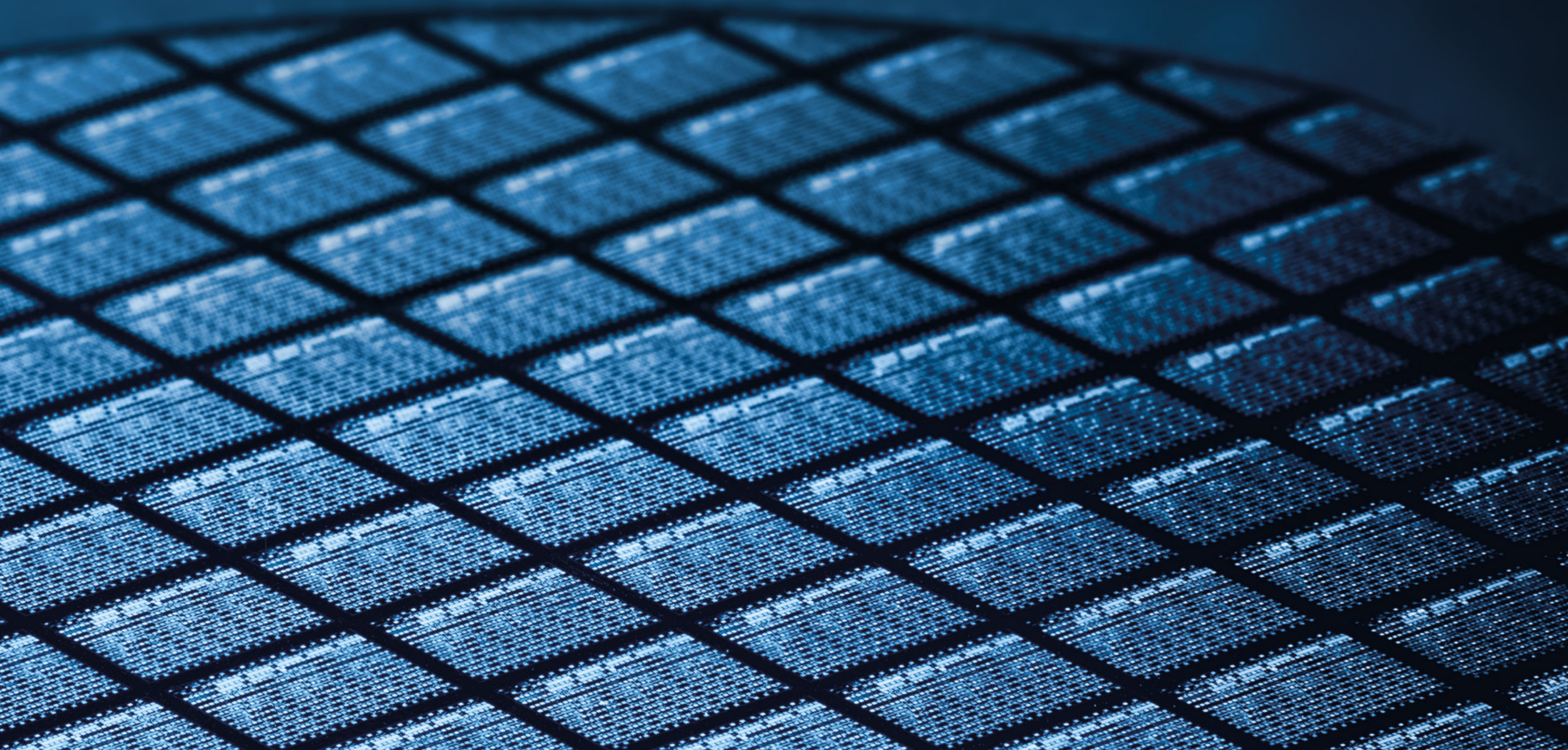
CML Microsystems Plc

CML Microsystems Plc

Annual Report and Accounts FY23



USER GUIDE

Welcome to the CML Microsystems Annual Report FY23. In this interactive pdf you can do many things to help you easily access the information that you want, whether that's printing, searching for a specific item or going directly to another page, section or website.

These are explained below.

DOCUMENT CONTROLS

Use the document controls located at the top to help you navigate through this report.

LINKS WITHIN THIS DOCUMENT

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

NAVIGATING WITH TABS

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

About us

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

Strategic report

Directors' report

Financial statements

Other information

Financial highlights

Measure	FY23	Change	2022
Revenue (£m)	20.64	22%	(2022: 16.96)
Operating profit, before exceptional items (£m)	2.93	>100%	
Operating profit, reported (£m)	4.99	>100%	(2022: 1.21)
Pre-tax profit (£m)	5.22	>100%	(2022: 1.74)
Basic earnings per share (p)	30.29	>100%	(2022: 7.45)
Adjusted EBITDA[1] (£m)	5.90	37%	(2022: 4.31)
Dividend (p)	11p	22%	(2022: 9.00)
Net assets per share (p)	319.65	7%	(2022: 299.81)
Net cash (£m)	22.26	(11)%	(2022: 25.04)

Operational highlights

- **Revenue growth broad based**
- **Resilient end-markets**
- **25% of revenues invested in R&D**
- **Seven new products released**
- **Continued customer adoption of the expanding product range**
- **Entry into broadcast sector through low-power DRM receiver solution**

1. For definition and reconciliation see note 12.

At a glance

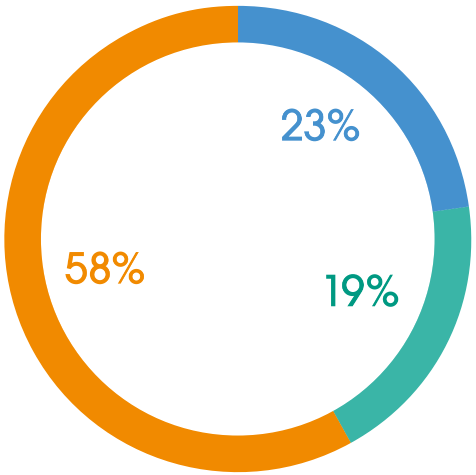
The Company has long held an outstanding reputation for the quality of its engineering and development teams, supported by a clear strategy, depth of management and strong routes to market.

Group operations Europe

Group operations Americas

Group operations Far East

2023 Revenue split by region



These maps are illustrative, but not fully definitive, of our locations.
For a full list of our locations please visit our website at **cmlmicroplc.com**

Keys stats

Established	Design facilities	Employees worldwide	Engineers
1968	**3**	**139**	**40%**

At a glance continued

Our vision

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

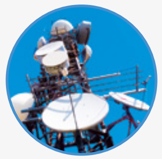
Our markets

Find out more on page 7

CML 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

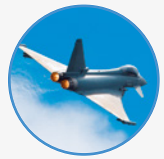
CML SµRF RF devices are building the 5G and satellite infrastructure for the next decade

Internet of Things

CML devices are fuelling the IoT and M2M revolution

Broadcast

CML are developing devices for radio and broadcasting



Aerospace & Defence

We enable communication in mission critical applications worldwide

Our brands

CMLMicro COMMUNICATION SEMICONDUCTORS

SICOMM

PRFI

Our values and guiding principles

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

"Our focus on organic growth supplemented with appropriate acquisitions is beginning to yield the anticipated results."

Introduction

I am extremely pleased with the performance of CML over the last few years, and my colleagues throughout the whole Group should be justly proud of their achievements against a very challenging backdrop. This has been a transformational time for the Company, set against a period of numerous macro headwinds including COVID-19, Brexit, the conflict in Ukraine and increased economic and geopolitical uncertainty. It is therefore encouraging to see the business moving forward in such a positive manner.

The communications semiconductor market is one in which we have operated for over 50 years. It is a market we understand, where we have good customer relationships and see tremendous growth opportunities, as explained within the Strategic Report that follows. I am pleased to report that our strategy of concentrating our efforts on this market and expanding the sub-sectors we address is working well. Our focus on organic growth supplemented with appropriate acquisitions is beginning to yield the anticipated results.

We are still in the process of securing the exciting opportunity for the proposed acquisition of Microwave Technology, Inc ("MwT") which we announced on 17 January 2023. This is currently subject to the US regulatory clearance process, and we are in the final stages. Once completed, we will have substantially expanded the Group's product portfolio, strengthened and enhanced our support resources and increased our R&D capabilities. Additionally, this will add to the Group's expertise through expanding our system level understanding, product manufacturing and packaging techniques, allowing us to capitalise on the market opportunity more effectively.

Results

Our financial focus is on constantly improving results in a number of areas, including revenues, operating profit, balance sheet strength and cash. While it is pleasing to show significant pre-tax profit growth in the income statement, we strongly believe that it is the operating profit line (excluding exceptional items) which most effectively demonstrates how the underlying business is performing. Exceptional items tend to be non-recurring, such as this year's profit on the disposal of excess land. That said, this extra profit is an important supplement to the progress being made and is obviously cash generative.

I am delighted with the strong organic growth achieved this year. Revenues increased 22% year-on-year to £20.64m (FY22: £16.96m), reflecting good progress across the established product range alongside the newer products which are already starting to make meaningful progress.

The gross profit margin was maintained on the revenue increase but with inflationary pressures, a general increase in global business activity levels and acquisition related costs, expenses increased. Profit from operations before exceptional items increased to £2.93m (FY22: £1.21m), an advance of 142%. The growth in profit before tax to £5.22m (FY22: £1.74m) was assisted by the completion on the sale of the first parcel of excess land at Oval Park, yielding a £2.06m profit and occurring just prior to the year-end. Adjusted EBITDA improved 37% to £5.90m (FY22: £4.31m). Despite the share buyback programme and dividend payments, net assets per share grew 7% to 319.65p (FY22: 299.81p) and the Group's cash position remained healthy at £22.6m with no debt (FY22: £25.04m).

Chairman's statement continued

Property

Following our announcement on 17 February 2023 regarding the grant of planning permissions on excess land at the Group's Essex Headquarters site, Oval Park, as stated in the results section, I am pleased to note that we completed the sale of the first parcel of land just prior to the year end. Following this transaction, circa 15 acres remain available for disposal.

Additionally, the Group has commercial property in Fareham, Hampshire, that is excess to operational needs and therefore held for sale. Negotiations are currently in progress regarding this site.

The Board's objective of raising cash from its excess property interests remains important as this will help to yield funds for future acquisition opportunities and/or allow the return of additional monies to shareholders. I must again stress these property transactions are separate from, and additional to, the Group's planned operational profits growth.

Share Buyback and dividend

Through the year, £3.65m net was spent on the share buyback programme (£4.77m purchased net of £1.12m issued in satisfaction of employee share options) and, following the financial year end in April, a further £1.75m was spent on an additional buyback. This shows the Board's continued commitment to returning funds to shareholders and enhancing earnings where possible.

The Board continues to maintain its progressive dividend policy whilst ensuring it has adequate cash to cover its growth objectives, including strong R&D investments, and the completion of the MwT acquisition. The interim dividend was increased from 4p to 5p per share and the Board is recommending an increased final dividend of 6p per share, taking the full year dividend to 11p per share (FY22: 9p per share). This is an increase for the full year dividend of 22% and reflects the Board's confidence in the future. Subject to shareholder approval, the dividend will be paid to shareholders on 18 August 2023 whose names appear on the register at close of business on 4 August 2023.

2002

Formation of Systems Engineering

Specialising in DSP software and RG design.

2003

Acquisition of Hyperstone GmbH

CML Microsystems Plc acquires Hyperstone, a German semiconductor company.

2013

Exit of Equipment segment

The Group successfully exits the Radio Data Technology (RDT) equipment business.

2016

Acquisition of Sicomm Technologies

China-based Wuxi Sicomm Technologies Inc. acquired.

2020

Acquisition of PRFI Ltd

PRFI Ltd (PRFI), a UK-based design house acquired.

2021

Exit of Storage Division

Announcement that the disposal of Hyperstone has been completed.

2023

Announcement of proposed acquisition of Microwave Technology, Inc

Based in the US.

Chairman's statement continued

ESG

The Company has an Environment, Social and Governance ("ESG") strategy that is supporting sustainable and inclusive economic growth. We believe that it is important to focus our efforts on areas where our actions can "make a difference", rather than simply paying lip service to the topic. Full disclosure of how we address this subject can be found in the Group's Annual Report and Accounts.

Employees

Clearly the life blood and success of any company is attributable to its workforce, and on behalf of the Board I would like to thank every one of our employees for their energy, enthusiasm and commitment which is evident to all and much appreciated.

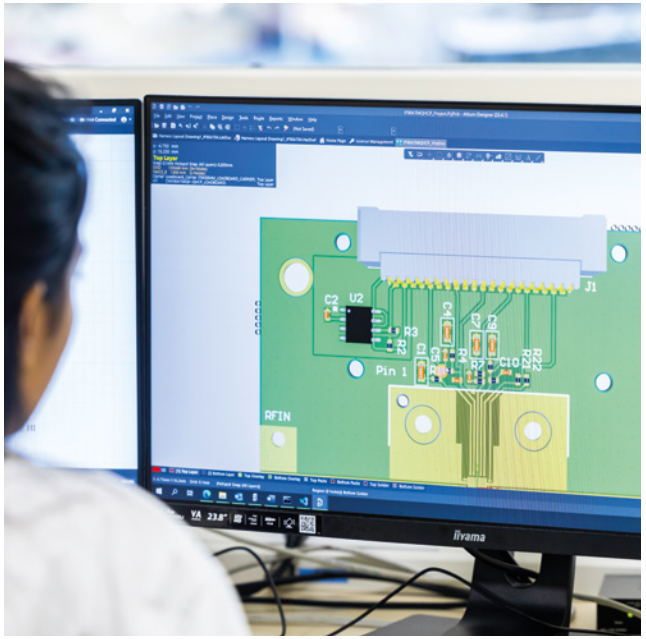
Outlook

As a business, we are confident that the strategy we are following is going to yield the sustainable long-term growth we are looking to achieve and these results are a clear endorsement of this. That said, it is important not to underestimate the ongoing challenges facing the Group, not only within our market sector, but the global economy in general.

Whilst headwinds do persist, I believe the Group is well placed to navigate these challenges effectively and continue our growth trajectory.

We have exciting opportunities ahead of us, an expanding product line and a robust ongoing R&D programme. In addition to this, we have the planned assimilation of MwT into the Group with the expected benefits from the combined business helping to expand expertise, increase operational efficiencies and scale alongside the market. Whilst this will be another busy year for the Group, we look to the future with confidence that further progress will be made against our strategic objectives.

Nigel Clark
Executive Chairman
26 June 2023



Governance highlights

The Corporate Governance Report on pages 36 to 39 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

- monitored the Group's systems of risk management and internal controls; and
- reviewed significant judgements made by management in preparing the 2023 financial statements.

Remuneration Committee

- reviewed the framework for executive remuneration; and
- approved the Executive Directors' 2023 remuneration and bonus payments.

Find out more on pages 40 to 46

Market opportunity

Addressing growth markets

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.

01: 5G
Small/picocells, fixed-link broadband access
Radio Access Network (RAN)

02: Private mobile radio
Commercial, professional, mission critical

03: Critical infrastructure
Public utilities, AMI, smart meter/grid, RFID, long-range data links

04: Satellite communications
Satellite terminals, global broadband networks

05: Transportation
Railways, vehicle tracking, marine

06: Military and aerospace
Mission critical worldwide

SμRF by CML

CML's 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 for one to two years	Product deployment commences in two to four years	Customer products ship for five to ten plus years

Investment Phase

Design Win Phase

Revenue Generation Phase

Investment case

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. By putting the customer at the heart of everything we do, we never lose sight of what is important.

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

- Transition to a customer-led, innovation driven supplier of semiconductor devices.
- 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.
- Our extensive, established global routes to market incorporating direct sales teams and a network of distributors.

Focus on research and development and scalability

- SµRF range will drive market share gains in emerging markets such as 5G, Satellite and IoT.
- Leveraging our new design capability to give access to new transformative markets.
- 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.

Consistently delivering based on a single segment

20.64
Revenue (£'m)

2.93
Operating profit, before exceptional items (£'m)

4.99
Operating profit, reported (£'m)

22.26
Net cash (£'m)

Business model and strategy

The business model is to design, manufacture and market a range of semiconductors for 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.

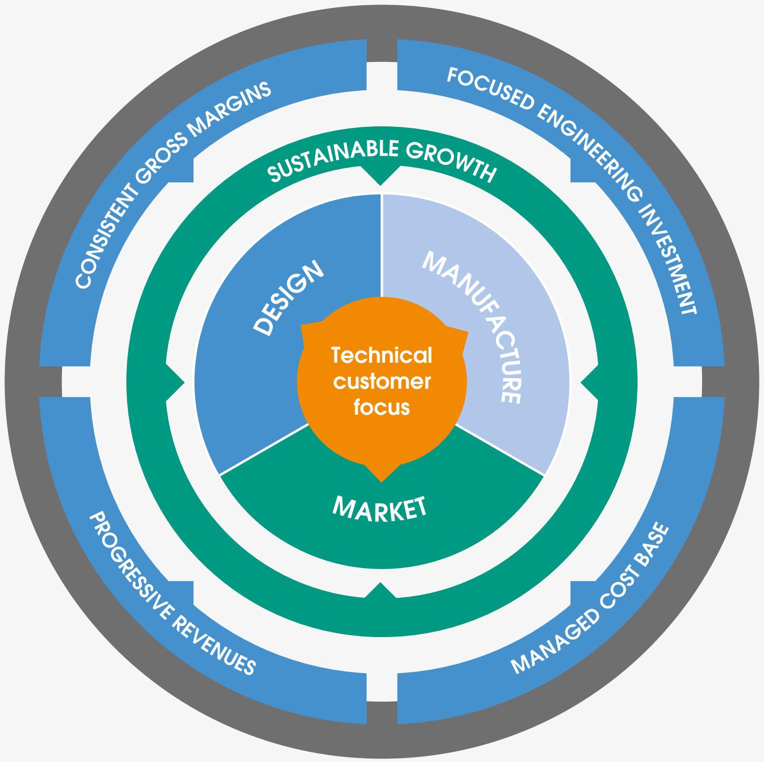
Our engineering innovation

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



Delivering value

Operating profit before exceptional items increased from **£1.21m** to **£2.93m**.

Operating profit reported, increased from **£1.21m** to **£4.99m**.

Total employees **139**.

A progressive dividend policy is in place providing a shareholder return.

Underpinned by our vision

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

First Choice – being chosen amongst all other suppliers, through compelling technical and commercial ability.

Partner – problem solving and success with customers through collaboration.

Innovators – working with organisations who do things differently.

Transforming – aspire to be part of the technology revolution.

Strategic pillars

Principles:

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.

We have three key principles behind executing our strategy:

1

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.

With the launch of the SμRF product range, we are creating a strong product portfolio to address the 5G, Satellite and IoT markets. We are continually evolving to enable the Group to expand into new application areas.

2

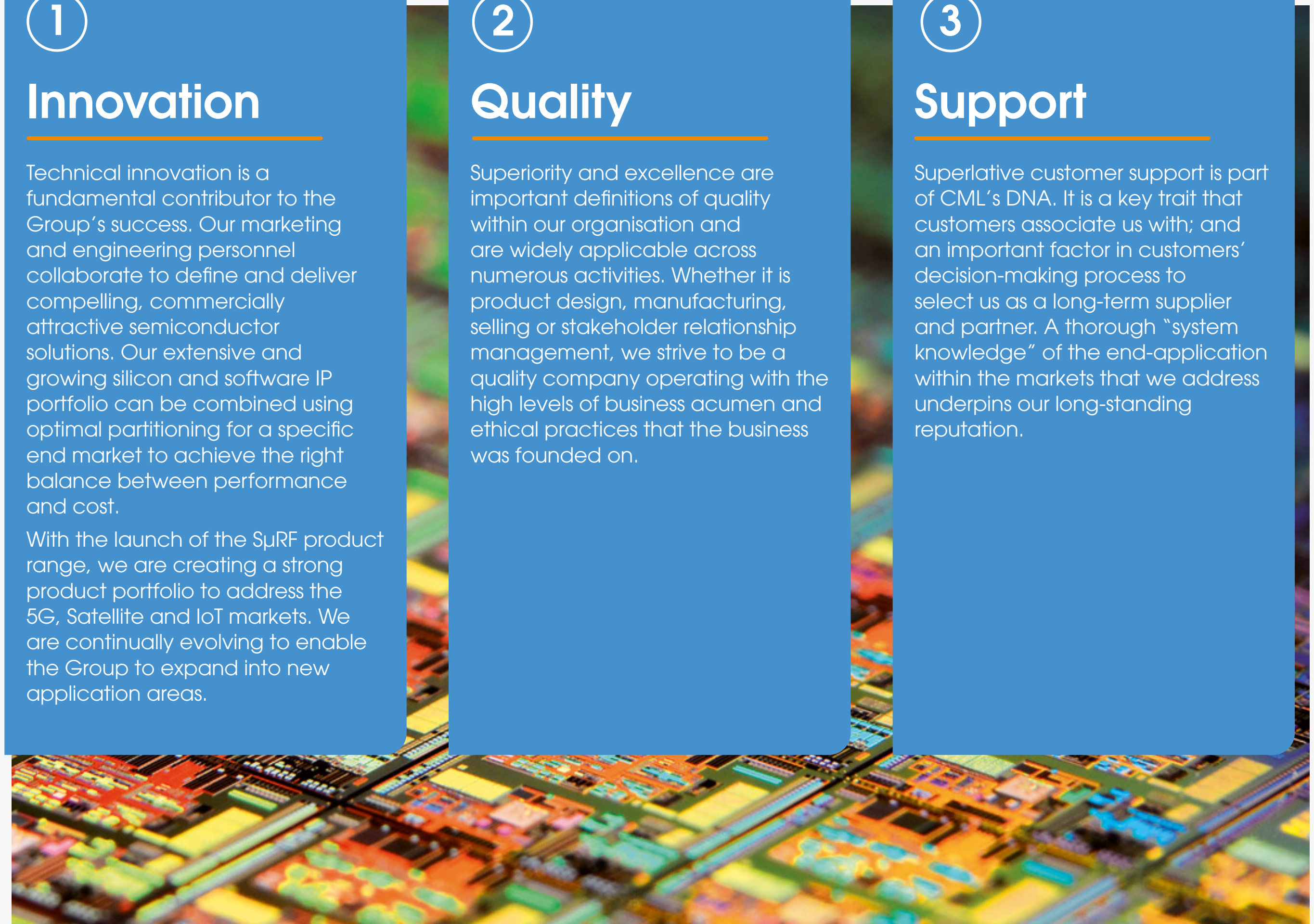
Quality

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.

