CML Microsystems Plc

Growth in a connected world

Annual Report and Accounts

FY17

USER GUIDE

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LINKS WITHIN THIS DOCUMENT

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

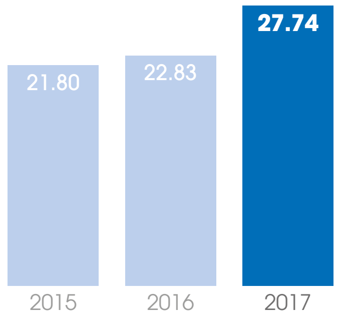
Growth in a connected world

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

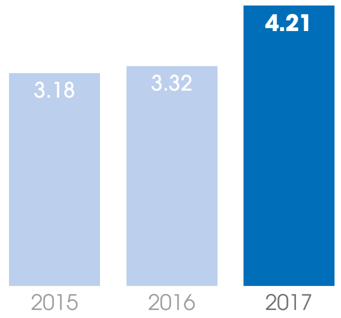
Founded in 1968, CML operates internationally with subsidiaries across the UK, the USA, Germany, China, Singapore and Taiwan.

Financial highlights

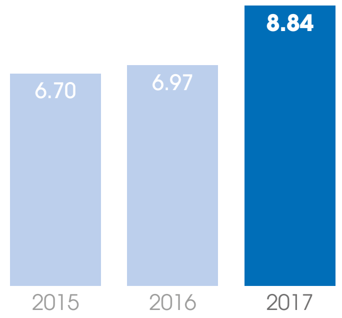
Revenue (£m)
27.74 +22%



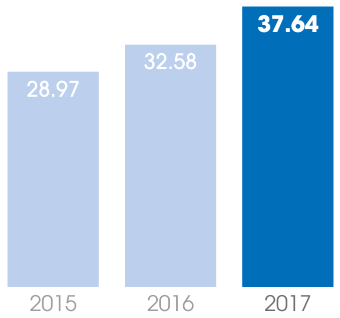
Pre-tax profit (£m)
4.21 +27%



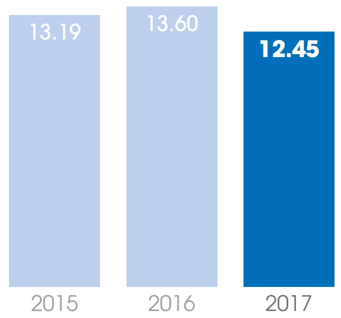
Adjusted EBITDA[1] (£m)
8.84 +27%



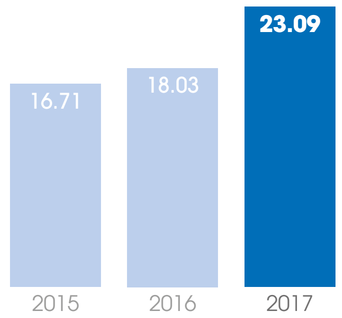
Shareholders' equity (£m)
37.64 +16%



Net cash (£m)
12.45 -8%



Basic earnings per share (p)
23.09 +28%



1. For definition and reconciliation please see note 12.

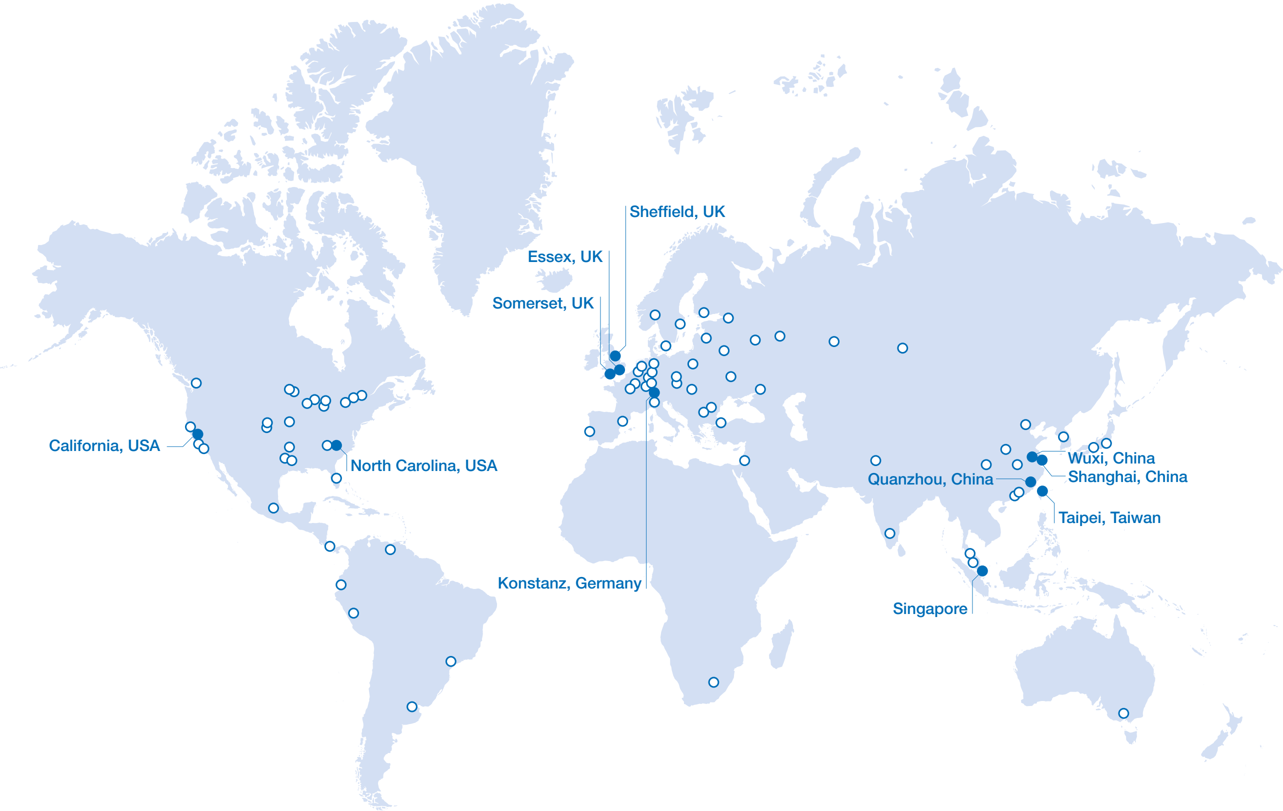
Operational highlights

- Storage: 46% of Group revenue
  - Revenue up 9% to £12.69m (2016: £11.65m)
  - Enlarged product range now includes USB, SD, SATA and MMC interface technologies
  - Developed an Applications Programmers Interface ('API') enabling customers to design their own proprietary security or IoT solutions
  - Added Micron Technology Inc., to the customer list
- Communications: 53% of Group revenue
  - Revenue up 36% to £14.64m (2016: £10.78m)
    - Sicomm contribution being £1.66m
  - Growth exceeded internal expectations, led by organic growth and the significant contribution from Sicomm
  - New senior management and operational personnel recruited
  - Global launch of first wireless power amplifier IC – opens new application areas such as meter reading and RFID

At a glance

Global reach and world-class customers

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



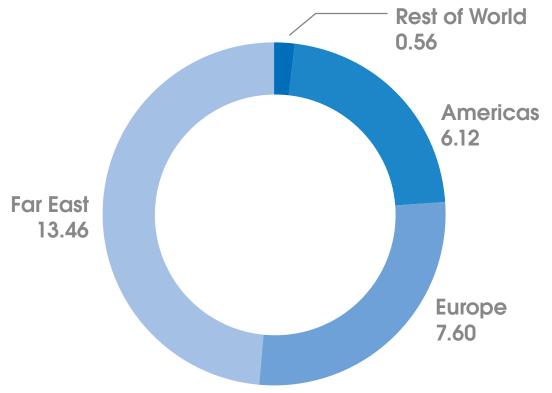
Established in
1968

Employees worldwide
215

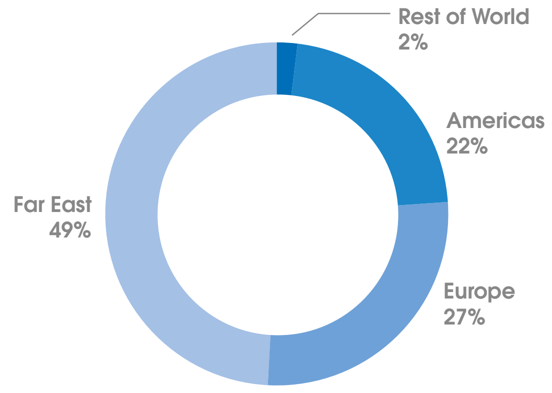
Offices
11

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

2017 revenue split by region (£m)



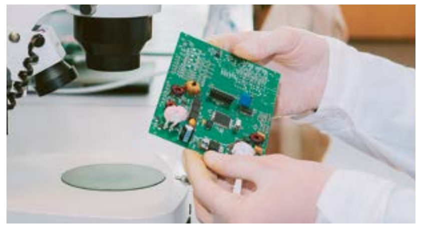
2017 revenue split by region (%)



● Group operations
○ Support and distribution offices

This map is illustrative, but not fully definitive of our locations. For a full list of our locations please visit our website at cmlmicroplc.com

>50
Products



Engineers
>45%

4
Design facilities

Group Chairman's statement

The Board's strategy of investing for the future is bearing fruit and we will continue along that path.

Introduction

Investment is a cornerstone of the CML Group's sustainable growth strategy and has once again been a major theme for CML over the past year. On the one hand the Group has benefited from prior years' focus on Research & Development spend, operational infrastructure including additional staff and from a part year contribution from our largest single investment, the acquisition of Sicomm. On the other hand, we have made further investments to ensure that the Group's prosperity continues long into the future. The platform for this investment lies in the Group's strategic focus on niche markets that we know and understand and where the quality of our products and our competitive advantages enable us to achieve strong gross margins.

