Electronics plc), as executive VP at SRC Devices, Inc. (a company acquired by Littlefuse Inc) and through a variety of sales, marketing and operational roles at Semitron, where he participated in a successful MBO. Mark qualified as an Electrical and Electronic Engineer working in various Ministry of Defence establishments.

Mike Gurry
Senior VP, Group Operations and Logistics

Mike is Senior VP of Global Manufacturing Operations for the CML Microsystems Plc Group. Mike has over 30 years' experience within the Group. After previously overseeing CML materials control, critical supplier and logistics activity, he became Manufacturing Director of CML UK in 1997, moving to the role of Managing Director CML UK in 2006. Mike has previous experience of logistics and supply with STC Plc.

Dr Zhongming Shi
Sicomm Managing Director

Zhongming is CEO and founder of the Sicomm group of companies, acquired by the CML Microsystems Plc Group in August 2016. Zhongming founded Sicomm, the fabless solutions provider specialising in the development of integrated baseband SoC and RF ICs, in 2013. Previously to Sicomm, Zhongming worked as a key IC designer for wi-fi and cellular at Broadcom and Nokia in California, USA. A senior member of the IEEE and one of the top 1,000 China government-recognised experts in all fields, Zhongming has a BSc in Physics from the University of Fujan in Shanghai, an MSc in Electrical Science and Technology from East China Normal University, Shanghai and a PhD in Micro and Optic Electronics from Swiss Federal Institute of Technology in Lausanne in Switzerland.

Nigel Wilson
Senior VP, Technology

Nigel is Senior VP of Technology, overseeing the Group's technical activities with specific responsibility for strategic projects and technology programmes. Most recently Engineering Director of the Communications business unit, with responsibility for both Silicon and Firmware R&D activities, Nigel joined the Group in 2002 to establish and build an RF Systems and Software capability. Before joining CML Nigel held a number of senior engineering roles at Securicor Wireless Technology, The Technology Partnership/TTPCom (TTPCom acquired by Motorola in 2006) and Plessey/GPT, managing the development of a diverse range of communications products including GSM radios, cordless handsets and air traffic control equipment. Nigel holds an MEng from the University of Bradford and is Chairman of the Task Group dealing with Mobile Radio and Wireless Data systems at the European Telecommunication Standards Institute (ETSI), a position he has held for over ten years.

Michelle Jones
Company Secretary and Group Financial Controller

Michelle joined the Company in 2018 as Group Financial Controller and in July 2020 was appointed to the additional role of Company Secretary. Prior to CML, she spent ten years at the Regis Group, a real estate company, where she held the position of Group Financial Controller. During previous roles Michelle held similar positions at Derichebourg Multiservices, a company providing servicing facilities to the aircraft industry, and at Thermos Limited, a manufacturer and distributor of Thermos branded products throughout Europe. Earlier experience included a number of management accountant roles, including working for an NHS Trust. She is a qualified Chartered Certified Accountant, holding an FCCA.

Corporate governance

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

Nigel Clark
Executive Chairman

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

Articles of Association

Any amendment to the Articles may be made in accordance with the provisions of applicable English law concerning companies, specifically the Act (as amended from time to time), by way of special resolution at a general meeting of the shareholders.

Powers of the Directors

The Board sets the overall direction and control of the Group and has the powers and duties set out in the Companies Act 2006 (the "Act") and the Company's Articles of Association. The Board delegates certain matters to the Board Committees and delegates the day-to-day operation of the business to the Directors.

Changes to the Directors

When recruiting new members of the Board, the Group adopts a formal and transparent procedure with due regard to the diversity, skills, knowledge and level of experience.

Statement of the application of principles in the UK Corporate Governance Code 2018 (the "Code")

The Board acknowledges the importance of the UK Corporate Governance Code of the Financial Reporting Council 2018 (the "Code") that applies to companies with accounting periods starting on or after 1 January 2019. 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 various corporate governance codes, policies and guidelines 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.

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.

Board leadership and Company purpose

The Group is led and controlled by an effective and entrepreneurial Board that comprises three (2020: three) Executive Directors and two (2020: two) Non-Executive Directors. Following the departure of the previous Financial Director at the end of February 2020 and whilst factoring in the recent and potential corporate activities at that time, the Board concluded that stakeholder interests were best served by delaying any recruitment process into the new financial year, commencing 1 April 2020. As an interim measure, the Board decided that Nigel Clark, Group Non-Executive Chairman, would adopt the additional executive role of Group Finance Director. Nigel was formerly the Group's Finance Director and has retained this dual role up to and including the publication of this Annual Report. Following disposal of the Storage division during the year, along with the Group's proposed listing transfer to AIM, the Board has further concluded that Nigel will move to an Executive Chairman role with effect from 1 June 2021, additionally including responsibility for the financial affairs of the Group. Details of the Directors can be found on pages 24 and 25.

The Board meets formally a minimum of four times per year. During the year ended 31 March 2021, 18 Board meetings were held where all Directors in post participated (2020: 13).

Although the Board delegates some matters to its Committees (Remuneration and Audit), as part of its leadership and control of the Company, the Board has specific items reserved for its consideration which include business strategy, financial performance, acquisitions, divestments and major capital expenditure. The Chairman and Executive Directors make themselves freely available and regularly consult with the global workforce.

Board leadership and Company purpose continued

The Group Managing Director is the principal spokesperson for engagement with shareholders. The Executive Chairman is present at interim and full-year results briefings and is otherwise available to discuss any matters of concern with shareholders and stakeholders alike. Communication is with all stakeholders, including investors, fund managers, the media and other interested parties. Briefings are held with investors and analysts following the announcement of half-year and preliminary results along with other ad-hoc meetings throughout the year. The Board welcomes all shareholders to attend the Annual General Meeting, conditional upon applicable government pandemic rules in force on that date. Shareholders are able to question the full Board and, subject to the aforementioned rules, meet with them afterwards. Details of all briefings and meetings are communicated to the full Board.

Division of responsibilities

The 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.

All Non-Executive Directors have sufficient time to devote to their duties as is demonstrated by their active participation in the Group's activities. They constructively challenge and help develop proposals on strategy, bringing strong independent judgement, knowledge and experience to the Board's deliberations.

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 and informal discussions with senior managers and their respective senior personnel.

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.

Composition, succession and evaluation

The evaluation of the Board, collective skills and its performance along with that of the individual members is considered on an ongoing basis considering the needs of the Company and its stakeholders. New appointments are led by the Group Managing Director and considered by the whole Board acting as the Nominations Committee.

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.

Audit, risk and internal control

On page 12 of this Annual Report a range of performance measures and risks are detailed. These are used to monitor and manage the business, with some of them considered key performance indicators (KPIs).

On pages 35 to 38 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. The Group has standardised procedures for all overseas subsidiaries, and this includes reporting into the Group finance team on a monthly basis in which the Group finance team perform a review of these submissions and verify to supporting information where appropriate.

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 of the Senior Independent Non-Executive Director, the Chair of the Audit Committee and the other Independent Non-Executive Director (see Directors section). During the year ended 31 March 2021, three Audit Committee meetings were held where all Directors in post participated (2020: two meetings).

The Audit Committee will also consider significant financial reporting issues, accounting policies and key areas of judgement or estimation. This review also includes consideration of the clarity and completeness of disclosures on the information presented in the financial statements. In year end 31 March 2021 this included the review of the Group's change in accounting estimation for amortisation of development costs and impairment (see accounting policies note r).

The Audit Committee is responsible for making recommendations to the Board in respect of the appointment and removal of the Group's external auditor. In line with S494z of the Companies Act 2006, RSM have to resign after completing the audit for year end 31 March 2021. Accordingly, the Audit Committee conducted a full tender process for the appointment of the Group's external auditor for year ended 31 March 2022. A resolution to appoint BDO LLP will be made at the AGM on 4 August 2021.

Remuneration

On pages 29 to 34 is the full Remuneration Report which details the remuneration policy of the Group.

The Remuneration Committee has a long-standing and practical approach to avoiding complex remuneration packages, based upon intricate formulaic outcomes that inadvertently drive behaviour away from the long-term sustainable growth strategy.

Typically, Executive Director basic salary adjustments track global employee averages on a belated and cumulative multi-year basis. The bonus element is linked to a combination of annual performance and the successful delivery of the Company's long-term strategy, with discretion applied. This is a long-standing practice within the business and is evidenced by historic total remuneration awards.

The Remuneration Committee is mindful of promoting long-term shareholdings by the Executive Directors to support the alignment of the Executive Directors' interests with those of the shareholders.

By order of the Board

Nigel Clark
Executive Chairman
25 June 2021

Directors' remuneration report

Introduction

This report has been prepared in accordance with the regulations regarding the Directors' Remuneration Report. 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 policy as set out in this report is considered at each AGM and voted upon by the shareholders. There are no changes deemed necessary to the current arrangements. There has been no change in remuneration policy in 2021.

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. No member of the Remuneration Committee participates in deciding their personal remuneration package. During the year ended 31 March 2021, there were three meetings (2020: three meetings) where all Directors in post participated.

Remuneration policy

Set out in the following table is the Group's 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.

The Committee takes into account the pay and employment conditions of the wider employee population across the Company when setting Executive Director remuneration and considered that as context when reviewing the Policy. While the Committee has not consulted employees directly in the Remuneration Policy for Executive Directors, the Committee is made aware of information such as workforce demographics, diversity initiatives, training programmes, engagement levels and cultural initiatives, as well as the remuneration principles and policies that apply to the wider workforce. It is expected that future salary increases for Executive Directors will be in line with the general employee population, except on exceptional circumstances.

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.

Directors' remuneration report continued

Executive Directors

Element	Purpose and linked to strategy	Policy	Operation	Performance conditions
Base salary	To recognise skills, responsibility, accountability, experience and value required to deliver the Company's strategy and drive business performance.	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 thereby facilitating the recruitment of high-calibre Executive Directors to deliver the Company's strategy.	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 market-competitive benefits which drive Executive Directors to deliver the Company's strategy.	Includes car or car allowance, health cover and death in service.	As defined in the employment contract.	No specific performance conditions.
Annual bonus[2]	To reward and incentivise the achievement of annual financial and non-financial objectives integral to the Company's strategy.	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 exercises discretion to ensure that longer term interest of the business is met.
Share options	To provide Executive Directors with a long-term interest in the Company long-term targets, encouraging retention and providing greater alignment with shareholders' interest.	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.
2. The Directors have reviewed the policy in the above table during the year and propose no changes. A discretionary bonus was paid in FY21 in respect of the disposal of the Storage division.

Non-Executive Directors

Element	Purpose and linked to strategy	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; therefore, they only participate in share option plans that are eligible to all employees. The Committee believes that share option schemes for all employees maximise shareholder value over time and therefore no specific performance conditions attach to the number of options granted to Executive Directors on an individual basis.

Policy on payment for loss of office

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

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. Nigel Clark is employed by the Company under a written service contract that provides for termination by either party giving six months' notice. Hugh Rudden retired from the Company on 31 May 2021.

Jim Lindop has a service contract effective from 1 April 2019 and Geoff Barnes has a service contract effective from 1 April 2021. 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.

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.

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 on 4 August 2021.

This section of the Directors' Remuneration Report sets out the remuneration paid in 2021 and the proposed remuneration for 2022. This section will be put to an advisory shareholder vote at the 2021 AGM. During the year, the Remuneration Policy operated as intended. Sections which are subject to audit are indicated as such.

Single total figure of remuneration (audited)

Individual Directors' remuneration was as follows:

2021	**Salary £'000**	**Benefits in kind £'000**	**Bonus[1] £'000**	**Other[2] £'000**	**Contribution to pension £'000**	**Total remuneration £'000**	**Total Fixed £'000**	**Total Variable £'000**
Nigel Clark	180	13	90	—	—	283	193	90
Chris Gurry	224	19	112	32	27	414	270	144
Hugh Rudden	113	9	47	17	11	197	133	64
Geoff Barnes	25	1	—	—	—	26	26	—
Jim Lindop	23	1	—	—	—	24	24	—
	565	43	249	49	38	944	646	298

1. Bonus payment relates solely to the successful sale of the Storage division during the year.
2. Other relates to the cancellation of share options.

2020	Salary £'000	Benefits in kind £'000	Bonus £'000	Contribution to pension £'000	Total remuneration £'000	Total Fixed £'000	Total Variable £'000
Nigel Clark	97	4	—	—	101	101	—
Chris Gurry	224	27	—	27	278	278	—
Neil Pritchard[3]	146	18	—	14	178	178	—
Hugh Rudden	154	9	20	15	198	178	20
Geoff Barnes	25	1	—	—	26	26	—
Jim Lindop	23	1	—	—	24	24	—
	669	60	20	56	805	785	20

3. N Pritchard left employment with the Company on 29 February 2020.

See the 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.

Directors’ remuneration report continued

Single total figure of remuneration (audited) continued

Payments for loss of office and payments to former Directors (audited)

No payments for loss of office or payments to former Directors were made in FY21.

Percentage change in Executive and Non-Executive Director remuneration

The table below shows the percentage increase/decrease in each Director’s salary/fees, taxable benefits and annual incentives between 2020 and 2021 compared with the average percentage increase in each of those components of pay for the UK-based employees of the Group as a whole.

% change for the end of the comparative period to the end of the reporting period	Salary	Benefits	Bonus
Nigel Clark	85%	225%	>100%
Chris Gurry	0%	(29%)	>100%
Hugh Rudden	(27%)	0%	135%
Geoff Barnes	0%	0%	0%
Jim Lindop	0%	0%	0%
All employees (in UK)	3%	0%	449%

No bonuses were paid in FY20 to Nigel Clark or Chris Gurry.

Remuneration over the last ten years:

Year	Group Managing Director	Total remuneration including bonus £’000	Annual bonus payout/ maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2021	**Chris Gurry**	**414**	**50.0%/50%**	**n/a**
2020	Chris Gurry	278	0.0%/50%	n/a
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
2014	Chris Gurry	294	20.0%/50%	n/a
2013	Chris Gurry	294	22.5%/50%	n/a
2012	Chris Gurry	281	20.0%/50%	n/a

Share options (audited)

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

	Number of options at 1 April 2020 ‘000	Options exercised in year ‘000	Options cancelled in year ‘000	Gains on options exercised in year ‘000	Options granted in year ‘000	**Number of options at 31 March 2021 ’000**	Exercise price	Exercise date
Chris Gurry	20	—	(20)	—	—	**—**	£2.20	15 June 2014 to 14 June 2021
	30	—	—	—	—	**30**	£3.51	25 Sept 2018 to 25 Sept 2025[1]
	75	—	—	—	—	**75**	£2.79	19 Mar 2022 to 18 Mar 2029
Hugh Rudden	12	—	(12)	—	—	**—**	£3.125	17 Sept 2017 to 17 Sept 2024
	25	—	(25)	—	—	**—**	£3.475	25 Sept 2018 to 25 Sept 2025
	55	—	—	—	—	**55**	£5.20	28 Mar 2021 to 28 Mar 2028[1]
	75	—	—	—	—	**75**	£2.79	19 Mar 2022 to 18 Mar 2029
	292	—	(57)	—	—	**235**		

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. No options have been granted in the year to Directors. The Company announced on 9 February 2021 to elect to cancel certain options in return for a one-off cash sum with a reference to a closing price of £3.82, as shown in the table above. Shares held by each Director are disclosed in the Directors’ Report.

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 28 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:

	2021 Number	2020 Number
Defined contributions scheme	**2**	2

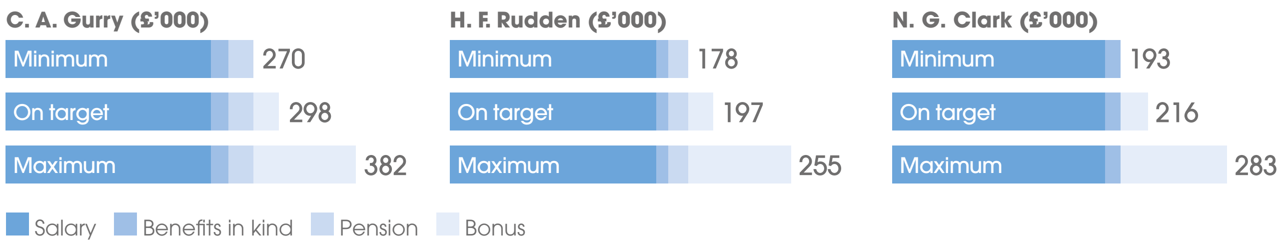
Life assurance cover and widows' death-in-service cover was provided under a separate policy for the year ended 31 March 2021.

Company contributions of £38,000 (2020: £56,000) 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 (2020: 65 years). There are no additional benefits that will become receivable by a Director in the event of early retirement.

Remuneration scenarios

An indication of the possible level of remuneration that would be received by each Executive Director in the year commencing 1 April 2021 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 2021 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 50% 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.