3

Support

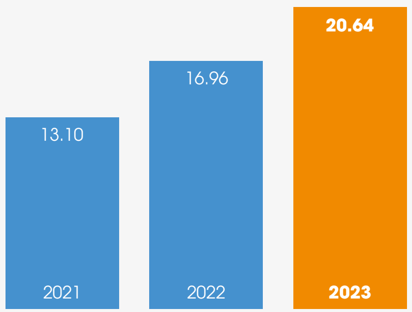
Superlative customer support is part of CML's DNA. It is a key trait that customers associate us with; and an important factor in customers' decision-making process to select us as a long-term supplier and partner. A thorough "system knowledge" of the end-application within the markets that we address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



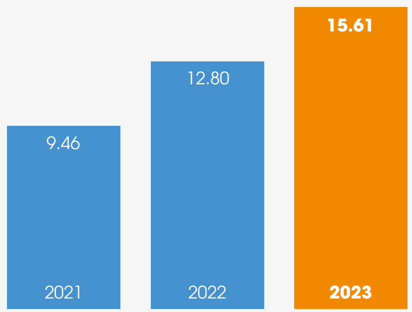
Key performance indicators and risks

We have a range of performance measures to monitor and manage the business, some of which are considered key performance indicators (KPIs)[1].

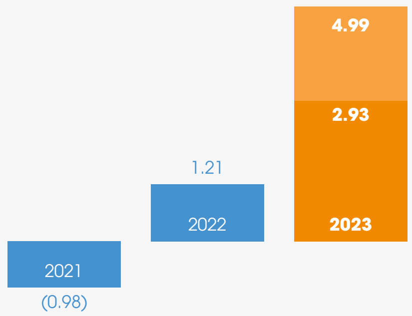
Revenue[3] (£'m)
Represents recognised revenue of the Group



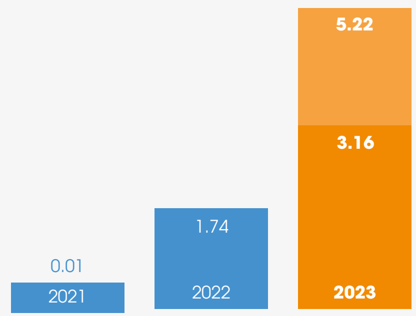
Gross profit[3] (£'m)
Represents the Group's profit before overheads



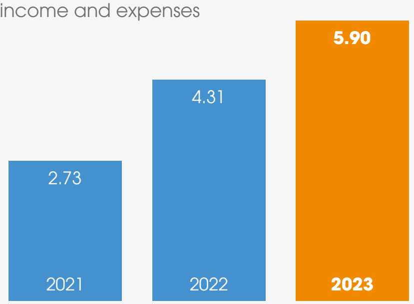
Profit/(loss) from operations3,4 (£'m)
Represents the Group's profit/(loss) after overheads



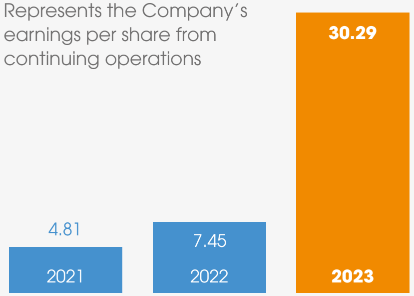
Profit before taxation[4] (£'m)
Represents the Group's profit before taxation



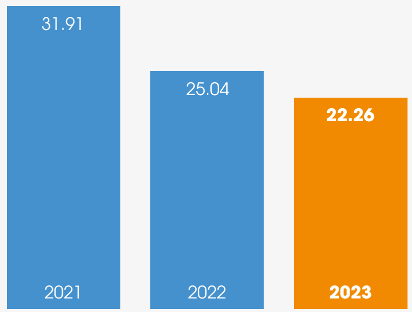
Adjusted EBITDA[2,3,5] (£'m)
Represents profit before taxation less depreciation, amortisation, impairment of development costs and finance income and expenses



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



Net cash (£'m)
Represents cash, cash equivalent and fixed term deposits



These KPIs include revenue, gross profit, profit from operations, basic earnings per share (EPS) and cash, summary details of which are shown above and are discussed within the Executive Chairman's Statement on page 04 and the Group Managing Director's Review on page 13.

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. For definition and reconciliation please see note 12.
3. 2021 comparatives for revenue, profit and EBITDA are continuing operations excluding the sale of the Storage Division.
4. Profit/(loss) from operations and profit before tax show before and after exceptional items.
5. Adjusted EBITDA excludes statutory and adjusted for exceptional items.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are:

Key risks of a financial nature

Foreign exchange	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.
Customer dependency	The Group has a very diverse customer base generally, however 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 key customers could have an adverse effect on the Group's performance.
Supply chain dependency, interruption and cost inflation	The Group has a number of key supplier relationships, which are closely maintained to minimise the impact from any potential supply chain disruption. Some of the raw materials used within the Group's semiconductor products are sole sourced from highly specialised suppliers on a global basis. To partially mitigate unexpected but temporary raw material delivery delays, an appropriate level of excess inventory is held. If a key raw material supplier was unable to continue supply on a permanent basis, then the Group would need to invest the R&D effort and associated costs to replace the supplier, subject to that being considered commercially viable. Supplier prices, currency exchange rates and gross margins are continually monitored which can lead to pricing adjustments with customers.
IT system – failure or malicious damage	The Group has a standardised systematic approach to maintaining and operating its IT systems globally consisting of an internal team supported by a number of world class external partners. The backup and recovery of its global IT systems has been real-time tested. The threat from malicious cyber activity is an ever-increasing risk with awareness and responsibility at Board level and appropriate investments being made.
Cost-of-living crisis	During 2023, a cost-of-living crisis has been triggered due to the combined impact of COVID-19 and the various economic effects of the Russian invasion of Ukraine. Rising energy prices and supply chain dependency are contributing to significant price inflation and associated rises in interest rates. The Group understands that this is impacting all aspects of day-to-day living and placing real pressure on the current market and are continuing to monitor the impact.

Key risks of a non-financial nature

Customer product demand	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.
Legal requirements	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 these within the Strategic Report, but have added these to the Directors' Report and Environment, social and governance sections of this Annual Report.

Group Managing Director's review

"Subject to unforeseen circumstances the period to 31 March 2024 is expected to be a further year of improvement, with solid growth in revenues and operational profitability."

Introduction

For the year to 31 March 2023, our ambition was to deliver a firm improvement in the Group's financial and operational performance. It is very satisfying to report that those objectives were accomplished despite a challenging macroeconomic backdrop and prolonged electronic component supply chain challenges amongst the Group's customer base.

According to a number of industry commentators, the semiconductor market as a whole grew by 3-4% for the calendar year to December 2022, with the second half weaker than the first. In comparison, the Group's full year revenues to 31 March 2023 advanced by 22% with the second six-month period delivering a stronger performance than the first. This highlights the resilience of the Group's end markets where the focus is currently weighted towards industrial and critical communications application areas in contrast to the memory, personal computer and consumer markets which tend to exhibit more volatility.

The improvement in profitability for the year is further validation of the Group's pivotal decision to divest our Storage Division in 2021 in favour of an increased focus on global communications markets, with expansion into end-applications requiring microwave and millimetre wave (mmWave) products a key major objective.

Good progress is being made in this area, with the Group continuing to invest heavily in research and development activities targeted at products for application areas that are expected to drive growth over the coming years, along with the investment in the personnel and equipment required for the business to maintain a competitive edge.

Strategy

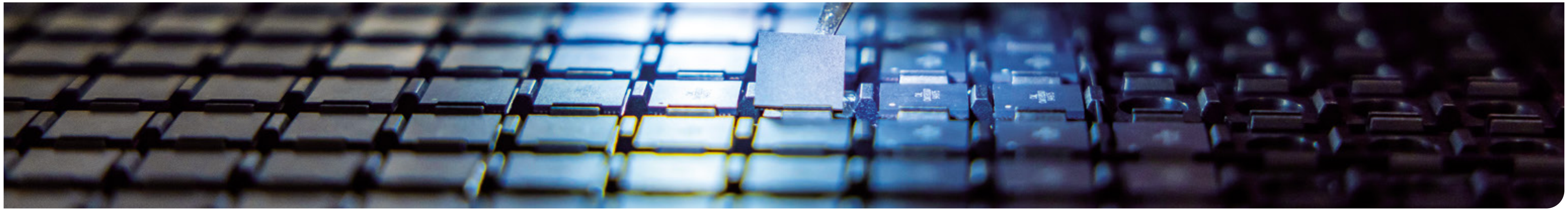
The Group's vision is to be the first-choice semiconductor partner to technology innovators, together transforming how the world communicates.

Our focus is on the definition, development and marketing of standard Integrated Circuit ("IC") products that deliver compelling technical and commercial benefits to our customers. In turn, our customers utilise these solutions to develop and subsequently market end-products that are essential for the efficient and reliable transportation of voice and/or data across a predominantly wireless medium.

The global communications market is huge, with a myriad of end-application areas ranging from mobile/cellular networks to precise positioning systems to short-range remote-control devices. Within this vast landscape of opportunity, CML is actively participating in a number of sub-markets that play to our strengths and have excellent growth potential on a sustainable basis. These markets include mission critical communications, wireless networks and satellite, Industrial Internet of Things ("IIoT") and more recently, broadcast radio. The addressable market in terms of semiconductor content easily exceeds $1 billion.

Continued investment in research and development is essential to allow CML to take full advantage of the large market opportunity available. The Group's product portfolio is evolving to support customer requirements for size, cost and performance enhancements whilst also encompassing new technologies that will permit entry into markets that were previously not addressable.

Group Managing Director's review continued



Strategy continued

Our strategy for allocating capital to R&D comprises four main areas of investment; "Defend & Grow" revenues in core CML markets, expand into adjacent markets (SµRF product range), innovative product initiatives aimed at new high-growth markets and an element of internal research and innovation that could benefit any or all of the aforementioned categories.

Markets

The mission critical communications sector is a multi-billion dollar market that is estimated to grow at a CAGR of close to 9% over the next five years. Applications include public safety, government agencies, transportation, energy and utilities, mining and others. Growth is being driven by the increased adoption from energy and utility sectors, rising investment by defence sectors and trends within the transportation industry where real-time data is being used to support dynamic decision-making. Mission critical communications has been a cornerstone of CML's global business for many years and the year under review was no exception. An overall increase in revenues from the Group's top customers who are active in this sector contributed well to the Group's underlying performance. Outside of mission critical end markets, revenues from customers producing similar products for industrial and commercial business users, also grew well and overall, the two sectors combined to deliver a very pleasing performance across the year.

One area where the Group sees great potential is the rapid development of 5G and satellite-based communications. Advancements in this area are propelling us towards a future where faster, cheaper, and more accessible internet connectivity becomes a reality for all. 5G's high-speed, low-latency capabilities, combined with satellite technology's wide coverage and reach, enable a bridging of the digital divide, connecting remote regions, enabling faster communication and empowering industries. To build this new reality, a vast 5G network of base stations, small cells and other mmWave infrastructure will be required.

Using our expertise in advanced compound semiconductor IC design, CML has begun producing high performance RFICs and MMICs that are relatively simple to use from a customer perspective, but have the technical characteristics and commercial competitiveness required to be successful in these mass-market applications areas. FY23 represented the first full year period of availability for a number of new products that are marketed under CML's SµRF brand. Prior year product releases have started generating income and, over time, the flow of revenue from this portfolio of IC's is expected to constitute a very sizeable proportion of the Group's total revenues.

CML has a long history in supporting IIoT & M2M applications, with decades of experience in helping to solve customers' design problems. Our semiconductor solutions include off-the-shelf baseband modem ICs, offering engineers a fast time to market by avoiding unnecessary software development.

These products typically provide high performance with relatively low-power consumption and are highly integrated, targeting application areas including M2M, automatic meter reading ("AMR"), advanced metering infrastructure ("AMI"), asset tracking and, more recently, RFID. Combined product shipments into the Group's top customers active in these sectors was slightly weaker than the prior year due in part to the unusual purchasing patterns that some customers employed whilst navigating through their own supply chain disruptions across the last two years.

Towards the end of the financial year, a key R&D initiative that fits the "innovative product for new high-growth markets" category reached the stage of development whereby it could be released to early adopters. This new product represents a first for CML in that it paves the way for entry into the broadcast radio market which, although invented more than 100 years ago, remains a highly important media. In many parts of the world radio remains the method whereby large populations get their trusted news and information and in times of natural disaster provides a vital service when other infrastructure has been compromised.

Group Managing Director's review continued

Markets continued

Digital Radio Mondiale ("DRM") is a digital radio broadcast standard that has been adopted for wide area broadcasting in China, India and Pakistan whilst being targeted for deployment in several other emerging nations in the near term. In India, near national area coverage is achieved from 35 transmitting sites. The DRM service provides high-quality stereo audio across long distances and wide areas. DRM is an "open standard" to ensure a wide diversity of equipment, receivers, and IP suppliers. The radio spectrum is a limited natural resource, DRM uses that resource more cost effectively than analogue or other digital broadcast methods whilst the infrastructure required for DRM is both low cost and low power – offering a 10:1 power consumption advantage over equivalent analogue FM transmissions.

Current DRM IC solutions are targeted at the automotive market where low-power operation is less of a necessity and they are therefore not well suited to portable receivers. CML has developed a highly integrated Software Defined Radio ("SDR") tuner IC targeted at the market for DRM receivers. To complement the IC, CML has worked with Cambridge Consultants Limited to produce a miniature module, seen as a core component to implement a full DRM capable broadcast receiver covering all transmission bands. The IC will be sampled during the first half of this financial year with full launch of the module planned for the second half.

The Group's market exposure is evolving in tandem with a number of new and emerging growth sectors that have something in common, a fundamental need for semiconductor solutions that CML has the inherent capability to produce.

Operations

During the year, the Group formally launched seven new products to market. The majority of these are for use in microwave or mmWave applications across a number of the previously mentioned market sectors. Customer adoption of the Group's products marketed under the SµRF brand continues to gather pace, and progress during the first full year of production has been very encouraging.

One of our guiding principles is to foster a culture of quality with a sense of urgency. Operationally, the CML team continued to excel in that regard, despite the increased demands that an ongoing and rapid expansion of the product range places upon personnel and systems. Our future success depends upon the skills and dedication of our employees, and it is important to recognise the exceptional efforts being made by the whole team in that regard.

The growing product range, coupled with a simultaneous expansion into new and adjacent market sectors places a great deal of emphasis on ensuring that the Group's routes to market remain appropriate for the direction of travel that the business is taking. The process is one of evolution and refinement over time, and during the year, a number of enhancements were made, including territorial changes within Europe and new partners in the Americas and South Africa.

Following travel and tradeshow restrictions due to the pandemic, the Company participated at a number of trade shows relevant to the sectors and industries being targeted. These included European Microwave week (London), IMS2022 (Denver) and BES Expo (New Delhi). These activities have led to an increase in associated costs that is further explained in the financial review that follows. However, they are an important ingredient for success given the strategy being followed and another year of strong investment is planned.

The Group's orderbook climbed significantly across the last two and a half years as customers placed longer term scheduled orders amidst concerns about the general supply situation for semiconductors that was extensively reported on at the time. It is apparent that the supply situation has improved and some customers are becoming more relaxed about product availability leading to adjustments to their ordering patterns. The Group's order book remains healthy, at a level more than double that prior to the pandemic and stretching well into 2024. A 'new normal' will be established following the unusual market dynamics of the last three years and the growth of the customer base as we continue to expand into wider markets.

Acquisition of Microwave Technology, Inc

On 17 January 2023 we announced the entering of a definitive agreement to acquire Silicon Valley based semiconductor company Microwave Technology, Inc. (MwT). Founded in 1982, MwT is a recognised leader in the design, manufacturing and marketing of GaAs and GaN based MMICs, Discrete Devices, and Hybrid Amplifier Products for commercial wireless communication, defence, space, and medical (MRI) applications.

The proposed acquisition expands the Group's product portfolio, strengthens its support resources and increases its R&D capabilities. MwT's products are complementary to CML's and the majority of its focus and client concentration remains within the USA. The CML Board believes there is a significant opportunity to increase market share by internationalising MwT's products.

Currently, the transaction remains subject to US regulatory approval. Expectations were for the transaction to complete during the first half of 2023, however, the nature of the technology that MwT possesses along with the constitution of its customer base has necessitated extended discussions with the relevant US authorities whose remit it is to protect national security interests. Whilst a definitive date for completion is not yet available, we are in regular contact with the relevant departments and expect a conclusion to be reached in the coming weeks. A further announcement will be made at the appropriate time.

Group Managing Director's review continued

Outlook

Market expansion through the addition of microwave/millimetre wave ICs to the Group's product portfolio is now delivering tangible results, with good growth expected for the year ahead. A high level of R&D investment continues to ensure the Group is well placed to capture new opportunities within the markets that dominate the current revenue stream, whilst making appropriate investment into exciting new markets with strong growth potential.

Clearly the world has its issues, not least geo-political uncertainties, an inflationary environment and economic uncertainty. Whilst remaining mindful of the backdrop and risk-aware, CML is focused on growth, with a confidence supported by our resilient existing markets, a healthy orderbook and an evolving presence in new and emerging growth sectors.

As is evident, the business continues to make good progress and has the appropriate blend of experience, enthusiasm and skills to continue to achieve its objectives. Subject to unforeseen circumstances the period to 31 March 2024 is expected to be a further year of improvement, with solid growth in revenues and operational profitability.

Financial review

Revenue

Group full year revenues of £20.64m (FY22: £16.96m) slightly exceeded market expectations that had been raised at the time of the interim results, after factoring in the positive momentum being achieved. This increase in revenues represented growth of 22% over the prior year and was assisted by a foreign exchange tailwind. Currency effects are less pronounced at the gross profit level where the Group has a somewhat natural hedge, due to a significant amount of raw material procurement being conducted in US Dollars.

The revenue advances were broad-based across the three main geographical areas addressed, with the Far East (+25%) and Americas (+35%) delivering the strongest gains and Europe 8% higher. It is important to note that annual revenue comparisons by region can be misleading because customers can and do alter their manufacturing locations periodically. From a customer perspective, close to 80% of the top 25 customers grew their business with CML year-on-year with the dominant sectors addressed encompassing narrowband voice communications and mission critical data applications.

Gross profit

Gross profit for the year was £15.61m (FY22: £12.80m), representing a 21% increase. This is a pleasing outcome given the raw material price rises encountered and the need to impose increased prices across the Group's product range on more than one occasion. At the start of the year, higher inventory costs were anticipated, and allowances were factored into managements' growth expectations, nevertheless, the operational teams responsible deserve much credit for achieving the targeted outcome.

Distribution and administration costs

D&A expenses increased by 9% to £12.64m (FY22: £11.56m). One driver was the resumption of certain business activities such as travel, marketing and exhibition costs as countries around the world eased their COVID-19 restrictions. There was an increased need to support the workforce in navigating a high inflationary period through a combination of salary rises and cost of living payments, whilst higher energy prices, acquisition related costs and the amortisation of development costs also added to the overall increase.

The Group continued with a strong level of R&D investment focused at capitalising on the secular growth expected from the market and application areas being targeted. R&D expenditure for the year was slightly up in absolute terms at £5.13m (FY22: £4.79m) but expressed as a percentage of sales, fell to 25% (FY22: 28%). Of this amount, £0.68m was expensed (FY22: £1.26m) with the balance capitalised under the Group's research and development policy.

Operating profit

As per the previous financial year, a strong sales performance supported by stable gross margins drove the Group's profit from operations before exceptional items to £2.93m (FY22: £1.21m) with other operating income contributing £0.20m (FY22: £0.08m). This results in a doubling of the operating margin before exceptional items to 14% (FY22: 7%) and is particularly pleasing given the industry-specific headwinds over recent years along with the prevailing inflationary climate.

Profit before tax

Excluding the exceptional profit realised from the sale of excess land at the Group's Oval Park Headquarters, profit before tax and exceptional items improved by 77% to £3.16m and included net finance and other income of £0.23m (FY22: £0.57m).

As reported in recent years, the Group has been actively engaging with the local authority and interested parties to obtain planning permission on and subsequently dispose of excess land at the CML Group headquarters in Essex, UK. During the period leading up to the financial year end, detailed planning permission was obtained on two separate parcels of land along with outline planning permission for a business park on a third plot. One land parcel was successfully divested during March 2023 and the profit from that transaction amounted to £2.06m. While there is no certainty on the timing for realising value from the remaining excess land, the Company continues to engage with interested parties and currently expects to conclude the disposals during the next twelve months.

The total profit before tax recorded for the year was £5.22m (FY22: £1.74m).

Profit after tax

The Group continued to benefit from the R&D tax credit scheme that has existed for some years in the UK. For the year under review, tax assessed for the period is lower than the 19% standard rate of corporation tax in the UK, providing an effective tax rate of 7.8%.

Group Managing Director's review continued

Financial review continued

EPS

Excluding the exceptional property transaction previously mentioned, fully diluted earnings per share for the year climbed by 161% to 19.20p (FY22: 7.35p). When profits from the land sale are included, diluted earnings per share equated to 29.93p (FY22: 7.35p).

Dividend

The Board is proposing a final dividend of 6p (FY22: 5p), giving a full year dividend of 11p (FY22: 9p) as communicated In the Chairman's Statement.

Cash

The Group's cash reserves as at 31 March 2023 were £22.26m, including short-term cash deposits of £1.22m. This represents a reduction of £2.78m from the prior year equivalent date (31 March 2022: £25.04m) primarily due to R&D cash spend of £5.13m, net share buybacks totalling £3.65m, dividend payments of £1.59m and a £0.93m investment in capital equipment. Whilst the total net cash inflow from operating activities was £5.41m and from investing activities the sale of land at £2.50m.

Inventories

Raised inventory levels have been an intentional element of the Group's approach to addressing semiconductor supply chain disruptions that have been a feature in recent years and in support of an expanding product range. At 31 March 2023, inventories were valued at £2.43m (FY22: £2.26m) with 38% being held as raw material (FY22: 39%) and the balance either work In progress or as finished goods.