In last year's report I mentioned the intended acquisition of Sicomm, which completed on 26 July 2016. I am pleased to inform shareholders that the business has integrated successfully and the benefits are already being seen. Sicomm has performed well this year, and, as anticipated, it has given the Group greater access to the Chinese market with strong local knowledge and customer relationships. Further benefits will be seen in future years as the opportunities increase for cross selling the Group's enlarged product range. Acquisitions will continue to form part of our strategy, coupled with a strong focus on organic growth, and the Board remains alert to opportunities that may meet our strict criteria.

Results and Dividend

Results for the year were encouraging and include eight months of the Sicomm business acquired in July. Revenues increased by 22% to £27.74m (2016: £22.83m), considerably ahead of the expectations set at the start of the year. Profit before taxation increased by 27% and basic EPS increased by 28%. Operating cash generation, always considered of high importance, continues to be very healthy.

Total cash balances at 31 March 2017 were £12.45m (2016: £13.60m) after a net cash spend of £3.58m on the acquisition of Sicomm, £0.67m spent on a share buy back at a price of £3.70 per share and a dividend payment relating to the prior financial year of £1.13m. The cash generation is particularly pleasing given the levels of ongoing investment in the Group, with record investment in research and development being made during the year.

The Board is pleased to recommend an improved final dividend of 7.4p (2016: 7.0p) which, if approved, will be paid on 7 August 2017 to shareholders whose names appear on the register at the close of business on 7 July 2017 with an ex-dividend date of 6 July 2017. The dividend is in line with the Company's progressive policy and reflects the performance for the year, coupled with our confidence for the future whilst retaining a strong balance sheet and sufficient cash to take advantage of opportunities that may present themselves.

Management

Throughout the course of the year further appointments were made globally to strengthen the management team and to provide the necessary infrastructure and support to enable the Group to achieve its growth ambitions. I am pleased to report that the Board is confident that we now have the majority of the team in place to deliver those ambitions.

On behalf of the Board I would also like to thank Ron Shashoua for his long and dedicated service to CML. Ron joined the Company in 1996 as a non-executive Director and has been a very active and dedicated contributor to the Group's progress right up to his retirement at the end of March 2017. At the same time I would like to welcome Geoff Barnes our new non-executive Director who joined us on 1 April 2017. Geoff's experience and expertise should strengthen the Board and assist in taking the Group forward.

Behind all of our successes are the highly skilled and talented employees around the world that continue to strive to achieve our goals. On behalf of the Board I would like to thank them for their ongoing dedication and passion. I would also like to officially welcome those employees who have joined us through Sicomm, thank them for their contribution to date and let them know how much we all look forward to a continued strong relationship.

Prospects and Outlook

The Board's strategy of investing for the future is bearing fruit and we will continue along that path. As well as record investment in research and development, CML has invested in further headcount to create the right structure for further success. Obviously this adds to the overheads in the short term but is necessary to deliver long term sustainable growth.

Last year's acquisition of Sicomm has strengthened the product range and solidified our position in the Communications market. This I am sure will enhance our organic growth and we continue to review acquisition opportunities that will complement our skills, market knowledge and enlarged geographical reach.

CML has a strong position in its chosen markets with a clearly defined strategy for growth and a highly capable management team. Coupled with a strong balance sheet and underpinned by good levels of order bookings through the second half of the year just finished, this gives the Board confidence for the financial year just started and beyond.

N G Clark
Group Non-executive Chairman
23 June 2017

Market opportunity

Addressing growing market sectors

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

Key market trends

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

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

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

Our market application areas:

Storage

46%
Revenues

Hyperstone-branded products

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

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

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

Find out more on page 10

Communications

53%
Revenues

Incorporates Wireless & Wireline business

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

Key end markets:
Voice centric mission/business critical communications (military, commercial, construction, transportation)
Non-cellular wireless data communications; satellite M2M; Asset tracking; SCADA

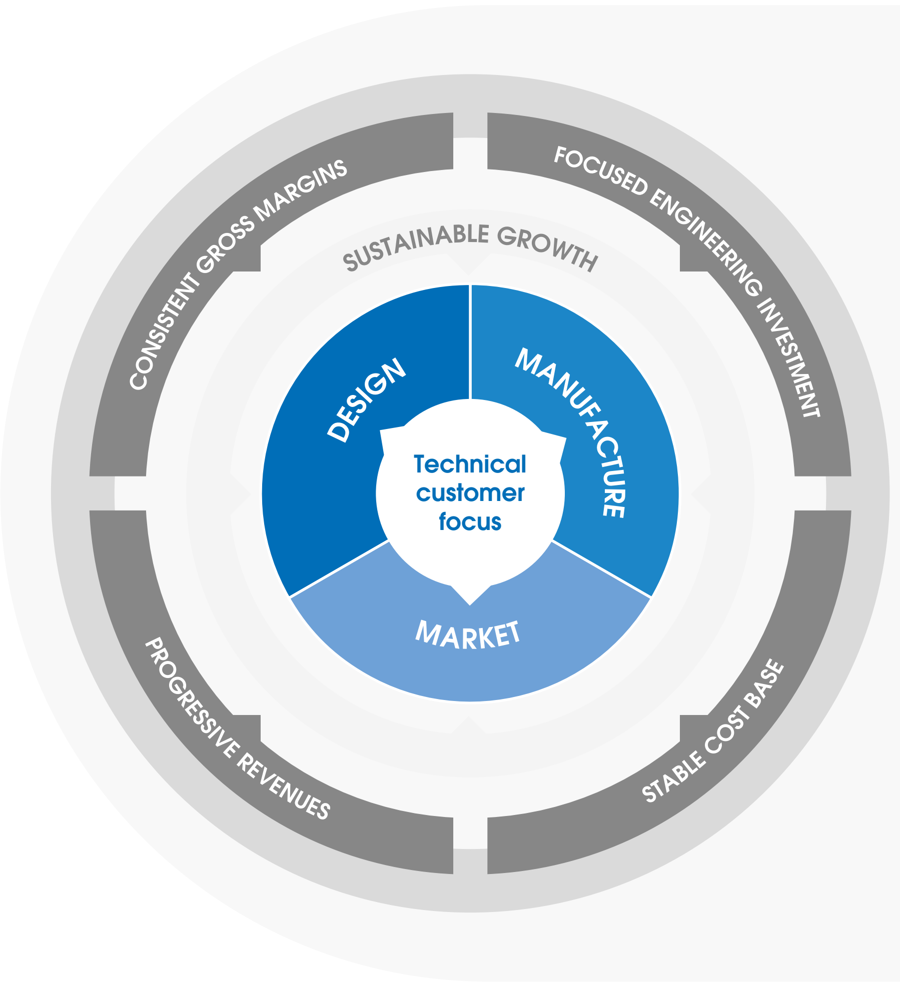
Market growth drivers:
Need for higher data rates
Analogue digital migration
IP connectivity

Find out more on page 11

Business model

Delivering long-term sustainable growth

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



Innovation

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

Quality

Superiority and excellence are important definitions of quality within our organisation and are widely applicable across numerous activities. Whether it is product design, manufacturing, selling or stakeholder relationship management, we strive to be a quality company operating with the high levels of business acumen and ethical practices that the business was founded on over 45 years ago.

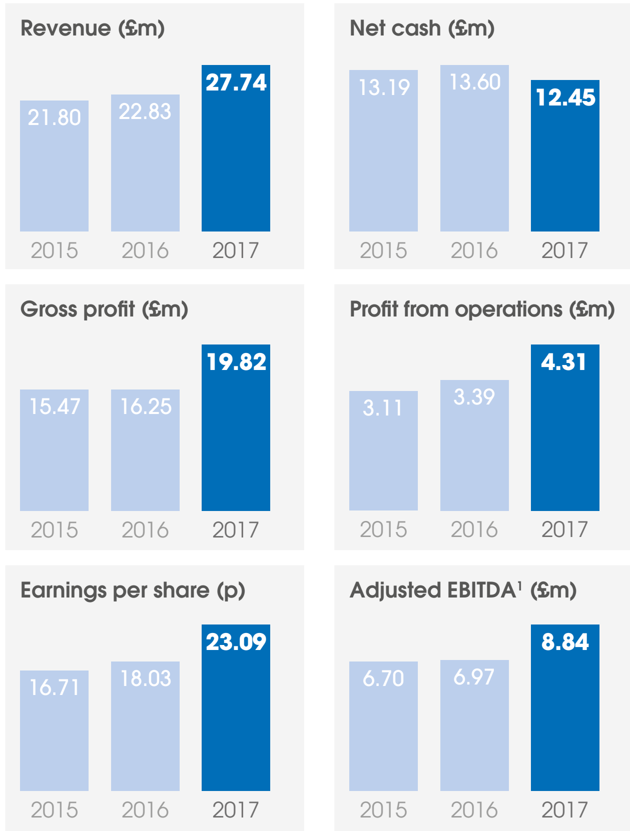
Support

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

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

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

KPIs



These KPIs include revenue, gross profit, profit from operations, basic earnings per share and cash, summary details of which are shown above and discussed within the Chairman's statement on page 4 and the Managing Director's operating and financial review on page 8.

1. Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortisation ('EBITDA') and before share-based payments.