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 2021. Any movements awarded to salary are shown on page 31 and no external advice was taken in reaching this decision.

Directors' remuneration for the year ending 31 March 2022

Gross salaries, benefits and pensions for the Executive Directors remain unchanged. Annual bonuses are decided at each year end by the Remuneration Committee. Independent Non-Executive Directors' remuneration was reviewed and was revised from 1 April 2021.

Relative importance of spend on pay

The total expenditure of the Group on remuneration to all employees (note 6) is shown below:

	2021 £'000	2020 £'000	Movement £'000	Movement %
Employee remuneration	**13,338**	13,966	(628)	(4.5%)
Group Managing Director remuneration	**414**	278	136	48.9%
Distributions to shareholders (interim and final dividends paid)	**674**	1,332	(658)	(49.4%)
Return of share capital redemption	**8,276**	—	8,276	100.0%

Directors' remuneration report continued

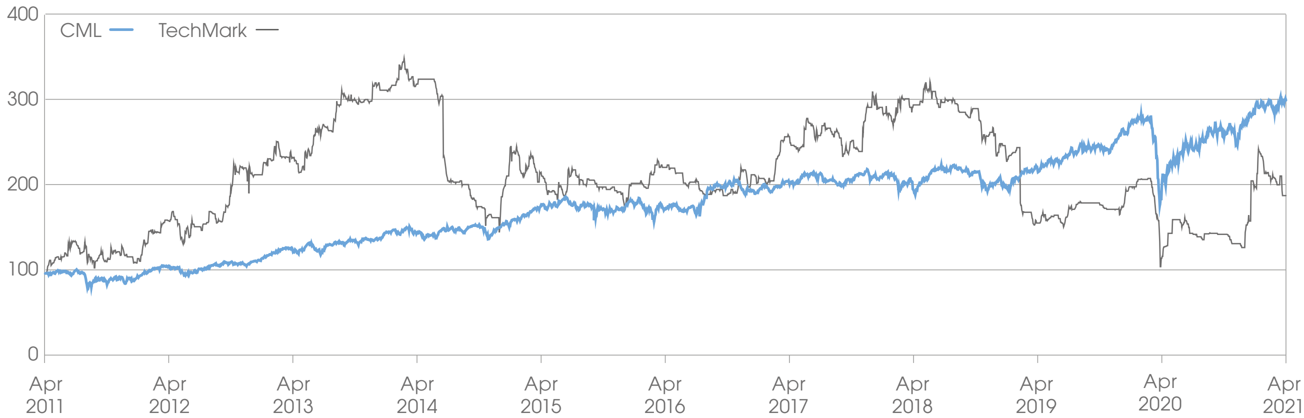
Shareholder voting

At the AGM on 29 July 2020, 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	95.90	4.10	0.00

Company's performance

The graph below shows the total shareholder return (TSR) on a holding of shares in the Company as against the average 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

Chairman of the Remuneration Committee

25 June 2021

Directors' report

Directors' Report

The Directors submit their report and Group financial statements for the year ended 31 March 2021 in addition to the Directors' Remuneration Report on pages 29 to 34.

The Directors referred to on pages 24 and 25 all served throughout the year ended 31 March 2021.

Corporate Governance Statement

The Disclosure and Transparency Rules (DTR) require certain information to be included in a corporate governance statement. Information that fulfils these requirements has been incorporated into the Directors' Report.

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 notes to the financial statements. The report also includes details of the Group's risk mitigation and management.

Given the nature of the markets we operate within, we anticipate our end customers being insulated from a consumer downturn to some extent, although the roll-out of some of the new products may be delayed, dampening demand for our semiconductors. Even in these difficult times, we still maintain the belief that the Group is well placed to move positively forward in the medium to long term. This belief is underpinned by a strong balance sheet and no debt, along with a product portfolio that addresses markets that have a positive outlook.

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 global communications industries.

Business review and future developments

The Strategic Report on pages 01 to 23 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 12.

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 notes to the financial statements. The report also includes details of the Group's risk mitigation and management.

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, as required by legislation.

Dividends

An interim dividend of 2.0p per 5p ordinary share was paid on 18 December 2020 to shareholders on the Register on 4 December 2020.

The Directors are proposing to pay a final special dividend of 50.0p per 5p ordinary share, taking the total dividend amount in respect of the year ended 31 March 2021 to 52.0p (2020: 4.0p 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

Greenhouse gas emissions, energy consumption and energy efficiency are detailed in the Environment, social and governance section on page 20 and future developments in the Group Managing Director's Review on page 15. In accordance with Section 414C (11) of the Companies Act 2006, these have been included in the Strategic Report.

Share capital

The Company's authorised and issued ordinary share capital as at 31 March 2021 comprised a single class of ordinary shares. Details of movements in the issued share capital can be found in note 30 to the financial statements. Each share carries the right to one vote at general meetings of the Company. During the period 12,500 ordinary shares (2020: 2,486 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.

Directors' report continued

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 2020 AGM, to purchase in the market up to 2,576,274 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 2,578,522 ordinary shares of 5p at this year's AGM.

The Directors were granted authority at the 2020 AGM to allot relevant securities up to a nominal amount of £572,588. 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 £551,722.

Purchase of own shares

Details of the Company's share capital are shown in note 31 to the financial statements.

The Company was authorised at the 2020 AGM to purchase its own shares. During the financial year the Company purchased and held in treasury 615,000 ordinary shares with a nominal value of 5p (none of which were purchased off market), for a consideration of £1,590,000 and represented 3.58% of its issued share capital at the start of the year.

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 16 June 2021, 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
Premier Miton Group Plc	Institutional investor	10.86%
Otus Capital Management	Institutional investor	9.51%
J. M. Gurry	Private investor	9.47%
Herald Investment Management	Institutional investor	6.51%
Ruffer Investment Management	Institutional investor	6.13%
Liontrust Asset Management	Institutional investor	5.89%
M. I. Gurry	Private investor	5.80%
C. A. Gurry	Director	5.49%
T. M. R. Dean	Private investor	5.39%
Schroder Investment Management Limited	Institutional investor	3.57%
Slater Investments Limited	Institutional investor	3.41%

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 30 days (2020: 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 of freehold and long leasehold land and buildings and it is from the operating leases on these properties that the Group's rental income is generated. Fenn Wright and Lambert Smith Hampton, Commercial Property Consultants, professionally valued on a triennial basis the Company's investment property on the basis of open market value as at 31 March 2021, at a valuation of £3,775,000.

Directors and their interests

The Directors of the Company at 31 March 2021, 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 2021	31 March 2020
Nigel Clark	**24,600**	24,600
Chris Gurry	**908,816**	908,816
Hugh Rudden	**—**	—
Geoff Barnes	**12,000**	12,000
Jim Lindop	**—**	—

The above interests in the ordinary share capital of the Company are beneficial. Details of the Directors' interests in options granted over ordinary shares are disclosed in the Directors' Remuneration Report. There have been no changes in the Directors' interests in shares between 1 April 2021 and 16 June 2021. 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 2021, 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 7 and special business comprising two ordinary resolutions, 8 and 9, and three special resolutions, 10, 11 and 12, relating to the following matters:

Special business ordinary resolutions

- To cancel the listing of the ordinary shares in the capital of the Company on the Standard segment of the Official List of the Financial Conduct Authority and to cancel the admission of such ordinary shares to trading on the London Stock Exchange plc's Main Market for listed securities and to apply for admission of the said ordinary shares to trading on AIM, a market operated by London Stock Exchange plc.
- 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 30. 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.

Financial instruments

Further information regarding the financial risk management policies and objectives is provided in note 24.

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

The Board has delegated to the Audit Committee the responsibility for monitoring the effectiveness of the systems of risk management and for overseeing the system of internal controls to ensure these are appropriate to the business environments in which the Company operates.

The elements of the internal control system are aimed at ensuring the accuracy and reliability of consolidated financial reporting and guarantee that business transactions are recognised in full and at the proper time in accordance with statutory regulations and CML Microsystems Plc's Articles of Association. Furthermore, they ensure that inventory counts are carried out correctly and that assets and liabilities are accurately recognised, measured and disclosed in the consolidated financial statements. The systems also ensure that the accounting documents provide reliable, comprehensible information.

The controlling activities to ensure the accuracy and reliability of the accounting include analytical reviews as well as the execution and control of important and complex transactions by different people. The separation of administrative, executive, accounting and authorisation functions and their performance by different individuals (dual signatures) reduces the risk of fraud.

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

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

RSM, or one of its predecessors, has been CML Microsystems Plc's auditors for in excess of 40 years. Due to mandatory rotation requirements, RSM LLP could not continue as auditor beyond the year ending 31 March 2021, and so the Company has undertaken an external tender process in which RSM LLP did not participate.

A resolution to appoint BDO LLP, Chartered Accountants, as auditor of the Company will be put to the members at the forthcoming Annual General Meeting.

Post balance sheet event

The company has proposed, for consideration by the shareholders at the Annual General Meeting, the cancellation of Ordinary Shares from the Standard List and admission to trade on the Alternative Investment Market.

By order of the Board

Michelle Jones
Company Secretary
25 June 2021

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 2021.

The Directors are responsible for preparing the Strategic Report and the Directors' Report, the Directors' Remuneration Report, the separate Corporate Governance Statement 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 have elected under company law to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and are additionally required under the Listing Rules of the Financial Conduct Authority to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Directors have elected under company law to prepare the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The Group and Company financial statements are required by law and international accounting standards in conformity with the requirements of the Companies Act 2006, and additionally for the Group financial statements international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union 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 each of the Group and Company financial statements, the Directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and additionally for the Group financial statements international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union; and
d. prepare the financial statements on the 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's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on pages 24 and 25, 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 and the Directors' 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 United Kingdom 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 2021 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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and International Accounting Standards in conformity with the requirements 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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements 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 regulations.

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included reviewing and evaluating management's cash flow forecasts and the results of scenario analysis. Disclosure of the group's going concern position is disclosed in the Directors' Report and Note 1(a) of the accounting policies; based on the results of the audit procedures outlined above, we have no observations to report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Summary of our audit approach

Key audit matters	**Group** • Capitalisation and amortisation of development costs **Parent company** • No key audit matters
Materiality	**Group** • Overall materiality: £162,000 (2020: £190,000) • Performance materiality: £121,500 (2020: £142,500) **Parent company** • Overall materiality: £45,000 (2020: £44,000) • Performance materiality: £33,750 (2020: £33,000)
Scope	Our audit procedures covered 87% of revenue, 97% of total assets and 95% of profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our report.

Capitalisation and amortisation of development costs

Key audit matter description	The Group invests significantly in developing new products to support the future trade of the business and had capitalised development costs with a carrying value of £9.2m at 31 March 2021 (2020: £16.9m). We identified this as a key audit matter due to the significant amounts invested and the degree of judgement involved in assessing whether the criteria for capitalisation under IAS 38 Intangible Assets are met. In addition, the Group reviewed the key judgements and estimates during the year in relation to the point at which amortisation of these costs should commence and the appropriate period over which amortisation should be applied. The details of this are set out in the Accounting Policies, note 1(r). We focused our audit procedures on the risks: • that capitalised costs relate to products that are not currently technically feasible or for which the probability of future economic benefits is not yet proven; • of impairment of existing assets, where new technology potentially supersedes previously capitalised products or inappropriate amortisation rates are used; and • of potential for fraud or error inherent in judgements over appropriate capitalisation.
How the matter was addressed in the audit	Our audit procedures included the following: • reviewing management's process for capitalisation, which include pre-approval papers setting out the anticipated costs and returns to be generated by the products; • holding discussions with regional managers responsible for the products to gain an understanding of the products, and to inform our assessment as to the feasibility and economic benefits of individual products; • testing a sample of product additions in the year against the IAS 38 capitalisation criteria; • obtaining an understanding of the new information available to management which had led to the change in judgements and estimates in order to check compliance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors; • performing a number of audit procedures on internal staff costs capitalised including substantive testing to payroll records, discussions with management on the proportion of time spent and nature of work attributable to the product; • reviewing the track record of sales and profitability of the products with a carrying value at the year end for indicators of impairment. This included reviewing the profile of significant products to assess whether any had significant sales declines and holding discussions with management to challenge whether these are still expected to generate future sales; • using the Group's track record of sales of products capitalised in previous periods to challenge management's judgements on the point at which amortisation should commence and the amortisation period. This included referring to amortisation policies of comparable companies; and • performing analytical tests on the costs capitalised to identify items that in our judgement appeared unusual, and obtaining explanations and supporting evidence from management, for example challenging changes in patterns of capitalisation.
Key observations	The impact of the key judgements and estimates applied in respect of the treatment of capitalised development costs is disclosed in note 1(r) to the financial statements. Based on the results of the audit procedures outlined above, we have no observations to report.

Independent auditor's report continued
to the members of CML Microsystems Plc

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. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£162,000 (2020: £190,000)	£45,000 (2020: £44,000)
Basis for determining overall materiality	5% of average Adjusted EBITDA for 2020 and 2021	1% of net assets
Rationale for benchmark applied	The profit measure applied was Adjusted EBITDA on continuing operations. This was blended for 2020 and 2021 to take account of the significant impact of COVID-19 on the 2021 results. A specific materiality of 5% of profit from discontinued operation was applied to the disposal of those operations in the year.	The parent company is a holding company so net assets have been used as the benchmark. The percentage applied to the benchmark has been restricted for the purpose of calculating an appropriate component materiality.
Performance materiality	£121,500 (2020: £142,500)	£33,750 (2020: £33,000)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £8,100 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £2,250 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit
The group consists of six components, located in the following countries;

- United Kingdom (three)
- China
- USA
- Singapore

Full scope audits were performed for five components and analytical procedures at group level for the remaining component.

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	5	87%	97%	95%
Total	**5**	**87%**	**97%**	**95%**

Analytical procedures at group level were performed for the remaining component.

All audit work was completed by the group audit team and no component auditors were used in our 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 contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this 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 39, 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.

Independent auditor's report continued
to the members of CML Microsystems Plc

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.

The extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud; and
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation/Regulation	Additional audit procedures performed by the Group audit engagement team included:
International Accounting Standards in conformity with the Companies Act and Companies Act 2006	• review of the financial statement disclosures and testing to supporting documentation; and • completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	• inspection of advice received from internal/external tax advisors; • input from a tax specialist in the audit of tax; and • consideration of whether any matter identified during the audit required reporting to an appropriate authority outside the entity.

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Capitalisation and amortisation of development costs	The audit procedures performed in relation to revenue recognition are documented in the key audit matter section of our audit report.
Management override of controls	• testing the appropriateness of journal entries and other adjustments; • assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and • evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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 ended 31 March 1988 and subsequent financial periods.

The period of total uninterrupted consecutive appointments is 34 years, covering the years ending 1988 to 2021.

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. Following completion of the audit for the year ended 31 March 2021 we have reached the maximum period of appointment under the FRC's Ethical Standards and will not seek reappointment at the forthcoming Annual General Meeting.

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, UK

25 June 2021

Consolidated income statement
for the year ended 31 March 2021

	Notes	2021 £'000	2020 Restated £'000
Continuing operations			
Revenue	3	**12,470**	14,963
Cost of sales	4	**(3,197)**	(3,261)
Gross profit		**9,273**	11,702
Distribution and administration costs	4	**(10,567)**	(11,060)
		(1,294)	642
Other operating income	5	**830**	604
(Loss)/profit from operations		**(464)**	1,246
Share-based payments	31	**(143)**	(139)
(Loss)/profit after share-based payments		**(607)**	1,107
Revaluation of investment properties	18	**579**	—
Profit on disposal of property, plant and equipment		**—**	11
Finance income	8	**75**	105
Finance expense	8	**(37)**	(45)
Profit before taxation		**10**	1,178
Income tax credit	9	**792**	193
Profit from continuing operations		**802**	1,371
Profit from discontinued operation	13	**22,762**	165
Profit after taxation attributable to equity owners of the parent		**23,564**	1,536

The Consolidated Income Statement has been restated for year ended 31 March 2020 for the discontinued operation. See note 13 for further details.