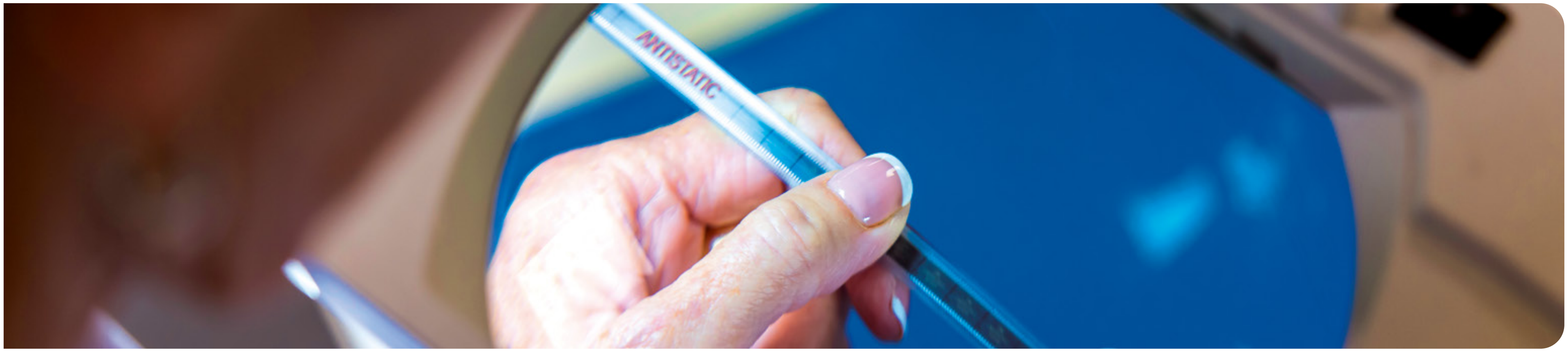
Pension schemes

The Group operates several pension schemes globally, mostly of a defined contribution nature. In the UK, the Company historically operated a defined benefit scheme that was closed to new members on 1 April 2002 and to future accruals in 2009. The funding position of this scheme improved through the year when calculated under IAS 19 methodology, with a deficit of £1.20m being recorded (2022: £2.44m).

Separately, the most recent actuarial estimate carried out by an independent professionally qualified actuary, as at 31 March 2023 and based upon existing funding principles, indicated a net pension surplus with the funding level at 112%. 2023 is an actuarial valuation year with the formal triennial valuation not expected to be published until early 2024.

All administrative expenses of running the scheme are met directly by the scheme along with pension protection fund levies.

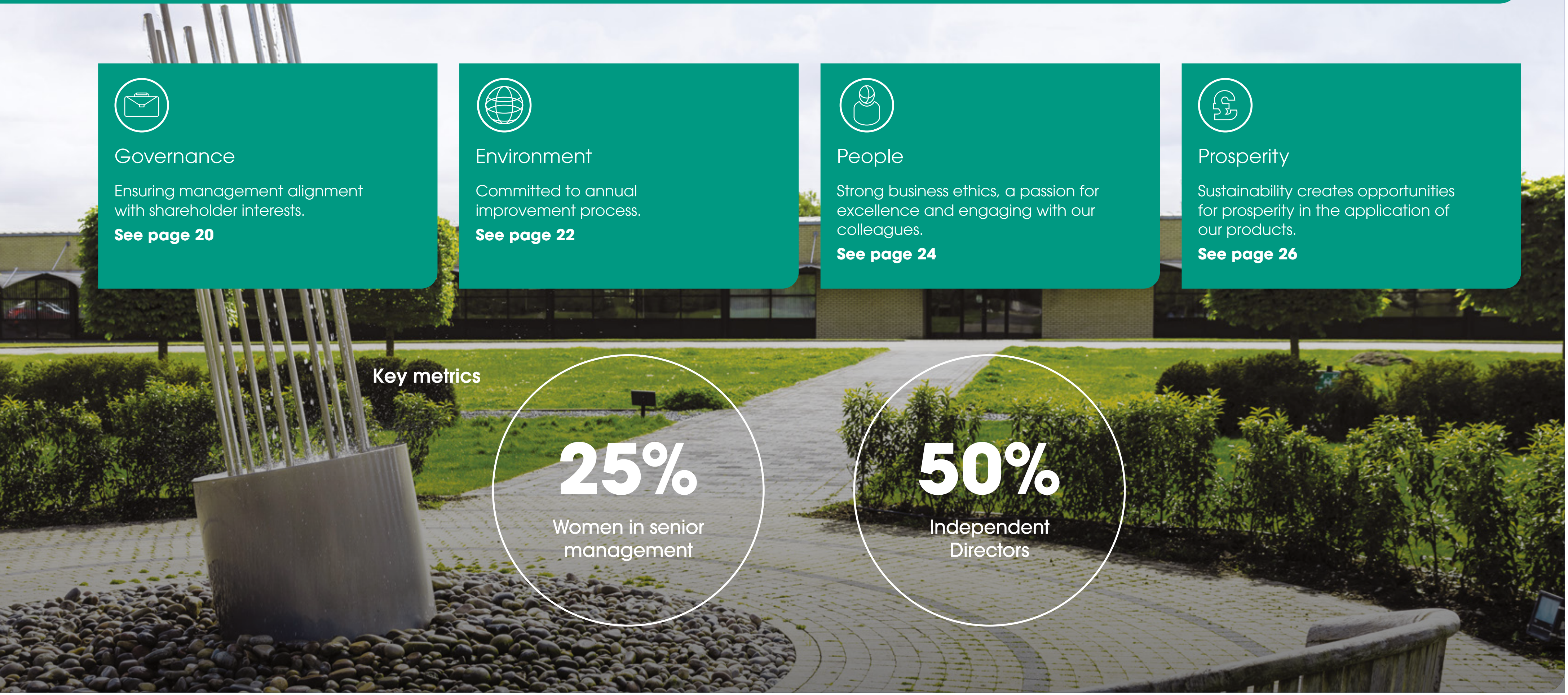
Chris Gurry
Group Managing Director
26 June 2023



Environment, social and governance

CML has adopted the WEF framework around four pillars of themes – Principles of Governance, Environment, People and Prosperity.

> Over the course of the next few years we aim to refine our sustainability strategy and update our stakeholders on the progress against our material ESG factors and indicators.



Governance

Ensuring management alignment with shareholder interests.

See page 20

Environment

Committed to annual improvement process.

See page 22

People

Strong business ethics, a passion for excellence and engaging with our colleagues.

See page 24

Prosperity

Sustainability creates opportunities for prosperity in the application of our products.

See page 26

Key metrics

25%
Women in senior management

50%
Independent Directors

Environment, social and governance continued

Our sustainability and society strategic pillars

Our corporate vision, values and guiding principles define our sustainable business model.

Our business is founded on our vision to be the first-choice semiconductor partner to technology innovators, together transforming how the world communicates.

Our technological innovation helps improve communication, which enables solutions for economic, environmental and social issues to be developed.

In turn, this enables our customers to reduce their environmental impact through technology and innovation, and creates value for all stakeholders.

We are on a journey to explain and enhance our sustainability and environmental, social and governance (ESG) credentials as a business, and are constantly reviewing opportunities to improve disclosure and engagement with stakeholders.

Our priorities for the business include creating a positive environment impact, keeping our employees safe, ensuring product reliability and sustainability for the business and communicating our strategy to stakeholders.

Vision, values and guiding principles

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.

Environment, social and governance continued

Governance

Our sustainability framework is based on the strategic pillars of Environment, People and Prosperity.

These encompass our material ESG factors, which are key to defining our sustainability priorities and formulating our future sustainable strategy.

Accountability

Having due regard for the size, structure and constitution of the business and with a keen eye on ensuring management alignment with shareholder interests, CML takes good corporate governance seriously. Over many years, the current executive management team have demonstrated a high degree of ethical practice in steering the business through good times and bad, whilst having due regard for all stakeholders and achieving the right balance between reward and investment in the future. Our commitment to sustainability is embedded in good governance, which is the foundation of our corporate strategy. Our Executive Chairman is responsible for formal Board oversight of sustainability, where economic, environmental and social issues are considered when overseeing the Company's strategy and goals.

Sustainability updates on the Company's ESG performance are presented to the full Board on an annual basis at a minimum and include ESG-related risks and opportunities.

Environment, social and governance continued

Policies

The Company has a range of corporate policies to ensure we act in line with our vision, values and guiding principles, which includes an emphasis on strong business ethics and acting with integrity and transparency. With an established approach to Board-level oversight, we will continue to inform and evolve our policies and oversight processes.

We are committed to the following corporate policies to control and reduce the risks associated with business activities, providing clear processes and channels for employees to report concerns and promoting a corporate culture that provides equal opportunities. The Group is committed to good conduct and to honest and ethical business practices.

- Anti-corruption and bribery.
- Anti-harassment and bullying.
- Social media.
- Whistleblowing.
- Equal opportunities.

Data governance

The Group has a responsibility to maintain high data governance standards to securely look after the data it holds.

Cyber security

In the fast-evolving cyber landscape, the Group has upskilled employees and deployed new security and monitoring tools. The Group will continue to develop and adjust security strategy and plans accordingly.

Stakeholders

We are committed to operating with transparency and open communication, working to develop trusted relationships with all stakeholders, including employees, customers, suppliers and our local communities. We believe that effective engagement with our stakeholders is fundamental to maximising value for CML and securing our long-term success.

This year we have engaged with a spectrum of stakeholders in relation to the planning permission granted for the development of the brownfield site at our Oval Park headquarters in Langford, Essex.

Case study

Oval Park development

Planning approval has been granted at our headquarters in Langford. The transformation of the brownfield site is expected to bring over 200 jobs to the district by 2024 and potentially more in the coming years along with the relocation of world leading organisations.

Environment, social and governance continued

Environment

We believe that all businesses are responsible for achieving good environmental practice and operating in a sustainable manner.

Absolute emissions have decreased by

30.16%

Reduction in energy usage estimated

22,000

kWh per year

Environment, social and governance continued

More recently, Environmental concerns have risen to the fore and companies are being challenged more and more to embrace and act upon policies that reduce the impact the business has on the Environment. Similar ethical principles apply – CML endeavours to do things responsibly. We are committed to an annual improvement process whereby we will tell stakeholders what we do and where we are addressing relevant areas for improvement.

The Group's aim is to minimise its environmental impact and to implementing environmental best practices where appropriate. We conduct our operations in a manner that is expected to achieve the following environmental objectives.

- Comply with/or exceed the requirements of the relevant environmental legislation governing the business operations.
- To use energy and water resources efficiently for the purpose.
- Minimise waste production, as far as is reasonable and practical, and to control the treatment and disposal of waste produced.

During the year, as part of our implementation we:

- promoted environmental awareness using biodegradable packing materials; and
- continued to minimise waste through reuse and recycling.

Climate change

We are aware of the ongoing impact of climate change, which brings serious environmental, economic and social challenges. Technology and innovation play a critical role in helping to sustain our planet, address environmental challenges, create efficiencies and respond to the needs of stakeholders.

We are continually seeking ways to reduce our environmental footprint through efficient energy use and responsible use of materials. In particular, we are focused on reducing climate risks related to our direct climate footprint and the emissions from our own operations.

Energy management

To combat the growth of greenhouse gas (GHG) emissions, the Board continues to develop a range of carbon-reduction initiatives to manage global operations effectively and efficiently.

We have targeted a series of initiatives to improve energy usage, including:

- successful installation of solar panels at our UK head office at Oval Park, Langford, saving an average of 166,000 kWh each year, further installation of solar panels is planned for the current year which is estimated to save a further 66,000 kWh each year with an overall estimated average saving of 232,000 kWh each year;
- switched to LED lighting at our Langford premises, with an estimated energy saving of £15,000;
- successful installation of BMS system has enabled us to reduce the run times of our plant through optimisation, leading to a usage saving of 104,000 kWh per year; and
- offering electric vehicle charging at our Langford site and providing bike storage across all our UK sites.

We recognise the importance of reporting against Scopes 1 and 2 emissions and to help improve our carbon accounting for Scope 3 emissions in the future, we are committed to continuously reviewing our data collection processes to become better informed. This will help to reduce the upstream and downstream impact of those emissions in the future.

As well as improving efficiency in energy consumption, we are also aiming to increase our contribution to the circular economy through increased recycling and reducing waste. Consumption of water on our sites is low and we have extraction rights for use on our land at Langford. Much of the waste that we generate is tied to our offices and manufacturing facilities.

Resource efficiency

Our facilities are equipped with recycling sites for paper and plastic and we encourage the conservation of water and other resources.

We encourage employees to recycle. As a company, we ensure all our general waste is sorted into recyclable and non-recyclable items by our refuse collectors, where it is taken to a materials recovery facility, separated and recycled accordingly. We also have dedicated cardboard and paper waste collection points.

At the materials recovery facility, non-recyclable waste is shredded and used as refuse-derived fuel.

Supply chain

We continue to work with suppliers to strengthen our supply-side capabilities as global sustainability challenges grow. We are continually assessing our design and manufacturing processes to minimise the consumption of resources through energy efficiency and reducing waste.

Environment, social and governance continued

People

Our goal is to cultivate a diverse and respectful work environment where employees can thrive and innovate.

We support all our employees with the successful implementation of our guiding principles in their daily work, development and training.

Diversity

For us, the acceptance and inclusion of employees of all backgrounds, without discrimination is a key asset since it acknowledges the individual strengths of each employee and the potential they bring.

Growth (based on FTE)

Our workforce grew by 5% year-on-year, reflecting our continual ability to attract high calibre people to the Group and retain them.

Within the principles, we have a clear strategic focus on strong business ethics, a passion for excellence and listening and engaging with our colleagues on improving our ways of working, which support the business to drive a more diverse and inclusive workplace.

We view the social aspect of running a business as 'common sense'. Simply put, we look after our employees, we pay suppliers fairly and we focus on the long term. If we did not, then we would not have a sustainable business. We also try to play an active role by supporting organisations that benefit the local community. We did not have a name for that before – now it is the 'S' in the Environmental, Social and Governance (ESG) agenda.

Human capital

We continue to build a safe working environment to attract and retain a skilled global workforce that is diverse and inclusive, helping to drive innovation and sustainability.

Environment, social and governance continued

Employee health, safety and wellness

Employee wellbeing remains an important focus for the Group and the health and wellbeing of staff make a vital contribution to sustained success, evidenced by our low rates of work-related ill health, low staff turnover and staff absences. The Group recorded no work-related fatalities and a low incidence of lost time due to injury and absenteeism.

During 2023, we had two minor incidents and no significant injuries across all our businesses. All incidents are followed up with changes to procedures and/or training of our employees as appropriate to prevent recurrence.

Cost-of-living crisis

During 2023, a cost-of-living crisis has been triggered due to the combined impact of COVID-19 and the various economic effects of the Russian invasion of Ukraine. During these uncertain times, the Group has supported employees globally through a mixture of salary increases and cost-of-living payments.

Development and training

We are committed to enhancing our human capital through excellent recruitment, staff retention, succession planning and staff development.

Valuing and enhancing the development of employees is important and we encourage the training of all employees to maintain high professional standards and inspire innovation, and we support them in developing their individual skills.

We are developing our initiatives to enhance and record staff training and development programmes focusing on management development and approaches.

Staff benefits

Various benefits in relation to pensions and healthcare in line with local employment standards are offered to employees.

Following a Company-wide review during the year, our employees continue to be paid above the National Living Wage and we follow local and national minimum wage values globally.

Workforce inclusion

As a Group, we encourage people from all backgrounds to thrive and achieve their full potential. We understand that inclusivity should be included in everyday practice and encourage employees to be curious, communicate and learn from others.

Our work environment is a place where everyone can thrive without discrimination or harassment. We offer a supportive environment, with a diverse workforce, whom we support and listen to.

Providing an excellent workplace is evidenced through employees having long staff tenure and low staff turnover.

Our average length of service is 19 years, with 43% of our team having worked for our businesses for more than ten years.

Staff turnover has always been low and in 2023 was 6.67% of our workforce, below the UK average. We calculate this figure as the number of leavers in the year (excluding any retirements) divided by the average annual number of staff.

Breakdown of employees as at 31 March by gender and management

	2023			2022		
	Male	**Female**	**Total**	Male	Female	Total
Plc Board Directors	**4**	**—**	**4**	4	—	4
Senior managers	**9**	**3**	**12**	8	3	11
Staff	**84**	**39**	**123**	81	37	118
Total	**97**	**42**	**139**	93	40	133

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

Environment, social and governance continued

Prosperity

Sustainability not only creates opportunities in the application of our products that provide critical solutions for environmental or social impact, but also in the way we do business and interact with our employees, suppliers, communities and wider society.

Innovation

Technical innovation is a strategic pillar and is a fundamental contributor to the Group's success.

Digital technology trends are transforming the world at an accelerated pace and communication and connectivity will be fuelled by, amongst other things, 5G adoption. These trends are the building blocks for an increasingly smart and connected world.

CML requires constant innovation in order to respond to changes in market fundamentals and wider society. This innovation is also fostered through diverse perspectives and is imperative for value creation, for the benefit of all stakeholders.

Successful innovation through research and development (R&D) is the heart of our business, leading to new products and improvements to existing ones, which we seek to protect through our intellectual property (IP). CML continues to make significant investments in R&D.

Our IP portfolio includes patents, copyrights, trademarks and other rights within professional and industrial voice and data communications products.

Environment, social and governance continued

Giving back to communities

Trust and respect are part of the Company's core values and we value the importance of giving back to our local communities.

We encourage our employees to support charitable causes and make an impact within the communities by aiming to foster a sense of local and social inclusivity. Being based in a community environment, we aim to help local communities and support groups as much as possible.

We continue to offer our support where we believe a difference can be made but are aware that there is always room for improvement and the possibility to offer more support.

Case study

Essex skating team

We encourage all our staff to take an active role in the local community and local sporting clubs, and the Company has actively engaged in providing support to the Essex Speed Skating Club, an amateur sports team that has been using our head office facilities in the UK.

Collaboration

We are collaborating with others to influence industry-wide improvements.

We are proud to be members of the International Association of Marine Aids to Navigation and Lighthouse Authorities (IALA) the Digital Radio Mondiale (DRM) Consortium and the European Telecommunications Standards Institute (ETSI).

IALA encourages its members to work together in a common effort to harmonise Marine Aids to Navigation worldwide and to ensure that the movements of vessels are safe, expeditious and cost-effective while protecting the environment.

DRM is the universal, openly standardised digital broadcasting system for all broadcasting frequencies. DRM digital radio can save broadcasters up to 80% in energy and maintenance costs.

Several Group employees sit on technical committees that form ETSI, a European Standards Organization (ESO), which is recognised as the regional standards body dealing with telecommunications, broadcasting and other electronic communications networks and services.

Local community and government

As part of our ongoing engagement and discussion with the local community, we have been engaged with Langford and Ulting Parish Council and Maldon District Council for the redevelopment of Oval Park.

With the granted planning permission we believe that Oval Park will provide a significant economic impact to the Maldon District, the transformation of the brownfield site will bring jobs to the area along with the relocation of two world leading organisations.

Environment, social and governance continued

Our environment, social and governance framework

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

Environmental	Units	Group	Comments (intensity ratio per £m)
Energy consumption	MWh/£m	58.00	Energy consumption per unit of revenue
CO_2 production	tonnes/£m	11.00	CO_2 production per unit of revenue
Water consumption	m³/£m	71.00	Water consumption per unit of revenue
Waste production	tonnes/£m	69.00	Waste production per unit of revenue

Social	Units	Group	Comments
Employee turnover rate	%	8.15%	Proportion of employees leaving (including retirements) the business in the last FY
% tax paid	%	7.8%	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	Group	Comments
% women in senior management positions	%	25%	Proportion of women currently in senior management positions
% Independent Directors on Board	%	50%	Proportion of Independent Directors on the Board
CEO pay as multiple of UK median	times	7.06 times	CEO cash compensation divided by UK median pay of £33,280
Is CEO and Chairman/President role split?	yes/no	yes	
Corporate governance	yes/no	yes	Follow the QCA code as appropriate for an AIM listed company on the London Stock Exchange (see Corporate governance section)
Governance: Board Director responsible for sustainability and ESG	yes/no	yes	Executive Chairman, Board-level appointment and accountability for sustainability and ESG

Environment, social and governance continued

Greenhouse gas emissions in tonnes of CO_2 equivalents

Tonnes of CO_2e	**2023**	**% of total emissions**	2022	% of total emissions
Scope 1	**112.92**	**47.79%**	130.78	38.66%
Scope 2	**123.35**	**52.21%**	207.54	61.34%
Total controlled emissions	**236.27**	**100.00%**	338.32	100.00%

Source of emissions

Tonnes of CO_2e	**2023**	**% of total emissions**	2022	% of total emissions
Scope 1				
Fuel – vehicles	**13.57**	**5.74%**	15.97	4.72%
Gas – heating	**99.34**	**42.05%**	114.80	33.94%
Refrigerant	**0.01**	**0.00%**	0.01	0.00%
Total Scope 1 emissions	**112.92**	**47.79%**	130.78	38.66%
Scope 2				
Electricity – office and manufacturing	**123.35**	**52.21%**	207.54	61.34%
Total Scope 2 emissions	**123.35**	**52.21%**	207.54	61.34%

Geographical breakdown

2023 tonnes of CO_2e	**Scope 1**	**Scope 2**	**Total**	**% of total emissions**
UK	**109.55**	**115.07**	**224.62**	**95.07%**
US	**0.00**	**0.00**	**0.00**	**0.00%**
Singapore	**0.00**	**1.88**	**1.88**	**0.80%**
China	**3.37**	**6.40**	**9.77**	**4.13%**
Total emissions	**112.92**	**123.35**	**236.27**	**100.00%**

2022 tonnes of CO_2e	Scope 1	Scope 2	Total	% of total emissions
UK	127.43	198.95	326.38	96.47%
US	0.00	0.00	0.00	0.00%
Singapore	0.00	2.07	2.07	0.61%
China	3.35	6.52	9.87	2.92%
Total emissions	130.78	207.54	338.32	100.00%

Environment, social and governance continued

Intensity of emissions

Tonnes of CO_2e/£m turnover	**2023**	2022
Scope 1	**5.47**	7.72
Scope 2	**5.98**	12.25
Total	**11.45**	19.97

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 tables above demonstrate that absolute emissions have decreased by 30.16%; the Group continues to review its carbon footprint and introduce measures to reduce this going forward.