Principal risk and uncertainties

Key risks of a financial nature

The principal risks and uncertainties facing the Group are with foreign currencies and customer dependency. With the majority of the Group's earnings being linked to the US Dollar, a decline in this currency will have a direct effect on revenue, although since the majority of the cost of sales are also linked to the US Dollar, this risk is reduced at the gross profit line. Furthermore, the Group does however have significant Euro-denominated fixed costs. Additionally, though the Group has a very diverse customer base in certain market sectors, key customers can represent a significant amount of revenue. Key customer relationships are closely monitored, however changes in buying patterns of a key customer could have an adverse effect on the Group's performance. Further details of risks, uncertainties and financial instruments are contained in note 23.

Key risks of a non-financial nature

The Group is a small player operating in a highly competitive global market that is undergoing continual and geographical change. The Group's ability to respond to many competitive factors including, but not limited to, pricing, technological innovations, product quality, customer service, manufacturing capabilities and employment of qualified personnel will be key in the achievement of its objectives, but its ultimate success will depend on the demand for its customers' products since the Group is a component supplier. A substantial proportion of the Group's revenue and earnings are derived from outside the UK and so the Group's ability to achieve its financial objectives could be impacted by risks and uncertainties associated with local legal requirements, the enforceability of laws and contracts, changes in the tax laws, terrorist activities, natural disasters or health epidemics.

Understanding of the development, performance or position of the Company's business

For financial years ending on or after 30 September 2013, all companies must prepare a stand-alone strategic report in addition to their directors' report (Section 414C (7) of The Companies Act 2006 Strategic Report and Directors' Report). The Directors do not believe that environmental matters (including the impact of the Company's business on the environment), details of the Company's employees (including gender) and social, community and human rights issues are needed for an understanding of the development, performance or position of the Company's business and accordingly have not included this within the strategic report but have added these to the Other Disclosures and Corporate and Social Responsibility section of this Annual Report.

Group Managing Director's review

With a strong balance sheet, healthy cash balances and a clear and defined position in the markets in which we operate, we look forward with confidence

Operational and Financial Review

Introduction

I'm pleased to be able to report on another solid year, with progress made across most aspects of the business and further building blocks put in place for the future. The momentum experienced in the first half of the year continued throughout and we began to see the benefits of the ongoing operational and product development investments made. We are well positioned in our chosen niche markets, namely Communication and Storage, with the Communications sector making a particularly pleasing impact. The Sicomm acquisition which completed in July 2016 has improved our footprint in China and added local expertise in an important market. Integration has gone well and the contribution to the Group for the eight months since acquisition has been encouraging, both financially and culturally. Further senior management appointments have been made within our UK and US business units and the Group's geographic footprint expanded through the opening of a sales and support office in Orange County, California. Coupled with the operational changes made at the end of the prior financial year, we believe we now have an enhanced structure in place to execute our strategy.

Financial Review

The Group's financial performance includes an eight month contribution from Sicomm, commencing August 2016. Total revenues for the year amounted to £27.74m (2016: £22.83m) with the contribution from Sicomm being £1.66m. Gross margins remained consistent leading to a 22% increase in gross profit to £19.82m (2016: £16.25m). The Group did benefit from currency movements through the year although it continues to have a somewhat natural hedge in respect of foreign currency exchange rate exposure.

The main driver for organic revenue growth was the continued increase in shipments to existing long-term customers, with a significant number of our top 40 customers increasing their spend. This growth was augmented by the addition of Sicomm, a currency tailwind and an element of revenue from the effects of a last-time-buy programme relating to a number of legacy Communications products.

Overall revenue grew across all major geographic regions although the strongest advance was made in the Far East region which includes predominantly China and Hong Kong, Japan, South Korea, Singapore, Taiwan and Malaysia. Far East revenues grew by 26% and now account for approximately 49% of the Group revenue total. Revenue from the Americas grew by 19% with European revenues ahead by 16%.

As anticipated, distribution and administration costs increased to £16.12m (2016: £13.27m). The three main factors were higher amortisation of R&D activities at £4.10m (2016: £3.33m), higher direct staff costs resulting from investments made in new personnel and associated restructuring activities and the addition of Sicomm to the Group. Additionally, costs associated with onerous lease provisioning were balanced by the positive effects of foreign exchange. The total R&D spend for the year amounting to £6.82m (2016: £6.09m) rose 12% and equates to 25% of Group revenues.

Other operating income for the year amounted to £0.61m (2016: £0.41m) and resulted from rental income obtained from ex-operational property assets along with grant income received from R&D activities. This increase drove profit from operations up 27% to £4.31m (2016: £3.39m).

After adjusting for the combined effect of share-based payments and finance income, a profit before taxation figure of £4.21m was achieved (2016: £3.32m).

Adjusted EBITDA grew by 27% to £8.84m (2016: £6.97m).

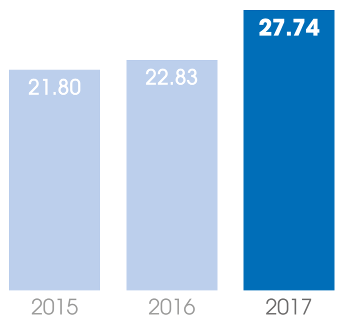
The overall tax charge for the year was slightly lower at £0.34m (2016: £0.40m) reflecting the continuing benefit of UK R&D tax credits along with the additional effect of accumulated tax losses within the acquired Sicomm business. Profit after tax increased to £3.87m and represented an increase of 32% year on year (2016: £2.93m).

Cash reserves at 31 March 2017 reduced to £12.45m (31 March 2016: £13.60m) representing a pleasing result following significant cash outflows for the Sicomm acquisition, a dividend payment of £1.13m for the prior financial year, £0.67m spent on the purchase and cancellation of Company shares and a record R&D investment of £6.82m. The cash balance includes a conditional customer prepayment of £1.50m (2016: £1.39m) against future product purchases.

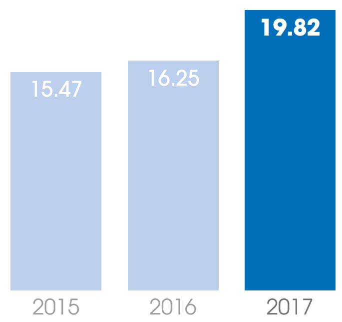
Inventory levels were higher at £2.15m (2016: £1.57m) with the increase mostly attributable to the Sicomm acquisition.

Basic earnings per share advanced 28% to 23.09p (2016: 18.03p).

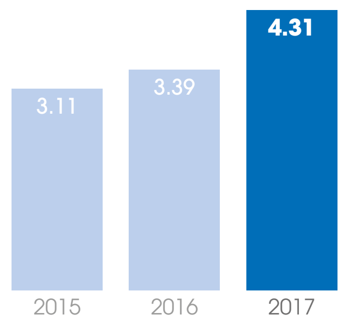
Revenue (£m)
27.74 +22%



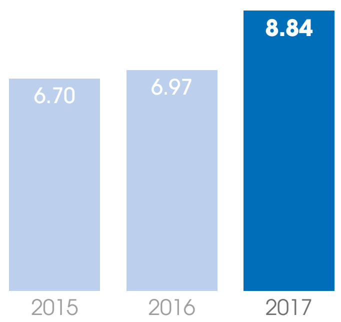
Gross profit (£m)
19.82 +22%



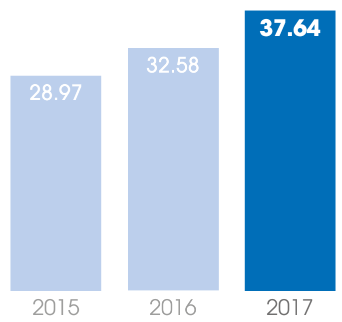
Profit from operations (£m)
4.31 +27%



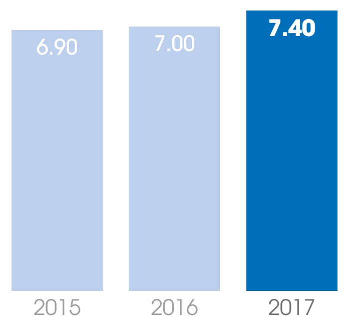
Adjusted EBITDA (£m)
8.84 +27%



Shareholders' equity (£m)
37.64 +16%



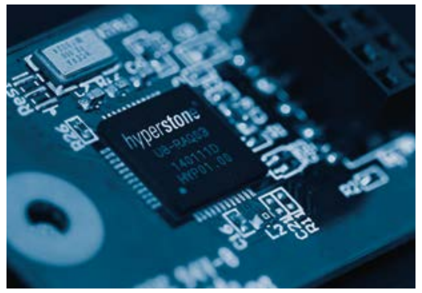
Dividend (p)
7.40 +6%



Group Managing Director's review continued

market application areas

Storage



The main element of our strategy within Storage is to ensure that the Group continues to increase business with our existing customers whilst simultaneously adding new customers through R&D investment.

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

We have transitioned from a narrow "Controller" product portfolio with only CompactFlash as the available interface, to an enlarged product range that now also includes USB, SD, SATA & MMC interface technologies. Additionally, we have developed an Application Programmers Interface (API) and licensed it to a number of new customers enabling them to design their own proprietary security or IoT solutions in the knowledge they are built upon our highly reliable standard Controller solutions.

Storage performed well through the year with revenue increasing by 9% to £12.69m (2016: £11.65m). Management continued to focus firmly on sustainable growth opportunities, occasionally at the expense of a short-term gain. Separately, one or two customers reported being affected by the tightening of their NAND flash supply through the second half although it is not possible to judge the overall impact, if any, on the numbers reported. Importantly, from a new business opportunity perspective, the momentum experienced in the first half of the year continued into the second six months assisted by the enlarged and increasingly attractive product portfolio. Particularly pleasing was the addition of Micron Technology Inc., a world leader in innovative memory solutions, to our customer list through our wholly owned subsidiary, Hyperstone, which was announced in March 2017. Hyperstone's USB 3.1 Flash Memory controller solution, U9, has been designed into Micron's new eU500 embedded USB module, an embedded solid state storage solution aimed at networking, telecoms and Industrial Internet of Things (IIoT) markets. This followed on from the addition in the first half of the year of our proprietary hyMap technology to the USB product range which enables our industrial customers to use memory that has a lower "cost per bit". The contribution from the USB controller product line started to become meaningful, as expected.