Earnings per share from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	11	**4.81p**	8.02p
Diluted earnings per share	11	**4.79p**	7.98p
Earnings per share from total operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	11	**141.13p**	8.98p
Diluted earnings per share	11	**140.56p**	8.94p
Adjusted EBITDA	12	**2,731**	4,483

Consolidated statement of total comprehensive income
for the year ended 31 March 2021

	Notes	2021 £'000	2021 £'000	2020 Restated £'000	2020 Restated £'000
Profit for the year			**23,564**		1,536
Other comprehensive (expense)/income:					
Items that will not be reclassified subsequently to profit or loss:					
Re-measurement of defined benefit obligation	28	**(897)**		(995)	
Deferred tax on actuarial loss	27	**170**		187	
Items reclassified subsequently to profit or loss upon derecognition:					
Foreign exchange differences		**(312)**		308	
Reclassification of foreign exchange differences on discontinued operations		**(1,100)**		—	
Other comprehensive expense for the year net of taxation attributable to equity owners of the parent			**(2,139)**		(500)
Total comprehensive income for the year attributable to the equity owners of the parent			**21,425**		1,036
Total comprehensive income for the year attributable to the equity owners of the parent:					
Continuing operations			**(237)**		871
Discontinued operations			**21,662**		165
			21,425		1,036

Consolidated statement of financial position
as at 31 March 2021

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Assets					
Non-current assets					
Goodwill	14		**7,072**		10,741
Other intangible assets	15		**1,276**		1,823
Development costs	16		**9,191**		16,930
Property, plant and equipment	17		**4,864**		4,976
Right-of-use assets	17		**409**		1,184
Investment properties	18		**3,775**		3,170
Investments	19		**—**		83
Deferred tax assets	27		**1,531**		1,343
			28,118		40,250
Current assets					
Inventories	20	**1,450**		2,390	
Trade receivables and prepayments	21	**2,434**		5,075	
Current tax assets	26	**1,046**		1,044	
Cash and cash equivalents	22	**32,196**		8,479	
			37,126		16,988
Total assets			**65,244**		57,238
Liabilities					
Current liabilities					
Borrowings	23		**282**		—
Trade and other payables	25		**3,081**		4,036
Lease liabilities	25		**183**		502
Current tax liabilities	26		**80**		85
			3,626		4,623
Non-current liabilities					
Deferred tax liabilities	27	**2,339**		4,960	
Lease liabilities	25	**262**		568	
Retirement benefit obligation	28	**5,570**		4,697	
			8,171		10,225
Total liabilities			**11,797**		14,848
Net assets			**53,447**		42,390
Capital and reserves attributable to equity owners of the parent					
Share capital	30		**859**		859
Share premium	31		**1,039**		9,286
Capital redemption reserve	31		**9**		9
Treasury shares – own share reserve	31		**(1,670)**		(80)
Share-based payments reserve	31		**570**		582
Foreign exchange reserve	31		**302**		1,714
Retained earnings	31		**52,338**		30,020
Total shareholders' equity			**53,447**		42,390

The financial statements on pages 46 to 88 were approved and authorised for issue by the Board on 25 June 2021, and signed on its behalf by:

Chris Gurry
Director

Nigel Clark
Director

Registered in England and Wales: 000944010

Consolidated and Company cash flow statements

for the year ended 31 March 2021

		Group		Company	
	Notes	2021 £'000	2020 Restated £'000	2021 £'000	2020 £'000
Operating activities					
Profit for the year before taxation – continuing operations		10	1,178	4,342	2,147
Profit for the year after taxation – discontinued operations	13	22,762	165	—	—
Adjustments for:					
Depreciation – on property, plant and equipment		370	397	85	83
Depreciation – on right-of-use assets		438	456	—	—
Impairment of development costs		701	—	—	—
Amortisation of development costs		3,789	5,708	—	—
Amortisation of intangibles recognised on acquisition and purchased		212	212	39	42
Loss/(profit) on disposal of property, plant and equipment		16	(5)	—	—
Revaluation of investment properties		(579)	—	(579)	—
Gain on disposal of discontinued operations		(21,740)		—	—
Movement in non-cash items (retirement benefit obligation)		201	154	—	—
Share-based payments		143	139	143	139
Finance income		(75)	(105)	(13)	(2)
Finance expense		37	45	—	—
Movement in working capital	34	1,388	(1,868)	405	450
Cash flows from operating activities		7,673	6,476	4,422	2,859
Income tax received		494	526	—	—
Net cash inflow from operating activities		8,167	7,002	4,422	2,859
Investing activities					
Disposal of business (net of expenses)		33,261	—	32,802	—
Acquisition of subsidiary, net of cash acquired		(100)	(1,295)	(100)	(1,295)
Purchase of property, plant and equipment		(390)	(57)	—	—
Investment in development costs		(7,270)	(7,936)	—	—
Proceeds from disposal of property, plant and equipment		—	11	—	—
Investment in intangibles		25	(265)	25	(28)
Investment in loan note		—	(323)	—	—
Finance income		75	106	13	2
Net cash inflow/(outflow) investing activities		25,601	(9,759)	32,740	(1,321)
Financing activities					
Lease liability repayments		(556)	(682)	—	—
Proceeds from borrowings		282	—	—	—
Issue of ordinary shares (net of expenses)		29	7	29	7
Purchase of own shares for treasury		(1,590)	—	(1,590)	—
Dividends paid to shareholders		(674)	(1,332)	(674)	(1,332)
Share capital redemption	30	(8,276)	—	(8,276)	—
Finance expense		(15)	(34)	—	—
Net cash outflow from financing activities		(10,800)	(2,041)	(10,511)	(1,325)
Increase/(decrease) in cash and cash equivalents		22,968	(4,798)	26,651	213
Movement in cash and cash equivalents:					
At start of year	22	8,479	12,809	507	294
Increase/(decrease) in cash and cash equivalents		22,968	(4,798)	26,651	213
Effects of exchange rate changes		749	468	440	—
At end of year	34	32,196	8,479	27,598	507

Cash flows presented exclude sales taxes. Further cash-related disclosure details are provided in notes 22, 23, 24 and 34.

Changes in liabilities arising from financing activities relate to lease liabilities and borrowings only. The movement during the year in lease liabilities is set out in note 25 and the only movement in respect of borrowings in a cash flow movement as shown above.

Consolidated statement of changes in equity

for the year ended 31 March 2021

	Share capital £'000	Share premium £'000	Redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total £'000
At 31 March 2019	859	9,279	9	(342)	507	1,406	30,604	42,322
Changes in accounting policy IFRS 16							(30)	(30)
Restated as at 31 March 2019	859	9,279	9	(342)	507	1,406	30,574	42,292
Profit for year							1,536	1,536
Other comprehensive income								
Foreign exchange differences						308		308
Re-measurement of defined benefit obligations							(995)	(995)
Deferred tax on actuarial gain							187	187
Total comprehensive income for year	—	—	—	—	—	308	728	1,036
	859	9,279	9	(342)	507	1,714	31,302	43,328
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options	—	7						7
Issue of own shares – treasury				262			(14)	248
Dividend paid							(1,332)	(1,332)
Total transactions with owners in their capacity as owners	—	7	—	262	—	—	(1,346)	(1,077)
Share-based payments					139			139
Cancellation/transfer of share-based payments					(64)		64	—
At 31 March 2020	859	9,286	9	(80)	582	1,714	30,020	42,390
Profit for year							**23,564**	**23,564**
Other comprehensive income								
Foreign exchange differences						**(312)**		**(312)**
Reclassification of foreign exchange differences on discontinued operations						**(1,100)**		**(1,100)**
Re-measurement of defined benefit obligations							**(897)**	**(897)**
Deferred tax on actuarial loss							**170**	**170**
Total comprehensive income for year	**—**	**—**	**—**	**—**	**—**	**(1,412)**	**22,837**	**21,425**
	859	**9,286**	**9**	**(80)**	**582**	**302**	**52,857**	**63,815**
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options		**29**						**29**
Purchase of own shares – treasury				**(1,590)**				**(1,590)**
Share capital redemption		**(8,276)**						**(8,276)**
Dividend paid							**(674)**	**(674)**
Total transactions with owners in their capacity as owners	**—**	**(8,247)**	**—**	**(1,590)**	**—**	**—**	**(674)**	**(10,511)**
Share-based payment charge					**143**			**143**
Cancellation/transfer of share-based payments					**(155)**		**155**	**—**
At 31 March 2021	**859**	**1,039**	**9**	**(1,670)**	**570**	**302**	**52,338**	**53,447**

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 2021

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Assets					
Non-current assets					
Intangible assets	15		**264**		596
Property, plant and equipment	17		**4,422**		4,507
Investment properties	18		**3,775**		3,170
Investments in subsidiary undertakings	19		**10,772**		14,508
Deferred tax assets	27		**321**		232
			19,554		23,013
Current assets					
Trade receivables and prepayments	21	**700**		813	
Cash and cash equivalents	22	**27,598**		507	
			28,298		1,320
Total assets			**47,852**		24,333
Liabilities					
Current liabilities					
Trade and other payables	25		**1,055**		764
Current tax liabilities	26		**—**		36
			1,055		800
Non-current liabilities					
Deferred tax liabilities	27		**643**		689
Total liabilities			**1,698**		1,489
Net assets			**46,154**		22,844
Equity					
Share capital	30		**859**		859
Share premium	31		**1,039**		9,286
Capital redemption reserve	31		**9**		9
Treasury shares – own share reserve	31		**(1,670)**		(80)
Share-based payments reserve	31		**570**		582
Merger reserve	31		**316**		316
Retained earnings	31		**45,031**		11,872
Total shareholders' equity			**46,154**		22,844

The parent company profit for the financial year attributed in the financial statements of the parent company was £33,678,000 (2020: £2,033,000). The financial statements on pages 46 to 88 were approved and authorised for issue by the Board on 25 June 2021 and signed on its behalf by:

Chris Gurry
Director

Nigel Clark
Director

Registered in England and Wales: 000944010

Company statement of changes in equity
for the year ended 31 March 2021

	Share capital £'000	Share premium £'000	Redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 31 March 2019	859	9,279	9	(342)	507	316	11,107	21,735
Profit for year							2,033	2,033
Total comprehensive income for year	—	—	—	—	—	—	—	—
	859	9,279	9	(342)	507	316	13,140	23,768
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options	—	7						7
Issue of own shares – treasury				262				262
Dividend paid							(1,332)	(1,332)
Total transactions with owners in their capacity as owners	—	7	—	262	—	—	(1,332)	(1,063)
Share-based payment charge					139			139
Cancellation/transfer of share-based payments					(64)		64	—
At 31 March 2020	859	9,286	9	(80)	582	316	11,872	22,844
Profit for year							**33,678**	**33,678**
Total comprehensive income for year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	859	**9,286**	**9**	**(80)**	**582**	**316**	**45,550**	**56,522**
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options	**—**	**29**						**29**
Purchase of own shares – treasury				**(1,590)**				**(1,590)**
Share capital redemption		**(8,276)**						**(8,276)**
Dividend paid							**(674)**	**(674)**
Total transactions with owners in their capacity as owners	**—**	**(8,247)**	**—**	**(1,590)**	**—**	**—**	**(674)**	**(10,511)**
Share-based payment charge					**143**			**143**
Cancellation/transfer of share-based payments					**(155)**		**155**	**—**
At 31 March 2021	**859**	**1,039**	**9**	**(1,670)**	**570**	**316**	**45,031**	**46,154**

Notes to the financial statements

for the year ended 31 March 2021

1 Accounting policies

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 Group financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Company financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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 Sterling and the Company's functional currency is Sterling and figures are rounded to the nearest thousand pounds.

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 notes to the financial statements. The report also includes details of the Group's risk mitigation and management.

Given the nature of the markets we operate within, we anticipate our end customers being insulated from a consumer downturn to some extent, although the roll-out of some of the new products may be delayed, dampening demand for our semiconductors. Even in these difficult times, we still maintain the belief that the Group is well placed to move positively forward in the medium to long term. This belief is underpinned by a strong balance sheet and no debt, along with a product portfolio that addresses markets that have a positive outlook.

At 31 March 2021, the Group had cash balances of £32.196m and external debt only in relation to its lease liabilities and external borrowings.

The Directors have reviewed the detailed financial projections for the period ending 31 March 2022, as well as the business plan and cash flows for the twelve months ending 31 March 2023 which forms part of the Group's longer-term viability assessment. In addition, they have considered the principal risks faced by the Group, the potential impact of COVID-19 and Brexit and the Group's significant financial headroom and are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future, a period of at least twelve months from the date of approval of this report. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

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. Semiconductor 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. 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, ie. when control passes to the customer. Pricing is fixed and determinable pursuant to agreeing upon pricing lists that establish stand-alone selling prices. There are no further performance obligations associated with these sales.

The Group recognises revenues from design and development over the period of the contract. Design and development revenues are recognised on the basis of percentage contract completion which determines the point of satisfaction of its performance obligation and at a determined transaction price.

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. Goodwill was recognised for the Sicomm acquisition in August 2016 and PRFI Limited (formerly known as Plextek RFI Limited) acquired in March 2020. Goodwill is reviewed annually for impairment by comparing its carrying value to the value-in-use or fair value less cost to disposal of the cash generating unit; any resultant impairment being charged through the Consolidated Income Statement. Fair value less cost to disposal 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.

Notes to the financial statements continued
for the year ended 31 March 2021

1 Accounting policies continued

e) Intangibles continued

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 and PRFI Limited (formerly known as Plextek RFI Limited). These acquired intangibles have been amortised in accordance with the following:

• brands	10 years from date of acquisition
• customer relationships	6-9 years from date of acquisition
• intellectual property	10 years from date of acquisition

Intellectual property and 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 licence for the use of external software for vocoder purposes. This has been capitalised as an intangible asset and amortised over ten 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 in line with economic benefit with a deferment period of one or two years prior to amortisation commencing. From the date amortisation commences, the straight-line method is applied to the cost of the development over a period of six 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 recognised in 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 in subsidiary undertakings

Investments are stated at cost less any provision for diminution in value. Investments in subsidiary undertakings are reviewed for impairment on an annual basis.

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 is 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. The 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.

p) Leases

Group as a lessee

Right-of-use assets

A right-of-use asset is recognised at commencement of the lease and initially measured at the amount of the lease liability, plus any incremental costs of obtaining the lease and any lease payments made at or before the leased asset is available for use by the Group.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. The depreciation methods applied are as follows:

- leased property over the term of the lease
- leased vehicles over the term of the lease

Lease liabilities

On commencement of a contract (or part of a contract) which gives the Group the right to use an asset for a period of time in exchange for consideration, the Group recognises a right-of-use asset and a lease liability unless the lease qualifies as a "short-term" lease or a "low-value" lease.

Notes to the financial statements continued
for the year ended 31 March 2021

1 Accounting policies continued

p) Leases continued

Group as a lessee continued

Initial measurement of the lease liability

The lease liability is initially measured at the present value of the lease payments during the lease term discounted using the interest rate implicit in the lease, or the incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined.

The lease term is the non-cancellable period of the lease plus extension periods that the Group is reasonably certain to exercise and termination periods that the Group is reasonably certain not to exercise.

Lease payments include fixed payments, less any lease incentives receivable, variable lease payments dependent on an index or a rate (such as those linked to LIBOR) and any residual value guarantees. Variable lease payments are initially measured using the index or rate when the leased asset is available for use.

Subsequent measurement of the lease liability

The lease liability is subsequently increased for a constant periodic rate of interest on the remaining balance of the lease liability and reduced for lease payments.

Interest on the lease liability is recognised in profit or loss.

Variable lease payments not included in the measurement of the lease liability as they are not dependent on an index or rate, are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

Group as a lessor

Leases of property, plant and equipment where the Group has substantially all the risk and rewards of ownership are classified as finance leases. Rental income under these 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 judgements and Key sources of estimation uncertainty

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 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.

Critical accounting judgements

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

- **Research and development – amortisation and impairment**

  Distinguishing whether development expenditure satisfies the recognition requirements for the capitalisation of development costs requires the exercise of judgement.

  The disposal of the Storage division, coupled with the completion of the implementation of the new ERP system, led to new information being available with regard to lifecycle and availability of the Group's products. Therefore, a full review was carried out of the development expenditure, the impairment, and the amortisation. As a result of this review, it was established that the amortisation period of the development expenditure should be amended to delay the commencement of amortisation and to extend the amortisation period. A review for potential impairment of development costs was also carried out which identified that there was a requirement to impair in the year.

  The research and development review highlighted that the judgement on when amortisation should commence, and the period of amortisation was overly prudent. Hence, following the review, the product lifecycle was extended from four to six years and internal development expenditure amortisation was delayed for a period to coincide with when the product was available to the market. The changes made to these policies arose from the availability of new information and therefore represents a change in accounting estimate. This change of judgement resulted in the amortisation for the year to 31 March 2021 reducing to £1,190,000 as compared to an amount of £2,646,000 which would have been incurred under the old estimate thus yielding a cost reduction of £1,456,000.

  Following the revision of the judgement of the product lifecycle an impairment review was undertaken into each stage of the product development, highlighting any amounts needing to be written off. This review resulted in the carrying costs of the development expenditure needing an impairment of £701,000 for the year (2020: £Nil).

  The net effect of the change in product lifecycle and impairment was to improve profits for the year to 31 March 2021 by £755,000. Going forward, the impact in future periods will be that the carrying value of the development costs will be higher due to amortisation being over a longer period. It is impractical to estimate the impact in change in estimate in future periods as costs are capitalised year on year dependent on products in development.