Energy consumption

MWh of energy consumed	**2023**	**% of total emissions**	2022	% of total emissions
UK	**1,144**	**96.13%**	1,478	97.11%
Overseas	**46**	**3.87%**	44	2.89%
Total energy consumed	**1,190**	**100.00%**	1,522	100.00%

The UK energy consumption relates to gas and electricity for manufacturing plants of 684 MWh (2022: 884 MWh) and offices of 460 MWh (2022: 594MWh).

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 2022 Full Set published in June for business, energy and industrial strategy.

Section 172 statement

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

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 long-term success and maintain mutually beneficial relationships.

Our strategy has identified addressable markets, including a number of key growth areas such as critical infrastructure (public utilities, smart grid, RFID), 5G (repeaters, small/picocells, 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.

How we engage with our stakeholders

Shareholders

Group strategy is aimed at driving growth and creating value for our shareholders.

Why our stakeholders are important to us

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.

How have we engaged with them?

We engage with shareholders through our reports, regular news releases, website, Annual General Meeting, investor presentations and one-on-one meetings.

In the year:

- The management team conducted numerous investor meetings coinciding with publication of the Group's annual and half year results, following the announcement of the proposed acquisition of Microwave Technology, Inc. and at various other times throughout the year. The acquisition will expand the Group's product portfolio, strengthen and enhance its existing resources and increase market share and profitability.
- The Board reviewed shareholder feedback following the investor meetings.
- Undertook a Share Buyback programme for the purpose of reducing the share capital and returning funds to shareholders.
- Management gained further understanding of Environmental, Social and Governance (ESG) requirements following feedback from shareholders and potential investors.

Employees

We have an experienced, diverse and dedicated team of employees that are fundamental to the success of our business.

Why our stakeholders are important to us

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.

How have we engaged with them?

We have an open, collaborative and inclusive structure and engage regularly with our employees. We offer an open-door policy to employees who would like to ask a question or offer a view.

We try to foster a suitable environment to allow them to realise their full potential.

In the year:

- Regular engagement through onboarding and exit interviews.
- General ad-hoc feedback.
- Recognition of long serving employees with Long Service Awards.
- Hybrid working for non-manufacturing employees.
- Cost-of-living support payments.
- Regular performance and development appraisals.
- Company share option scheme and LTIP scheme.

Customers

We serve a broad spectrum of customers across a variety of end markets.

Why our stakeholders are important to us

Without customers the Company cannot survive. They help drive innovation, quality and value.

How have we engaged with them?

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.

In the year:

- Participated in a number of global exhibitions to increase awareness of the Company amongst the end-market participants.
- Extensive advertising both online and in print to raise awareness of the business and communicate new product releases to the target audiences.
- Daily interaction with existing and prospective customers via face-to-face meetings, virtual meetings and on-going customer support via telephone or email.

Section 172 statement continued

How we engage with our stakeholders continued

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.

Why our stakeholders are important to us

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.

How have we engaged with them?

We engage with our suppliers regularly to ensure our quality and commercial objectives are met, along with closer alignment of values.

We strive to maintain continuity of supply through varying global economic and market conditions.

In the year:

- As a group we continue to review our payment practices and ensure we pay our suppliers in line with contractual payment terms.
- Regular dialogue to ensure transparency and engagement to make the best possible decisions for the Group.
- Regular interaction focused on supplier performance and against target quality standards.

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.

Why our stakeholders are important to us

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.

How have we engaged with them?

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.

In the year:

- At our headquarters in Langford with planning permission for the transformation of the brownfield site, bringing jobs to the area along with the relocation of world leading organisations.
- Consideration has been given to carbon-offsetting projects and investment has been made into external consultancy for ESG measurement and guidance.

By understanding our stakeholders, the Board can discuss the potential impact of our decisions on each group, ensuring that we consider likely consequences of any decisions in the long term that affects their needs and concerns in accordance with Section 172 of the Companies Act 2006. As a result, we 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 promote long-term sustainable returns for our shareholders.

Pages 01 to 32 form part of the Strategic Report, which has been reviewed and approved by the Board.

Michelle Jones
Company Secretary
26 June 2023

Directors' report

Board of Directors

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

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

Nigel Clark R
Executive Chairman

Joined:

Nigel joined the Company in 1980.

Skills and experience:

Nigel 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 and on 1 January 2020 he took up the additional post of Group Finance Director on an interim basis. On 1 June 2021 he 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.

Chris Gurry R
Group Managing Director

Joined:

Chris joined the Group in 1994.

Skills and experience:

Chris 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.

Jim Lindop A
Non-Executive Director

Joined:

Jim joined the Company in April 2013.

The Board acknowledges that Jim has held his position for 10 years and feels that he continues to remain independent due to the nature of his involvement within the Group.

Skills and experience:

Jim 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 a member of the Audit Committee.

Geoff Barnes A R
Senior Non-Executive Director

Joined:

Geoff joined the Company in April 2017.

Skills and experience:

Geoff 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.

Senior management team

The Board is supported by an experienced senior management team.

Mark McCabe

CML Microcircuits Managing Director

Skills and experience:

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

Skills and experience:

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

Skills and experience:

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 Fujian 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

Skills and experience:

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

Skills and experience:

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 report

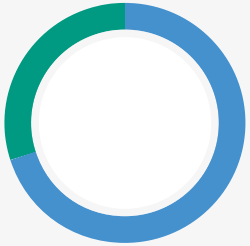
"The Company is committed to high standards of corporate governance."

Nigel Clark
Executive Chairman

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

Directors by role

Company gender diversity



The Directors and Company are committed to high standards of corporate governance and have 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.

The Company has chosen to apply the Quoted Companies Alliance Corporate Governance Code 2018 (the "Code").

The Board is responsible for maintaining and reviewing our corporate governance arrangements and 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. Our Executive team is committed to achieving practices that communicate, implement and reward behaviours that best reflect our values throughout the business.

Maintaining a skilled, well-balanced and experienced Board is of fundamental importance to the long-term success of the business and 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. We continue to consider the balance of skills and experience on the Board to maximise the chances of successfully executing the agreed strategy.

Corporate governance statement

Introduction

In this statement we explain the key features of the Group's corporate governance framework and how it complies with the ten principles of the QCA Code.

01. Establish a strategy and business model which promote long-term value for shareholders	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 customers' first-choice supplier within their advanced communication platforms. Continued investment in growth development across all markets with a clear pipeline of future products and business opportunities to drive organic growth.
02. Seek to understand and meet shareholders' needs and expectations	The Group Managing Director is the principal spokesperson for engagement with shareholders. The Executive Chairman is present at interim and full-year briefings and is otherwise available to discuss any matters of concern with shareholders and stakeholders alike. Communication is with all shareholders, 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.
03. Take into account wider stakeholder and social responsibilities and their implications for long-term success	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. The Company's key stakeholder groups are: • shareholders; • employees; • customers; • suppliers; and • local government and communities. **Shareholders:** 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 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 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 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 attend a variety of regional business meetings throughout the year and attend council events linked to the local community and work with local educational establishments and offer funding for research projects. **Social responsibility:** 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.
04. Embed effective risk management, considering both opportunities and threats, throughout the organisation	The Board has established Audit and Remuneration Committees and, 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 investment. 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.

Corporate governance statement continued

05. **Maintain the Board as a well-functioning, balanced team lead by the chair**	The Group is led and controlled by an effective and entrepreneurial Board that comprises two Executive Directors and two Non-Executive Directors. The Executive Chairman is primarily responsible for the running of the Board and the Group Managing Director is the Chief Operating Decision Maker with responsibility for the day-to-day running of the Group and for implementing Group strategy. The Board's activities are supported by its Nomination, Audit and Remuneration Committees. The Board and its Committees receive high quality, accurate and timely information on a regular basis. The Board meets formally a minimum of four times per year. All the Directors have appropriate skills and experience for the roles they perform at the Company, including as members of Board Committees. 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. The Company is satisfied that the current Board is sufficiently resourced to discharge its governance obligations on behalf of all stakeholders and will consider the requirement for additional Executive and Non-Executive Directors as the Company fulfils its growth objectives. **Board meetings:** The Board meets against a defined reporting timetable and at times in between the scheduled meetings when required. The Board meets formally a minimum of four times per year. During the year ended 31 March 2023, twelve Board meetings were held where all Directors in post participated (2022: 15).
06. **Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities**	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.
07. **Evaluate the Board performance based on clear and relevant objectives, seeking continuous improvement**	The Board evaluates its own performance regularly. Annually the Remuneration Committee evaluates performance as part of the review of remuneration and discretionary bonus awards. The Board and the Remuneration Committee evaluate the Board performance, including, but not limited to, collective skills. Its performance along with that of the individual members is considered on an ongoing basis considering the needs of the Company.
08. **Promote a corporate culture that is based on ethical values and behaviours**	The Board along with the Senior Management team define the core Vision, Values and Guiding Principles of CML Microsystems Plc which supports the objectives of the Company.
09. **Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**	The Company's Corporate Governance Statement as set out in its 2023 Annual Report and Accounts explains the structures which are in place at Board and Committee level and how these interact, including the roles individual Directors fulfil on the Board. The organisational structure is kept under continual review and evolves as the needs of the business change to fulfil its growth objectives. 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.

Corporate governance statement continued

10.
Communicate how the Company is governed and is performed by maintaining a dialogue with shareholders and other relevant stakeholders

CML Microsystems Plc encourages communication with its shareholders as disclosed in principle 2.

The Board welcomes all shareholders to attend the Annual General Meeting. 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.

No Audit Committee Report is included within this statement.

The results of all Annual General Meetings resolutions are announced promptly after the meeting has taken place. The results of all Annual General Meeting resolutions issued in the last five years are available on the Company's website at: https://www.cmlmicroplc.com/news/investor-relations/regulatory-news/.

Historical Annual Reports and the unaudited half-year results for the past five years are available at: https://www.cmlmicroplc.com/news/investor-relations/financial-reports/.

Focus areas this year

Board

Strategy

- Assessing the impact of cost-of-living crisis and cost inflation.
- Generation of potential profit from underutilised assets such as the land at our headquarters in Langford, Oval Park.
- Future acquisitions and mergers continuously reviewed.

Governance

- Oversight and review of actions taken to mitigate the impact of the cost of-living crisis.
- Enhanced our HR operations.

Financial

- Review of share buyback strategy on market share.
- Review of cost impact of inflation.

Remuneration

- Company share option scheme and LTIP scheme.

By order of the Board

Nigel Clark
Executive Chairman
26 June 2023

Directors' remuneration report

Committee members:

Member	Attendance
Nigel Clark Committee Chair	1
Geoff Barnes Senior Non-Executive Director	1
Chris Gurry Group Managing Director	1

Introduction

This report has been voluntarily prepared in accordance with the regulations regarding 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 during 2023.

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. The Board acknowledge that it is a departure from the QCA code for Executives to be members of the Committee. No member of the Remuneration Committee participates in deciding their personal remuneration package. During the year ended 31 March 2023, there was one meeting (2022: two 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 in 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

Purpose and link to strategy	Policy	Operation	Performance conditions
Base salary			
To recognise the 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 market-competitive benefits which drive Executive Directors to deliver the Company's strategy.	Includes a car or car allowance, health cover and death in service cover.	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, which exercises discretion to ensure that longer-term interests of the business are met.
Share options			
To provide Executive Directors with a long-term interest in the Company's long-term targets, encouraging retention and providing greater alignment with shareholders' interests.	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.

Directors' remuneration report continued

Non-Executive Directors

Purpose and link 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 80.	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.

Directors' remuneration report continued

Policy on payment for loss of office

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

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.

Jim Lindop has a service contract effective from 1 April 2022 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 retire by rotation at the AGM in line with the Company's Articles of Association.

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 9 August 2023.

This section of the Directors' Remuneration Report sets out the remuneration paid in 2023 and the proposed remuneration for 2024. This section will be put to an advisory shareholder vote at the 2023 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:

2023	Salary £'000	Benefits in kind £'000	Bonus £'000	Other £'000	Contribution to pension £'000	Total remuneration £'000	Total fixed £'000	Total variable £'000
Nigel Clark	189	13	83	—	—	285	202	83
Chris Gurry	235	19	59	—	28	341	282	59
Geoff Barnes	35	1	—	—	—	36	36	—
Jim Lindop	30	1	—	—	—	31	31	—
	489	34	142	—	28	693	551	142

Directors' remuneration report continued

Single total figure of remuneration (audited) continued

2022	Salary £'000	Benefits in kind £'000	Bonus £'000	Other £'000	Contribution to pension £'000	Total remuneration £'000	Total fixed £'000	Total variable £'000
Nigel Clark	180	13	34	—	—	227	193	34
Chris Gurry	224	19	49	—	27	319	270	49
Hugh Rudden	16	—	—	30	35	81	81	—
Geoff Barnes	35	1	—	—	—	36	36	—
Jim Lindop	30	1	—	—	—	31	31	—
	485	34	83	30	62	694	611	83

Hugh Rudden retired on 31 May 2021. Not included in the above is employers' NIC totalling £106,000 (2022: £76,000).

See the remuneration policy for types of benefits in kind. Bonuses and share options granted are entirely at the discretion of the Remuneration Committee.

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 2023.

Percentage change in Executive and Non-Executive Director remuneration

The table below shows the percentage increase in each Director's salary/fees, taxable benefits and annual incentives between 2022 and 2023 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	5%	0%	>100%
Chris Gurry	5%	0%	20%
Geoff Barnes	0%	0%	0%
Jim Lindop	0%	0%	0%
All employees (in UK)	5%	0%	20%

Share options (audited)

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

	Number of options at 1 April 2022 £'000	Options exercised in year £'000	Options lapsed in year £'000	Options granted in year £'000	**Number of options at 31 March 2023 £'000**	Exercise price	Exercise date
Chris Gurry	30	—	—	—	**30**	£3.51	25 Sept 2018 to 25 Sept 2025[1]
	75	—	—	—	**75**	£2.79	19 Mar 2022 to 18 Mar 2029[1]
	105	—	—	—	**105**		

1. These share options are potentially exercisable.

Directors' remuneration report continued

Share options (audited) continued

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.

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 26 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:

	2023 Number	2022 Number
Defined contribution scheme	**—**	1

Life assurance cover and widows' death-in-service cover was provided under a separate policy for the year ended 31 March 2023.

Company contributions of £28,000 (2021: £62,000) 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 (2022: 65 years). There are no additional benefits that will become receivable by a Director in the event of early retirement.

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 2023. Any movements awarded to salary are shown on page 43 and no external advice was taken in reaching this decision. However, the Committee is aware of the trends in Directors' remuneration within the relevant UK FTSE, SmallCap and AIM markets.

Directors' remuneration for the year ending 31 March 2024

Executive Directors' remuneration was reviewed and revised from 1 April 2023. Annual bonuses are decided at each year end by the Remuneration Committee. Independent Non-Executive Directors' remuneration remain unchanged.

Relative importance of spend on pay

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

	2023 £'000	2022 £'000	Movement £'000	Movement %
Employee remuneration	**9,661**	8,713	948	10.9%
Group Managing Director remuneration	**341**	319	22	6.9%
Distributions to shareholders (interim and final dividends paid)	**1,589**	8,964	(7,375)	(82.3)%

Directors' remuneration report continued

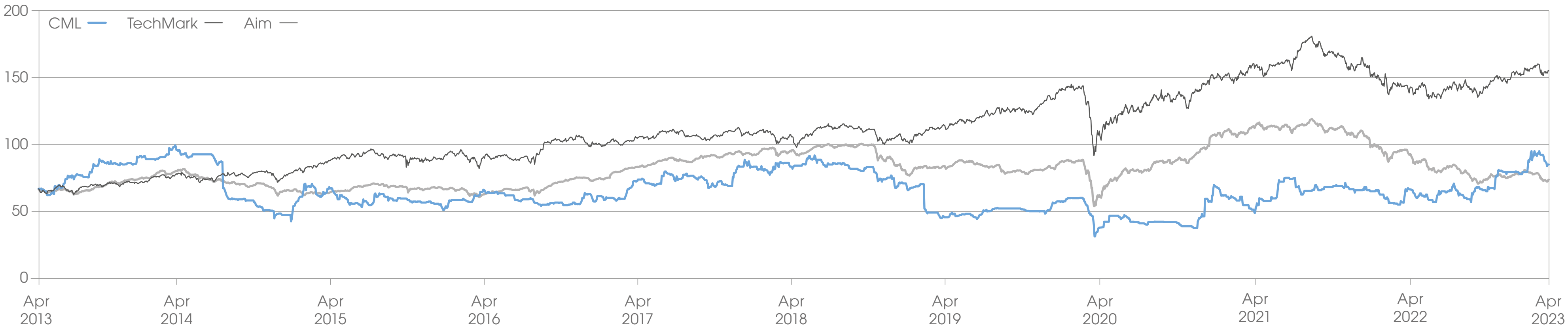
Shareholder voting

At the AGM on 10 August 2022, there was an advisory vote on the resolution to approve the Directors' Remuneration Report, the result of which is detailed below:

	% of votes for	% of votes against	% of votes withheld
Resolution to approve the Directors' Remuneration Report	80.31	19.67	0.02

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 and AIM All Share for the last ten years. The TechMark and AIM All Share have been selected because, in the opinion of the Board, these are the most appropriate comparisons for benchmarking the Company.



On behalf of the Board of Directors

Nigel Clark
Chairman of the Remuneration Committee
26 June 2023

Directors' report

The Directors submit their report and Group financial statements for the year ended 31 March 2023 in addition to the Directors' Remuneration Report on pages 40 to 46.

The Directors referred to on page 34 all served throughout the year ended 31 March 2023.

Corporate governance statement

The Group follows the Quoted Companies Alliance Corporate Governance Code 2018 (the "Code"), details of which can be found on pages 36 to 39.

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 32 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 11.

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 5p per 5p ordinary share was paid on 16 December 2022 to shareholders on the Register on 2 December 2022.

The Directors are proposing to pay a final dividend of 6p per 5p ordinary share, taking the total dividend amount in respect of the year ended 31 March 2023 to 11p (2022: 9p total dividends).

Post balance sheet events

In April 2023 the Company put in place a share buyback programme of £1,750,000 for the principal purpose of reducing the issued share capital of the Company.

On 17 January 2023, CML Microsystems Plc entered into a definitive agreement to acquire a Silicon Valley based semiconductor company, Microwave Technology, Inc (MwT), which is subject to US regulatory clearance process.

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 29 and future developments in the Group Managing Director's Review on page 13. 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 2023 comprised a single class of ordinary shares. Details of movements in the issued share capital can be found in note 27 to the financial statements. Each share carries the right to one vote at general meetings of the Company. During the period the Company purchased 1,181,447 shares and cancelled 1,747,280 shares, 360,625 ordinary shares (2022: 109,247 ordinary shares) in the Company were issued under the terms of the various share option schemes and held in treasury 72,634 ordinary shares with a nominal value of 5p (none of which were purchased off market).

Directors' report continued

Restrictions on transfer of securities

There are no specific restrictions on the transfer of securities in the Company, which is governed by the Articles and prevailing legislation. Nor is the Company aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

Variation of rights

Subject to applicable statutes, rights attached to any class of shares may be varied with the written consent of the holders of at least 75% in nominal value of the issued shares of that class, or by a special resolution passed at a separate general meeting of the shareholders.

Rights and obligations attaching to shares

Subject to the provisions of the Companies Act 2006, any resolution passed by the Company under the Companies Act 2006 and other shareholder rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board (as defined in the Articles) may decide. Subject to the Articles, the Companies Act 2006 and other shareholder rights, unissued shares are at the disposal of the Board.

Powers for the Company issuing or buying back its own shares

The Company was authorised by shareholders, at the 2022 AGM, to purchase in the market up to 2,386,000 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 2,325,000 ordinary shares of 5p at this year's AGM.

The Directors were granted authority at the 2022 AGM to allot relevant securities up to a nominal amount of £530,424. 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 £517,004.

Purchase of own shares

Details of the Company's share capital are shown in note 27 to the financial statements.

The Company was authorised at the 2022 AGM to purchase its own shares. During the financial year the Company purchased 1,181,447 shares and cancelled 1,747,280 shares and held in treasury 72,634 ordinary shares with a nominal value of 5p (none of which were purchased off market) at the end of the financial year. The Company has implemented a further share buyback programme post year end as detailed within post balance sheet events.

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 20 June 2023, 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	12.33%
Otus Capital Management	Institutional investor	10.14%
M. I. Gurry	Private investor	8.61%
C. A. Gurry	Director	8.28%
T. M. R. Dean	Private investor	8.18%
Herald Investment Management	Institutional investor	6.95%
Liontrust Asset Management	Institutional investor	4.15%
Schroder Investment Management Limited	Institutional investor	3.78%
Hargreaves Lansdown	Institutional investor	3.38%
Charles Stanley Investment Management	Institutional investor	3.25%

Directors' report continued

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 (2022: 30 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 are held for resale in both the Group and Company which comprises of freehold and long leasehold land and buildings. Lambert Smith Hampton, Commercial Property Consultants, professionally valued at the last triennial review as at 31 March 2021 and the Company's investment property is held for sale on the basis of open market value. As at 31 March 2023, the investment property has been valued by Directors who consider a valuation of £1,995,000 to continue to be a fair value.

Directors and their interests

The Directors of the Company at 31 March 2023, 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 2023	31 March 2022
Nigel Clark	**24,600**	24,600
Chris Gurry	**1,284,152**	908,816
Geoff Barnes	**17,000**	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 2023 and 20 June 2023. 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 2023, 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 one ordinary resolution 8 and three special resolutions, 9, 10 and 11, relating to the following matters:

Special business ordinary resolutions

- 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 27. 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.

Directors’ report continued

Financial instruments

Further information regarding the financial risk management policies and objectives is provided in note 22.