Evolution of the hyMap technology continued both in terms of functionality offered and flash memory compatibility. Whilst the objective is to expand the product portfolio and widen the addressable market, a level of R&D spend is required to refresh the product portfolio periodically. In that respect a new Compact Flash controller solution was sampled to initial customers in financial Q4 ahead of the full market launch planned for the first half of the new financial year.

Encouragingly, order book visibility for Storage products improved a little providing greater levels of comfort. However, whether this is indicative of a long term trend or merely the current state of the market remains unclear.

Application areas

Industrial flash memory cards; solid state drives; embedded storage

Markets served

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

Communications

Our strategy within Communications is to grow customer share and expand the customer base through R&D investments that increase the functionality that our ICs deliver within the customers' end product.

During the year under review we amalgamated the reporting of the Wireless and Wireline market sectors under the single sector of Communications. Our strategy within Communications is to grow customer share and expand the customer base through R&D investments that increase the functionality that our 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.

The enlarged organic product range has grown further through the acquisition of Sicomm culminating in the ability for a single customer radio design to potentially incorporate up to five separate Group ICs. This has the added benefit of generating increased efficiency across our sales and marketing activities and, with the aid of focused demonstration platforms, will help our customers get their own products to market faster.

Across the year, we delivered a pleasing performance and strengthened our position in the end markets addressed. Building further upon the performance reported at the interim stage, revenues for the full year increased to £14.64m, representing a gain of 36% against the comparable 12 month period (2016: £10.78m).

This growth exceeded internal expectations and was possible through the combined effects of organic growth, a level of "last time buy" activity and the significant contribution from Sicomm whose revenues are wholly reported under the Communications sector.

A number of organisational reporting adjustments and resource level improvements were made throughout the year with a specific focus on Communications activities. This resulted in new senior management and operational personnel being recruited in the UK and USA. These changes were a continuation of the operational investments conveyed at the interim stage and have given the business increased focus and a scalable operating structure.

In total we released three new products across the year culminating in February 2017 with the global launch of our first wireless power amplifier IC which has generated a good level of interest and opens new application areas such as meter reading and RFID. Two additional product releases that were planned for the final quarter of the year experienced delays due to internal qualification processes and extended engineering development timescales. Whilst this is somewhat disappointing, these two products are expected to be released to market during the first half of the year to 31 March 2018.

For the year ahead we are anticipating continuing high levels of R&D investment towards new roadmap products. At the same time, we will be enhancing our silicon development methodologies to ensure resources and activities are performance optimised for evolving customer needs.

Application areas

Professional and industrial voice and/or data communications products

Markets served

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

Group Managing Director's review continued

Founded in 2003, Sicomm is a fabless semiconductor company and solutions provider specialising in the development of integrated baseband processors and RF semiconductors for global wireless communication markets.

SICOMM

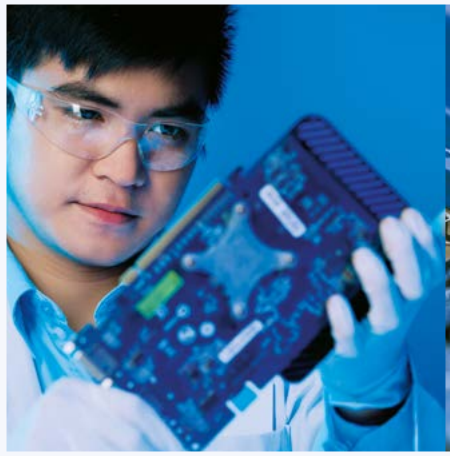
Sicomm has approximately 30 employees and is headquartered in Wuxi, China, with offices in Shanghai and Quanzhou.

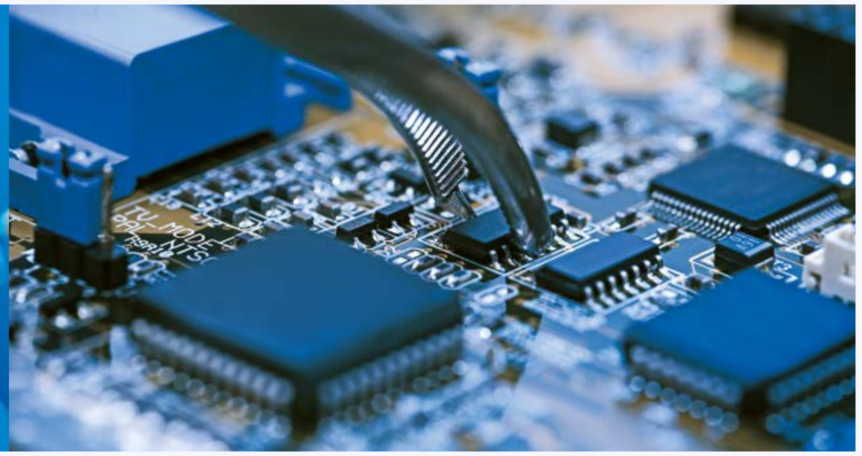
The company's product range focuses on the customer need to achieve the right balance between cost, functionality and technical performance for industrial and professional radio products.

This acquisition expands the Group's product portfolio, strengthens its Far Eastern regional support resources and reinforces CML's position as a leader in the professional and industrial wireless communication semiconductor market.

"This dedicated and experienced team will be an important asset as we continue to focus on sustainable growth. Sicomm's product range, trading relationships and technical support abilities complement and enhance the Group's existing skills and strategy, and are expected to enable compelling technical and commercial benefits for our customers."

C A Gurry
Group Managing Director





Strategy Overview

Our semi-conductor business continues to be focused on two important niche market areas, industrial storage applications and the industrial communications market, where our proprietary IP along with the quality and reliability of our technology sets us apart from our peers and makes us an integral part of our customers' products. We have developed a strong reputation in each of these sectors and have a world-class customer base and established sales network which has been improved further through the acquisition of Sicomm.

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

Ongoing investment in R&D remains a key pillar of our growth strategy and the benefits are already being seen. This focus on developing new products should lead to design wins with both new and existing customers. This will enable us to improve our market share as well as increase our total addressable market and, we believe, deliver significant revenue generation. We continue to seek acquisition opportunities which meet our strict criteria to complement our ongoing organic growth.

Market Developments

Solid long-term underlying growth trends exist within the two main industrial application areas addressed with the principal factor for both being the persistent demand for increasing amounts of data, to be transmitted and stored more quickly and securely.

The industrial data storage market has several specific areas which are exhibiting exciting opportunities for which we have either secured design wins or are at the somewhat earlier stage of qualifying products with our customers. These areas include the telecoms/network infrastructure market, industrial automation, various security applications and the in-vehicle infotainment market.

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

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

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

Customer dependency across the year as a whole was broadly unchanged against the prior year. Two customers contributed greater than 10% to Group revenues with a combined contribution of approximately 25%. All other customers were below the 5% threshold.

Operational Developments

Sicomm acquisition and integration

The acquisition of Sicomm which completed in July 2016 was a significant milestone for the Group. Building on our existing capability in the region, the addition of Sicomm greatly enhances our footprint in China, providing us with a talented workforce with an in-depth knowledge of the dynamics of a key market. The integration has progressed well and we are particularly pleased with the levels of interaction across our global teams. Sicomm has delivered a good performance in line with our expectations. As the opportunities for cross-selling of product lines increases and as we collaborate further in both development and pipeline opportunities we expect to see further benefits.

The Group remains alert to acquisition opportunities that can complement our existing operations and which meet our strict criteria. We believe that there is significant organic growth to be achieved and can therefore afford to be selective.

Investment in People

We continued to enhance our global operating structure through further investment in people across our operations globally. Customer service levels are extremely important to CML and we now have the right teams in place to be able to support our increasing levels of engagement as well as to support future growth initiatives.

These additional hires were across a range of skills, including senior management, sales, marketing and engineering support. The opening of an office in Orange County, California, during February improved our geographic coverage and is expected to further improve our service levels.

Outlook

These financial results show the effects of the Group's long term focus on research and development and the strength of our customer relationships. The lead times on new products reaching meaningful revenue generation are typically long and the majority of revenues in this period relate to designs from some years ago. Therefore as more recent new product design-ins start to reach production we would expect to see further revenue momentum.

Bookings through the latter part of the financial year were good and momentum into the new financial year is encouraging, although we are starting with a higher cost base reflecting the investments made in people and products. With a strong balance sheet, healthy cash balances and a clear and defined position in the markets in which we operate, we look forward to the year ahead with confidence. Board expectations are for a further advance in profitability to 31 March 2018.

C A Gurry
Group Managing Director
23 June 2017

Corporate social responsibility

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

Employees

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

Breakdown of employees as at 31 March by gender and management

	2017			2016		
	Male	**Female**	**Total**	Male	Female	Total
Plc Board Directors	**6**	**—**	**6**	6	—	6
Senior management	**15**	**1**	**16**	12	1	13
Staff	**138**	**58**	**196**	117	43	160
Total	**159**	**59**	**218**	135	44	179

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

The Group encourages employees to participate directly in the success of the business through a free flow of information and ideas along with Company share ownership.

Statement as to disclosure of information to the auditor

The Directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware.