Key sources of estimation uncertainty

- **Impairment of goodwill**
  An annual review is carried out (as set out in note 14) 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 fair value less cost of disposal of the cash generating unit; the determination of these factors requires the exercise of judgement.
- **UK defined benefit pension scheme**
  Actuarial assumptions are made in valuing future benefit pension obligations (as set out in note 28). 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.
- **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.

  The Group has considered the impact of COVID-19 on its critical accounting judgements and key sources of estimation uncertainty and at this time the Group believes there is no material impact of COVID-19 that can be clearly defined. Given the nature of the markets we operate within, we anticipate our end customers being insulated from a consumer downturn to some extent, although the roll-out of some of the new products may be delayed, dampening demand for our semiconductors. Even in these difficult times, we still maintain the belief that the Group is well placed to move positively forward in the medium to long term. This belief is underpinned by a strong balance sheet and no debt, along with a product portfolio that addresses markets that have a positive outlook.

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, lease liabilities and other payables

Trade, Group, lease liabilities 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 (including right-of-use assets), development costs and intangible assets other than goodwill

At each year end, the Group reviews the carrying amounts of its non-current assets with finite useful lives 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.

Notes to the financial statements continued
for the year ended 31 March 2021

1 Accounting policies continued

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.

x) Discontinued operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the Consolidated Income Statement. In accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations comparative figures for the prior period have been restated in the Consolidated Income Statement and Consolidated Cash Flow Statement so that the discontinued results have been excluded for the year ended 31 March 2020. The discontinued operations disclosures relate to all operations that have been discontinued at 31 December 2020.

y) Adoption of International Accounting Standards

New standards, amendments to published standards and interpretations to existing standards effective in 2021, with their dates of adoption adopted by the Group and brief description:

Standard	Effective from:
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019)	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	1 January 2020
Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)	1 January 2020

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

Amendments to IFRS 16 Leases: COVID-19-Related Rent Concessions (issued on 28 May 2020)	1 June 2020

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.

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 single segment, being semiconductor components for the communications industry.

Geographical information (by origin)

	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2021					
Revenue to third parties – by origin	**5,867**	**—**	**1,624**	**4,979**	**12,470**
Property, plant and equipment	**4,753**	**—**	**22**	**89**	**4,864**
Right-of-use assets	**90**	**—**	**255**	**64**	**409**
Investment properties	**3,775**	**—**	**—**	**—**	**3,775**
Development costs	**7,942**	**—**	**—**	**1,249**	**9,191**
Intangibles – software and intellectual property	**264**	**—**	**—**	**101**	**365**
Goodwill	**1,531**	**—**	**—**	**5,541**	**7,072**
Other intangible assets arising on acquisition	**210**	**—**	**—**	**701**	**911**
Total assets	**52,228**	**—**	**2,467**	**10,549**	**65,244**
Year ended 31 March 2020					
Revenue to third parties – by origin	4,307	—	2,824	7,832	14,963
Property, plant and equipment	4,724	182	30	40	4,976
Right-of-use assets	164	244	547	229	1,184
Investment properties	3,170	—	—	—	3,170
Development costs	6,161	9,793	—	976	16,930
Intangibles – software and intellectual property	596	—	—	118	714
Goodwill	1,531	3,512	—	5,698	10,741
Other intangible assets arising on acquisition	235	—	—	874	1,109
Total assets	24,606	16,984	2,203	13,445	57,238

Revenue contribution from the top one customer provided a contribution of approximately 12% (2020: two customers provided a combined contribution of 21% of revenue, although only one of these customers was above the 10% threshold).

3 Revenue

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

Continuing business	2021 £'000	2020 Restated £'000
Europe	**2,996**	3,362
Far East	**7,005**	8,239
Americas	**2,000**	2,875
Others	**469**	487
	12,470	14,963

In accordance with IFRS 15, the Group's revenue of £12,470,000 is made up of revenue from semiconductor £11,622,000 and design and development £848,000. Semiconductor products, goods and services are transferred at a point in time, design and development over the period of the contract on a percentage basis of contract completion, as detailed in the Group's revenue recognition policy (see note 1).

The Group does not have any contract assets at 31 March 2021 (£Nil at 31 March 2020) 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 21 for disclosure of this. The Group does not have any contractual liabilities at 31 March 2021 (£0.3m at 31 March 2020).

The Group also does not have any contractual costs capitalised or any outstanding performance obligations at 31 March 2021 and 31 March 2020.

Notes to the financial statements continued
for the year ended 31 March 2021

4 Profit from continuing operations

	2021		2020 Restated	
	£'000	£'000	£'000	£'000
Profit from operations is stated after charging or crediting:				
Cost of sales:				
Depreciation	110		99	
Amount of inventories written down	1		7	
Cost of inventories recognised as expense	2,884		2,985	
Other (stock) movements	202		170	
		3,197		3,261
Distribution and administration costs:				
Distribution costs (mainly staff costs)		1,913		2,295
Administration costs:				
Amortisation of development costs[1]	1,191		2,501	
Research and development expensed[1]	932		526	
Amortisation of acquired and purchased intangibles	212		212	
Impairment of development costs	701		—	
Depreciation – owned assets	200		302	
Depreciation – right-of-use assets	202		211	
Foreign exchange losses	123		39	
Auditor's fees (see below)	154		159	
Restructuring and reorganisational costs	—		700	
Other expenses (mainly staff costs)	4,939		4,115	
		8,654		8,765
		10,567		11,060

1. Change in research and development estimate, see accounting policies note r.

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

	2021 £'000	2020 £'000
Audit services:		
Statutory audit of the Company's annual accounts and Group consolidation	59	56
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	56	45
Audit of associated pension schemes	17	17
Other non-audit services	—	5
	132	123
Amounts payable to other auditors in respect of both audit and non-audit services:		
Statutory audit services	19	30
Tax compliance services	2	2
Other services	1	4
	22	36

5 Other operating income

	2021 £'000	2020 Restated £'000
Rental income	**344**	316
Government grants	**26**	18
Other income	**460**	270
	830	604

All conditions relating to the government grants have been fulfilled and there are no other contingencies. Other income relates to an element of profit on third-party product re-sales.

6 Employees

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Staff costs, including Directors, during the year amounted to:				
Wages and salaries	**10,895**	11,633	**1,028**	1,036
Social security costs	**1,234**	1,371	**132**	134
Other pension and health care costs	**1,066**	823	**83**	84
Share-based payments	**143**	139	**143**	139
	13,338	13,966	**1,386**	1,393

	Group		Company	
	2021 Number	2020 Number	**2021 Number**	2020 Number
The average number of employees, including Directors, during the year was:				
Administration	**40**	44	**8**	8
Engineering	**87**	101	**—**	—
Manufacturing	**34**	35	**—**	—
Selling	**30**	31	**—**	—
	191	211	**8**	8

The staff costs and employee numbers stated in 2021 are including the discontinued operations up to the date of disposal.

7 Directors' emoluments

	2021 £'000	2020 £'000
Remuneration (including fees)	**944**	805
Emoluments in respect of the highest paid Director amounted to:		
Remuneration	**414**	278

Further details on Directors' emoluments, including contributions to pension, can be found in the Directors' Remuneration Report on pages 29 to 34.

Notes to the financial statements continued
for the year ended 31 March 2021

8 Finance income and expense
Finance income

	2021 £'000	2020 Restated £'000
Bank interest receivable	75	105

Finance expense

	2021 £'000	2020 Restated £'000
Bank interest payable	1	—
Lease liability interest	36	45
	37	45

9 Income tax expense
a) Analysis of tax expense in period

	2021 £'000	2020 Restated £'000
Current tax		
UK corporation tax on results of the year	(1,089)	(588)
Adjustment in respect of previous years	(37)	—
	(1,126)	(588)
Foreign tax on results of the year	248	182
Foreign tax – adjustment in respect of previous years	—	1
Total current tax	(878)	(405)
Deferred tax		
Deferred tax – origination and reversal of temporary differences	91	129
Deferred tax – relating to changes in rates	—	106
Adjustments to deferred tax charge in respect of previous years	(5)	(23)
Total deferred tax	86	212
Tax income on profit on ordinary activities (note 9b)	(792)	(193)

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% (2020: 19%). The differences are explained below:

	2021 £'000	2020 Restated £'000
Profit before tax	10	1,178
Profit before tax multiplied by the standard rate of UK corporation tax of 19% (2020: 19%)	2	224
Effects of:		
Difference between capital allowances and depreciation	(58)	14
Expenses not deductible for tax purposes	111	211
Share-based payments – tax effect	(29)	12
Research and development tax credits	(553)	(692)
Losses expired on assets not recognised	1	(3)
Different tax rates in countries in which the Group operates	(17)	
Adjustments to current tax charge in respect of previous years	(37)	(1)
Adjustments to deferred tax charge in respect of previous years	(5)	(23)
Change in deferred tax rate	(2)	107
Non-taxable income and other	(205)	(42)
Tax income for period (note 9a)	(792)	(193)

A deferred tax credit of £170,000 was recognised on an actuarial loss of £897,000 on a retirement benefit net obligation and was recognised in the year in the Consolidated Statement of Total Comprehensive Income (2020: deferred tax credit of £187,000 on an actuarial loss of £995,000 on a retirement benefit net obligation).

10 Dividend – proposed

During the year, a final dividend of 2.0p per ordinary share of 5p was paid in respect of the year ended 31 March 2020.

An interim dividend of 2.0p per ordinary share was paid on 18 December 2020 to shareholders on the Register on 4 December 2020.

It is proposed to pay a final special dividend of 50.0p per ordinary share of 5p, taking the total dividend amount in respect of the year ended 31 March 2021 to 52.0p (2020: total of 4.0p). It is proposed to pay the final special dividend of 50.0p, if approved, on 13 August 2021 to shareholders registered on 30 July 2021 (2020: 7 August 2020 to shareholders registered on 24 July 2020).

11 Earnings per ordinary share

	2021 p	2020 Restated p
Earnings per share from continuing operations attributable to the ordinary equity holders of the Company:		
Basic earnings per share	**4.81p**	8.02p
Diluted earnings per share	**4.79p**	7.98p
Earnings per share from total operations attributable to the ordinary equity holders of the Company:		
Basic earnings per share	**141.13p**	8.98p
Diluted earnings per share	**140.56p**	8.94p

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

	2021			2020 Restated		
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	**802**	**16,696,060**	**4.81**	1,371	17,099,216	8.02
Diluted earnings per share						
Basic earnings per share	**802**	**16,696,060**	**4.81**	1,371	17,099,216	8.02
Dilutive effect of share options	**—**	**67,886**	**(0.02)**	—	88,355	(0.04)
Diluted earnings per share – from profit for year	**802**	**16,763,946**	**4.79**	1,371	17,187,571	7.98

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:

	2021			2020 Restated		
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	**23,564**	**16,696,060**	**141.13**	1,536	17,099,216	8.98
Diluted earnings per share						
Basic earnings per share	**23,564**	**16,696,060**	**141.13**	1,536	17,099,216	8.98
Dilutive effect of share options	**—**	**67,886**	**(0.57)**	—	88,355	(0.04)
Diluted earnings per share – from profit for year	**23,564**	**16,763,946**	**140.56**	1,536	17,187,571	8.94

During the year, the Company and staff exercised 12,500 staff share options under the terms of the staff share option schemes at a weighted average price of 415.0p per 5p share.

On 18 September 2020, the Company purchased 615,000 ordinary shares of 5p each in the Company at a price of 258.5p per ordinary share. These shares are held in treasury and are excluded from the denominations listed above for the purposes of earnings per share calculations.

Notes to the financial statements continued
for the year ended 31 March 2021

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:

	2021 £'000	2020 Restated £'000
Profit before taxation (earnings)	**10**	1,178
Adjustments for:		
Finance income	**(75)**	(105)
Finance expense	**37**	45
Depreciation	**310**	302
Depreciation – right-of-use assets	**202**	211
Impairment of development costs	**701**	—
Amortisation of development costs	**1,191**	2,501
Amortisation of purchased and acquired intangibles recognised on acquisition	**212**	212
Share-based payments	**143**	139
Adjusted EBITDA for continuing operations	**2,731**	4,483

13 Discontinued operations
On 10 December 2020, the Group announced it had entered into a definitive agreement to divest its Storage division, Hyperstone.

Hyperstone was sold on 4 February 2021 and is reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Financial performance and cash flow information
The financial performance and cash flow information presented are up to the date of disposal (2021 column) and the year ended 31 March 2020.

	2021 £'000	2020 £'000
Revenue	**9,505**	11,457
Cost of sales	**(3,043)**	(3,594)
Gross profit	**6,462**	7,863
Distribution and administration	**(5,396)**	(7,702)
	1,066	161
Other operating income	**8**	85
Profit from operation	**1,074**	246
Finance income	**—**	1
Finance expenses	**(42)**	(51)
Profit before tax	**1,032**	196
Income tax expense	**(10)**	(31)
Profit after income tax of discontinued operation	**1,022**	165
Gain on sale of subsidiary after income tax	**21,740**	—
Profit from discontinued operation	**22,762**	165

Reclassification of foreign exchange differences on discontinued operation	**(1,100)**	—
Other comprehensive income from discontinued operations	**(1,100)**	—

	2021 £'000	2020 £'000
Net cash inflow from operating activities	**3,879**	3,717
Net cash outflow from investing activities	**(3,380)**	(3,681)
Net cash outflow from financing activities	**(206)**	(236)
Net increase/(decrease) in cash from discontinued operations	**293**	(200)
Net increase/(decrease) in cash from discontinued operations	**293**	(200)
Proceeds from sale of discontinued operations net of cost	**33,261**	—
Total cash inflow/(outflow) from discontinued operations	**33,554**	(200)

Details of the sale of subsidiary

	2021 £'000	2020 £'000
Consideration received or receivable:		
Cash	**35,832**	—
Total disposal consideration	**35,832**	—
Carrying amount of net assets sold	**(8,742)**	—
Carrying amount of goodwill	**(3,512)**	—
Carrying amount of other intangible assets	**(268)**	—
Other associated costs	**(2,571)**	—
Gain on sale before income tax and reclassification of foreign currency translation reserve	**20,739**	—
Reclassification of foreign currency translation reserve	**1,100**	—
Income tax expense on gain	**(99)**	—
Gain on sale after income tax	**21,740**	—

Other associated costs relate to legal and professional fees along with other contracted costs of £1,936,000 and other ancillary costs of £635,000.

The carrying amounts of assets and liabilities as at the date of disposal were:

Non-current assets	Date of disposal £'000
Development costs	10,613
Property, plant and equipment	159
Right-of-use assets	221
Deferred tax assets	159
Inventories	1,370
Trade receivables and prepayments	1,972
Cash and cash equivalents	1,049
Current tax assets	340
Total assets	15,883
Current liabilities	
Bank loans and overdrafts	(1,343)
Trade and other payables	(2,658)
Leased liabilities	(216)
	(4,217)
Non-current liabilities	
Deferred tax	(2,920)
Lease liabilities	(4)
	(2,924)
Total liabilities	(7,141)
Net assets	8,742

13 Discontinued operations continued

The carrying amounts of assets and liabilities as at the date of disposal were: continued

	2021 p	2020 p
Earnings per share from discontinued operations attributable to the ordinary equity holders of the Company:		
Basic earnings per share	**136.92p**	0.96p
Diluted earnings per share	**136.37p**	0.96p

14 Goodwill

	2021 £'000	2020 £'000
Cost and net book value		
At 1 April	**10,741**	9,235
Acquired	**—**	1,531
Disposal – as part of discontinued business	**(3,512)**	—
Foreign exchange difference	**(157)**	(25)
At 31 March	**7,072**	10,741

The goodwill relates to (i) Sicomm group of companies £5,541,000 which is held in RMB, upon Group consolidation is therefore subject to foreign exchange between periods; and (ii) PRFI (formerly known as Plextek RFI) £1,531,000.

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 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 Sicomm goodwill and PRFI goodwill

The recoverable amount of Sicomm and PRFI Ltd related goodwill is determined using the value-in-use methodologies. For Sicomm related goodwill, the pre-tax discount rate used was 12.29% and growth rates vary from 5% to 9% over a five-year prospective period (2020: pre-tax discount rate used was 11.8% and growth rates vary from 7% to 15%) and for PRFI Ltd related goodwill, the pre-tax discount rate used was 12.20% and growth rates vary from 2% to 10% over a five-year prospective period (2020: year of acquisition). 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 to exceed its recoverable amount.