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

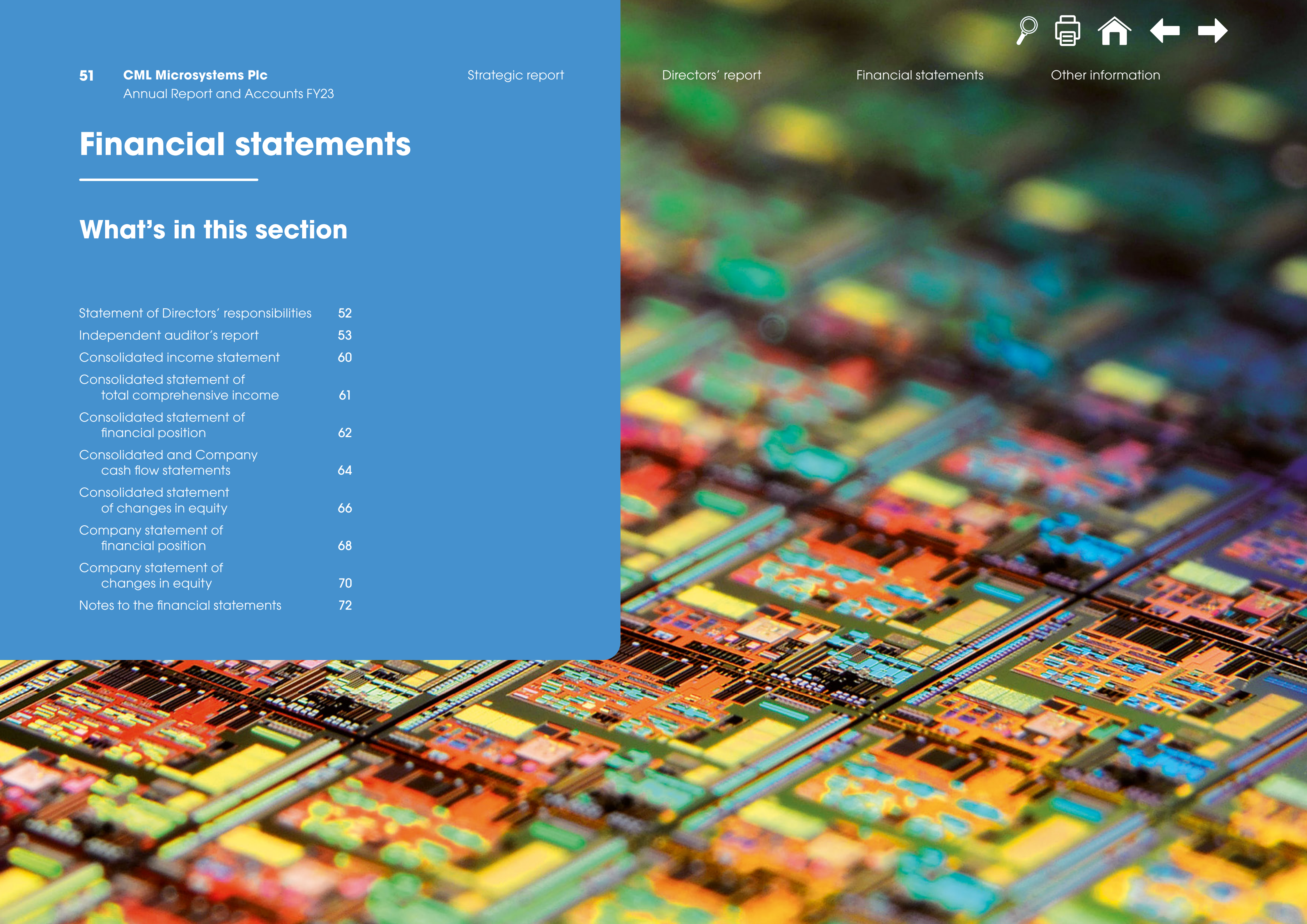
A resolution to re-appoint BDO LLP, as auditor of the Company will be put to the members at the forthcoming Annual General Meeting.

By order of the Board

Michelle Jones
Company Secretary
26 June 2023

Financial statements

What's in this section



Statement of Directors' responsibilities

in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group and Company financial statements in accordance with UK adopted international accounting standards. 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 Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted international accounting standards subject to any material departures disclosed and explained in the financial statements; and
- 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of CML Microsystems Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2023 which comprise the Consolidated income statement, the Consolidated statement of total comprehensive income, the Consolidated statement of financial position, the Consolidated and Company cash flow statements, the Consolidated statement of changes in equity, the Company statement of financial position, the 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 their preparation is applicable law and UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the 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 entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the Directors' cash flow forecasts and evaluating the key assumptions in respect of revenue growth, gross profit margins, cash generation and the potential impact of key provisions with reference to our knowledge of the business, its historical performance and results;
- Checking the mathematical accuracy of forecasts and critically assessing the integrity of the forecast model by analysing the assumptions and data verifying the information to supporting documentation, along with confirming its consistency with approved forecasts;
- Evaluating sensitivity analysis and reverse stress tests prepared by the Directors in relation to the Group's cash flow forecasts by checking that the stress tests left the Parent Company and Group in a positive cash position whilst considering the likelihood of the stressed scenarios occurring. The analysis considered reasonably possible adverse effects that could arise as well as a stress test to consider the level of future revenue reduction the Group could support; and
- Considering the adequacy of disclosures in the financial statements to check they are in accordance with the directors going concern assessment.

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 and 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.

Independent auditor's report continued

to the members of CML Microsystems Plc

Overview

Coverage	96% (2022: 94%) of Group profit before tax 95% (2022: 96%) of Group revenue 98% (2022: 99%) of Group total assets
Key audit matters	2023: Intangible assets – Capitalised development costs Carrying value of goodwill 2022: Intangible assets – Capitalised development costs Carrying value of goodwill
Materiality	Group financial statements as a whole £155,000 (2022: £86,000) based on 5% of adjusted Profit before tax, removing profit on sale of land in the year (2022: 5% of Profit before tax)

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group operates through a number of legal entities, which form reporting components, consistent with those included in Note 18. CML Microsystems Plc, CML Microcircuits UK Limited, and Wuxi Sicomm Technologies, Inc are significant components and were subject to full scope audits.

The audit of Wuxi Sicomm Technologies, Inc. included the audit of its subsidiary entity, Shanghai Futiake Investment Consulting Co., Ltd which is a non-significant component.

CML Microcircuits (USA) Inc. and CML Microcircuits (Singapore) Pte Limited also constitute significant components. Balances and transactions have been audited to component materiality as the entities were considered part of the same significant component that contains CML Microcircuits (UK) Limited due to the trading relationship between the entities. PRFI Limited was considered to be a non-significant component and was subject to desktop review procedures. All audits and desktop review procedures were completed by BDO LLP except for the audit and agreed upon procedures of the sub-group headed by Wuxi Sicomm Technologies, Inc., which was completed by non-BDO member firm local component auditors.

Our involvement with component auditors

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with component auditors included the following:

- Audit scoping and planning meeting with local component auditors held remotely;
- Provision of group engagement instructions for the year ending 31 December 2022, being the component financial year end, containing information on the significant risks at group and component level, materiality calculations, summary of significant audit and accounting issues, specific procedures and communications required and considerations in respect of laws and regulations, fraud and irregularities;
- Provision of agreed upon procedures to be performed by the component auditors covering the period from 1 January 2023 to 31 March 2023 and as at 31 March 2023;
- Remotely attending audit progress meeting with local component auditors;
- Review of group reporting information provided;
- Remote review of component auditors audit file and results of agreed upon procedures performed; and
- Remotely attending audit completion meeting with local component auditors.

Key audit matters

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

Independent auditor's report continued

to the members of CML Microsystems Plc

An overview of the scope of our audit continued

Key audit matter		How the scope of our audit addressed the key audit matter
Intangible assets – Capitalised development costs The group's accounting policy is described in note 1f with information relating to critical accounting judgements being given in 1r. Further analysis of the Group's development costs is included in note 15	The Group has significant amounts capitalised as development costs as it has continued to develop its product portfolio. There is a risk over whether costs have been correctly capitalised in accordance with accounting standards and there is a degree of Management judgement involved in determining the appropriate point at which costs can be determined as development costs as opposed to research costs. Further to this, there is a risk that the internally generated intangibles useful economic life is inappropriate. We considered this to be a key audit matter due to the volume of expenditure and judgement involved as noted above.	Our audit procedures included the following: • Reviewing management's Review of Accounting Treatment for Research and Development Costs workpaper against the key criteria of IAS 38 Intangible Assets with regards to the capitalisation of internally generated intangible assets and scrutinising management's accounting policies regarding the capitalisation of development costs and the useful economic life over which they are amortised. • Holding discussions with management and other key members of staff outside of the finance team to gain an understanding as to what products are being developed. • Obtaining an understanding of the internal costs that are being capitalised and assessing whether these are in line with IAS 38, specifically considering the percentage at which payroll costs are being capitalised and whether this percentage is appropriate based on their job role and actual work performed on a daily basis. • Agreeing a sample of employees whose payroll costs have been capitalised back to underlying employment contract, checking the job description is consistent with a systems or test engineer. • Assessing the key assumption that a percentage of costs incurred by each cost centre should be capitalised by tracing a sample of these costs back to supporting documentation and checking that it was appropriate to capitalize these in accordance with the requirements of the applicable accounting standards. • Critically assessing the key assumption that the development costs should be amortised over a period of six years from when the product is in use by reviewing management's assessment of the useful economic life together with the revenue generation profile for a sample of products. Key observations: Based on the procedures performed, we found management's judgements and estimates used in the capitalisation of development costs to be appropriate and in line with the requirements of IAS 38.
Carrying value of goodwill The group's accounting policy is described in note 1e with information relating to the key sources of estimation uncertainty being given in 1r. Further analysis of the Group's goodwill is included in note 13.	The Group has recognised £7.429m in respect of goodwill arising on consolidation. Management and the Board are required to perform an impairment review which would indicate whether the carrying value of the goodwill at 31 March 2023 is impaired. Management is required to include appropriate disclosure in the financial statements in relation to key estimates and judgements. Due to the materiality of the goodwill and the sensitivity of the inputs into the impairment review we considered this to be a key audit matter.	Our audit procedures included evaluating Management's impairment assessment. In doing so, our procedures included the following: • Assessing the integrity of the model by considering whether the methodology applied in the annual impairment testing was consistent with the requirements of accounting standards. • Reviewing management's impairment assessment based on our knowledge of the Group's business, performance to date and from discussions with management. • Reviewing and challenging the assumptions underpinning the forecasts and the other inputs into the value-in-use model, including considering the historical accuracy of previous forecasts. This included assessing the appropriateness of the discount rate applied, which was done with the assistance of our internal valuations experts, as well as revenue growth rates, expected profit margins and terminal value; • Assessing the appropriateness of the different scenarios used by management in assessing of the recoverability of goodwill; • Performing our own sensitivity analysis in respect of discount rates and revenue growth rates using this to challenge Management's sensitivity assessments, as well as comparing the related disclosures to the relevant accounting standards. Key observations: We found Management's conclusion that the goodwill is not impaired at 31 March 2023 to be acceptable and the impact of sensitivities appropriately disclosed.

Independent auditor's report continued

to the members of CML Microsystems Plc

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2023 £	2022 £	2023 £	2022 £
Materiality	155,000	86,000	147,000	81,000
Basis for determining materiality	5% of adjusted profit before tax	5% profit before tax	95% of group materiality	95% of group materiality
Rationale for the benchmark applied	Adjusted profit before tax is considered an appropriate benchmark as it is the key performance measure used by stakeholders to assess the Group's performance. We have excluded the exceptional items relating to the profit on sale of land as this is a transaction outside the normal course of business.	We consider the use of profit before tax to be the most appropriate benchmark as this is a key statutory performance measure for stakeholders based on market practice and investor expectations and is reflective of the changing market sentiment in respect of alternate performance measures.	Calculated as a percentage of Group materiality for Group reporting purposes given the assessment of aggregation risk.	Calculated as a percentage of Group materiality for Group reporting purposes given the assessment of aggregation risk.
Performance materiality	100,700	51,600	95,500	48,600
Basis for determining performance materiality	65% of materiality	60% of materiality	65% of materiality	60% of materiality
Rationale for the percentage applied for performance materiality	Determined on the basis of it being our second year as auditor and considering the history of misstatements, number of accounts which are subject to estimation and aggregation effect of planned nature of testing.	Determined on the basis of it being our first year of audit.	Determined on the basis of it being our second year as auditor and considering the history of misstatements, number of accounts which are subject to estimation and aggregation effect of planned nature of testing.	Determined on the basis of it being our first year of audit.

Independent auditor's report continued

to the members of CML Microsystems Plc

Our application of materiality continued

Component materiality

For the purposes of our Group audit opinion, we set materiality for each significant component of the Group based on a percentage of between 33% and 95% (2022: 64% and 95%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £51,000 to £147,000 (2022: £55,000 to £81,000). In the audit of each component, we further applied performance materiality levels of 65% (2022: 60%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £2,900 (2022: £1,700). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	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 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.

Independent auditor's report continued

to the members of CML Microsystems Plc

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non-compliance with laws and regulations

- We gained an understanding of the legal and regulatory framework applicable to the Group and the components within the group and the industry in which they operate, through discussion with management and the Audit Committee and our knowledge of the industry;
- We focussed on significant laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006, UK adopted international accounting standards, the Bribery Act 2010, and tax legislation including local taxation and employment law as applicable in component jurisdictions in USA, Singapore and China;
- We made enquiries of management of whether any correspondence from any relevant authorities had been received;
- We reviewed the financial statement disclosures and agreed these to supporting documentation;
- We reperformed tax calculations in respect of corporation tax, employment tax and sales tax in each jurisdiction;
- We involved tax specialists in the audit of UK corporation tax calculations and disclosures; and
- We considered compliance with these laws and regulations through discussions with management and the Audit Committee. Our procedures also included reviewing minutes from board meetings of those charged with governance to identify any instances of non-compliance with laws and regulations.

Independent auditor's report continued

to the members of CML Microsystems Plc

Auditor's responsibilities for the audit of the financial statements continued

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Assessing the susceptibility of the Group's financial statements to material misstatement as an engagement team, including how fraud might occur throughout the group including the parent company and components, by considering industry, legal and external factors relevant to the Group; and
- Obtaining an understanding of the processes and controls that the group has established to address risks identified or that otherwise seek to prevent, deter or detect fraud.

Based on our risk assessment, we considered the areas most susceptible to fraud in relation to the group to be judgements included within the capitalisation of development costs, managements impairment reviews of goodwill, management override and revenue recognition around the year end.

Our procedures in respect of the above included:

- With regard to the fraud risk in management override in controls, our procedures included targeting journal transactions with specific criteria, with a focus on large or unusual transactions based on our knowledge of the business and agreeing these to supporting documentation;
- With regard to fraud in revenue recognition, we tested the year end cut off for a sample of transactions chosen from the nominal ledger from either side of the year end and confirmed the appropriate recognition of the corresponding revenue through to supporting documentation;
- With regard to the capitalisation of development costs, we reviewed key estimates and judgements applied by management to assess their appropriateness (Refer to the key audit matters section of our report); and
- With regard to the impairment reviews of goodwill we reviewed key estimates and judgements applied by management to assess their appropriateness (Refer to the key audit matters section of our report).

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including component engagement teams who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. For component engagement teams, we also reviewed the results of their work performed in this regard.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Tracey Keeble
(Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
Ipswich, UK

26 June 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated income statement
for the year ended 31 March 2023

	Notes	2023 Before exceptional items £'000	2023 Exceptional items £'000	2023 Total £'000	2022 Before exceptional items £'000	2022 Exceptional items £'000	2022 Total £'000
Revenue	3	**20,643**	**—**	**20,643**	16,964	—	16,964
Cost of sales	4	**(5,032)**	**—**	**(5,032)**	(4,169)	—	(4,169)
Gross profit		**15,611**	**—**	**15,611**	12,795	—	12,795
Distribution and administration costs	4	**(12,644)**	**—**	**(12,644)**	(11,562)	—	(11,562)
Share-based payments	28	**(234)**	**—**	**(234)**	(98)	—	(98)
		2,733	**—**	**2,733**	1,135	—	1,135
Profit on sale of fixed asset		**—**	**2,058**	**2,058**	—	—	—
Other operating income	5	**199**	**—**	**199**	79	—	79
Profit from operations		**2,932**	**2,058**	**4,990**	1,214	—	1,214
Other income	5	**18**	**—**	**18**	216	284	500
Loss on sale of investment property		**—**	**—**	**—**	—	(50)	(50)
Finance income	8	**255**	**—**	**255**	106	—	106
Finance expense	8	**(47)**	**—**	**(47)**	(33)	—	(33)
Profit before taxation		**3,158**	**2,058**	**5,216**	1,503	234	1,737
Income tax charge	9	**(71)**	**(335)**	**(406)**	(499)	—	(499)
Profit after taxation attributable to equity owners of the parent		**3,087**	**1,723**	**4,810**	1,004	234	1,238

All financial information presented relates to continuing activities.

	Notes	2023	2022
Earnings per share from total operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	11	**30.29p**	7.45p
Diluted earnings per share	11	**29.93p**	7.35p

The following measure is considered an alternative performance measure, not a generally accepted accounting principle. This ratio is useful to ensure that the level of borrowings in the business can be supported by the cash flow in the business. For definition and reconciliation see note 12.

	Notes	2023	2022
Adjusted EBITDA	12	**5,901**	4,308

The notes on pages 72 to 112 form part of these financial statements.

Consolidated statement of total comprehensive income

for the year ended 31 March 2023

	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Profit for the year			**4,810**		1,238
Other comprehensive income/(expense):					
Items that will not be reclassified subsequently to profit or loss:					
Re-measurement of defined benefit obligation	26	**1,393**		3,307	
Deferred tax on actuarial gain	25	**(348)**		(827)	
Change in deferred tax rate on defined benefit obligation		**—**		345	
Items reclassified subsequently to profit or loss upon derecognition:					
Foreign exchange differences		**(140)**		880	
Other comprehensive income for the year net of taxation attributable to equity owners of the parent			**905**		3,705
Total comprehensive income for the year attributable to the equity owners of the parent			**5,715**		4,943

The notes on pages 72 to 112 form part of these financial statements.

Consolidated statement of financial position

as at 31 March 2023

	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Assets					
Non-current assets					
Goodwill	13		**7,429**		7,531
Other intangible assets	14		**984**		1,119
Development costs	15		**13,801**		11,197
Property, plant and equipment	16		**5,249**		5,593
Right-of-use assets	16		**1,022**		458
Deferred tax assets	25		**766**		1,550
			29,251		27,448
Current assets					
Property, plant and equipment – held for sale	16	**485**		—	
Investment properties – held for sale	17	**1,975**		1,975	
Inventories	19	**2,425**		2,258	
Trade receivables and prepayments	20	**2,413**		2,199	
Current tax assets	24	**1,659**		409	
Cash, and cash equivalents	21	**21,041**		19,084	
Short-term cash deposits	21	**1,218**		5,958	
			31,216		31,883
Total assets			**60,467**		59,331
Liabilities					
Current liabilities					
Trade and other payables	23		**3,036**		2,827
Lease liabilities	23		**210**		230
Current tax liabilities	24		**78**		42
			3,324		3,099
Non-current liabilities					
Deferred tax liabilities	25	**4,343**		3,702	
Lease liabilities	23	**842**		238	
Retirement benefit obligation	26	**1,204**		2,439	
			6,389		6,379
Total liabilities			**9,713**		9,478
Net assets			**50,754**		49,853

Consolidated statement of financial position continued

as at 31 March 2023

	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Capital and reserves attributable to equity owners of the parent					
Share capital	27		**796**		865
Share premium	28		**2,462**		1,362
Capital redemption reserve	28		**8,372**		8,285
Treasury shares – own share reserve	28		**(324)**		(1,670)
Share-based payments reserve	28		**488**		490
Foreign exchange reserve	28		**1,042**		1,182
Retained earnings	28		**37,918**		39,339
Total shareholders' equity			**50,754**		49,853

The financial statements on pages 60 to 112 were approved and authorised for issue by the Board on 26 June 2023, 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 2023

	Notes	Group		Company	
		2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Operating activities					
Profit for the year before taxation		**5,216**	1,737	**2,317**	408
Adjustments for:					
Depreciation – on property, plant and equipment		**367**	375	**86**	84
Depreciation – on right-of-use assets		**300**	258	**—**	—
Impairment of development costs		**—**	123	**—**	—
Amortisation of development costs		**1,826**	1,507	**—**	—
Amortisation of intangibles recognised on acquisition and purchased		**224**	283	**21**	21
Profit on disposal of fixed assets		**(2,058)**	—	**(2,058)**	—
Loss on disposal of investment properties		**—**	50	**—**	50
Writedown in investments held in subsidiaries		**—**	—	**—**	400
Rental income		**—**	(215)	**—**	(215)
Forgiveness US PPP loan		**—**	(284)	**—**	—
Employee retention credit – US		**110**	—	**—**	—
Movement in non-cash items (retirement benefit obligation)		**158**	176	**158**	176
Share-based payments		**234**	98	**234**	98
Finance income		**(255)**	(106)	**(245)**	(83)
Finance expense		**47**	33	**—**	—
Movement in working capital	31	**(653)**	(1,025)	**(723)**	(1,072)
Cash flows from operating activities		**5,516**	3,010	**(210)**	(133)
Income tax (received)/paid		**(104)**	905	**—**	—
Net cash inflow/(outflow) from operating activities		**5,412**	3,915	**(210)**	(133)

Consolidated and Company cash flow statements continued

for the year ended 31 March 2023

	Notes	Group 2023 £'000	Group 2022 £'000	Company 2023 £'000	Company 2022 £'000
Investing activities					
Proceeds from sale of fixed assets		**2,500**	—	**2,500**	—
Proceeds from sale of investment properties		**—**	1,750	**—**	1,750
Purchase of property, plant and equipment		**(932)**	(1,105)	**(136)**	(149)
Investment in development costs		**(4,455)**	(3,532)	**—**	—
Repayment of fixed term deposits (net)		**4,740**	4,192	**5,000**	5,000
Repayment of investment loan note		**—**	293	**—**	—
Investment in intangibles		**(98)**	—	**(98)**	—
Rental income		**—**	215	**—**	215
Finance income		**255**	106	**245**	83
Net cash inflow investing activities		**2,010**	1,919	**7,511**	6,899
Financing activities					
Lease liability repayments		**(321)**	(287)	**—**	—
Issue of ordinary shares (net of expenses)		**1,118**	329	**1,118**	329
Purchase of own shares for treasury		**(4,767)**	—	**(4,767)**	—
Dividends paid to shareholders		**(1,589)**	(8,964)	**(1,589)**	(8,964)
Net cash outflow from financing activities		**(5,559)**	(8,922)	**(5,238)**	(8,635)
Increase/(decrease) in cash, cash equivalents and fixed term deposits		**1,863**	(3,088)	**2,063**	(1,869)
Movement in cash, cash equivalents and fixed term deposits:					
At start of year		**19,084**	22,046	**15,744**	17,598
Increase/(decrease) in cash, cash equivalents and fixed term deposits		**1,863**	(3,088)	**2,063**	(1,869)
Effects of exchange rate changes		**94**	126	**(45)**	15
At end of year	31	**21,041**	19,084	**17,762**	15,744

Cash flows presented exclude sales taxes. Further cash-related disclosure details are provided in notes 21, 22 and 31.