Each of the Directors have confirmed that they have taken all the steps that they believe they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditor

A resolution to re-appoint RSM UK Audit LLP, Chartered Accountants, as auditor of the Company will be put to the members at the forthcoming Annual General Meeting.

Environmental issues and greenhouse gas emissions

The Board recognises its responsibility as a manufacturing concern to reduce, where economically sound, the energy it uses and where possible take advantage of recycling opportunities, complying with local laws as a minimum standard. The direct impact of the Company's own business on the environment is little more than that of a normal office environment so has minimal effect. This is due to the fact that the Company mainly uses a sub-contractor model for the manufacture of its products. The mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 ("the Regulations") requires we report the data shown on the next page.

Greenhouse gas emissions in tonnes of CO_2 equivalents

Tonnes of CO_2e	**2017**	**% of total emissions**	2016	% of total emissions
Scope 1	**145.83**	**24.99%**	138.58	19.74%
Scope 2	**437.61**	**75.01%**	563.55	80.26%
Total controlled emissions	**583.44**	**100.00%**	702.13	100.00%

Source of emissions

Tonnes of CO_2e	**2017**	**% of total emissions**	2016	% of total emissions
Scope 1				
Fuel – Company owned vehicles	**30.82**	**5.28%**	23.13	3.29%
Gas – heating	**115.00**	**19.71%**	115.44	16.45%
Refrigerant	**0.01**	**0.00%**	0.01	0.00%
Total scope 1 emissions	**145.83**	**24.99%**	138.58	19.74%
Scope 2				
Electricity – office and manufacturing	**437.61**	**75.01%**	563.55	80.26%
Total scope 2 emissions	**437.61**	**75.01%**	563.55	80.26%

Geographical breakdown

2017 Tonnes of CO_2e	**Scope 1**	**Scope 2**	**Total**	**Percentage**
UK	**119.02**	**377.52**	**496.54**	**85.11%**
Taiwan	**8.78**	**19.16**	**27.94**	**4.79%**
Singapore	**0.00**	**4.30**	**4.30**	**0.74%**
China	**9.61**	**12.30**	**21.91**	**3.75%**
Germany	**8.42**	**24.33**	**32.75**	**5.61%**
Total emissions	**145.83**	**437.61**	**583.44**	**100.00%**

2016 Tonnes of CO_2e	Scope 1	Scope 2	Total	Percentage
UK	120.06	496.88	616.94	87.87%
Taiwan	10.05	30.43	40.48	5.77%
Singapore	0.00	5.51	5.51	0.78%
Germany	8.47	30.73	39.20	5.58%
Total emissions	138.58	563.55	702.13	100.00%

Intensity of emissions

Tonnes of CO_2e/£'000 turnover	**2017**	2016
Scope 1	**0.01**	0.01
Scope 2	**0.02**	0.02
Total	**0.03**	0.03

The above greenhouse gas emissions data is reported using an operational control approach to define our organisational boundary, which meets the definitional requirements of the Regulations in respect of those emissions for which we are responsible. This includes all material emission sources which we deem ourselves to be responsible for. These sources are within our organisational boundary and align with our own internal and financial control. We do not have responsibility for any emission sources outside this boundary such as commercial flights (scope 3) since they are not within our control and therefore are not considered to be our responsibility.

Directors and advisors

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

Nigel Clark

Group Non-Executive Chairman

Aged 63, Nigel joined the Company in 1980. He was appointed Company Secretary in 1983 and Group Financial Director in 1985. Prior to joining CML, he was with Touche Ross & Co. (which subsequently merged with Deloitte in 1989) and is a qualified chartered accountant, holding an FCA. Nigel became Group Non-Executive Chairman in January 2015. He holds a Mathematical Science degree from the University of London. Nigel is Chairman of the Remuneration Committee and member of the Audit Committee.

Chris Gurry

Group Managing Director

Aged 53, Chris joined the Group in 1994, was appointed to the Board in 2000 as Business Development Director and became Group Managing Director in October 2007. Prior to joining CML, he worked within the electronics industry and has over 25 years' experience within communications markets.

Neil Pritchard

Group Financial Director and Company Secretary

Aged 45, Neil joined the Company in January 2015. He was previously Finance Director of the UK and Eire division of the DAX listed automotive products group, Continental AG. Prior roles include Group Financial Controller at multinational London Stock Exchange listed Delta PLC (acquired by US company Valmont Industries in 2010) and Group Finance Manager at FTSE 250 multinational speciality chemicals group Yule Catto & Co PLC (now renamed Synthomer PLC). Neil is a qualified chartered accountant, holding an FCA, having spent six years with KPMG London in audit and forensic transaction services roles. He holds an Economics and Politics degree from the University of Bath.

Hugh Rudden

Group Sales and Marketing Director

Aged 57, Hugh joined the Company in June 2014. He has over 25 years' sales and marketing experience in the semiconductor industry. Prior to joining the Company, he divided his time between leading a VC-backed photovoltaic start-up company through early stage financing and providing business and management consultancy services across a number of sectors. Prior to this, he was CEO at Bede Plc (acquired by Jordan Valley Semiconductors in 2008), and also spent 14 years at Memec Group (acquired by Avnet in 2005), a global semiconductor distribution and designs services organisation where his roles included product marketing manager, regional CEO and VP global design services solutions. Hugh speaks German and holds a BSc in Physics from the University of Durham.

Jim Lindop

Non-Executive Director

Aged 60, Jim joined the Company in April 2013 and has extensive innovative leadership experience in the technology and engineering sectors, having spent over 30 years in the industry. Most recently he was founder and CEO of Jennic Ltd, a privately held semiconductor company established in 1996 and subsequently acquired by NXP Semiconductors in 2010. Prior to Jennic, he consulted to companies in Cambridge, UK, including Symbionics, building and leading project teams in new wireless technologies. Earlier experience includes working at Rolls Royce designing electronic instrumentation for aero-engines and as a director of engineering at Simmons Limited. Jim holds a BSc and MSc in Electronics from the University of Nottingham.

Ronald Shashoua (Retired 31 March 2017)

Non-Executive Director

Aged 83, Ronald joined the Company in 1996. Formerly of Casson Beckman, Chartered Accountants, Ron was a corporate finance specialist partner and also held a number of management positions within the partnership, including Managing Director. The Board considered Ron to be an independent director though this did not comply with the definition in the UK Corporate Governance Code 2014. Ron was Chairman of the Remuneration Committee.

Geoff Barnes (Appointed 1 April 2017)

Non-Executive Director

Aged 72, Geoff joined the Company in April 2017. He is currently a director of Baker Tilly International having transitioned to the role in June 2016 after serving as its CEO and President for 16 years. During that period he grew the business to be ranked as the 8th largest global accounting organisation, trading across 145 countries, with global revenues of US$3.8bn. He is Non-Executive Chairman of the Supervisory Board of Baker Tilly South East Europe Ltd. He is also a 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, having previously served as a member of its Council. In 2015, Geoff was awarded the prestigious life-time achievement award by the International Accounting Bulletin for services to global public accounting. Previous roles include 18 years with Casson Beckman, a leading mid-tier firm of chartered accountants in London, culminating in the position of executive chairman and 6 years with Deloitte Haskins & Sells in London where he qualified as a chartered accountant. Geoff is Chairman of the Audit Committee.

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RSM UK Audit LLP
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Corporate governance

The Company is committed to high standards of corporate governance

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

The Board acknowledges the importance of the UK Corporate Governance Code 2014 (the "Code") revised in September 2014. Companies that have a standard listing on the London Stock Exchange are not required to comply with the Code under the Listing Rules. However there is a requirement to comply with certain disclosure and transparency rules, specifically DTR 7.2, relating to corporate governance statements.

The Company is committed to high standards of corporate governance and has sought to comply with those aspects of the Code that are considered by the Board to be practical and appropriate for an organisation of its size and nature and where, in the Board's opinion, are of material benefit to the Company and/or its stakeholders. A copy of the Code is available on the Financial Reporting Council's website at www.frc.org.uk/corporate/ukcgcode.cfm

In particular, the Company places a high degree of importance on corporate governance issues relating to internal financial control, accountability and the ability of its Directors to behave independently and appropriately. Consequently, consideration of the Code has been weighted towards these issues whilst also having due regard for the size and nature of the Group.

Directors

The Group is led and controlled by an effective board that comprises three Executive Directors and three Non-Executive Directors. Details of the Directors can be found on page 16. The Group Non-Executive Chairman is primarily responsible for the running of the Board and the Group Managing Director is the Chief Operating Decision Maker ("CODM") with responsibility for the day-to-day running of the Group and for implementing Group strategy.

The Board meets formally a minimum of four times per year. During the year ended 31 March 2017, eight Board meetings were held where all Directors in post participated (2016: eight).

All Board members have full access to the Group's advisors for seeking professional advice at the Company's expense and the Group's culture is to openly discuss any important issues. New appointments are led by the Group Managing Director and considered by the whole Board acting as the nominations committee.

The Group's wider organisational structure has clear lines of responsibility. Operating and financial responsibility for all subsidiary companies is the responsibility of the Board. The CODM monitors operating performance through the regular review of financial reports and by holding regular formal discussions with senior managers and their respective senior personnel.

In accordance with the Articles of Association one-third of the Board excluding the Group Managing Director is subject to re-election by rotation annually.

Accountability

On pages 23 to 27 of this Annual Report and Accounts there are details of the Group's internal financial control procedures and risk management practices. The Group has a long-established framework of internal financial controls and the Board recognises that the Group operates in highly competitive markets that can be affected by factors and events outside its control. Accordingly, an annual review of the material controls, including financial, operational, compliance and risk management systems is undertaken during the year by the internal audit function.