For the 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 3.3% with a reduction in year 2-5 growth rates to 3.3% or pre-tax discount rates move to 14.44% for carrying value to be impacted by any impairment. Sensitivity analysis of these key assumptions is built into our annual impairment testing modelling. In respect of the PRFI impairment review, the key assumptions are growth rates and discount rate. Growth rates in years 2-5 and the long-term growth rate would have to be less than 1% or pre-tax discount rates move to 16.60% for carrying value to be impacted by any impairment. Sensitivity analysis of these key assumptions is built into our annual impairment testing modelling.

15 Other intangibles

Group	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
Cost/valuation						
At 1 April 2019	97	943	406	133	627	2,206
Additions	37	25	175	—	28	265
Foreign exchange difference	—	(5)	(2)	—	—	(7)
At 31 March 2020	134	963	579	133	655	2,464
Additions	**—**	**—**	**—**	**—**	**(25)**	**(25)**
Disposals – as part of discontinued operations (note 13)	**—**	**—**	**—**	**—**	**(362)**	**(362)**
Foreign exchange difference	**(3)**	**(26)**	**(11)**	**(4)**	**—**	**(44)**
At 31 March 2021	**131**	**937**	**568**	**129**	**268**	**2,033**
Amortisation						
At 31 March 2019	26	279	108	2	16	431
Charge for the year	10	104	42	13	43	212
Foreign exchange difference	—	(1)	(1)	—	—	(2)
At 31 March 2020	36	382	149	15	59	641
Charge for the year	**12**	**95**	**53**	**13**	**39**	**212**
Disposals – as part of discontinued operations (note 13)	**—**	**—**	**—**	**—**	**(94)**	**(94)**
Foreign exchange difference	**—**	**(2)**	**—**	**—**	**—**	**(2)**
At 31 March 2021	**48**	**475**	**202**	**28**	**4**	**757**
Net book value						
At 31 March 2021	**83**	**462**	**366**	**101**	**264**	**1,276**
At 31 March 2020	98	581	430	118	596	1,823

The intangible assets acquired above were recognised on the acquisition of Sicomm and PRFI Limited (formerly known as Plextek RFI Limited) 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. Customer relationships with a net book value of £439,00 has an expected useful economic life of four years with the remaining having a useful economic life of five years. Intellectual property acquired in business combinations with a net book value of £210,000 has an expected useful economic life of five years with the remaining having a useful economic life of nine years. Software consists of capitalised development costs being an intangible asset, with a useful economic life of twelve and a half years.

Company	Software £'000	Total £'000
Cost		
At 1 April 2019	627	627
Additions	28	28
At 31 March 2020	655	655
Additions	**(25)**	**(25)**
Disposals – as part of discontinued operations (note 13)	**(362)**	**(362)**
At 31 March 2021	**268**	**268**
Amortisation		
At 31 March 2019	16	16
Charge for the year	43	43
At 31 March 2020	59	59
Charge for the year	**39**	**39**
Disposals – as part of discontinued operations (note 13)	**(94)**	**(94)**
At 31 March 2021	**4**	**4**
Net book value		
At 31 March 2021	**264**	**264**
At 31 March 2020	596	596

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.

16 Development costs

Group – development costs	£'000
Cost	
At 1 April 2019	35,520
Additions	7,936
Fully amortised costs	(2,768)
Foreign exchange difference	682
At 31 March 2020	41,370
Additions	**7,270**
Disposals – as part of discontinued operations (note 13)	**(24,200)**
Fully amortised costs	**(1,996)**
Foreign exchange difference	**(27)**
At 31 March 2021	**22,417**
Amortisation and impairment	
At 31 March 2019	21,025
Charged for the year	5,708
Fully amortised costs	(2,768)
Foreign exchange difference	475
At 31 March 2020	24,440
Charged for the year	**3,789**
Impairment	**701**
Disposals – as part of discontinued operations (note 13)	**(13,587)**
Fully amortised costs	**(1,996)**
Foreign exchange difference	**(121)**
At 31 March 2021	**13,226**
Net book value	
At 31 March 2021	**9,191**
At 31 March 2020	16,930

No government grants have been credited to the cost of development in arriving at the net book value at the year end (2020: £Nil).

A review of the product lifecycle was undertaken in the year; it was concluded that products were to be extended from four years to six years and internally generated development expenditure to coincide when the product was available to the market. Following the revision of the judgement of the product lifecycle an impairment review was undertaken which identified development costs to be impaired in the year. This review resulted in the carrying costs of the development expenditure needing an impairment of £701,000 for the year (2020: £Nil).

The impairment loss is included in the distribution and administration costs in the Group's income statement.

17 Property, plant and equipment – owned assets

Group	Freehold and long leasehold premises £'000	Short leasehold improvements £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2019	6,062	55	11,238	182	17,537
Acquired assets	—	—	25	—	25
Additions	—	—	57	—	57
Disposals	—	—	(1)	(61)	(62)
Foreign exchange difference	—	4	55	(1)	58
At 31 March 2020	6,062	59	11,374	120	17,615
Additions	**—**	**—**	**296**	**68**	**364**
Disposals – as part of discontinued operations (note 13)	**—**	**(43)**	**(1,611)**	**—**	**(1,654)**
Disposals	**—**	**—**	**(7)**	**(44)**	**(51)**
Foreign exchange difference	**—**	**(2)**	**(46)**	**(2)**	**(50)**
At 31 March 2021	**6,062**	**14**	**10,006**	**142**	**16,224**
Depreciation					
At 1 April 2019	1,491	51	10,545	143	12,230
Charge for the year	79	—	312	6	397
Disposals	—	—	—	(56)	(56)
Foreign exchange difference	—	4	64	—	68
At 31 March 2020	**1,570**	**55**	**10,921**	**93**	**12,639**
Charge for the year	**79**	**—**	**285**	**6**	**370**
Disposals – as part of discontinued operations (note 13)	**—**	**(39)**	**(1,456)**	**—**	**(1,495)**
Disposals	**—**	**—**	**(7)**	**(28)**	**(35)**
Foreign exchange difference	**—**	**(2)**	**(115)**	**(2)**	**(119)**
At 31 March 2021	**1,649**	**14**	**9,628**	**69**	**11,360**
Net book value					
At 31 March 2021	**4,413**	**—**	**378**	**73**	**4,864**
At 31 March 2020	4,492	4	453	27	4,976

Company	Equipment £'000	Freehold and long leasehold premises £'000	Total £'000
Cost			
At 1 April 2019 and 31 March 2020	6,062	70	6,132
At 31 March 2021	**6,062**	**70**	**6,132**
Depreciation			
At 1 April 2019	1,491	50	1,541
Charge for the year	79	5	84
At 31 March 2020	1,570	55	1,625
Charge for the year	**79**	**6**	**85**
At 31 March 2021	**1,649**	**61**	**1,710**
Net book value			
At 31 March 2021	**4,413**	**9**	**4,422**
At 31 March 2020	4,492	15	4,507

Notes to the financial statements continued
for the year ended 31 March 2021

17 Property, plant and equipment – owned assets continued
Right-of-use assets

Group	Property £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April 2019				
Transition – IFRS 16	845	24	91	960
Acquired assets – as part of business combinations	70	—	—	70
Additions	467	—	86	553
Disposals	(55)	—	—	(55)
Foreign exchange difference	74	—	4	78
At 31 March 2020	1,401	24	181	1,606
Disposals – as part of discontinued operations (note 13)	**(557)**	**—**	**(121)**	**(678)**
Additions	**100**	**—**	**—**	**100**
Foreign exchange difference	**(87)**	**—**	**—**	**(87)**
At 31 March 2021	**857**	**24**	**60**	**941**
Depreciation				
At 1 April 2019				
Charge for the year	379	7	70	456
Disposals	(13)	—	—	(13)
Foreign exchange difference	(24)	—	3	(21)
At 31 March 2020	342	7	73	422
Charge for the year	**382**	**7**	**49**	**438**
Disposals – as part of discontinued operations (note 13)	**(367)**	**—**	**(90)**	**(457)**
Foreign exchange difference	**129**	**—**	**—**	**129**
At 31 March 2021	**486**	**14**	**32**	**532**
Net book value				
At 31 March 2021	**371**	**10**	**28**	**409**
At 31 March 2020	1,059	17	108	1,184

The Company did not have any right-of-use assets in either financial year.

18 Investment properties

Group and Company	Investment properties £'000	Total £'000
Valuation		
At 1 April 2020	3,170	3,170
Additions	**26**	**26**
Revaluation	**579**	**579**
At 31 March 2021	**3,775**	**3,775**
Net book value		
At 31 March 2021	**3,775**	**3,775**
At 31 March 2020	3,170	3,170

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 long leasehold investment properties. In accordance with IAS 40, gains and losses arising on revaluation of investment properties are shown in the income statement. The open market valuation value of the investment properties recognised is £3,775,000 (2020: £3,170,000). Formal market valuation was conducted in the year by Fenn Wright and Lambert Smith Hampton, Commercial Property Consultants.

The value of the investment properties were they to be held at historic cost would be £2,462,000 (2020: £2,462,000).

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 Group has applied method 3. There were no significant inter relationships between unobservable inputs that materially affect fair values.

The values used below utilise a level 3 methodology:

	Carrying/ fair value £'000	**Valuation technique**	**Key observable inputs**	**Range (weighted average) 2021**
Investment properties	**3,775**	**Income capitalisation**	**Estimated rental value**	**£7-£10 per sq ft**
			Per sq ft p.a.	**2%-7%**
			Equivalent yield	**4.6%**
	3,775			

The prior year comparative values, using a level 3 methodology, were as follows:

	Carrying/ fair value £'000	Valuation technique	Key observable inputs	Range (weighted average) 2020
Investment properties	3,170	Income capitalisation	Estimated rental value	£7-£10 per sq ft
			Per sq ft p.a.	7%-15%
			Equivalent yield	10.7%
	3,170			

19 Investments

Group – investments	£'000
Cost	
At 1 April 2019 and 31 March 2020	83
Disposal	(83)
At 31 March 2021	**—**
Net book value	
At 31 March 2021	**—**
At 31 March 2020	83

The Group's investment in Cybercomm Wireless Communication Technologies Institute Co., Inc., a Chinese industrial institutional body, was dissolved in January 2021.

Company – investments	**2021 £'000**	2020 £'000
Cost of investment in subsidiary undertakings:		
As at 1 April	**14,508**	12,964
Additions – acquisitions	**—**	1,941
Disposals – as part of discontinued operations (note 13)	**(3,736)**	—
Capital reduction in the year	**—**	(397)
As at 31 March	**10,772**	14,508

Notes to the financial statements continued
for the year ended 31 March 2021

19 Investments continued
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 Microcircuits (UK) Ltd	England	100%	Trading in England	Direct
PRFI Ltd	England	100%	Trading in England	Direct
CML Microcircuits (USA) Inc	USA	100%	Trading in USA	Direct
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

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 2021.

Company registered addresses/locations are as follows:

CML Microcircuits (UK) Ltd	Oval Park, Langford, Maldon, Essex, CM9 6WG England
PRFI 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

20 Inventories

	Group	
	2021 £'000	2020 £'000
Raw materials	**604**	1,389
Work in progress	**467**	704
Finished goods	**379**	297
	1,450	2,390

21 Trade receivables and prepayments

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Amounts falling due within one year:				
Trade receivables	**1,002**	3,440	**1**	7
Trade receivables – intercompany	**—**	—	**155**	207
Other receivables	**383**	727	**4**	14
Other receivables – intercompany	**—**	—	**300**	321
Prepayments and accrued income	**1,049**	908	**240**	264
	2,434	5,075	**700**	813

Disclosure of credit risk and associated disclosures are provided in note 24.

22 Cash and cash equivalents

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Cash on deposit	**20,438**	3,591	**20,289**	442
Cash at bank	**11,758**	4,888	**7,309**	65
	32,196	8,479	**27,598**	507

Disclosure of foreign currency risk is provided in note 24.

23 Borrowings

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Borrowings	**282**	—	**—**	—
	282	—	**—**	—

Undrawn facility details are provided in note 24. Borrowings relate to a loan given to the US subsidiary from the US government in relation to the COVID-19 Paycheck Protection Program; it is recognised as a current liability on the basis that this loan had not yet been forgiven at 31 March 2021. On 23 May 2021 confirmation was received that the Paycheck Protection Program borrowings were forgiven.

24 Financial instruments

Financial instruments

The Group's financial instruments can comprise cash balances, overdraft facilities and items such as trade receivables and trade payables and leased liabilities 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 (2020: £750,000); and US$100,000 (2020: US$100,000); and is subject to renewal annually.

24 Financial instruments continued

Foreign currency risk

The Group has overseas subsidiary operations in the US, China and Singapore. As a result, the Group's Sterling statement of financial position could be affected by movements in the US Dollar, Chinese Renminbi and Singapore Dollar to Sterling exchange rates. At 31 March 2021, the Group had cash and cash equivalents denominated in foreign currencies of approximately £4.5m (2020: £4.8m), of which approximately 70% (2020: 46%) was denominated in US Dollars, 30% in Chinese Renminbi (2020: 47%) and 0% (2020: 3%) 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 loss of £123,000 (2020: loss of £48,000).

Financial instruments recognised in the Consolidated Statement of Financial Position

Group and Company	**2021 £'000**	2020 £'000
Non-current financial assets		
Equity investment (see note 19)	**—**	83
Total	**—**	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	
	2021 Amortised cost £'000	2020 Amortised cost £'000	**2021 Amortised cost £'000**	2020 Amortised cost £'000
Current financial assets				
Trade and other receivables	**1,385**	4,167	**460**	227
Cash and cash equivalents	**32,196**	8,479	**27,598**	507
Total	**33,581**	12,646	**28,058**	734

Trade and other receivables are all due within six months.

At 31 March 2021, £307,000 (2020: £494,000) of trade receivables were denominated in Sterling, £695,000 (2020: £1,677,000) in US Dollars, £Nil (2020: £1,252,000) in Euros, and £Nil in Chinese Renminbi (2020: £17,000). The Directors consider that the carrying amount of trade and other receivables approximate to their fair value. Cash and cash equivalents of £32,196,000 (2020: £8,479,000) 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 Group and 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 Group and 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 Group and 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 ageing of the receivables and historical data about default rates on the same basis. That data is adjusted if the Group and Company determines that historical data is not reflective of expected future conditions due to changes in the nature of its customers and how they are affected by external factors such as economic and market conditions.

The average credit period was 29 days (2020: 48 days). There were no impairment losses recognised on any financial assets measured at amortised cost at 31 March 2021 (2020: £Nil). Based on the profile of the Group and Company'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 2021, of the £1,002,000 trade receivables outstanding, the vast majority were classed as within 30-60 days (2020: £3,440,000 trade receivables outstanding, the vast majority were classed as within 30-60 days).

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

	Group		Company	
	2021 Amortised cost £'000	2020 Amortised cost £'000	**2021 Amortised cost £'000**	2020 Amortised cost £'000
Current financial liabilities				
Borrowings	**282**	—	**—**	—
Trade and other payables	**732**	2,300	**535**	396
Accruals	**1,608**	1,264	**434**	260
Lease liabilities	**183**	502	**—**	—
Total	**2,805**	4,066	**969**	656

	Group		Company	
	2021 Amortised cost £'000	2020 Amortised cost £'000	**2021 Amortised cost £'000**	2020 Amortised cost £'000
Non-current financial liabilities				
Lease liabilities	**262**	568	**—**	—
Total	**262**	568	**—**	—

At 31 March 2021, of the total financial liabilities, these were made up of £1,613,000 denominated in Sterling, £1,240,000 (2020: £2,099,000) in US Dollars, £Nil (2020: £1,432,000) in Euros, £Nil (2020: £80,000) in Taiwanese Dollars and £214,000 in Chinese Renminbi (2020: £314,000).

The maturity of the gross contractual undiscounted cash flows due on the Group's and Company's financial liabilities with the exception of lease liabilities are all less than six months. Group financial liabilities totalling £2,622,000 and Company financial liabilities totalling £969,000 equal the gross contractual cash flows. The gross contractual cash flows relating to lease liabilities for the Group total £494,000 with £372,000 being over six months.

Notes to the financial statements continued

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24 Financial instruments continued

Sensitivity analysis

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. There is no foreign exchange risk in relation to the Company.

	US$ impact		Euro impact		RMB impact	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
10% movement in rates will have an impact on:						
Profit before taxation	**480**	1,055	**—**	391	**42**	(61)
Cash	**311**	221	**—**	—	**134**	227
Equity	**677**	1,333	**—**	1,080	**360**	153

The Group and Company 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.

25 Trade and other payables

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Amounts falling due within one year:				
Trade payables	**720**	2,049	**121**	337
Trade payables – intercompany	**—**	—	**305**	—
Other taxation and social security costs	**646**	391	**209**	59
Other payables and deferred income	**12**	251	**8**	108
Deferred income	**95**	—	**—**	—
Accruals	**1,608**	1,345	**412**	260
	3,081	4,036	**1,055**	764

Leased liabilities

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Current lease liabilities	**183**	502	**—**	—
Non-current lease liabilities	**262**	568	**—**	—
	445	1,070	**—**	—

	£'000
1 April 2020	1,070
Disposals – as part of the discontinued operations (note 13)	**(220)**
Additions	**100**
Interest expense	**52**
Repayment of lease liabilities	**(556)**
31 March 2021	**446**

The Group's total cash outflow for all leases in the year was £556,000 (2020: £682,000).