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 23 and the only movement in respect of borrowings in a cash flow movement as shown above.

The notes on pages 72 to 112 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 March 2023

	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 2021	859	1,039	8,285	(1,670)	570	302	44,062	53,447
Profit for year							1,238	1,238
Other comprehensive income								
Foreign exchange differences						880		880
Re-measurement of defined benefit obligations							3,307	3,307
Deferred tax on actuarial loss							(827)	(827)
Change in deferred tax rate on defined benefit obligation							345	345
Total comprehensive income for year	—	—	—	—	—	880	4,063	4,943
	859	1,039	8,285	(1,670)	570	1,182	48,125	58,390
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options	6	323						329
Dividend paid							(8,964)	(8,964)
Total transactions with owners in their capacity as owners	6	323	—	—	—	—	(8,964)	(8,635)
Share-based payment charge					98			98
Cancellation/transfer of share-based payments					(178)		178	—
At 31 March 2022	865	1,362	8,285	(1,670)	490	1,182	39,339	49,853

Consolidated statement of changes in equity continued

for the year ended 31 March 2023

	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
Profit for year							4,810	4,810
Other comprehensive income								
Foreign exchange differences						(140)		(140)
Re-measurement of defined benefit obligations							1,393	1,393
Deferred tax on actuarial gain							(348)	(348)
Total comprehensive income for year	—	—	—	—	—	(140)	5,855	5,715
	865	1,362	8,285	(1,670)	490	1,042	45,194	55,568
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options	18	1,100						1,118
Purchase of own shares – treasury				(4,767)				(4,767)
Cancellation of treasury shares	(87)		87	6,113			(6,113)	—
Dividend paid							(1,589)	(1,589)
Total transactions with owners in their capacity as owners	(69)	1,100	87	1,346	—	—	(7,702)	(5,238)
Share-based payment charge					234			234
Deferred tax on share-based payments							190	190
Cancellation/transfer of share-based payments					(236)		236	—
At 31 March 2023	796	2,462	8,372	(324)	488	1,042	37,918	50,754

There is considered to be no significant tax effect of foreign exchange differences in the above Consolidated Statement of Changes in Equity.

The notes on pages 72 to 112 form part of these financial statements.

Company statement of financial position

as at 31 March 2023

	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Assets					
Non-current assets					
Intangible assets	14		**320**		243
Property, plant and equipment	16		**3,623**		4,483
Investments in subsidiary undertakings	18		**10,372**		10,372
Deferred tax assets	25		**648**		952
			14,963		16,050
Current assets					
Property, plant and equipment – held for sale	16	**485**		—	
Investment properties – held for sale	17	**1,975**		1,975	
Trade receivables and prepayments	20	**2,454**		1,325	
Cash and cash equivalents	21	**17,762**		15,744	
Short-term cash deposits	21	**—**		5,000	
			22,676		24,044
Total assets			**37,639**		40,094
Liabilities					
Current liabilities					
Trade and other payables	23		**1,025**		619
			1,025		619
Non-current liabilities					
Deferred tax liabilities	25		**931**		902
Retirement benefit obligation	26		**1,204**		2,439
			2,135		3,341
Total liabilities			**3,160**		3,960
Net assets			**34,479**		36,134

Company statement of financial position continued

as at 31 March 2023

	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Equity					
Share capital	27		**796**		865
Share premium	28		**2,462**		1,362
Capital redemption reserve	28		**8,372**		8,285
Treasury shares – own share reserve	28		**(324)**		(1,670)
Share-based payments reserve	28		**488**		490
Merger reserve	28		**316**		316
Retained earnings	28		**22,369**		26,486
Total shareholders' equity			**34,479**		36,134

The parent company profit for the financial year attributed in the financial statements of the parent company was £2,114,000 (2022: £204,000). The financial statements on pages 60 to 112 were approved and authorised for issue by the Board on 26 June 2023 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 2023

	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 2021	859	1,039	8,285	(1,670)	570	316	32,243	41,642
Profit for year							204	204
Other comprehensive income								
Re-measurement of defined benefit obligations							3,307	3,307
Deferred tax on actuarial gain							(827)	(827)
Change in deferred tax rate on defined benefit obligation							345	345
Total comprehensive income for year	—	—	—	—	—	—	2,825	2,825
	859	1,039	8,285	(1,670)	570	316	35,272	44,671
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options	6	323						329
Dividend paid							(8,964)	(8,964)
Total transactions with owners in their capacity as owners	6	323	—	—	—	—	(8,964)	(8,635)
Share-based payment charge					98			98
Cancellation/transfer of share-based payments					(178)		178	—
At 31 March 2022	**865**	**1,362**	**8,285**	**(1,670)**	**490**	**316**	**26,486**	**36,134**

Company statement of changes in equity continued

for the year ended 31 March 2023

	Share capital £'000	Share premium £'000	Redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Profit for year							2,114	2,114
Other comprehensive income								
Re-measurement of defined benefit obligations							1,393	1,393
Deferred tax on actuarial gain							(348)	(348)
Total comprehensive income for year	—	—	—	—	—	—	3,159	3,159
	865	1,362	8,285	(1,670)	490	316	29,645	39,293
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options	18	1,100						1,118
Purchase of own shares – treasury				(4,767)				(4,767)
Cancellation of treasury shares	(87)		87	6,113			(6,113)	—
Dividend paid							(1,589)	(1,589)
Total transactions with owners in their capacity as owners	(69)	1,100	87	1,346	—	—	(7,702)	(5,238)
Share-based payment charge					234			234
Deferred tax on share-based payments							190	190
Cancellation/transfer of share-based payments					(236)		236	—
At 31 March 2023	796	2,462	8,372	(324)	488	316	22,369	34,479

The notes on pages 60 to 112 form part of these financial statements.

Notes to the financial statements

for the year ended 31 March 2023

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 and Company financial statements have been prepared in accordance with UK adopted International Accounting Standards and are 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.

At 31 March 2023, the Group had cash and fixed term deposits balances of £22.26m and external debt only in relation to its lease liabilities of £1.05m.

The Directors have reviewed the detailed financial projections for the period ending 31 March 2024 including sensitivity analysis and reverse stress test, as well as the business plan and cash flows for the twelve months from date of sign off. In addition, they have considered the principal risks faced by the Group, the ongoing potential impact of COVID-19, the war in Ukraine 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

IFRS 15 establishes principles for determining when and how revenue arising from contracts with customers should be recognised. The Group recognises revenues from semiconductor products at the point of satisfaction of its performance obligation and at a determined transaction price.

The Group reviews all income streams against the requirements of IFRS 15. An assessment of all contracts and revenue streams is undertaken across the Group using the five-step approach specified by IFRS 15:

1. identify the contract(s) with the customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligation in the contract; and
5. recognise revenue when (or as) a performance obligation is satisfied.

In determining the appropriate method of recognising revenue, the Group is required to make judgements as to whether performance obligations are satisfied over a period of time or at a point in time. For performance obligations that are satisfied over a period of time, judgements are made on the basis of contract completion. If performance obligations are not satisfied over time, the Group recognises revenue at a point in time.

Revenue is measured at the fair value of the consideration receivable excluding discounts, rebates, Value Added Tax and other sales taxes or duties. The Group has a sales and returns agreement with a small number of distributors. Estimated returns from distributors are not recognised as revenue. Other income such as interest earned and property income is recognised as earned.

Notes to the financial statements continued

for the year ended 31 March 2023

1 Accounting policies continued

d) Revenue continued

Revenue relating to semiconductor products

Revenues are recognised when goods have been despatched to the customer and it is probable that the Group will collect the consideration. 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 despatch 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.

Revenue relating to design and development

Revenue is recognised over the period of the contract on the basis of percentage contract completion which determines the point of satisfaction of its performance obligation and at a determined transaction price at a point in time.

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 acquired in March 2020. Goodwill is reviewed annually for impairment by comparing its carrying value to the value-in-use of the cash generating unit; any resultant impairment being charged through the Consolidated Income Statement.

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. The other intangibles were deemed to be:

Brands

A brand is defined as a way of how our customers identify our business.

Customer relationships

Customer relationships are defined by the methods the Company uses to engage with its customers and improve the customer experience.

Intellectual property

Intellectual property relates to the intangible assets created such as information, ideas, designs and automated processes.

These acquired intangibles have been amortised in accordance with the following:

- brands – ten years from date of acquisition;
- customer relationships – six to nine years from date of acquisition; and
- intellectual property – ten years from date of acquisition.

The amortised useful life was determined by:

- brands – based upon the asset's relative importance to the business and consistent with the range of life expectancy identified in the process and previous transactions;
- customer relationships – based upon the remaining life of customer relationships expected to match the product's life cycle which commonly lasts between six to nine years; and
- Intellectual property – based upon historical data that technology is intended to be used for ten years from 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 commencing when the product is in use. 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.

Notes to the financial statements continued

for the year ended 31 March 2023

1 Accounting policies continued

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 — 16.67% straight line and 25% straight line
- plant — 4% 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.

Notes to the financial statements continued

for the year ended 31 March 2023

1 Accounting policies continued

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.

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 future agreements linked to SONIA) 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.

Notes to the financial statements continued

for the year ended 31 March 2023

1 Accounting policies continued

p) Leases continued

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 operating 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 – capitalisation of development costs

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

  In satisfying the recognition requirements for development costs a number of judgement factors include future demand and the resource necessary to finalise the development roadmap over the next few years. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. All internal activities relating to research and development are continuously monitored by the Group.

- Research and development – amortisation and impairment

  The Group exercises judgement concerning the future in assessing the carrying amounts of capitalised development costs. The criteria IAS 38 has been applied in considering the future economic benefit as a result of investment.

  The annual impairment review resulted in the carrying costs of the development expenditure needing an impairment of £Nil for the year (2022: £123,000). The impairment is based upon an updated judgement that a product previously deemed viable is now unlikely to be released. The product remains as part of the Group's development, with final viability of the product expected to be confirmed within the next twelve months. Should the outcome be successful and the updated assessment be that the product is viable, the impairment would be reversed.

Notes to the financial statements continued

for the year ended 31 March 2023

1 Accounting policies continued

r) Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty

- Impairment of goodwill
  An annual review is carried out (as set out in note 13) as to whether the current carrying value of goodwill is impaired. Detailed calculations are performed based on (i) discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate; and/or (ii) the comparison of carrying value to the 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 26). 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.
- Overhead absorption
  Estimates are made of the level of overhead absorbed against inventory at the year-end date. The Group has an overhead absorption rate which is applied consistently throughout the year; due to the nature of trends and customer requirements there is an estimate in determining the cost 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.

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.

Receivables are subsequently measured at amortised cost using the effective interest rate method. Receivables are reviewed annually for impairment and an impairment charge recognised where identified. Historic, current, and forward-looking information is considered annually in our review of the requirement to include an estimated credit loss provision.

(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 and loans

Bank overdrafts are initially measured at fair value, 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.

Notes to the financial statements continued

for the year ended 31 March 2023

1 Accounting policies continued

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.

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.

y) Adoption of International Accounting Standards

New standards, amendments and interpretations

The Group has applied all IFRSs that are effective for the years ended 31 March 2023 and 31 March 2022. Adoption of new standards had no impact on the financial statements.

New standards, amendments and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards and interpretations that are relevant to the Group, which have not been applied in these financial statements, were in issue but not yet effective.

Notes to the financial statements continued

for the year ended 31 March 2023

1 Accounting policies continued

y) Adoption of International Accounting Standards continued

Standard	Effective from
IFRS 17 Insurance contracts including Amendments to IFRS 17 (issued on 25 June 2020)	1 January 2023
Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:	
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IAS 1 – Presentation of Financial Statements (Non-current Liabilities with Covenants)	1 January 2024
Amendments to IAS 8 – Definition of Accounting Estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting policies	1 January 2023
Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendment to IFRS 17 – Initial Application of IFRS 17 and IFRS 19 – Comparative Information	1 January 2023
Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback	1 January 2024

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.

Notes to the financial statements continued

for the year ended 31 March 2023

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 operating segment, which is reported as 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	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2023				
Revenue to third parties – by origin	**5,024**	**3,413**	**12,206**	**20,643**
Property, plant and equipment	**5,074**	**80**	**95**	**5,249**
Right-of-use assets	**473**	**330**	**219**	**1,022**
Investment properties – held for sale	**1,975**	**—**	**—**	**1,975**
Property, plant and equipment – held for sale	**485**	**—**	**—**	**485**
Development costs	**12,416**	**—**	**1,385**	**13,801**
Intangibles – software and intellectual property	**320**	**—**	**80**	**400**
Goodwill	**1,531**	**—**	**5,898**	**7,429**
Other intangible assets arising on acquisition	**159**	**—**	**425**	**584**
Total assets	**47,151**	**1,575**	**11,741**	**60,467**
Year ended 31 March 2022				
Revenue to third parties – by origin	4,569	2,572	9,823	16,964
Property, plant and equipment	5,504	12	77	5,593
Right-of-use assets	227	60	171	458
Investment properties – held for sale	1,975	—	—	1,975
Development costs	9,714	—	1,483	11,197
Intangibles – software and intellectual property	243	—	96	339
Goodwill	1,531	—	6,000	7,531
Other intangible assets arising on acquisition	184	—	596	780
Total assets	46,024	1,163	12,144	59,331

Revenue contribution from the top one customer provided a contribution of approximately 10% (2022: one customer provided a contribution of approximately 12%).

Notes to the financial statements continued

for the year ended 31 March 2023

3 Revenue

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

	2023 £'000	2022 £'000
Europe	**4,009**	3,705
Far East	**12,036**	9,603
Americas	**3,910**	2,901
Others	**688**	755
	20,643	16,964

In accordance with IFRS 15, within the Group's one operating segment there is revenue of £20,643,000 (2022: £16,964,000) made up of revenue from semiconductor products of £19,551,000 (2022: £15,909,000) and revenue from design and development services of £1,092,000 (2022: £1,055,000), as detailed in the Group's revenue recognition policy (see note 1d).

The Group does not have any contract assets as at 31 March 2023 (2022: £Nil at 31 March) from semiconductors as it does not fulfil any of its performance obligations in advance of invoicing to its customer. The Group has contract assets of £363,000 as at 31 March 2023 (2022: £157,000 at 31 March) from design and development. The Group, however, does have contractual balances in the form of trade receivables. See note 20 for disclosure of this. The Group does not have any contractual liabilities as at 31 March 2023 (£Nil at 31 March 2022) from semiconductors as all performance obligations are performed in advance. The Group has contract liabilities of £17,000 as at 31 March 2023 (2022: £Nil at 31 March) from design and development.

The Group expects that all contractual costs capitalised or any outstanding performance obligations will be completed within the next twelve months.

Notes to the financial statements continued

for the year ended 31 March 2023

4 Profit from continuing operations

	2023		2022	
	£'000	**£'000**	£'000	£'000
Profit from operations is stated after charging or crediting:				
Cost of sales:				
Depreciation	**137**		127	
Amount of inventories written down	**5**		3	
Cost of inventories recognised as expense	**4,803**		4,268	
Other inventories expense	**87**		(229)	
Total cost of sales		**5,032**		4,169
Distribution and administration costs:				
Distribution costs (mainly staff costs)		**2,710**		2,125
Administration costs:				
Amortisation of development costs	**1,826**		1,507	
Research and development expensed	**676**		1,261	
Amortisation of acquired and purchased intangibles	**203**		283	
Impairment of development costs	**—**		123	
Depreciation – owned assets	**367**		375	
Depreciation – right-of-use assets	**300**		258	
Foreign exchange losses/(gains)	**10**		(44)	
Auditor's fees (see below)	**150**		129	
Acquisition related expenses	**464**		—	
Other expenses (mainly staff costs)	**5,938**		5,545	
		9,934		9,437
Total distribution and administration		**12,644**		11,562

Amounts payable to BDO LLP, in respect of both audit and non-audit services:

	2023 £'000	2022 £'000
Audit services:		
Statutory audit of the Company's annual accounts and Group consolidation	**79**	68
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	**71**	61
	150	129

Notes to the financial statements continued

for the year ended 31 March 2023

5 Other operating income and other income

	2023 £'000	2022 £'000
Other operating income		
Other operating income	**199**	79
Total other operating income	**199**	79
Other income		
Rental income	**—**	215
Government grants	**18**	1
COVID loan forgiveness (USA)	**—**	284
Total other income	**18**	500

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

6 Employees

	Group		Company	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Staff costs, including Directors, during the year amounted to:				
Wages and salaries	**7,399**	6,814	**1,050**	953
Social security costs	**874**	655	**159**	124
Other pension and health care costs	**1,154**	1,146	**78**	108
Share-based payments	**234**	98	**234**	98
	9,661	8,713	**1,521**	1,283

	Group		Company	
	2023 Number	2022 Number	**2023 Number**	2022 Number
The average number of employees, including Directors, during the year was:				
Administration	**28**	29	**7**	7
Engineering	**53**	53	**—**	—
Manufacturing	**32**	33	**—**	—
Selling	**22**	22	**—**	—
	135	137	**7**	7

Notes to the financial statements continued

for the year ended 31 March 2023

7 Directors' emoluments

	2023 £'000	2022 £'000
Remuneration (including fees)	693	694
Emoluments in respect of the highest paid Director amounted to:		
Remuneration	341	319

Further details on Directors' emoluments, including contributions to pension, can be found in the Directors' Remuneration Report on pages 40 to 46.

8 Finance income and expense

Finance income

	2023 £'000	2022 £'000
Bank interest receivable	255	106

Finance expense

	2023 £'000	2022 £'000
Lease liability interest	47	33

9 Income tax expense

a) Analysis of tax expense in period

	2023 £'000	2022 £'000
Current tax		
UK corporation tax on results of the year	(809)	(415)
Adjustment in respect of previous years	(372)	(6)
	(1,183)	(421)
Foreign tax on results of the year	319	121
Total current tax	(864)	(300)
Deferred tax		
Deferred tax – origination and reversal of temporary differences	683	6
Change in deferred tax rate	103	833
Adjustments to deferred tax charge in respect of previous years	484	(40)
Total deferred tax	1,270	799
Tax expense on profit on ordinary activities (note 9b)	406	499

b) Factors affecting tax expense for the period

Tax assessed for the period is lower than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

	2023 £'000	2022 £'000
Profit before tax	5,216	1,737
Profit before tax multiplied by the standard rate of UK corporation tax of 19% (2022: 19%)	991	330
Effects of:		
Fixed asset differences	8	(9)
Expenses not deductible for tax purposes	186	274
Share-based payments – tax effect	29	9
Research and development tax credits	(914)	(710)
Different tax rates in countries in which the Group operates	28	(29)
Adjustments to current tax charge in respect of previous years	(338)	(6)
Adjustments to deferred tax charge in respect of previous years	484	(40)
Change in deferred tax rate	103	833
Non-taxable income and other	(171)	(153)
Tax expense for period (note 9a)	406	499

A deferred tax charge of £348,000 was recognised on an actuarial gain of £1,393,000 on a retirement benefit net obligation being recognised in the year in the Consolidated Statement of Total Comprehensive Income (2022: deferred tax charge of £827,000 on an actuarial gain of £3,307,000 on a retirement benefit net obligation and a deferred tax charge on remeasurement of deferred tax balances of £345,000 led to a net deferred tax charge of £482,000). Deferred tax assets have only been recognised on partial losses to the extent that these losses utilised are deemed recoverable.

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 Directors therefore consider it appropriate to use 25% as the rate deferred tax should be provided for. Further details of the effects can be found in note 25.

Notes to the financial statements continued

for the year ended 31 March 2023

10 Dividend – proposed

During the year, a final dividend of 5.0p per ordinary share of 5p was paid in respect of the year ended 31 March 2022.

An interim dividend of 5.0p per ordinary share was paid on 16 December 2022 to shareholders on the Register on 2 December 2022.

It is proposed to pay a final dividend of 6p per ordinary share of 5p, taking the total dividend amount in respect of the year ended 31 March 2023 to 11p (2022: total of 9p). It is proposed to pay the final dividend of 6p, if approved, on 18 August 2023 to shareholders registered on 4 August 2023 (2022: 19 August 2022 to shareholders registered on 5 August 2022).

11 Earnings per ordinary share

	2023 p	2022 p
Earnings per share from total operations attributable to the ordinary equity holders of the Company:		
Basic earnings per share	**30.29p**	7.45p
Diluted earnings per share	**29.93p**	7.35p

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:

	2023			2022		
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	**4,810**	**15,878,401**	**30.29**	1,238	16,628,301	7.45
Diluted earnings per share						
Basic earnings per share	**4,810**	**15,878,401**	**30.29**	1,238	16,628,301	7.45
Dilutive effect of share options	**—**	**194,043**	**(0.36)**	—	219,951	(0.10)
Diluted earnings per share – from profit for year	**4,810**	**16,072,444**	**29.93**	1,238	16,848,252	7.35

During the year, the Company and staff exercised 360,625 staff share options under the terms of the staff share option schemes at a weighted average price of 400.0p per 5p share.

Notes to the financial statements continued

for the year ended 31 March 2023

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, exceptional items and before share-based payments. The following is a reconciliation of the Adjusted EBITDA for the years presented:

	2023 £'000	2022 £'000
Profit before taxation (earnings)	**5,216**	1,737
Adjustments for:		
Finance income	**(255)**	(106)
Finance expense	**47**	33
Depreciation	**367**	375
Depreciation – right-of-use assets	**300**	258
Impairment of development costs	**—**	123
Amortisation of development costs	**1,826**	1,507
Amortisation of purchased and acquired intangibles recognised on acquisition	**224**	283
Share-based payments	**234**	98
Profit on sale of fixed asset	**(2,058)**	—
Adjusted EBITDA	**5,901**	4,308

13 Goodwill

	2023 £'000	2022 £'000
Cost and net book value		
At 1 April	**7,531**	7,072
Foreign exchange difference	**(102)**	459
At 31 March	**7,429**	7,531

The goodwill relates to (i) Sicomm group of companies £5,898,000 which is held in RMB, upon Group consolidation is therefore subject to foreign exchange between periods; and (ii) PRFI £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 related goodwill is determined using the value-in-use methodologies. For Sicomm related goodwill, the pre-tax discount rate used was 18.44% and growth rates vary from 5% to 7.5% over a five-year prospective period and long-term growth rate is 5% (2022: pre-tax discount rate used was 13.11% and growth rates vary from 7.5% to 10%) and for PRFI related goodwill, the pre-tax discount rate used was 18.21% and growth rates of 4% per year for a five-year prospective period and long term growth rate is 4% (2022: pre-tax discount rate used was 12.99% and growth rates of 3%). Management consider these key assumptions do not differ from past experience or external sources of information.