In accordance with the objectives of the Code, the Board reviews the results of the review and takes necessary actions where required. The Board is satisfied there is an on-going process in place for identifying, evaluating and managing the Group's significant risks. Further details of our financial risk management policy are provided in note 23.

Audit

The audit committee is responsible for ensuring the financial performance of the Group is properly measured and reported and for reviewing reports from auditors relating to the Group accounts and the Group's internal control systems. The audit committee also reviews the independence and the objectivity of the auditor and the supply of non-audit services. The audit committee comprises the Non-Executive Chairman and an Independent Non-Executive Director.

Relations with shareholders

The Group Managing Director and the Group Financial Director are the Group's principal spokesmen with investors, fund managers, the press and other interested parties. They hold briefings with institutional fund managers and analysts primarily following the announcement of half-year and preliminary results along with other ad-hoc meetings throughout the year. The Board also welcomes all shareholders at the Annual General Meeting where they are able to question the full Board and meet with them afterwards. Details of all briefings and meetings are communicated to the full Board.

By order of the Board

N B Pritchard
Company Secretary
23 June 2017

Directors' remuneration report

Introduction

This report has been prepared in accordance with the regulations regarding the Directors' remuneration report (Schedule 8 of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 as amended in 2013). As in previous years the shareholders will be asked to approve the Directors' remuneration report at the forthcoming Annual General Meeting of the Company at which the financial statements will be approved. Approval sought for this will have advisory status. The remuneration committee reviewed the existing policy revised in 2014 and deemed no change necessary to the current arrangements.

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.

Change in Non-Executive directorships

R.J. Shashoua announced his retirement from the Company as non-executive Director, effective 31 March 2017. The Board thanks Ron for his significant and valuable contributions over the last 21 years. G. F. Barnes was appointed as non-executive Director effective 1 April 2017 and brings a wealth of financial and leadership qualities to the Board.

Remuneration committee

The Board has established a remuneration committee that currently comprises G. F. Barnes, C. A. Gurry and N. G. Clark (committee Chairman). Prior to his retirement on 31 March 2017 and prior to G. F. Barnes appointment on 1 April 2017, R. J. Shashoua served as committee Chairman. C. A. Gurry does not participate in deciding his personal remuneration package.

Remuneration policy

Set out in the table below is the Group policy on Directors' remuneration. In setting the policy, the remuneration committee has taken into account:

- the need to attract, retain and motivate individuals of a calibre who will ensure successful leadership and management of the Company;
- the Group's general aim in seeking to reward all employees fairly according to the nature of their role;
- the need to align the interests of the shareholders as a whole with the long-term growth of the Group;
- the need to be flexible and adjust with operational changes throughout the term of this policy;
- the size and nature of the business; and
- knowledge of general pay levels within the Company's peer group and similar size companies.

The remuneration of the Non-Executive Directors is determined by the Board and takes into account additional remuneration for services outside the scope of the ordinary duties of Non-Executive Directors.

Executive Directors

Element	Purpose	Policy	Operation	Performance conditions
Base salary	To recognise skills, responsibility, accountability, experience and value.	Set at a level considered appropriate to attract, retain, motivate and reward the right individual.	Reviewed annually by the remuneration committee. Paid monthly.	No specific performance conditions, no maximum salary and no minimum or maximum rate of increase.
Contribution to pension	To provide competitive retirement benefits.	Fixed percentage of base salary.	Paid monthly into pensions or as an adjusted amount of salary in lieu.	No specific performance conditions.
Benefits[1]	To provide a competitive benefits package.	Includes car or car allowance, health cover and death in service.	As defined in the employment contract.	No specific performance conditions.
Annual bonus	To reward and incentivise.	Tied to the overall profit and performance of the business as well as the individual in that period.	Assessed annually on both a financial and non-financial basis.	The maximum bonus will not exceed 50% of base salary and is totally at the discretion of the remuneration committee.
Share options	To provide Executive Directors with a long-term interest in the Company.	Granted under general group-wide schemes.	Offered at appropriate times by the remuneration committee.	No minimum or maximum levels set and no performance criteria specified.

1. Principally a car and private medical insurance. The contracts of the Executive Directors allow the provision of a company car to be exchanged for a car allowance and where this is done, this allowance is added to the benefits in kind figure. Contributions to pension figures may include where Executive Directors elect to make payments into a personal pension plan in lieu of salary awarded.

Non-Executive Directors

Element	Purpose	Policy	Operation	Performance conditions
Base salary	To recognise skills, experience and value.	Set at a level considered appropriate to attract, retain and motivate the individual.	Reviewed periodically as needed.	No specific performance conditions, no maximum salary and no minimum or maximum rate of increase.
Contribution to pension	None offered.	None offered.	None offered.	None offered.
Benefits	Health cover when employed under PAYE.	Health cover where appropriate up to the age of 75.	Group organised.	No specific performance conditions.
Share options	None offered.	None offered.	None offered.	None offered.

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

Policy on payment for loss of office

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

Single total figure of remuneration (audited)

Individual Directors' remuneration was as follows:

2017	Salary £'000	Bonus £'000	Benefits in kind £'000	Total excluding pension £'000	Contribution to pension £'000	Benefits total £'000
N. G. Clark	**60**	**—**	**1**	**61**	**—**	**61**
C. A. Gurry	**214**	**47**	**27**	**288**	**25**	**313**
N. B. Pritchard	**141**	**31**	**17**	**189**	**10**	**199**
H. F. Rudden	**147**	**32**	**20**	**199**	**12**	**211**
R. J. Shashoua[1]	**25**	**—**	**—**	**25**	**—**	**25**
J. A. Lindop	**23**	**—**	**1**	**24**	**—**	**24**
	610	**110**	**66**	**786**	**47**	**833**

2016	Salary £'000	Bonus £'000	Benefits in kind £'000	Total excluding pension £'000	Contribution to pension £'000	Benefits total £'000
N. G. Clark	75	—	1	76	—	76
C. A. Gurry	201	35	26	262	27	289
N. B. Pritchard	130	27	13	170	8	178
H. F. Rudden	140	25	19	184	10	194
R. J. Shashoua	25	—	—	25	—	25
J. A. Lindop	20	—	1	21	—	21
	591	87	60	738	45	783

1. R. J. Shashoua announced his retirement from the Company's Board effective 31 March 2017.

See remuneration policy for types of benefits in kind. No formal performance measures are considered relevant due to the size and nature of the Board and therefore bonuses and share options granted are entirely at the discretion of the remuneration committee.

Directors' remuneration report continued

Single total figure of remuneration (audited) continued

Remuneration of the Group Managing Director over the last five years:

Year	Group Managing Director	Total remuneration including bonus £'000	Annual bonus payout/ maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2017	**C. A. Gurry**	**313**	**22.0%/50%**	**n/a**
2016	C. A. Gurry	289	17.5%/50%	n/a
2015	C. A. Gurry	287	17.5%/50%	n/a
2014	C. A. Gurry	294	20.0%/50%	n/a
2013	C. A. Gurry	294	22.5%/50%	n/a

Change in Group Managing Director's remuneration:

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

	2017 £'000	2016 £'000	2015 £'000
Basic salary	**214**	201	201
Taxable benefits and pension	**52**	53	51
Annual bonus	**47**	35	35
Total remuneration of Group Managing Director	**313**	289	287
Total remuneration of employees	**11,316**	9,999	9,655

Share options (audited)

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

	Number of options at 1 April 2016 '000	Options exercised In year '000	Gain on options exercised in year '000	Options granted in year '000	**Number of options at 31 March 2017 '000**	Exercise price	Exercise date
C. A. Gurry	20	—	—	—	**20**	£2.20	15 June 2014 to 14 June 2021
	30	—	—	—	**30**	£3.51	25 Sept 2018 to 25 Sept 2025
N. B. Pritchard	20	—	—	—	**20**	£3.45	2 April 2018 to 2 April 2025
	25	—	—	—	**25**	£3.475	25 Sept 2018 to 25 Sept 2025
H. F. Rudden	20	—	—	—	**20**	£3.125	17 Sept 2017 to 17 Sept 2024
	25	—	—	—	**25**	£3.475	25 Sept 2018 to 25 Sept 2025
	140	—	—	—	**140**		

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. Further details are provided in note 29 to the financial statements. The market price of the Company's shares on 31 March 2017 was 437.5p (2016: 391.0p) and the range for the year was 331.5p to 457.5p.

Pensions (audited)

The Group operates several pension schemes throughout the United Kingdom and overseas in which some of the Directors are included. Full details of these schemes are given in note 27 to the financial statements. The number of Directors who were members of pension schemes operated by the Company (where a member is defined as a current member, deferred member or pension member) was:

	2017 Number	2016 Number
Defined contributions scheme	**3**	3
Defined benefit scheme	**—**	—

The Company's defined benefit pension scheme was closed in respect of future benefit accruals on 31 March 2009. Life assurance cover and widows death-in-service cover is still provided under this scheme.

Company contributions of £47,000 (2016: £45,000) were made towards the defined contribution scheme during the year in respect of the Executive Directors as detailed earlier in this report.

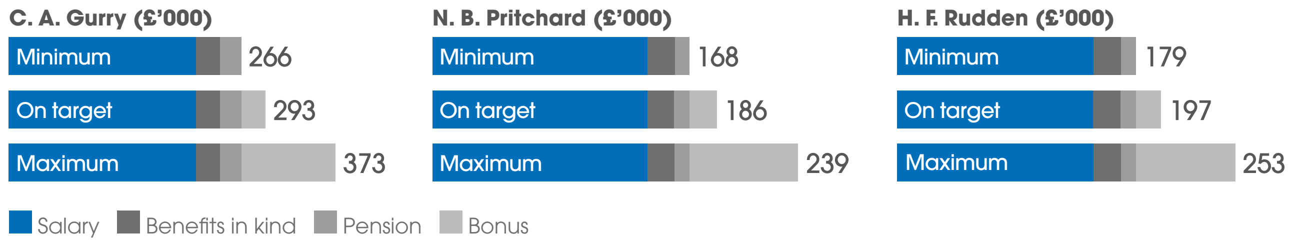
Normal retirement age for all Company pension schemes is 65 years (2016: 65 years). There are no additional benefits that will become receivable by a Director in the event of early retirement.