26 Current tax liabilities/assets

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Current tax liabilities	**80**	85	**—**	36
Current tax assets	**1,046**	1,044	**—**	—

£1,043,000 (2020: £588,000) of the current tax asset is an R&D claim that by its nature is subject to HMRC approval.

27 Deferred tax

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Provision for deferred taxation comprises:				
Accelerated capital allowances	**(666)**	(691)	**(643)**	(689)
Tax losses carried forward	**246**	278	**212**	121
Pensions	**1,058**	892	**—**	—
Share-based payments	**109**	111	**109**	111
Research and development	**(1,509)**	(4,057)	**—**	—
Intangible assets	**—**	(148)	**—**	—
Other	**(46)**	(2)	**—**	—
	(808)	(3,617)	**(322)**	(457)
Deferred tax asset	**1,531**	1,343	**321**	232
Deferred tax liability	**(2,339)**	(4,960)	**(643)**	(689)
	(808)	(3,617)	**(322)**	(457)
At 1 April	**(3,617)**	(3,512)	**(457)**	(394)
Foreign exchange difference	**(2)**	(68)	**—**	—
Deferred tax liability introduced on acquisition	**(34)**	(76)	**—**	—
Deferred tax credited on discontinued operations	**2,761**	—	**—**	—
Deferred tax (charged)/credited in income statement for year (see note 9)	**(86)**	(212)	**135**	(63)
Deferred tax credited to statement of total comprehensive income	**170**	187	**—**	—
At 31 March	**(808)**	(3,617)	**(322)**	(457)

The financial statements include a deferred tax asset of £1,531,000 (2020: £1,343,000) of which £226,000 (2020: £258,000) 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 £170,000 (2020: deferred credit of £187,000) relates to the retirement benefit obligation (see note 28). 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 Bill 2021 provides that the main rate of corporation tax be increased from 19% to 25% with effect from 1 April 2023. The Finance Bill 2021, however, has yet to be substantively enacted via passage through the House of Commons. The Directors therefore consider it appropriate to use 19% as the rate deferred tax should be provided for.

Deferred tax assets recoverable/(liabilities) expected to be settled under twelve months are £217,000 and (£27,000) respectively (2020: £315,000 and (£18,000) respectively). Deferred tax assets recoverable/(liabilities) expected to be settled over twelve months are £1,314,000 and (£2,312,000) respectively (2020: £1,028,000 and (£4,895,000) respectively). Deferred tax assets/(liabilities) expected net by jurisdiction consist of the Far East (£113,000) (2020: (£140,000)), Europe (£Nil) (2020: (£2,735,000)) and the Americas £98,000 (2020: £36,000). Unprovided deferred tax includes £375,000 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.

28 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 Group and Company. The Trustees are responsible for the operation and governance of the schemes.

Following the valuation as at 31 March 2020 the Group considers that the contribution rates set at the last valuation date are sufficient to eliminate the deficit over the agreed period and that regular contributions, which are based on service costs, will not increase significantly. The scheme returned to surplus as at 31 December 2020.

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% (2020: 6%) of eligible salary but are subject to minimum employee contributions.

The total contributions to the schemes over the year were:

	2021 £'000	2020 £'000
Pension contributions		
UK defined benefit pension scheme (discussed further below)	—	—
Defined contribution pension schemes (UK and overseas)	580	578
	580	578

In relation to the UK defined contribution scheme, the Group had outstanding contributions of £44,000 (2020: £49,705). 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 Financial Position 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.

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 2020. 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 2020, resulted in a net pension (deficit) of £2,242,000 (1 April 2017: net pension surplus of £1,890,000). The market value of the assets of the scheme as at 31 March 2020 was £19,144,000 (1 April 2017: £19,490,000) and the actuarial valuation showed that these assets had insufficient coverage at 90% (1 April 2017: 111%) 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; ie. the discount rate, of 3.65% 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; pensions accrued between 6 April 1997 and 6 April 2005 will increase in payment at 5% p.a.; ie. in line with RPI subject to a minimum 3% p.a.; pensions accrued between 6 April 2005 and 31 March 2009 will increase in payment at 3% p.a. compound and early leaver revaluations will be at 2.85% p.a.

The valuation calculated under the funding valuation basis of £2,242,000 pension deficit above is different to the accounting valuation presented in the Group Consolidated Financial Position, which shows a net pension liability of £5,570,000. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions in valuing the liabilities 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 2020 and 31 March 2021. Therefore for funding valuation purposes the liabilities are determined based on assumptions set by the Trustees following consultation with the Company and the scheme actuaries. For example, the discount rate used for the most recent funding valuation is based on a 3.65% 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 1.8%.

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 2021 until the earlier of any revised settlement arising from the next triennial valuation or by 31 March 2024 ("future revised date"); all administration expenses of running the scheme are met directly by the scheme and all PPF levies (and any minor scheme expenses eg. Pensions Regulator levies) will be paid from the scheme and will not be reimbursed by the employer. The employer has made a one-off advance contribution of £225,000 towards the running expenses. The next triennial actuarial funding valuation will be as at 31 March 2023.

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 2021, using assumptions further in this note. As at the last valuation date, the present value of the defined benefit obligation included approximately £16,263,000 (2020: £17,357,000) relating to deferred members and £11,279,00 (2020: £6,516,000) relating to pension members.

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.

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

	2021	2020
Discount rate	**1.8%**	2.3%
Future salary increases	**n/a**	n/a
Expected duration of liabilities (years)	**15**	15
Pension revaluation in deferment (Consumer Prices Index – max. 5.0%)	**2.2%**	1.7%
Pension escalation in payment (Retail Prices Index – max. 5.0%, min. 3.0% from 6 April 1997 to 5 April 2005)	**3.2%**	2.5%
Proportion of employees opting for early retirement	**0%**	0%
Inflation assumption	**3.6%**	3.0%

The difference between the expected investment returns on the scheme's assets and the actual investment return was £2,900,000 (2020: loss £1,261,0000).

b) Demographic assumptions

	2021	2020
Assumed life expectancy in years, on retirement at 65		
Retiring today		
Males	**21.9**	21.6
Females	**24.3**	23.5
Retiring in 20 years		
Males	**23.2**	22.9
Females	**25.7**	25.1

Notes to the financial statements continued
for the year ended 31 March 2021

28 Retirement benefit obligations continued
Financial and demographic assumptions continued

b) Demographic assumptions 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 years to 31 March 2021 and 31 March 2020 are as follows:

	2021 £'000	2020 £'000
Amounts recognised in the Consolidated Income Statement are as follows:		
Administration expenses (see details above)	(95)	(68)
Net interest on deficit	(106)	(86)
Total	(201)	(154)
Amounts recognised in the Consolidated Statement of Total Comprehensive Income:		
Actual return/(loss) on assets less return implied by net interest income	2,900	(1,261)
Experience (loss)/gain on liabilities	(351)	81
Change in assumptions:		
Discount rate	(1,886)	(370)
Inflation rate	(1,255)	621
Demographic assumptions	(305)	(66)
Re-measurement of defined benefit obligation recognised in equity	(897)	(995)

	2021 £'000	2020 £'000
Amounts recognised in the Consolidated Statement of Financial Position:		
Present value of funded obligations	(27,542)	(23,873)
Fair value of plan assets	21,972	19,176
Deficit under IAS 19 as reported by the actuary	(5,570)	(4,697)

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 deterioration is the actual return on assets being much lower than required to meet the increase in defined benefit obligation over the year. However, this was partially offset by the change in assumptions used to value the defined benefit obligation. 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.	-7.3%/+ 8.2%
RPI	+/- 0.5% p.a.	+ 2.0%/- 1.9%
Assumed life expectancy	+ 1 year	+ 4.0%

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:

	2021 £'000	2020 £'000
Funded status at start of period	(4,697)	(3,548)
Amount charged to income statement	(201)	(154)
Employer contributions	225	—
Actuarial loss (recognised in other comprehensive income)	(897)	(995)
Funded status at end of period	(5,570)	(4,697)

The weighted average duration of scheme liabilities at the end of the year is 15 years (2020: 15 years).

Present value of the defined benefit obligation

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

	2021 £'000	2020 £'000
Opening defined benefit obligation	23,873	24,176
Expenses incurred (including GMP equalisation)	95	68
Interest cost	541	573
Actuarial loss/(gain)	3,797	(276)
Benefits paid (including expenses)	(764)	(668)
Closing defined benefit obligation	27,542	23,873
Comprising:		
Deferred members	16,263	17,357
Pension members	11,279	6,516

The actuarial loss due to the change in demographic assumptions was £305,000 (2020: actuarial loss of £66,000) and the actuarial loss due to the change in financial assumptions was £3,141,000 (2020: actuarial gain of £251,000).

Fair value of defined benefit plan assets

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

	2021 £'000	2020 £'000
Opening fair value of plan assets	19,176	20,628
Interest income on assets	435	487
Actuarial gain/(loss) on assets	2,900	(1,261)
Contributions by employer	225	(10)
Benefits paid	(669)	(600)
Expenses paid	(95)	(68)
Closing fair value of plan assets	21,972	19,176

The return on plan assets excluding net interest was £3,335,000 (2020: £774,000). 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 has contributed £225,000 (2020: £Nil) as contributions to the CML Microsystems Plc Retirement Benefits Scheme in the next accounting year.

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

	Year ended 31 March 2021		Year ended 31 March 2020	
Asset class	Market value £'000	% of total assets	Market value £'000	% of total assets
Equities (all quoted)	12,488	57%	7,249	38%
Cash	940	4%	1,351	7%
Diversified growth funds	2,210	10%	6,308	33%
Diversified credit funds	2,316	11%	1,829	9%
Liability driven investments	3,349	15%	1,873	10%
Other	669	3%	566	3%
Closing fair value of plan assets	21,972	100%	19,176	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.

Notes to the financial statements continued
for the year ended 31 March 2021

28 Retirement benefit obligations continued

Fair value of defined benefit plan assets continued

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.

29 Provisions

	£'000
At 31 March 2019	211
Utilisation	**(211)**
At 31 March 2020 and 2021	**—**

The above provision relates to onerous lease and property obligations held by Group subsidiaries.

30 Share capital and share options

	2021 £'000	2020 £'000
Authorised		
25,000,000 ordinary shares of 5p each (2020: 25,000,000 ordinary shares of 5p each)	**1,250**	1,250
Issued and fully paid		
At 1 April		
17,177,652 ordinary shares of 5p each (at 1 April 2019 and 1 April 2020: 17,175,166)	**859**	859
Issued in year: 12,500 ordinary shares (2020: 2,486) of 5p were issued in the year as a result of employees exercising their options	**—**	—
At 31 March		
17,190,152 ordinary shares of 5p (at 31 March 2020: 17,177,652)	**859**	859

Issue of new shares

In March 2021 the Company proposed a return on capital to shareholders through a bonus issue of a new class of B share, which the Company would redeem for cash in order to return 50p per ordinary share to shareholders.

On 19 March 2021, shareholders were issued with one B share with a nominal value of 50p each for each ordinary 5p share held on 18 March 2021. The Company subsequently redeemed each B Share for 50p and then cancelled each B share shortly following the issue on 19 March 2021. As a result, 16,551,685 redeemable class B shares with a nominal value of £8.3m were issued and subsequently redeemed. The share premium account was used for this transaction to the value of £8,276,000.

Following the redemption, 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.

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 HM Revenue & Customs approved. This scheme was amended and re-approved 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 HM 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					
	2020 Number	Granted Number	Cancelled Number	Exercised Number	Forfeited Number	**2021 Number**
From 15 June 2014 to 14 June 2021 at £2.20	51,860	—	(41,990)	—	—	**9,870**
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	20,595	—	—	—	(3,244)	**17,351**
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	24,293	—	—	—	(24,293)	**—**
From 17 September 2017 to 17 September 2024 at £3.125	12,000	—	(12,000)	—	—	**—**
From 2 April 2018 to 2 April 2025 at £3.45	—	—	—	—	—	**—**
From 25 September 2018 to 25 September 2025 at £3.51	352,939	—	—	—	(25,226)	**327,713**
From 25 September 2018 to 25 September 2025 at £3.475	40,000	—	(25,000)	—	—	**15,000**
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	54,663	—	—	—	(3,375)	**51,288**
From 28 March 2021 to 28 March 2028 at £5.20	55,000	—	—	—	—	**55,000**
From 19 March 2022 to 18 March 2029 at £2.79	152,522	—	—	—	(15,405)	**137,117**
From 19 March 2022 to 18 March 2029 at £2.79	449,640	—	(136,425)	—	(14,724)	**298,491**
From 4 April 2023 to 3 April 2030	—	227,122	—	—	—	**227,122**
	1,271,012	227,122	(235,415)	(12,500)	(86,267)	**1,163,952**

Of the total outstanding at the end of the year, 501,222 were potentially exercisable at the prices detailed in the table above (2020: 559,187 share options). The weighted average market price of the share options exercised in the year was 415.0p (2020: 369.0p). The weighted average exercise price of options exercised in the year was 230.00p (2020: 220.00p). 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 338.0p (2020: 365.0p). The weighted average exercise price of all options exercisable is £3.12 (2020: £3.19) and the weighted average expected remaining contractual life is three years (2020: three years).

During the year the Company issued 227,122 share options over its own 5p ordinary shares at a price of 231.0p per share on 4 April 2020 to staff and management.

On 9 February 2021, the Company cancelled 78,990 share options over its own 5p ordinary shares at a price of 382.0p per share.

On 29 March 2021, the Company cancelled 156,425 share options over its own 5p ordinary shares at a price of 301.0p per share.

Notes to the financial statements continued
for the year ended 31 March 2021

31 Other equity reserves

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Share premium				
At 1 April	**9,286**	9,279	**9,286**	9,279
Issued in year: 12,500 ordinary shares (2020: 2,486 shares of 5p were issued in the year as a result of employees exercising their options)	**29**	7	**29**	7
Share capital redemption in the year	**(8,276)**	—	**(8,276)**	—
At 31 March	**1,039**	9,286	**1,039**	9,286

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

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'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		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Treasury shares – own share reserve				
At 1 April	**(80)**	(342)	**(80)**	(342)
(Purchased)/issued in the year	**(1,590)**	262	**(1,590)**	262
At 31 March	**(1,670)**	(80)	**(1,670)**	(80)

On 18 September 2020, the Company purchase 615,000 ordinary shares of 5p each in the Company at a price of 258.5p per ordinary share. The shares are to be held in treasury for the benefit of various employee share plans. In March 2020 the Company issued treasury shares on the acquisition of PRFI Limited (formerly known as Plextek RFI Limited).

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Share-based payments reserve				
At 1 April	**582**	507	**582**	507
Options exercised or released	**(155)**	(64)	**(155)**	(64)
Charged in year	**143**	139	**143**	139
At 31 March	**570**	582	**570**	582

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 £143,000 (2020: £139,000).