Notes to the financial statements continued

for the year ended 31 March 2023

13 Goodwill continued

Sensitivity analysis

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 2.8% (2022: 7.3%) or pre-tax discount rates move to 22% (2022: 13.67%) for carrying value to be impacted by any impairment. Sensitivity analysis of these key assumptions is built into our annual impairment testing modelling and a decrease in the long-term growth rate of 1.5% (2022: 0.7%) would lead to an impairment. 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 2.2% (2022: 1.0%) or pre-tax discount rates move to 19.28% (2022: 17.19%) or carrying value to be impacted by any impairment. Sensitivity analysis of these key assumptions is built into our annual impairment testing modelling.

14 Other intangibles

	Intangible assets acquired in business combinations			Intangible assets capitalised/purchased		
Group	Brands £'000	Customer relationships £'000	Intellectual property £'000	Intellectual property £'000	Software £'000	Total £'000
Cost						
At 1 April 2021	131	937	568	129	268	2,033
Additions	—	—	—	—	—	—
Foreign exchange difference	8	76	33	11	—	128
At 31 March 2022	139	1,013	601	140	268	2,161
Additions	**—**	**—**	**—**	**—**	**98**	**98**
Foreign exchange difference	**(2)**	**(17)**	**(7)**	**(2)**	**—**	**(28)**
At 31 March 2023	**137**	**996**	**594**	**138**	**366**	**2,231**
Amortisation						
At 1 April 2021	48	475	202	28	4	757
Charge for the year	13	178	58	13	21	283
Foreign exchange difference	5	(24)	18	3	—	2
At 31 March 2022	66	629	278	44	25	1,042
Charge for the year	**14**	**115**	**60**	**14**	**21**	**224**
Foreign exchange difference	**(2)**	**(12)**	**(5)**	**—**	**—**	**(19)**
At 31 March 2023	**78**	**732**	**333**	**58**	**46**	**1,247**
Net book value						
At 31 March 2023	**59**	**264**	**261**	**80**	**320**	**984**
At 31 March 2022	73	384	323	96	243	1,119

The intangible assets acquired above were recognised on the acquisition of Sicomm and PRFI in accordance with the provisions of IFRS 3 Business Combinations.

Notes to the financial statements continued

for the year ended 31 March 2023

14 Other intangibles continued

Company	Software £'000	Total £'000
Cost		
At 1 April 2021	268	268
Additions	—	—
At 31 March 2022	268	268
Additions	**98**	**98**
At 31 March 2023	**366**	**366**
Amortisation		
At 1 April 2021	4	4
Charge for the year	21	21
At 31 March 2022	25	25
Charge for the year	**21**	**21**
At 31 March 2023	**46**	**46**
Net book value		
At 31 March 2023	**320**	**320**
At 31 March 2022	243	243

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.

15 Development costs

Group – development costs	£'000
Cost	
At 1 April 2021	22,417
Additions	3,532
Foreign exchange difference	104
At 31 March 2022	26,053
Additions	**4,455**
Foreign exchange difference	**(29)**
At 31 March 2023	**30,479**
Amortisation and impairment	
At 1 April 2021	13,226
Charged for the year	1,507
Impairment	123
Foreign exchange difference	—
At 31 March 2022	14,856
Charged for the year	**1,826**
Foreign exchange difference	**(4)**
At 31 March 2023	**16,678**
Net book value	
At 31 March 2023	**13,801**
At 31 March 2022	11,197

No government grants have been credited to the cost of development in arriving at the net book value at the year end (2022: £Nil).

The annual impairment review resulted in the carrying costs of the development expenditure needing an impairment of £Nil for the year (2022: £123,000). Impairment losses are included in the distribution and administration costs in the Group's income statement.

Notes to the financial statements continued
for the year ended 31 March 2023

16 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 2021	6,062	14	10,006	142	16,224
Additions	—	—	1,105	—	1,105
Disposals	—	—	(83)	(31)	(114)
Foreign exchange difference	—	—	39	3	42
At 31 March 2022	6,062	14	11,067	114	17,257
Additions	**136**	**—**	**796**	**—**	**932**
Disposals	**(425)**	**—**	**(4,512)**	**(12)**	**(4,949)**
Reclassification to held for sale	**(485)**	**—**	**—**	**—**	**(485)**
Foreign exchange difference	**—**	**2**	**18**	**(1)**	**19**
At 31 March 2023	**5,288**	**16**	**7,369**	**101**	**12,774**
Depreciation					
At 1 April 2021	1,649	14	9,628	69	11,360
Charge for the year	79	—	275	21	375
Disposals	—	—	(77)	(31)	(108)
Foreign exchange difference	—	—	36	1	37
At 31 March 2022	1,728	14	9,862	60	11,664
Charge for the year	**79**	**—**	**268**	**20**	**367**
Disposals	**—**	**—**	**(4,512)**	**(12)**	**(4,524)**
Foreign exchange difference	**—**	**2**	**17**	**(1)**	**18**
At 31 March 2023	**1,807**	**16**	**5,635**	**67**	**7,525**
Net book value					
At 31 March 2023	**3,481**	**—**	**1,734**	**34**	**5,249**
At 31 March 2022	4,334	—	1,205	54	5,593

Additions to plant and machinery includes £94,000 (2022:£Nil) of assets under construction, which were not operational at year end.

Notes to the financial statements continued

for the year ended 31 March 2023

16 Property, plant and equipment – owned assets continued

Company	Freehold and long leasehold premises £'000	Plant £'000	Total £'000
Cost			
At 1 April 2021 and 31 March 2022	6,062	149	6,211
Additions	**136**	**—**	**136**
Disposals	**(425)**	**—**	**(425)**
Reclassification to held for sale	**(485)**	**—**	**(485)**
At 31 March 2023	**5,288**	**149**	**5,437**
Depreciation			
At 1 April 2021	1,649	61	1,710
Charge for the year	79	5	84
Disposals	—	(66)	(66)
At 31 March 2022	1,728	—	1,728
Charge for the year	**79**	**7**	**86**
Disposals	**—**	**—**	**—**
At 31 March 2023	**1,807**	**7**	**1,814**
Net book value			
At 31 March 2023	**3,481**	**142**	**3,623**
At 31 March 2022	4,334	149	4,483

Property, plant and equipment – held for sale

Group and Company	Freehold and long leasehold premises £'000	Total £'000
Cost		
At 1 April 2022	—	—
Reclassification to held for sale	**485**	**485**
At 31 March 2023	**485**	**485**
Net book value		
At 31 March 2023	**485**	**485**
At 31 March 2022	—	—

The freehold and long leasehold premises was reclassified on 31 March 2023 as held for sale as a contract for sale of freehold land had been entered into. The sale is expected to complete within the next twelve months.

Right-of-use assets

Group	Property £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April 2021	857	24	60	941
Additions	577	37	—	614
Disposals	(606)	(24)	(17)	(647)
Foreign exchange difference	42	—	—	42
At 31 March 2022	870	37	43	950
Additions	**987**	**—**	**46**	**1,033**
Disposals	**(757)**	**—**	**(24)**	**(781)**
Effect of modification of lease terms	**5**	**3**	**—**	**8**
Foreign exchange difference	**7**	**—**	**—**	**7**
At 31 March 2023	**1,112**	**40**	**65**	**1,217**
Depreciation				
At 1 April 2021	486	14	32	532
Charge for the year	234	5	19	258
Disposals	(303)	(14)	(14)	(331)
Foreign exchange difference	33	—	—	33
At 31 March 2022	450	5	37	492
Charge for the year	**276**	**8**	**16**	**300**
Disposals	**(573)**	**—**	**(24)**	**(597)**
Foreign exchange difference	**—**	**—**	**—**	**—**
At 31 March 2023	**153**	**13**	**29**	**195**
Net book value				
At 31 March 2023	**959**	**27**	**36**	**1,022**
At 31 March 2022	420	32	6	458

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

Notes to the financial statements continued
for the year ended 31 March 2023

17 Investment properties

Group and Company	Investment properties £'000	Total £'000
Cost		
At 1 April 2021	3,775	3,775
Disposals	(1,800)	(1,800)
Reclassification to held for sale	(1,975)	(1,975)
At 31 March 2022	—	—
Net book value		
At 31 March 2022 and 31 March 2023	**—**	**—**

Investment properties – held for sale

Group and Company	Investment properties £'000	Total £'000
Valuation		
At 1 April 2022	1,975	1,975
At 31 March 2023	**1,975**	**1,975**
Net book value		
At 31 March 2023	**1,975**	**1,975**
At 31 March 2022	1,975	1,975

Investment properties were measured at current market valuation. 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 of investment properties recognised is £Nil (2022: £Nil). Investment properties held for sale is £1,975,000 (2022: £1,975,000).

The value of the investment properties were they to be held at historic cost would be £1,492,000 (2022: £1,492,000).

The Group/Company does not incur significant costs not otherwise recharged to its tenants for its investment properties.

Valuations were based on what is determined to be the highest and best use. When considering the highest and best use the Directors considered, on a property-by-property basis, its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differed from the existing use, the valuer considered 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 investment property was reclassified on 31 March 2022 as held for sale as the property became vacant with no prospective tenant in place and is held based upon the current market valuation methodology. The property is currently expected to sell within the next twelve months.

Notes to the financial statements continued

for the year ended 31 March 2023

18 Investments

Company	2023 £'000	2022 £'000
Cost of investment in subsidiary undertakings:		
As at 1 April	**10,372**	10,772
Dormant company restructuring	**—**	(400)
As at 31 March	**10,372**	10,372

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

All of the above companies are holding or trading companies involved in the design, manufacture and marketing of specialised electronic devices for use in the telecommunications, radio and data communications industries. The above all share the same reporting date as the Company, with the exception of the two Chinese subsidiaries above which have, in line with Chinese laws and regulations, a 31 December year end. The Group has accordingly taken the financial results and financial position of these Chinese subsidiaries up to 31 March 2023.

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	301 North Main Street, Suite 2206, 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

Notes to the financial statements continued

for the year ended 31 March 2023

19 Inventories

	Group	
	2023 £'000	2022 £'000
Raw materials	**910**	879
Work in progress	**816**	889
Finished goods	**699**	490
	2,425	2,258

20 Trade receivables and prepayments

	Group		Company	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Amounts falling due within one year:				
Trade receivables	**1,405**	969	**—**	—
Trade receivables – intercompany	**—**	—	**173**	226
Other receivables	**126**	326	**—**	33
Other receivables – intercompany	**—**	—	**2,000**	800
Prepayments and accrued income	**882**	904	**281**	266
	2,413	2,199	**2,454**	1,325

Disclosure of credit risk and associated disclosures are provided in note 22.

Notes to the financial statements continued

for the year ended 31 March 2023

21 Cash, cash equivalents and fixed term deposits

	Group		Company	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Cash equivalents	**13**	10,275	**13**	10,275
Cash at bank	**21,028**	8,809	**17,749**	5,469
	21,041	19,084	**17,762**	15,744
Short-term cash deposits	**1,218**	5,958	**—**	5,000
	22,259	25,042	**17,762**	20,744

Disclosure of foreign currency risk is provided in note 22. Cash, cash equivalent and fixed term deposits as per the Statement of Cash Flows includes cash on deposit and cash at bank totalling for the Group £21,041,000 (2022: £19,084,000) and the Company £17,762,000 (2022: £15,744,000). There is an unlimited cross guarantee between the parent company and the two UK subsidiaries as listed in note 18.

22 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 risk, 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 external debt with the exception to right-of-use assets. 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 or the transition to SONIA 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 £500,000 (2022: £400,000), and US$100,000 (2022: US$100,000), and is subject to renewal annually.

Notes to the financial statements continued
for the year ended 31 March 2023

22 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 2023, the Group had cash and cash equivalents denominated in foreign currencies of approximately £5.3m (2022: £3.6m), of which approximately 81% (2022: 52%) was denominated in US Dollars, 19% in Chinese Renminbi (2022: 47%) and 1% (2022: 1%) in Singapore Dollars. 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 £(10,000) (2022: gain of £44,000).

Financial instruments recognised in the consolidated statement of financial position

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

	Group		Company	
	2023 Amortised cost £'000	2022 Amortised cost £'000	**2023 Amortised cost £'000**	2022 Amortised cost £'000
Current financial assets				
Trade and other receivables	**1,531**	1,295	**2,173**	1,059
Fixed term deposits	**1,218**	5,958	**—**	5,000
Cash on deposit	**13**	10,275	**13**	10,275
Cash at bank	**21,028**	8,809	**17,749**	5,469
Total	**23,790**	26,337	**19,935**	21,803

Trade and other receivables are all due within six months.

At 31 March 2023, £727,000 (2022: £483,000) of trade receivables were denominated in Sterling, £680,000 (2022: £470,000) in US Dollars, and £Nil in Chinese Renminbi (2022: £16,000). The Directors consider that the carrying amount of trade and other receivables approximate to their fair value. Cash, cash equivalents and deposits of £22,259,000 (2022: £25,042,000) 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.

Notes to the financial statements continued

for the year ended 31 March 2023

22 Financial instruments continued

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 25 days (2022: 22 days). There were no impairment losses recognised on any financial assets measured at amortised cost at 31 March 2023 (2022: £Nil). Based on the profile of the Group and Company's trade receivables, history of bad debts and looking forward to future events which may affect recoverability of receivables, no loss allowance provision has been recognised. At 31 March 2023, of the £1,405,000 (2022: £969,000) trade receivables outstanding, they were all within 0-60 days (2022: all within 0-60 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	
	2023 Amortised cost £'000	2022 Amortised cost £'000	**2023 Amortised cost £'000**	2022 Amortised cost £'000
Current financial liabilities				
Trade and other payables	**731**	814	**237**	171
Accruals	**1,110**	1,442	**249**	316
Lease liabilities	**210**	230	**—**	—
Total	**2,051**	2,486	**486**	487

Notes to the financial statements continued

for the year ended 31 March 2023

22 Financial instruments continued

Impairment of trade receivables continued

	Group		Comp	
	2023 Amortised cost £'000	2022 Amortised cost £'000	**2023 Amortised cost £'000**	2022 Amortised cost £'000
Non-current financial liabilities				
Lease liabilities	**842**	238	**—**	—
Total	**842**	238	**—**	—

At 31 March 2023, the total financial liabilities consisted of £1,584,000 (2022: £1,865,000) denominated in Sterling, £1,114,000 (2022: £545,000) in US Dollars, and £294,000 in Chinese Renminbi (2022: £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 £1,841,000 (2022: £2,256,000) and Company financial liabilities totalling £486,000 (2022: £487,000) equal the gross contractual cash flows. The gross contractual cash flows relating to lease liabilities for the Group total £1,166,000 (2022: £540,000) with £248,000 (2022: £216,000) within twelve months and £918,000 (2022: £279,000) greater than twelve months.

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		RMB impact	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
10% movement in rates will have an impact on:				
Profit before taxation	**702**	520	**25**	15
Cash	**431**	185	**99**	167
Equity	**884**	687	**448**	406

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.

Notes to the financial statements continued

for the year ended 31 March 2023

23 Trade and other payables

	Group		Company	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Amounts falling due within one year:				
Trade payables	**687**	711	**229**	138
Other taxation and social security costs	**832**	414	**538**	132
Deferred income	**149**	103	**—**	—
Other payables	**258**	157	**8**	33
Accruals	**1,110**	1,442	**250**	316
	3,036	2,827	**1,025**	619

Leased liabilities

	Group		Company	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Current lease liabilities	**210**	230	**—**	—
Non-current lease liabilities	**842**	238	**—**	—
	1,052	468	**—**	—

	£'000
1 April 2022	468
Additions	**723**
Lease modifications	**135**
Interest expense	**47**
Repayment of lease liabilities	**(321)**
31 March 2023	**1,052**

The Group's total cash outflow for all leases in the year was £321,000 (2022: £287,000).

Notes to the financial statements continued

for the year ended 31 March 2023

24 Current tax liabilities/assets

	Group		Company	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Current tax liabilities	**(78)**	(42)	**—**	—
Current tax assets	**1,659**	409	**—**	—

£1,659,000 (2022: £409,000) of the current tax asset is an R&D claim that by its nature is subject to HMRC approval.

25 Deferred tax

	Group		Company	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Provision for deferred taxation comprises:				
Accelerated capital allowances	**(1,268)**	(1,119)	**(931)**	(902)
Tax losses carried forward	**162**	818	**91**	276
Pensions	**301**	610	**301**	610
Share-based payments	**—**	66	**—**	66
Research and development	**(2,960)**	(2,429)	**—**	—
Other	**188**	(98)	**256**	—
	(3,577)	(2,152)	**(283)**	50
Deferred tax asset	**766**	1,550	**648**	952
Deferred tax liability	**(4,343)**	(3,702)	**(931)**	(902)
	(3,577)	(2,152)	**(283)**	50
At 1 April	**(2,152)**	(808)	**50**	736
Foreign exchange difference	**3**	(7)	**—**	—
Deferred tax (charged)/credited in income statement for year (see note 9)	**(1,270)**	(799)	**(175)**	(148)
Deferred tax credited on share-based payments	**190**	(56)	**190**	(56)
Deferred tax credited to Statement of Total Comprehensive Income	**(348)**	(827)	**(348)**	(827)
Change in deferred tax rate on defined benefit obligation	**—**	345	**—**	345
At 31 March	**(3,577)**	(2,152)	**(283)**	50

Notes to the financial statements continued

for the year ended 31 March 2023

25 Deferred tax continued

The financial statements include a deferred tax asset of £766,000 (2022: £1,550,000) of which £162,000 (2022: £798,000) 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 gain of £348,000 (2022: deferred gain of £827,000) relates to the retirement benefit obligation (see note 26). 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 Directors therefore consider it appropriate to use 25% as the rate deferred tax should be provided for.

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.

26 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.

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% (2022: 6%) of eligible salary but are subject to minimum employee contributions.

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

Following the triennial valuation of the defined benefit scheme 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 defined benefit scheme returned to surplus as at 31 December 2020.

Notes to the financial statements continued

for the year ended 31 March 2023

26 Retirement benefit obligations continued

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 one member-appointed Trustee 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.

The total contributions to the schemes over the year were:

	2023 £'000	2022 £'000
Pension contributions		
UK defined benefit pension scheme (discussed further below)	–	–
Defined contribution pension schemes (UK and overseas)	944	936
	944	936

In relation to the UK defined contribution scheme, the Group had outstanding contributions of £68,000 (2022: £62,000). Contributions to the UK defined benefit pension scheme for administrative expenses are discussed further below in this note.

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 £1,204,000. 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 2023. 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 4.8%.

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 made a one-off advance contribution of £225,000 towards the running expenses in the year to 31 March 2022. 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 2023, using assumptions further in this note. As at the last valuation date, the present value of the defined benefit obligation included approximately £9,364,000 (2022: £13,891,000) relating to deferred members and £7,565,000 (2022: £9,620,000) relating to pension members.

Notes to the financial statements continued

for the year ended 31 March 2023

26 Retirement benefit obligations continued

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 if those estimated assumptions are not borne out in practice or if different assumptions are agreed. 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

	2023	2022
Discount rate	**4.8%**	2.7%
Future salary increases	**n/a**	n/a
Expected duration of liabilities (years)	**10**	14
Pension revaluation in deferment (Consumer Prices Index – max. 5.0%)	**2.2%**	2.8%
Pension escalation in payment (Retail Prices Index – max. 5.0%, min. 3.0% from 6 April 1997 to 5 April 2005)	**3.2%**	3.8%
Proportion of employees opting for early retirement	**0%**	0%
Inflation assumption	**3.6%**	3.9%

The difference between the expected investment returns on the scheme's assets and the actual investment return was a loss of £(4,945,000) (2022: gain £191,000).

b) Demographic assumptions

	2023	2022
Assumed life expectancy in years, on retirement at 65		
Retiring today		
Males	**22.0**	21.9
Females	**24.4**	24.3
Retiring in 20 years		
Males	**23.3**	23.2
Females	**25.8**	25.7

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 2023 and 31 March 2022 are as follows:

	2023 £'000	2022 £'000
Amounts recognised in the Consolidated Income Statement are as follows:		
Administration expenses (see details above)	**(91)**	(75)
Net interest on deficit	**(67)**	(101)
Total	**(158)**	(176)
Amounts recognised in the Consolidated Statement of Total Comprehensive Income:		
Actual return on assets less return implied by net interest income	**(3,681)**	191
Experience gain/(loss) on liabilities	**129**	465
Change in assumptions:		
Discount rate	**4,693**	3,249
Inflation rate	**252**	(629)
Demographic assumptions	**—**	31
Re-measurement of defined benefit obligation recognised in equity	**1,393**	3,307

Notes to the financial statements continued

for the year ended 31 March 2023

26 Retirement benefit obligations continued

Financial and demographic assumptions continued

b) Demographic assumptions continued

	2023 £'000	2022 £'000
Amounts recognised in the Consolidated Statement of Financial Position:		
Present value of funded obligations	**(16,929)**	(23,511)
Fair value of plan assets	**15,725**	21,072
Deficit under IAS 19 as reported by the actuary	**(1,204)**	(2,439)

The main reason for the decreased deficit in the IAS 19 accounting position relates to the changes in assumptions as shown in a) Financial assumptions contained in this note. 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.	-5.0%/+5.5%
RPI	+/- 0.5% p.a.	+1.0%/-0.9%
Assumed life expectancy	+1 year	+3.1%

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:

	2023 £'000	2022 £'000
Funded status at start of period	**(2,439)**	(5,570)
Amount charged to income statement	**(158)**	(176)
Actuarial gain (recognised in other comprehensive income)	**1,393**	3,307
Funded status at end of period	**(1,204)**	(2,439)

The weighted average duration of scheme liabilities at the end of the year is 10 years (2022: 14 years).