Approach to recruitment remuneration

All appointments to the Board are made on merit. The components of the remuneration package (for a new Director recruited within the life of the approved remuneration policy) would comprise of a base salary, pension, benefits, annual bonus and an opportunity to be granted share options. The approach with any appointment is detailed in the policy table. The Company aims to attract appropriately skilled and experienced individuals offering a level of remuneration that, in the opinion of the remuneration committee, is not excessive but fair.

Remuneration scenarios

An indication of the possible level of remuneration that would be received by each Executive Director in the year commencing 1 April 2017 in accordance with the Directors' remuneration policy and contractual terms, is shown below:



The "minimum" remuneration consists of the base salary, benefits and pension as disclosed in the remuneration table for 2017 contained within this report. The "on target" remuneration is the minimum remuneration figure plus, as an example, a 12.5% bonus paid on the base salary element part of the minimum remuneration. There are no contractual targets set for Directors' bonuses and in the last five years bonus levels have ranged from zero to 22.5% of the base salary element. The maximum remuneration assumes a 50% bonus paid on the base salary element part of the minimum remuneration.

Non-Executive Directors

The fees payable to Non-Executive Directors are determined by the Board and designed to recognise the experience and responsibility whilst rewarding the expertise and ability of the individual.

Directors' service contracts

C. A. Gurry is employed by the Company under a written contract of employment that provides for termination by either party giving twelve months' notice. N. B. Pritchard and H. F. Rudden are employed by the Company under written service contracts that provide for termination by either party giving six months' notice.

R. J. Shashoua did not have a service contract with the Company nor was he appointed for a specific term of office. J. A. Lindop has a service contract effective from 1 April 2016. N. G. Clark has a service contract effective 19 January 2015. G.F. Barnes has a service contract effective from 1 April 2017. All Directors are subject to re-appointment at the first Annual General Meeting after their appointment and thereafter, apart from the Group Managing Director, one-third of the remaining Directors shall retire by rotation at the Annual General Meeting.

Directors notice periods are set in line with market practice and of a length considered sufficient to ensure an effective handover of duties should a Director leave the Company.

Consideration by the Directors of matters relating to Directors' remuneration

The remuneration committee considered the Executive Directors remuneration and the Board considered the Non-Executive Directors remuneration in the year ended 31 March 2017. Movements awarded to salary are shown on page 19 and no external advice was taken in reaching this decision.

Relative importance of spend on pay

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

	2017 £'000	2016 £'000	Movement £'000
Employee remuneration	**12,636**	11,136	+1,500
Distributions to shareholders	**1,134**	1,118	+16

Directors' remuneration report continued

Shareholder voting

At the Annual General Meeting on 27 July 2016, there was an advisory vote on the resolution to approve the remuneration report the result of which is detailed below:

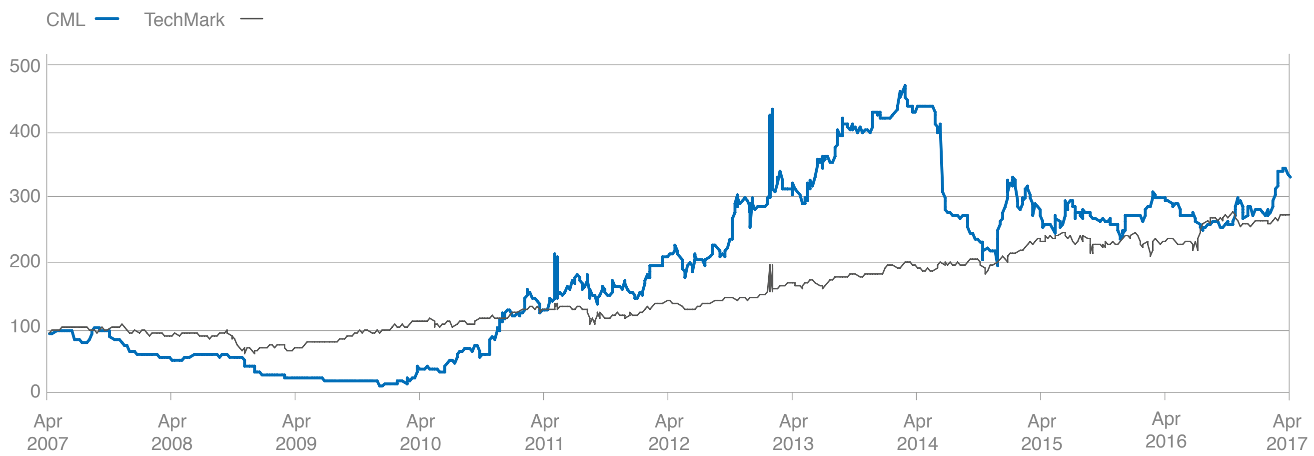
	% of votes for	% of votes against	% of votes withheld
Resolution to approve the remuneration report	99.36	0.60	0.04

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 Annual General Meeting in August 2017.

Company's performance

The graph below shows the total shareholder return on a holding of shares in the Company as against the average total shareholder return ("TSR") of the companies comprising the TechMark 100 Index for the last ten years. The TechMark 100 Index was selected because in the opinion of the Board it is the most appropriate for benchmarking the Company.



On behalf of the Board of Directors

N G Clark
Group Non-Executive Chairman and
Chairman of the remuneration committee
23 June 2017

Other disclosures

Report of the Directors

The Directors submit their report and Group financial statements for the year ended 31 March 2017 in addition to the Remuneration Report on pages 18 to 22.

Going concern

The Group's business activities, performance, position and risks are set out in this Annual Report and Accounts. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and the use of financial instruments and policies relating thereto are detailed in the appropriate sections on pages 30 to 68 and elsewhere in the notes to the financial statements. The report also includes details of the Group's risk mitigation and management. The Group has considerable financial resources, and the Directors believe that the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts and financial statements.

Principal activities

The Group designs, manufactures and markets a range of semiconductor products for use in communications and data storage industries.

Business review and future developments

The strategic report on pages 1 to 15 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 7.

Results

The Group's financial performance includes an eight month contribution from Sicomm, commencing August 2016. Total revenues for the year amounted to £27.74m (2016: £22.83m) with the contribution from Sicomm being £1.66m. Gross margins remained consistent leading to a 22% increase in gross profit to £19.82m (2016: £16.25m). The Group did benefit from currency movements through the year although it continues to have a somewhat natural hedge in respect of foreign currency exchange rate exposure.

The main driver for organic revenue growth was the continued increase in shipments to existing long-term customers, with a significant number of our top 40 customers increasing their spend. This growth was augmented by the addition of Sicomm, a currency tailwind and an element of revenue from the effects of a last-time-buy programme relating to a number of legacy Communications products.

Overall revenue grew across all major geographic regions although the strongest advance was made in the Far East region which includes predominantly China and Hong Kong, Japan, South Korea, Singapore, Taiwan and Malaysia. Far East revenues grew by 26% and now account for approximately 49% of the Group revenue total. Revenue from the Americas grew by 19% with European revenues ahead by 16%.

As anticipated, distribution and administration costs increased to £16.12m (2016: £13.27m). The three main factors were higher amortisation of R&D activities at £4.10m (2016: £3.33m), higher direct staff costs resulting from investments made in new personnel and associated restructuring activities and the addition of Sicomm to the Group. Additionally, costs associated with onerous lease provisioning were balanced by the positive effects of foreign exchange. The total R&D spend for the year amounting to £6.82m (2016: £6.09m) rose 12% and equates to 25% of Group revenues.

Other operating income for the year amounted to £0.61m (2016: £0.41m) and resulted from rental income obtained from ex-operational property assets along with grant income received from R&D activities. This increase drove profit from operations up 27% to £4.31m (2016: £3.39m).

After adjusting for the combined effect of share-based payments and finance income, a profit before taxation figure of £4.21m was achieved (2016: £3.32m).

Adjusted EBITDA grew by 27% to £8.84m (2016: £6.97m).

Other disclosures continued

Results continued

The overall tax charge for the year was slightly lower at £0.34m (2016: £0.40m) reflecting the continuing benefit of UK R&D tax credits along with the additional effect of accumulated tax losses within the acquired Sicomm business. Profit after tax increased to £3.87m and represented an increase of 32% year on year (2016: £2.93m).

Cash reserves at 31 March 2017 reduced to £12.45m (31 March 2016: £13.60m) representing a pleasing result following significant cash outflows for the Sicomm acquisition, a dividend payment of £1.13m for the prior financial year, £0.67m spent on the purchase and cancellation of Company shares and a record R&D investment of £6.82m. The cash balance includes a conditional customer prepayment of £1.50m (2016: £1.39m) against future product purchases.

Inventory levels were higher at £2.15m (2016: £1.57m) with the increase mostly attributable to the Sicomm acquisition.

Basic earnings per share advanced 28% to 23.09p (2016: 18.03p).

Dividends

The Directors are proposing a dividend in respect of the year ended 31 March 2017 of 7.4p per 5p ordinary share (2016: 7.0p per 5p ordinary share).

Research and development

The Group actively reviews developments in its markets with a view to taking advantage of the opportunities available to maintain and improve its competitive position. This action involves the design and development of hardware and firmware for the semiconductor environment.