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

Grant date	04/04/20	19/03/19	28/03/18	01/08/17	22/12/16	25/09/15	25/09/15
Share price at grant date (£)	2.31	2.79	5.20	4.58	3.70	3.475	3.475
Exercise price (£)	2.31	2.79	5.20	4.58	3.70	3.475	3.51
Number of employees	9	203	2	47	1	4	158
Shares under option	227,122	703,400	110,000	84,521	20,000	100,000	400,131
Vesting period (years)	3	3	3	3	3	3	3
Expected volatility	31.42%	31.63%	23.31%	19.37%	16.02%	33.20%	33.20%
Option life (years)	10	10	10	10	10	10	10
Expected life (years)	3	3	3	3	3	3	3
Risk-free rate	0.31%	1.19%	1.37%	1.10%	1.15%	1.83%	1.83%
Expected dividend yield	2.49%	1.67%	1.40%	1.84%	1.86%	1.92%	1.92%
Possibility of ceasing employment before vesting	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Fair value per option (£)	0.41	0.56	0.80	0.54	0.35	0.74	0.73

Grant date	02/04/15	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 (£)	3.45	3.125	3.88	3.34	3.34	2.84	2.30	2.20
Exercise price (£)	3.45	3.125	3.84	3.34	3.22	2.84	2.20	2.20
Number of employees	1	1	7	1	124	1	1	22
Shares under option	20,000	20,000	28,720	5,000	26,872	20,000	12,500	57,165
Vesting period (years)	3	3	3	3	3	3	3	3
Expected volatility	38.00%	26.84%	43.30%	29.36%	29.36%	29.36%	35.70%	35.70%
Option life (years)	10	10	10	10	10	10	10	10
Expected life (years)	3	3	3	3	3	3	3	3
Risk-free rate	2.09%	2.43%	3.60%	3.09%	3.09%	3.09%	4.28%	4.28%
Expected dividend yield	1.57%	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%	4.5%
Fair value per option (£)	0.87	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	2021 £'000	2020 £'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	2021 £'000	2020 £'000
Foreign exchange reserve		
At 1 April	**1,714**	1,406
Reclassification to P&L of foreign exchange differences on discontinued operations	**(1,100)**	—
Retranslation of overseas subsidiaries	**(312)**	308
At 31 March	**302**	1,714

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

Notes to the financial statements continued

for the year ended 31 March 2021

31 Other equity reserves continued

	Group		Company	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Retained earnings				
At 1 April	**30,020**	30,604	**11,872**	11,107
Changes in accounting policy IFRS 16	**—**	(30)	**—**	—
Profit for the year	**23,564**	1,536	**33,678**	2,033
Dividend paid	**(674)**	(1,332)	**(674)**	(1,332)
Cancellation/transfer of share-based payments	**155**	64	**155**	64
Issue of own treasury shares	**—**	(14)	**—**	—
Net actuarial loss	**(897)**	(995)	**—**	—
Deferred tax gain on actuarial loss	**170**	187	**—**	—
At 31 March	**52,338**	30,020	**45,031**	11,872

32 Capital commitments

Capital commitments which have been authorised by the balance sheet date represent a three-year purchasing commitment with a supplier for £1,182,000 (2020: £722,000), and £Nil (2020: £Nil) in relation to intangible assets. No provision has been made in these financial statements for these capital commitments.

33 Leases

The Group as a lessee

The following shows how lease expenses have been included in the Income Statement, broken down between amounts charged to operating profit and amounts charged to finance costs:

	Leased offices £'000	Office equipment £'000	Motor vehicle £'000	Total £'000
Depreciation – right-of-use assets	382	7	49	438
Charge to operating profit	**382**	**7**	**49**	**438**
Finance expense – lease liabilities	25	7	4	36
Charge to profit before taxation	**25**	**7**	**4**	**36**

At 31 March 2021, the Group had not entered into any leases to which it was committed but had not yet commenced.

The Group and Company as a lessor

Property rental income earned during the year was £344,000 (2020: £316,000). Current commercial market conditions have improved and the Group now has the majority of the 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 typically 6-7% levels.

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

	2021 £'000	2020 £'000
Within one year	**213**	334
In the second to fifth year inclusive	**132**	428
	345	762

34 Notes to the cash flow statement

Group	2021 £'000	2020 £'000
Movement in working capital:		
Decrease in inventories	**159**	529
Decrease/(increase) in receivables	**518**	(1,182)
Increase/(decrease) in payables	**711**	(1,215)
	1,388	(1,868)

Analysis of changes in net cash – Group:

	Net cash at 1 April 2020 £'000	Cash flow £'000	Exchange movement £'000	**Net cash at 31 March 2021 £'000**
Cash and cash equivalents	8,479	22,968	749	**32,196**
	8,479	22,968	749	**32,196**

Company	2021 £'000	2020 £'000
Movement in working capital:		
Decrease/(increase) in receivables	**1,371**	(916)
(Decrease)/increase in payables	**(966)**	1,366
	405	450

Analysis of changes in net cash – Company:

	Net cash at 1 April 2020 £'000	Cash flow £'000	Exchange movement £'000	**Net cash at 31 March 2021 £'000**
Cash and cash equivalents	507	26,651	440	**27,598**
	507	26,651	440	**27,598**

Notes to the financial statements continued
for the year ended 31 March 2021

35 Related party transactions
Following the acquisition of PRFI Limited (formerly known as Plextek RFI Limited) announced on 3 March 2020 and having satisfied all other transaction closing conditions, the cash retention of £100,000, previously included in other payables, was paid on 3 September 2020.

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

Company	2021 £'000	2020 £'000
Management fees charged to subsidiary undertakings by parent:		
CML Microcircuits (UK) Ltd	**1,000**	1,000
CML Microcircuits (USA) Inc	**153**	156
Hyperstone GmbH	**195**	218
PRFI Ltd	**120**	—
	1,468	1,374
Dividends paid to parent:		
Received from CML Microcircuits (UK) Ltd	**3,500**	1,332
Received from CML Microcircuits (USA) Inc	**—**	282
Received from CML Microcircuits (Singapore) Pte Ltd	**252**	285
Received from Wuxi Sicomm Technologies, Inc	**149**	727
Received from PRFI Ltd	**225**	—
Received from Hyperstone Asia Pacific Ltd	**405**	—
	4,531	2,626

Contributions to the Group's pension schemes
Contributions to the Group's defined contribution pension schemes by the Group as employer consisted of £580,000 in the year (2020: £578,000). Contributions to the closed UK defined benefit scheme were £Nil (2020: £Nil).

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	2021 £'000	2020 £'000
Employee benefits	**906**	749
Pension contributions	**38**	56
Share-based payments	**33**	32
	977	837

36 Post-balance sheet event
On 23 May 2021, confirmation was received that the loan given to the US subsidiary in relation to the COVID-19 Paycheck Protection Program was forgiven. Borrowings are detailed in note 23.

37 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.

38 Approval of financial statements
These financial statements were formally approved by the Board of Directors on 25 June 2021.

Explanatory letter from the Chairman

CML Microsystems Plc

(Incorporated and registered in England and Wales under number 00944010)

Directors:
Nigel Clark (Executive Chairman)
Chris Gurry (Group Managing Director)
Jim Lindop (Non-Executive Director)
Geoff Barnes (Senior Independent Non-Executive Director)

Registered office:
Oval Park
Hatfield Road
Langford
Essex, CM9 6WG

25 June 2021

Dear Shareholder

Annual General Meeting

Proposed Cancellation of Ordinary Shares from the Standard List

Proposed Admission to trading on AIM and Change of Auditor

I am writing to inform you that the Annual General Meeting (**AGM**) of the Company will be held on 4 August 2021 at 11.00 am. The agenda of business for the AGM contains the normal annual ordinary business but, in addition this year, there are two items of special business that I will be addressing in this letter. These items of special business are (a) the proposed cancellation of the Company's ordinary shares from the Standard List and the proposed admission of the Ordinary Shares to trading on AIM; and (b) the change of Auditor.

A. Proposed Cancellation of Ordinary Shares from the Standard List and Proposed Admission to trading on AIM

1. Introduction

The Board today announced proposals to cancel the listing of the Company's ordinary shares of 5p each ("**Ordinary Shares**") on the standard segment of the official list ("**Official List**") and their admission to trading on the London Stock Exchange's main market ("**Main Market**") for listed securities ("**Cancellation**") and its intention to apply for the admission of the Ordinary Shares to trading on the AIM market of the London Stock Exchange ("**Admission**") (together the "**Move to AIM**"). It is anticipated that the effective date of the Cancellation and Admission will be 3 September 2021.

The Listing Rules do not require a company wishing to cancel the listing of its shares on the standard segment of the Official List to seek shareholder approval at a general meeting. Notwithstanding this, the Directors believe that, as a matter of good corporate governance, the Company's shareholders ("**Shareholders**") should be consulted and accordingly have resolved that the Cancellation should be subject to shareholder approval by way of an ordinary resolution ("**Cancellation and Admission Resolution**"). Therefore, the Cancellation and Admission Resolution is being proposed at the Company's AGM, to approve the Move to AIM.

This letter (i) explains the background to and reasons for the Move to AIM and why the Board considers the Move to AIM to be in the best interests of the Company and the Shareholders as a whole; and (ii) explains why the Directors recommend that Shareholders vote in favour of the Cancellation and Admission Resolution.

You will find set out at the end of this document the Notice of Annual General Meeting at which the Cancellation and Admission Resolution will be proposed as an ordinary resolution.

2. Background to and reasons for Cancellation and Admission

The Board believes that a move to AIM is in the best interests of the Company and its Shareholders. Following completion of the sale of its Storage division, the Board considers that AIM provides a more appropriate regulatory environment for the Company and its growth prospects. The Directors believe that, as an AIM company, certain Shareholders may also benefit from particular inheritance tax and stamp duty/stamp duty reserve tax exemptions in respect of their interests in the Company's Ordinary Shares which are more attractive than those applicable to a company on the Main Market. In addition, given the Company's anticipated growth and income stream (from dividends), being admitted to trading on AIM may assist in diversifying the Company's shareholder base.

The Move to AIM will enable the Company to improve its flexibility in relation to future corporate actions complementing existing capital resources following the recent disposal of the Company's Storage division.

The Board has carefully considered whether the listing of its Ordinary Shares on the standard segment of the Official List and their admission to trading on the Main Market is in the best interests of Shareholders. As a result of this consideration, the Board is proposing the Move to AIM and for the following reasons believes that it is in the best interests of the Company and Shareholders as a whole:

- AIM, which is operated and regulated by the London Stock Exchange, has an established reputation with investors and analysts and is an internationally recognised market. It was launched in June 1995 as the London Stock Exchange's market specifically designed for smaller companies, with a more flexible regulatory regime. For smaller companies, such as CML, AIM provides a more suitable market and environment;
- AIM offers flexibility with regard to corporate transactions, and should therefore enable the Company to execute future transactions quickly and cost effectively;
- AIM will provide the Company with continuing access to the public equity capital market should it be appropriate to obtain equity funding in the future;

Explanatory letter from the Chairman continued

CML Microsystems Plc

(Incorporated and registered in England and Wales under number 00944010)

A. Proposed Cancellation of Ordinary Shares from the Standard List and Proposed Admission to trading on AIM continued

2. Background to and reasons for Cancellation and Admission continued

- companies whose shares trade on AIM are deemed to be unlisted for the purposes of certain areas of UK taxation. Following the Move to AIM, individuals who hold Ordinary Shares may, after two years, therefore be eligible for certain inheritance tax benefits. Given the make-up of the Company's register of members, the Board believes that this taxation environment may be attractive for Shareholders. Shareholders and prospective investors should consult their own professional advisors on whether an investment in an AIM security is suitable for them, or whether the tax benefit referred to above is available to them (please see paragraph 6 below for further information);
- the Directors expect that the Company would continue to appeal to specialist institutional investors following a move to AIM (such as funds investing in AIM companies that qualify for inheritance tax business property relief) and, in light of the possible tax benefits mentioned above, the Directors hope that being admitted to AIM will make the Company's Ordinary Shares more attractive and widen the investor base. Since 5 August 2013, shares traded on AIM can also be held in ISAs;
- the UK government's abolition of stamp duty on shares traded on AIM with effect from 28 April 2014 may help increase liquidity in the trading of the Company's Ordinary Shares; and
- AIM will provide current Shareholders with a continuing market quotation and represents a market on which they may trade their Ordinary Shares.

The Board therefore considers that AIM represents the most appropriate financial market for the Ordinary Shares as it seeks to create value for Shareholders and that it is in the Company's interests to seek approval for the Cancellation and Admission.

However, Shareholders should note that the Cancellation may have implications for Shareholders holding Ordinary Shares in a Self-Invested Personal Pension (**SIPP**). For example, shares in unlisted companies may not qualify for certain SIPPs under the terms of that SIPP and, if in any doubt, Shareholders should consult with their SIPP provider immediately. Following Admission, the Company will be categorised for these purposes as unlisted.

The comments on the tax implications described in this Circular are based on the Directors' current understanding of tax law and practice, are not tailored to any individual circumstances and are primarily directed at individuals who are UK resident and domiciled. Tax rules can change and the precise tax implications for you will depend on your particular circumstances. If you are in any doubt as to your tax position, you should consult your own independent professional advisor.

3. Details of the Cancellation and Admission

As noted above, and notwithstanding that the Listing Rules do not oblige the Company to obtain shareholder approval for the Move to AIM, the Directors take the view that as a matter of good corporate governance the Move to AIM should be subject to shareholder approval by way of an ordinary resolution and accordingly the Cancellation and Admission Resolution will be proposed at the AGM.

Conditional on approval of the Cancellation and Admission Resolution by Shareholders at the AGM, the Company will apply to cancel the listing of the Ordinary Shares on the standard segment of the Official List and their admission to trading on the Main Market and will give 20 business days' notice to the London Stock Exchange of its intention to seek AIM Admission under AIM's streamlined admission process for companies that have had their securities traded on an 'AIM Designated Market' (which includes the Official List).

It is currently anticipated that, subject to the passing of the Cancellation and Admission Resolution:

(a) the last day of dealings in the Ordinary Shares on the Main Market will be 2 September 2021;

(b) cancellation of the listing of Ordinary Shares on the Official List will take effect at 8.00 am on 3 September 2021, being not less than 20 business days from the date of the AGM; and

(c) AIM Admission will take place, and trading in the Ordinary Shares will commence on AIM, at 8.00 am on 3 September 2021.

As the Ordinary Shares have been listed on the standard segment of the Official List for more than 18 months, the AIM Rules for Companies (**AIM Rules**) do not require an admission document to be published by the Company in connection with Admission. However, subject to the passing of the Cancellation and Admission Resolution at the AGM, the Company will, following the AGM, publish an announcement which complies with the requirements of Schedule One to the AIM Rules comprising information required to be disclosed by companies transferring their securities from the Official List (being an 'AIM Designated Market') to AIM.

Following Cancellation and Admission, Ordinary Shares that are held in uncertificated form will continue to be held and dealt through CREST. Share certificates representing those Ordinary Shares held in certificated form will continue to be valid and no new Ordinary Share certificates will be issued.

Although the Company intends to seek Admission in respect of its Ordinary Shares, there can be no guarantee that the Company will be successful in achieving Admission in respect of its Ordinary Shares.

Shareholders should note that, unless the Cancellation and Admission Resolution is passed by Shareholders at the AGM, the Cancellation and Admission will not be implemented. In such circumstances, the Ordinary Shares will not be admitted to trading on AIM and the Ordinary Shares will continue to be admitted to the Official List and to trading on the Main Market.

4. Implications of the transfer to AIM

Following Admission, the Company will be subject to the regulatory and disciplinary controls of the AIM Rules. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. Under the AIM Rules, a Nominated Adviser and Broker are required to be engaged by the Company at all times and a Nominated Adviser has ongoing responsibilities to both the Company and to the London Stock Exchange. Conditional on Admission, the Company has appointed Shore Capital and Corporate Limited (**SCC**) as its Nominated Adviser and Shore Capital Stockbrokers Limited its Broker. The obligations of a company whose shares are traded on AIM are broadly similar to those of companies whose shares are listed on the standard segment of the Official List. However, there are certain exceptions, including those referred to below:

i. Under the AIM Rules, a Nominated Adviser is required to be engaged by the Company at all times and has ongoing responsibilities to both the Company and the London Stock Exchange.
ii. There is no requirement under the AIM Rules to publish a prospectus or an admission document for further issues of securities, except when the further issue of securities is deemed a public offer, when seeking admission for a new class of securities or as otherwise required by law.
iii. Whilst a company's appropriateness for AIM is, in part, dependent on it having sufficient free float in order that there is a properly functioning market in the shares, there is no specific requirement for a minimum number of shares in an AIM quoted company to be held in public hands. A company listed on the Official List must, however, maintain a minimum of 25% of its issued ordinary share capital in public hands.
iv. Certain securities laws will no longer apply to the Company if Cancellation and Admission occurs; for example, certain of the Disclosure Guidance and Transparency Rules (**DTRs**) (other than DTR Chapter 5 in respect of significant shareholder notifications and those DTRs applicable to issuers subject to the UK version of the EU Market Abuse Regulation (EU No 596/2014) as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 relating to, inter alia, market abuse and insider dealing, which will continue to apply to the Company). This is because AIM is not a "regulated market" for the purposes of the European Union's directives relating to securities, as implemented into UK law.
v. The Company currently applies the UK Corporate Governance Code, and explains any area of non-compliance. AIM companies are not required to comply with this code, but can choose to adopt an alternative recognised corporate governance code. The Company does not currently envisage making any changes to its corporate governance procedures as a consequence of the transfer to AIM.
vi. Institutional investor guidelines (such as those issued by the Investment Association, the Pensions and Lifetime Savings Association and the Pre-Emption Group), which provide guidance on issues such as executive compensation and share-based remuneration, corporate governance, share capital management and the issue and allotment of shares on a pre-emptive or non-pre-emptive basis, do not directly apply to companies whose shares are admitted to trading on AIM.
vii. Companies whose shares trade on AIM are deemed to be unlisted for the purposes of certain areas of UK taxation. Following Admission, individuals who hold Ordinary Shares may, in certain circumstances, therefore be eligible for certain tax benefits. Shareholders and prospective investors should consult their own professional advisors on whether an investment in an AIM security is suitable for them, or whether a tax benefit referred to above may be available to them.