Present value of the defined benefit obligation

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

	2023 £'000	2022 £'000
Opening defined benefit obligation	**23,511**	27,542
Expenses incurred (including GMP equalisation)	**91**	75
Interest cost	**626**	483
Actuarial gain	**(5,074)**	(3,116)
Benefits paid (including expenses)	**(2,225)**	(1,473)
Closing defined benefit obligation	**16,929**	23,511
Comprising:		
Deferred members	**9,364**	13,891
Pension members	**7,565**	9,620

The actuarial gain due to the change in demographic assumptions was £Nil (2022: actuarial gain of £31,000) and the actuarial loss due to the change in financial assumptions was £(3,681,000) (2022: actuarial gain of £2,620,000).

Notes to the financial statements continued
for the year ended 31 March 2023

26 Retirement benefit obligations continued

Fair value of defined benefit plan assets

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

	2023 £'000	2022 £'000
Opening fair value of plan assets	**21,072**	21,972
Interest income on assets	**559**	382
Actuarial (loss)/gain on assets	**(3,681)**	191
Benefits paid	**(2,134)**	(1,398)
Expenses paid	**(91)**	(75)
Closing fair value of plan assets	**15,725**	21,072

The return on plan assets excluding net interest was £(3,122,000) (2022: £573,000). 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 £Nil (2022: £Nil) as contributions to the CML Microsystems Plc Retirement Benefits Scheme and expects to contribute £Nil in the next accounting year.

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

	Year ended 31 March 2023		Year ended 31 March 2022	
Asset class	**Market value £'000**	**% of total assets**	Market value £'000	% of total assets
Equities (all quoted)	**10,415**	**66%**	12,286	58%
Cash	**476**	**3%**	601	3%
Diversified growth funds	**1,541**	**10%**	2,206	10%
Diversified credit funds	**114**	**1%**	2,426	12%
Liability-driven investments	**2,698**	**17%**	3,209	15%
Other	**481**	**3%**	344	2%
Closing fair value of plan assets	**15,725**	**100%**	21,072	100%

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

The Trustees' investment strategy has the objectives to generate an appropriate level of investment returns to improve the financial position of the scheme (thereby improving security for its members); to manage cash flow requirements to ensure there are sufficient assets and cash flows available (to pay for member benefits as they arise); and to protect the financial position (in so doing limiting the scope for adverse investment experience impacting on members). The Trustees' strategic asset allocation is determined after considering written advice from the investment advisor and is designed to strike the appropriate balance between these objectives. Liability matching assets are selected by the Trustees having regard to the nature of the scheme's liability profile and are expected to react to changes in market conditions in a similar way to liabilities. Growth assets are expected to deliver long-term returns in excess of liability growth. Current allocations are 17% of liability matching assets and 83% 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.

Notes to the financial statements continued

for the year ended 31 March 2023

27 Share capital and share options

	2023 £'000	2022 £'000
Authorised		
25,000,000 ordinary shares of 5p each (2022: 25,000,000 ordinary shares of 5p each)	**1,250**	1,250
Issued and fully paid		
At 1 April		
17,299,399 ordinary shares of 5p each (at 1 April 2022: 17,190,152)	**865**	859
Issued in year: 360,625 ordinary shares (2022: 109,247) of 5p were issued in the year as a result of employees exercising their options	**18**	6
Cancelled in the year: 1,747,280 ordinary shares (2022.: Nil) of 5p were cancelled in the year that had been placed into treasury	**(87)**	—
At 31 March		
15,912,744 ordinary shares of 5p (at 31 March 2022: 17,299,399)	**796**	865

In April 2022 the Company announced a share buyback programme with the principal purpose of reducing the issued share capital of the Company and returning funds to the shareholders, 748,188 shares were purchased along with 360,625 shares issued in the year. A total of 1,747,280 ordinary 5p shares were cancelled in September 2022.

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.

Long-Term Incentive Plan

On 23 March 2022, the Company approved at the General Meeting a scheme 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					
	2022 Number	Granted Number	Cancelled Number	Exercised Number	Forfeited Number	**2023 Number**
From 31 March 2025 to 30 March 2032 at £0.05	49,420	—	—	—	—	**49,420**
From 31 March 2026 to 30 March 2033 at £0.05	—	36,258	—	—	—	**36,258**
	49,420	36,258	—	—	—	**85,678**

Of the total outstanding at the end of the year none were potentially exercisable at the prices detailed in the table above.

The Company issued 36,258 Long-Term Incentive Options at a price of £0.05p per share on 31 March 2023 to those that qualified for the scheme.

Notes to the financial statements continued

for the year ended 31 March 2023

27 Share capital and share options continued

Share options

The Company has a number of approved and unapproved share option schemes in place for the benefit of its employees. At the 2008 AGM an 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. On 23 March 2022 the Company approved at the General Meeting a further scheme 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					
	2022 Number	Granted Number	Cancelled Number	Exercised Number	Forfeited Number	**2023 Number**
From 2 October 2015 to 1 October 2022 at £3.22	3,273	—	—	(1,213)	(2,060)	**—**
From 2 October 2015 to 1 October 2022 at £3.34	5,000	—	—	(5,000)	—	**—**
From 25 September 2018 to 25 September 2025 at £3.51	192,528	—	—	(137,201)	(1,569)	**53,758**
From 25 September 2018 to 25 September 2025 at £3.475	15,000	—	—	(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	33,610	—	—	—	(280)	**33,330**
From 19 March 2022 to 18 March 2029 at £2.79	115,845	—	—	(110,695)	—	**5,150**
From 19 March 2022 to 18 March 2029 at £2.79	198,044	—	—	(91,516)	(1,528)	**105,000**
From 4 April 2023 to 3 April 2030 at £2.31	222,260	—	—	—	—	**222,260**
From 27 September 2024 to 26 September 2031 at £4.05	368,106	—	—	—	(19,113)	**348,993**
From 6 September 2025 to 5 September 2032 at £3.83	—	15,000	—	—	—	**15,000**
	1,173,666	15,000	—	(360,625)	(24,550)	**803,491**

Of the total outstanding at the end of the year, 217,238 share options were potentially exercisable at the prices detailed in the table above (2022: 583,300 share options). The weighted average market price of the share options exercised in the year was 400.0p (2022: 400.0p). The weighted average exercise price of options exercised in the year was 333.0p (2022: 308.0p). 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 387.3p (2022: 367.0p). The weighted average exercise price of all options exercisable is 332.7p (2022: 318.7p) and the weighted average expected remaining contractual life is three years (2022: three years).

During the year the Company issued 15,000 share options over its own 5p ordinary shares at a price of £3.83p per share on 6 September 2022 to staff.

Notes to the financial statements continued

for the year ended 31 March 2023

28 Other equity reserves

	Group		Company	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Share premium				
At 1 April	**1,362**	1,039	**1,362**	1,039
Issued in year: 360,625 ordinary shares (2022: 109,247 shares of 5p were issued in the year as a result of employees exercising their options)	**1,100**	323	**1,100**	323
At 31 March	**2,462**	1,362	**2,462**	1,362

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

	Group		Company	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Capital redemption reserve				
At 1 April	**8,285**	8,285	**8,285**	8,285
Cancellation of treasury shares	**87**	—	**87**	—
At 31 March	**8,372**	8,285	**8,372**	8,285

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. On 19 March 2021, the Company redeemed 16,551,685 class B shares for 50p per share for cancellation. On 26 September 2022, the Company cancelled 1,747,280 of its own 5p ordinary shares at a price if £0.05 per share for cancellation. An amount equal to the nominal value of the cancelled shares was transferred to a capital redemption reserve.

	Group				Company			
	2023 Number	**2023 £'000**	2022 Number	2022 £'000	**2023 Number**	**2023 £'000**	2022 Number	2022 £'000
Treasury shares – own share reserve								
At 1 April	**638,467**	**(1,670)**	638,467	(1,670)	**638,467**	**(1,670)**	638,467	(1,670)
(Purchased)/issued in the year	**1,181,447**	**(4,767)**	—	—	**1,181,447**	**(4,767)**	—	—
Cancelled in the year	**(1,747,280)**	**6,113**	—	—	**(1,747,280)**	**6,113**	—	—
At 31 March	**72,634**	**(324)**	638,467	(1,670)	**72,634**	**(324)**	638,467	(1,670)

The treasury shares reserve represents the nominal value of own shares purchased by the Company. No treasury shares were purchased in the year.

Notes to the financial statements continued

for the year ended 31 March 2023

28 Other equity reserves continued

	Group		Company	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Share-based payments reserve				
At 1 April	**490**	570	**490**	570
Options exercised or released	**(236)**	(178)	**(236)**	(178)
Charged in year	**234**	98	**234**	98
At 31 March	**488**	490	**488**	490

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 £234,000 (2022: £98,000).

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

Long-term incentive plan

Grant date	31/03/23	31/03/22
Share price at grant date (£)	5.25	3.38
Exercise price (£)	0.05	0.05
Number of employees	2	1
Shares under option	36,258	49,420
Vesting period (years)	4	4
Expected volatility	31.04%	25.81%
Option life (years)	10	10
Expected life (years)	4	4
Risk-free rate	3.49%	1.74%
Expected dividend yield	2.26%	1.00%
Possibility of ceasing employment before vesting	4.5%	4.5%
Fair value per option (£)	4.75	3.20

Notes to the financial statements continued

for the year ended 31 March 2023

28 Other equity reserves continued

Share option plan

Grant date	06/09/2022	27/09/21	04/04/20	19/03/19	28/03/18	01/08/17
Share price at grant date (£)	3.83	4.05	2.31	2.79	5.20	4.58
Exercise price (£)	3.83	4.05	2.31	2.79	5.20	4.58
Number of employees	1	125	9	203	2	47
Shares under option	15,000	373,709	227,122	703,400	110,000	84,521
Vesting period (years)	3	3	3	3	3	3
Expected volatility	24.46%	44.64%	31.42%	31.63%	23.31%	19.37%
Option life (years)	10	10	10	10	10	10
Expected life (years)	3	3	3	3	3	3
Risk-free rate	3.01%	1.08%	0.31%	1.19%	1.37%	1.10%
Expected dividend yield	2.29%	3.32%	2.49%	1.67%	1.40%	1.84%
Possibility of ceasing employment before vesting	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Fair value per option (£)	0.63	0.46	0.41	0.56	0.80	0.54

Grant date	22/12/16	25/09/15	25/09/15	01/10/12	01/10/12
Share price at grant date (£)	3.70	3.475	3.475	3.34	3.34
Exercise price (£)	3.70	3.475	3.51	3.34	3.22
Number of employees	1	4	158	1	124
Shares under option	20,000	100,000	400,131	5,000	26,872
Vesting period (years)	3	3	3	3	3
Expected volatility	16.02%	33.20%	33.20%	29.36%	29.36%
Option life (years)	10	10	10	10	10
Expected life (years)	3	3	3	3	3
Risk-free rate	1.15%	1.83%	1.83%	3.09%	3.09%
Expected dividend yield	1.86%	1.92%	1.92%	1.49%	1.49%
Possibility of ceasing employment before vesting	4.5%	4.5%	4.5%	4.5%	4.5%
Fair value per option (£)	0.35	0.74	0.73	0.67	0.67

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.

Notes to the financial statements continued

for the year ended 31 March 2023

28 Other equity reserves continued

Company only	2023 £'000	2022 £'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	2023 £'000	2022 £'000
Foreign exchange reserve		
At 1 April	**1,182**	302
Retranslation of overseas subsidiaries	**(140)**	880
At 31 March	**1,042**	1,182

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

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Retained earnings				
At 1 April	**39,339**	44,062	**26,486**	32,243
Profit for the year	**4,810**	1,238	**2,114**	204
Cancellation of treasury shares	**(6,113)**	—	**(6,113)**	—
Dividend paid	**(1,589)**	(8,964)	**(1,589)**	(8,964)
Cancellation/transfer of share-based payments	**236**	178	**236**	178
Net actuarial profit/(loss)	**1,393**	3,307	**1,393**	3,307
Deferred tax gain on actuarial loss	**(348)**	(827)	**(348)**	(827)
Deferred tax on share-based payments	**190**	—	**190**	—
Change in deferred tax rate on defined benefit	**—**	345	**—**	345
At 31 March	**37,918**	39,339	**22,369**	26,486

This reserve represents the movement in retained earnings of the Group in the year.

29 Capital commitments

Capital commitments which have been authorised by the balance sheet date represent a three-year purchasing commitment with two suppliers for £434,000 (2022: £1,574,000), and £30,000 (2022: £122,000) in relation to intangible assets. No provision has been made in these financial statements for these capital commitments.

30 Leases

The Group as a lessee

The following table 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	276	8	16	300
Charged to operating profit	**276**	**8**	**16**	**300**
Finance expense – lease liabilities	44	2	1	47
Charged to profit before taxation	**44**	**2**	**1**	**47**

At 31 March 2023, 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 £Nil (2022: £215,000). The investment property has been reclassified as held for sale.

Notes to the financial statements continued

for the year ended 31 March 2023

31 Notes to the cash flow statement

Group	2023 £'000	2022 £'000
Movement in working capital:		
(Increase)/decrease in inventories	**(167)**	(808)
(Increase)/decrease in receivables	**(214)**	(79)
Increase/(decrease) in payables	**(272)**	(138)
	(653)	(1,025)

Analysis of changes in net cash – Group:

	Net cash at 1 April 2022 £'000	Cash flow £'000	Exchange movement £'000	Net cash at 31 March 2023 £'000
Cash and cash equivalents	19,084	1,863	94	**21,041**
Fixed term deposit	5,958	(4,740)	—	**1,218**
	25,042	(2,877)	94	**22,259**

Company	2023 £'000	2022 £'000
Movement in working capital:		
Increase in receivables	**(1,129)**	(625)
Increase/(decrease) in payables	**406**	(447)
	(723)	(1,072)

Analysis of changes in net cash – Company:

	Net cash at 1 April 2022 £'000	Cash flow £'000	Exchange movement £'000	Net cash at 31 March 2023 £'000
Cash and cash equivalents	15,744	2,063	(45)	**17,762**
Fixed term deposit	5,000	(5,000)	—	**—**
	20,744	(2,937)	(45)	**17,762**

32 Related party transactions

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

Company	2023 £'000	2022 £'000
Management fees charged to subsidiary undertakings by parent:		
CML Microcircuits (UK) Ltd	**1,248**	1,248
PRFI Ltd	**180**	180
	1,428	1,428
Dividends paid to parent:		
Received from CML Microcircuits (USA) Inc	**—**	893
Received from CML Microcircuits (Singapore) Pte Ltd	**287**	268
Received from Wuxi Sicomm Technologies, Inc	**590**	430
Received from PRFI Ltd	**350**	—
Received from Applied Technology (UK) Ltd	**—**	83
Received from integrated Micro Systems Ltd	**—**	73
	1,227	1,747
Trade balances outstanding:		
Owed to CML Microsystems Plc by Wuxi Sicomm Technologies, Inc	**173**	226
Owed to CML Microsystems Plc by CML Microcircuits (UK) Ltd	**2,000**	800
	2,173	1,026

Contributions to the Group's pension schemes

Contributions to the Group's defined contribution pension schemes by the Group as employer consisted of £944,000 in the year (2022: £936,000).

Notes to the financial statements continued

for the year ended 31 March 2023

32 Related party transactions continued

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	2023 £'000	2022 £'000
Employee benefits	**665**	632
Pension contributions	**28**	62
Share-based payments	**28**	9
	721	703

33 Listings

CML Microsystems Plc's ordinary shares are traded on the Alternative Investment Market (AIM) 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.

34 Post balance sheet events

Share Buyback Programme

In April 2023, a £1,750,000 Share Buyback Programme was put in place for the principal purpose of reducing the issued share capital of the Company and returning funds to shareholders. During April, the £1,750,000 had been used in its entirety to repurchase 337,900 ordinary shares and these shares were taken into treasury.

Acquisition of Microwave Technology, Inc.

On 17 January 2023, CML Microsystems Plc entered into a definitive agreement to acquire a Silicon Valley based semiconductor company, Microwave Technology (Inc MwT), which is subject to US regulatory clearance.

The acquisition will expand the Group's product portfolio, strengthen and enhance its support resources and increase its R&D capabilities, providing essential knowhow and experience in system level understanding, product manufacturing and packaging techniques.

Directly attributable acquisition costs include external legal and accounting costs incurred in compiling the acquisition legal contracts and the performance of due diligence activity and amount to £464,000. These costs have been charged in distribution and administrative expenses in the Consolidated Income Statement.

Five-year record

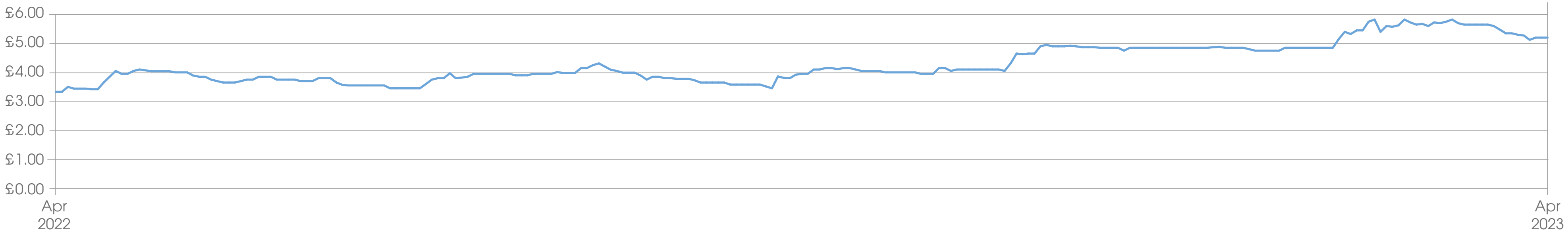
	2023 £'000	2022 £'000	2021 Restated £'000	2020 Restated £'000	2019 Restated £'000
Income statement					
Revenue (continuing operations)	**20,643**	16,964	13,101	15,565	15,956
Revenue (discontinued operations)	**—**	—	9,505	11,457	12,869
Total revenue[1]	**20,643**	16,964	13,101	27,022	28,825
Gross profit[1]	**15,611**	12,795	9,455	11,930	20,508
Gross profit percentage[1]	**75.62%**	75.42%	72.17%	76.65%	71.13%
Profit before taxation[1]	**5,216**	1,737	10	1,178	2,982
Profit after taxation[1]	**4,810**	1,238	802	1,371	2,694
Adjusted EBITDA[2]	**5,901**	4,308	2,731	4,483	8,754
EPS[1]					
Basic	**30.29p**	7.45p	141.13p	8.98p	15.77p
Diluted[1]	**29.93p**	7.35p	140.56p	8.94p	15.36p
Statement of financial position					
Shareholders' equity[1]	**50,754**	49,853	53,447	42,390	42,322
Net cash, cash equivalents and fixed term deposits	**22,259**	25,042	31,914	8,479	12,809
Dividends per ordinary share					
Dividends proposed/paid per 5p ordinary share[1]	**11.00p**	9.00p	52.00p	4.00p	7.80p

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.

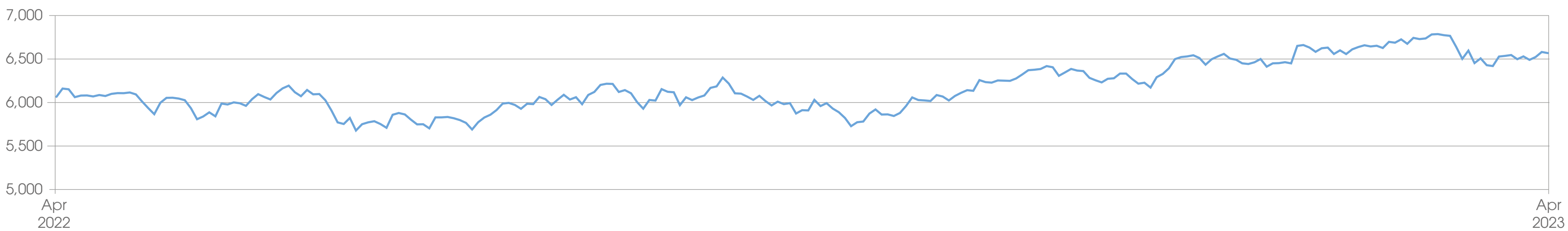
	Number of shares 2023	Number of shares 2022	Number of shares 2021	Number of shares 2020	Number of shares 2019
Ordinary shares of 5p allotted, issued and fully paid, excluding shares held in treasury	**15,840,110**	16,660,932	16,551,685	17,154,185	17,075,166
Shares held in treasury	**72,634**	638,467	638,467	23,467	100,000
Total ordinary shares of 5p allotted, issued and fully paid	**15,912,744**	17,299,399	17,190,152	17,177,652	17,175,166

Shareholder information

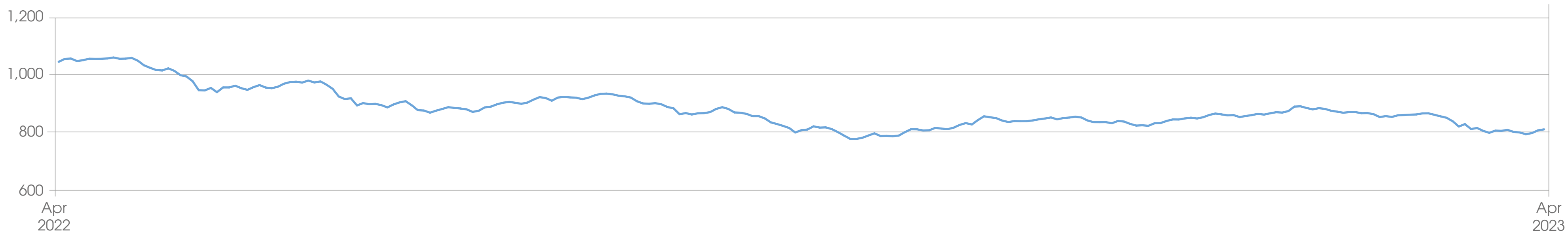
CML Microsystems Plc share price – for the year ended 31 March 2023



TechMark 100 Index – for the year ended 31 March 2023



AIM All Share – for the year ended 31 March 2023



Shareholder information continued

Financial calendar

2023

9 August	AGM
30 September	Half-year end
21 November	Anticipated date for half-year results

2024

31 March	Year end
2 July	Anticipated date for results announcement of year-end 2024 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
FRC	Financial Reporting Council
GaAs	Gallium Arsenide
GaN	Gallium Nitride
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
WEF	World Economic Forum

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