Once admitted to AIM, Shareholders should continue to be able to trade Ordinary Shares in the usual manner through their stockbroker or other suitable intermediary.

It is emphasised that the transfer to AIM will have no impact on the assets and liabilities of the Group and it will continue to have the same business and operations following Admission. In addition, as a public limited company incorporated and registered in England and Wales, following Admission, the Company will remain subject to the applicable provisions of the Act, FSMA, the Prospectus Rules, the City Code on Takeovers and Mergers and the EU Market Abuse Regulation (EU No 596/2014), as it forms part of United Kingdom domestic law by virtue of the European Union (Withdrawal) Act 2018.

5. Risk factors relating to the transfer to AIM

Although the Company intends to apply for its Ordinary Shares to be admitted to trading on AIM following the Cancellation, there can be no assurance that an active or liquid trading market for the Ordinary Shares will develop or, if developed, that it will be maintained following Admission. AIM is a market designed primarily for emerging and smaller companies, to which a higher investment risk tends to be attached than for larger companies, and may not provide the liquidity normally associated with the London Stock Exchange's Main Market or some other stock exchanges.

AIM securities are not admitted to the Official List. The Ordinary Shares may, therefore, be more difficult to sell compared with the shares of companies listed on the Official List and their market prices may be subject to greater fluctuations than might otherwise be the case. Liquidity on AIM is currently provided by market makers who are member firms of the London Stock Exchange and are obliged to quote a share price for each company for which they make a market between 8.00 am and 4.30 pm on business days. The Directors believe that AIM can provide a sufficiently liquid trading platform for the Ordinary Shares.

Explanatory letter from the Chairman continued

CML Microsystems Plc

(Incorporated and registered in England and Wales under number 00944010)

A. Proposed Cancellation of Ordinary Shares from the Standard List and Proposed Admission to trading on AIM continued

6. Taxation

Shareholders and prospective investors should consult their own professional advisors on whether an investment in an AIM security is suitable for them. Companies whose shares trade on AIM are deemed to be unlisted for the purposes of certain areas of UK taxation. Following Admission, under current legislation, the Ordinary Shares in the Company should constitute 'relevant business property' in the event that they qualify for business property relief (**BPR**), a relief from UK inheritance tax. BPR can be available at up to 100% in respect of shares in an unquoted trading company. Accordingly, following Admission, individuals who hold Ordinary Shares and meet the various conditions, including satisfying the two-year ownership requirement, may therefore be eligible for BPR on their shares. As to the availability of the relief and to what extent BPR applies, Shareholders and prospective investors should seek advice from their own professional advisors. Shareholders and prospective investors should also note that, since 5 August 2013, shares traded on AIM can be held in ISAs (in the same way as shares traded on the Main Market).

AIM qualifies as a recognised growth market for the purpose of the stamp duty and SDRT legislation and so, therefore, for so long as the Ordinary Shares are admitted to trading on AIM and are not 'listed' on any market (and being admitted to trading on AIM will not constitute a listing for these purposes), no charge to stamp duty or SDRT will arise on their subsequent transfer. If the Ordinary Shares do not qualify for this exemption their transfer on sale will be subject to ad valorem stamp duty (payable by the purchaser and generally at the rate of 0.5% of the consideration given) save in respect of shares held in a clearance service or in a depositary receipt arrangement in respect of which other provisions may apply.

The comments on the tax implications described in this document are based on the Directors' current understanding of tax law and practice, are not tailored to any individual circumstances and are primarily directed at individuals who are UK resident and domiciled. Tax rules can change and the precise tax implications for Shareholders will depend on their particular circumstances. If you are in any doubt as to your tax position, you should consult your own independent professional advisor.

7. Annual General Meeting

A notice convening the Annual General Meeting, to be held at Pontlands Park Hotel, West Hanningfield Road, Great Baddow, Chelmsford, Essex, CM2 8HR on 4 August 2021 at 11.00 am, is set out in the Notice of meeting section, at which the Cancellation and Admission Resolution summarised below will be proposed as an ordinary resolution:

That the Directors be and are hereby authorised to cancel the listing of the ordinary shares in the capital of the Company on the standard segment of the Official List of the Financial Conduct Authority and to cancel the admission of such ordinary shares to trading on the London Stock Exchange plc's Main Market for listed securities and to apply for admission of the said ordinary shares to trading on AIM, a market operated by London Stock Exchange plc.

8. Irrevocable undertakings

The Company has received irrevocable undertakings to vote in favour of the Cancellation and Admission Resolution from those Directors who hold Ordinary Shares and certain other Shareholders holding, in total, 945,416 Ordinary Shares, representing, in aggregate, 5.71% of the Company's issued Ordinary Shares.

9. Recommendation

The Board considers the terms of the Move to AIM to be in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends that you vote in favour of the Cancellation and Admission Resolution to be proposed at the AGM, as those Directors who hold Ordinary Shares have irrevocably undertaken to do in respect of their own beneficial holdings amounting, in aggregate, to 945,416 Ordinary Shares and representing approximately 5.71% of the Company's issued share capital.

B. Change of Auditor

1. Auditor

At each general meeting at which the accounts are laid before the members, the Company is required to appoint an auditor to serve until the next meeting at which the accounts are laid before the members again. RSM, or one of its predecessors, has been CML Microsystems Plc's auditors for in excess of 40 years. Due to mandatory rotation requirements, RSM LLP could not continue as auditor beyond the year ending 31 March 2021, and so the Company has undertaken an external tender process in which RSM LLP did not participate. The Board would like to thank RSM LLP for its long service to CML Microsystems Plc. Following completion of the tender process, the Audit Committee recommended the appointment of BDO LLP as auditors, which the Board has accepted subject to Shareholder approval. Resolution 6 seeks this Shareholder approval to appoint BDO LLP as auditor. In accordance with normal practice, Resolution 7 seeks authority for the Directors to fix the auditor's remuneration.

2. Recommendation

The Board recommends that you vote in favour of the appointment of BDO LLP along with giving the authority for the Directors to fix the auditor's remuneration.

Yours faithfully,

Nigel Clark

Executive Chairman

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 4 August 2021 at 11.00 am to transact the following business.

The resolutions numbered 1 to 9 (inclusive) are proposed as ordinary resolutions and must receive more than 50% of the votes cast in order to be passed. The resolutions numbered 10 to 12 (inclusive) are proposed as special resolutions and must receive at least 75% of the votes cast in order to be passed.

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 2021.
2. To receive and approve the Directors' Remuneration Report for the year ended 31 March 2021.
3. To declare a final special dividend of 50.0p per 5p ordinary share for the year ended 31 March 2021 to be paid on 13 August 2021 to shareholders whose names appear on the register at the close of business on 30 July 2021.
4. To re-appoint Jim Lindop, who retires by rotation, as a Director of the Company.
5. To send or supply all documents or information relating to the Company to members by making them available on a website.
6. To appoint BDO LLP as auditor of the Company.
7. To authorise the Directors to determine the remuneration of the auditor.

Special business

Ordinary resolutions

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

8. That the Directors be and are hereby authorised to cancel the listing of the ordinary shares in the capital of the Company on the standard segment of the Official List of the Financial Conduct Authority and to cancel the admission of such ordinary shares to trading on the London Stock Exchange plc's Main Market for listed securities and to apply for admission of the said ordinary shares to trading on AIM, a market operated by London Stock Exchange plc.
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 £551,722 (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 £275,861 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph a) of this resolution in excess of £275,861, 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 business continued

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;
        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 £41,379 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 £124,137 (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).

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 2,482,752;
    (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

Michelle Jones
Company Secretary
25 June 2021

Registered office
Oval Park
Langford
Maldon
Essex CM9 6WG

Registered in England and Wales: 000944010

Notice of Annual General Meeting continued

1 Attending the AGM in person

We have been monitoring closely the evolving COVID-19 situation as the restrictions on social distancing in the United Kingdom are gradually easing. Although UK-based shareholders are expected to be permitted to attend the AGM in person, it is likely that the AGM will be significantly reduced in scale due to the continuing social distancing measures and the Board strongly recommends that shareholders vote on the resolutions by submitting a proxy to appoint the Chairman of the AGM as their proxy. All Directors will be in attendance but a limited number of shareholders or properly appointed proxies who have made an advance booking to attend will be permitted access to the meeting room. Advance bookings to attend will be allocated to shareholders on a first come, first served basis. If you wish to join us at the AGM, you must send an email to IR@CMLMicroPlc.com by 11.00 am on 2 August 2021 to make an advance booking for your attendance. You must also attach a Letter of Corporate Representation from the custodian of your ordinary shares if the ordinary shares are not registered in your name. Please note that your name must be pre-registered with the venue in advance of the day. In any event, in light of ongoing health and safety risks posed by COVID-19, the Board respectfully suggests that shareholders do not make plans to attend the AGM in person.

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.

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.

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, not later than 11.00 am on 2 August 2021 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 11.00 am on 2 August 2021 or if the AGM is adjourned at least 48 hours before the time of the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time.

In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5 Appointment of proxy by joint holders

In the case of joint holders, where more than one of the joint holders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior). In any event, all members are requested to appoint the Chairman as their proxy. If a member (or joint members) appoints someone else as their proxy, that proxy will not be able to attend the AGM in person or cast the member's vote.

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). Corporate representatives are requested to appoint to Chairman to act as their proxy.

7 Entitlement to attend and vote

To be entitled to attend (by proxy) 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 6.00 pm on 2 August 2021 (or, if the AGM is adjourned, at 6.00 pm 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.

Notice of Annual General Meeting continued

11 Voting rights

As at 23 June 2021 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consisted of 17,190,152 ordinary shares, carrying one vote each. The Company holds 638,467 shares in treasury, meaning the total voting rights in the Company as at 23 June 2021 were 16,551,685 votes.

Shareholders are able to vote in advance of the meeting using their Proxy Form. The Proxy Form covers all resolutions to be proposed at the AGM.

Voting at the AGM will be conducted by way of a poll (rather than on a show of hands), which will be directed by the Chairman at the AGM. This is more transparent and equitable as votes are counted according to the number of shares registered in their names and also allows the votes of all shareholders who wish to vote to be taken into account.

At the AGM we will disclose the total of the proxy votes received, the proportion for and against each resolution or approval vote and the number of votes withheld. Votes withheld will not be counted in the calculation of the proportion of votes "for" and "against" a resolution. Voting results will be announced to the London Stock Exchange as soon as possible after the conclusion of the AGM and will be published on our website.

12 Payment of dividend

It is proposed to pay the dividend, if approved, on 13 August 2021 to shareholders registered on 30 July 2021.

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. However, all members are requested to appoint the Chairman as their proxy. If a member appoints someone else as their proxy, that proxy will not be able to attend the AGM in person or cast the member's vote.

14 Further questions and communication

Any member attending (by proxy) the meeting has the right to ask questions. 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 letters 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).

Five-year record

	2021 £'000	2020 Restated £'000	2019 £'000	2018 £'000	2017 £'000
Income statement					
Revenue (continuing operations)	**12,470**	14,963	28,140	31,674	26,076
Revenue (acquisition)	**—**	—	—	—	1,661
Revenue (discontinued operations)	**9,505**	11,457	—	—	—
Total revenue[1]	**12,470**	14,963	28,140	31,674	27,737
Gross profit[1]	**9,273**	11,702	20,253	22,236	19,815
Gross profit percentage[1]	**74.36%**	78.21%	71.97%	70.20%	71.44%
Profit before taxation[1]	**10**	1,178	2,982	4,583	4,208
Profit after taxation[1]	**802**	1,371	2,694	4,139	3,867
Adjusted EBITDA[2]	**2,731**	4,483	8,754	9,998	8,840
EPS[1]					
Basic	**141.13p**	8.98p	15.77p	24.52p	23.09p
Diluted[1]	**40.56p**	8.94p	15.36p	23.95p	22.84p
Statement of financial position					
Shareholders' equity[1]	**53,447**	42,390	42,322	41,770	37,635
Net cash and cash equivalents	**31,914**	8,479	12,809	13,816	12,447
Dividends per ordinary share					
Dividends proposed/paid per 5p ordinary share[1]	**52.00p**	4.00p	7.80p	7.80p	7.40p

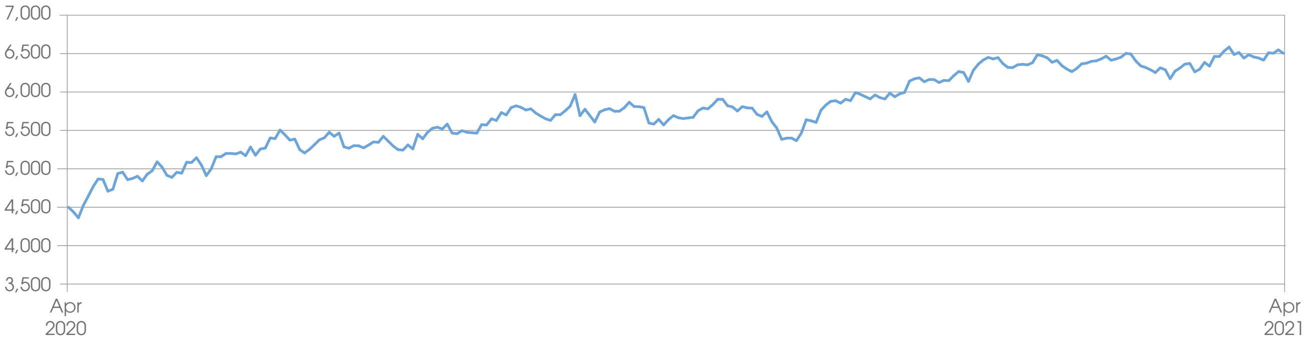
1. As reported in the year's Annual Report for continuing operations.
2. Adjusted EBITDA is defined as profit from operations before all interest, tax, depreciation and amortisation charges and before share-based payments.

	Number of shares 2021	Number of shares 2020	Number of shares 2019	Number of shares 2018	Number of shares 2017
Issued 5p ordinary shares (including treasury shares)	**17,190,152**	17,177,652	17,175,166	17,112,023	16,860,356

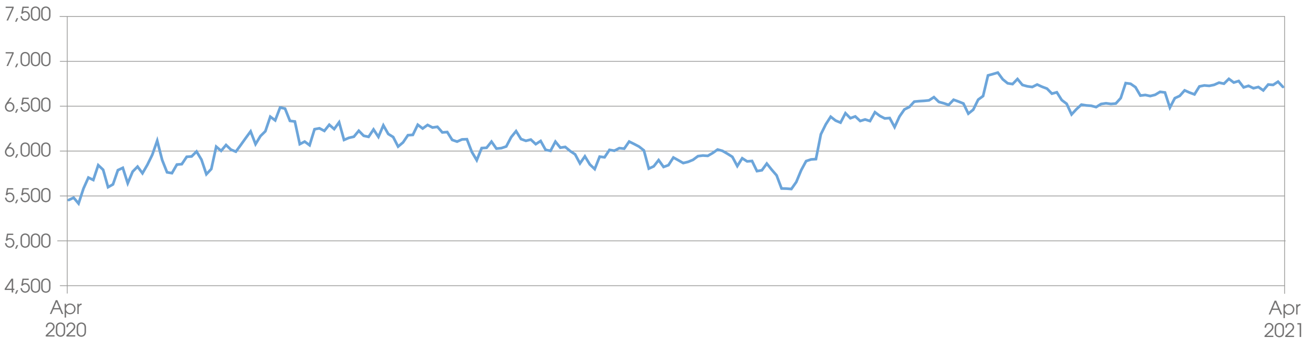
Shareholder information

CML Microsystems Plc share price – for the year ended 31 March 2021

Techmark 100 Index – for the year ended 31 March 2021



FTSE 100 Index – for the year ended 31 March 2021



Financial calendar

2021

4 August	AGM
30 September	Half year end
23 November	Anticipated date for half-year results

2022

31 March	Year end
14 June	Anticipated date for preliminary announcement of year-end 2021 results

Glossary

5G	Fifth Generation Cellular Network Technology
AIM	Alternative Investment Market
CAGR	Compound Annual Growth Rate
DTR	Disclosure and Transparency Rules
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
EU	European Union
FRC	Financial Reporting Council
GaN	Gallium Nitride
GaAs	Gallium Arsenide
GMP	Guaranteed Minimum Pension
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IC	Integrated Circuit
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
OEM	Original Equipment Manufacturer
R&D	Research and Development
RF	Radio Frequency
RFID	Radio Frequency Identification
ROI	Return on Investment
SoC	System on Chip
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
London EC4V 5EQ

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CML Microsystems Plc

CML Microsystems Plc
Oval Park, Langford
Maldon, Essex
CM9 6WG

T: +44 (0)1621 875500
F: +44 (0)1621 875606

group@cmlmicroplc.com

www.cmlmicroplc.com