Strategic report

Carbon dioxide emissions are detailed in the Corporate and Social Responsibility section on pages 14 and 15. In accordance with S414C (11) of the Companies Act 2006; included in the strategic report is the review of the business and future developments, principal risks and uncertainties and key performance indicators. This information would have otherwise been required by Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 to be contained in the Directors' report.

Share capital

The Company's authorised and issued ordinary share capital as at 31 March 2017 comprised a single class of ordinary shares. Details of movements in the issued share capital can be found in note 29 to the financial statements. Each share carries the right to one vote at general meetings of the Company. During the period, 9,077 ordinary shares (2016: Nil ordinary shares) in the Company were issued under the terms of the various share option schemes.

Restrictions on transfer of securities

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

Variation of rights

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

Rights and obligations attaching to shares

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

Powers for the Company issuing or buying back its own shares

The Company was authorised by shareholders, at the 2016 AGM, to purchase in the market up to 2,430,980 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 2,529,053 ordinary shares of 5p at this year's AGM.

The Directors were granted authority at the 2016 AGM to allot relevant securities up to a nominal amount of £540,212. 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 £562,011.

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 12 June 2017, the Company had been notified under DTR 5 of the following significant holdings of voting rights in its shares.

Registered holder	Type of investor	% of issued share capital
Miton Group Plc	Institutional investor	22.39%
Schroder Investment Management Limited	Institutional investor	11.31%
J. M. Gurry	Private investor	9.35%
Ruffer Investment Management	Institutional investor	5.81%
M. I. Gurry	Private investor	5.74%
T. M. R. Dean	Private investor	5.52%
Herald Investment Management	Institutional investor	4.98%
Legal and General Investment Management Limited	Institutional investor	3.66%
Slater Investments Limited	Institutional investor	3.66%
M&G Investment Management Limited	Institutional investor	2.98%

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.

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 has no trade payables outstanding at the end of the financial year and therefore the Company's practice in respect of the year with regard to its payment of creditors has been zero days (2016: zero days). The Group's general policy is to pay all creditors in a period between 30 and 45 days.

Market value of land and buildings

Investment properties in both the Group and Company comprise freehold and leasehold land and buildings and it is from the operating leases on these properties that the Group's rental income is generated. Everett Newlyn, Chartered Surveyors and Commercial Property Consultants professionally valued the investment properties on the basis of open market value as at 31 March 2017 at a valuation of £3,550,000. The Directors are of the opinion that the market value of operational properties would exceed the net book values included in the financial statements, but they are unable to quantify this excess in the absence of a further professional valuation, the costs of which are not considered justifiable in view of the Group's intention to retain ownership of its existing properties for use in its business for the foreseeable future.

Other disclosures continued

Directors and their interests

The Directors of the Company at 31 March 2017, 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 2017	31 March 2016
N. G. Clark	**24,600**	24,600
C. A. Gurry	**917,567**	917,567
N. B. Pritchard	**—**	—
H. F. Rudden	**—**	—
R. J. Shashoua	**148,500**	145,500
J. A. 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 2017 and 23 June 2017. G.F. Barnes, who was appointed to the Board on 1 April 2017 after the 31 March 2017 year end, has a beneficial interest in 8,000 of the Company's ordinary shares. 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 2017, 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 9 (including for 2017 for the Company to make its information available on a website) and also special business comprising one ordinary resolution, 10 and three special resolutions, 11, 12 and 13 relating to the following matters:

Special business ordinary resolution

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

Special business special resolutions

To disapply the pre-emption provisions of the Companies Act 2006.

To disapply the pre-emption provisions of the Companies Act 2006 for the purposes of financing an acquisition or capital investment.

To renew the authority to the Company to make market purchases of its own shares.

Capital risk management

The Company only has one class of share as detailed in note 29. Though no specific basis, such as the gearing ratio is used to monitor the capital, the Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Interest rate, liquidity and foreign currency management

Further information regarding these matters is provided in note 23.

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

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

The 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.

By order of the Board

N B Pritchard
Company Secretary
23 June 2017

Statement of Directors' responsibilities
in respect of the financial statements

The Directors submit their report and Group financial statements for the year ended 31 March 2017.

The Directors are responsible for preparing the strategic report, the other disclosures, the Directors' remuneration report, the separate corporate governance statement on page 17 and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required under the Listing Rules of the Financial Conduct Authority to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS adopted by the EU; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Opinion on financial statements

We have audited the Group and parent company financial statements (the "financial statements") on pages 30 to 68 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' report.

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Respective responsibilities of Directors and auditor

As more fully explained in the Directors' Responsibilities Statement on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Clark
Senior Statutory Auditor

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

23 June 2017

Consolidated income statement
for the year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Continuing operations			
Revenue	3	**27,737**	22,833
Consisting of:			
Revenue – excluding acquisition		**26,076**	22,833
Revenue – acquisition		**1,661**	—
Cost of sales	4	**(7,922)**	(6,580)
Gross profit		**19,815**	16,253
Distribution and administration costs	4	**(16,116)**	(13,272)
		3,699	2,981
Other operating income	5	**614**	405
Profit from operations		**4,313**	3,386
Share-based payments	30	**(139)**	(117)
Profit after share-based payments		**4,174**	3,269
Finance income	8	**34**	55
Profit before taxation		**4,208**	3,324
Consisting of:			
Profit before taxation – excluding acquisition		**3,728**	3,324
Profit before taxation – acquisition		**480**	—
Income tax expense	9	**(341)**	(399)
Profit after taxation		**3,867**	2,925
Profit after taxation attributable to equity owners of the parent	11	**3,867**	2,925
Basic earnings per share			
From profit for year	11	**23.09p**	18.03p
Diluted earnings per share			
From profit for year	11	**22.84p**	17.94p
Adjusted EBITDA[1]			
Adjusted EBITDA	12	**8,840**	6,970
Consisting of:			
Adjusted EBITDA – excluding acquisition		**8,247**	6,970
Adjusted EBITDA – acquisition		**593**	—

1. See Note 12 for definition and reconciliation.

Consolidated statement of total comprehensive income
for the year ended 31 March 2017

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Profit for the year			**3,867**		2,925
Other comprehensive income, net of tax:					
Items that will not be reclassified subsequently to profit or loss:					
Actuarial (loss)/gain on retirement benefit obligations	27	**(1,048)**		1,570	
Deferred tax on actuarial losses/(gains)	26	**178**		(283)	
Items reclassified subsequently to profit or loss upon derecognition:					
Foreign exchange differences		**1,068**		584	
Other comprehensive income for the year net of taxation attributable to equity owners of the parent			**198**		1,871
Total comprehensive income for the year attributable to the equity holders of the parent			**4,065**		4,796

Consolidated statement of financial position
as at 31 March 2017

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Assets					
Non-current assets					
Goodwill	13		**9,306**		3,512
Other intangible assets arising on acquisition	14		**1,339**		—
Property, plant and equipment	15		**5,330**		5,171
Investment properties	16		**3,550**		3,550
Investments	17		**85**		—
Development costs	18		**11,401**		9,292
Deferred tax assets	26		**1,419**		893
			32,430		22,418
Current assets					
Inventories	19	**2,154**		1,571	
Trade receivables and prepayments	20	**2,697**		3,458	
Current tax assets	25	**971**		830	
Cash and cash equivalents	21	**12,447**		13,596	
			18,269		19,455
Total assets			**50,699**		41,873
Liabilities					
Current liabilities					
Trade and other payables	24		**5,757**		4,190
Current tax liabilities	25		**57**		39
Provision – current	28		**51**		—
			5,865		4,229
Non-current liabilities					
Deferred tax liabilities	26	**3,692**		3,001	
Retirement benefit obligation	27	**3,084**		2,067	
Provision – non current	28	**423**		—	
			7,199		5,068
Total liabilities			**13,064**		9,297
Net assets			**37,635**		32,576
Capital and reserves attributable to equity owners of the parent					
Share capital	29		**843**		813
Share premium	30		**8,319**		5,700
Capital redemption reserve	30		**9**		—
Treasury shares – own share reserve	30		**(190)**		(190)
Share-based payments reserve	30		**504**		388
Foreign exchange reserve	30		**1,386**		318
Accumulated profits	30		**26,764**		25,547
Total shareholders' equity			**37,635**		32,576

The financial statements on pages 30 to 68 were approved and authorised for issue by the Board on 23 June 2017 and signed on its behalf by:

C A Gurry
Director

N B Pritchard
Director

Registered in England and Wales: 000944010

Consolidated and Company cash flow statements
for the year ended 31 March 2017

	Notes	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Operating activities					
Profit for the year before taxation		**4,208**	3,324	**996**	106
Adjustments for:					
Depreciation		**325**	254	**79**	83
Amortisation of development costs		**4,100**	3,330	**—**	—
Amortisation of intangibles recognised on acquisition		**102**	—	**—**	—
Movement in non-cash items		**(31)**	13	**—**	—
Share-based payments		**139**	117	**139**	117
Dividends received from Group companies		**—**	—	**1,189**	1,650
Movement in provisions		**474**	—	**—**	—
Movement in investments plus warranty retention – acquisition		**—**	—	**(8,352)**	—
Finance income		**(34)**	(55)	**—**	(6)
Movement in working capital	33	**1,745**	317	**5,926**	(2,420)
Cash flows from operating activities		**11,028**	7,300	**(23)**	(470)
Income tax (paid)/received		**(224)**	279	**—**	—
Net cash flows from operating activities		**10,804**	7,579	**(23)**	(470)
Investing activities					
Purchase of acquisition, net of cash acquired		**(3,576)**	—	**—**	—
Purchase of property, plant and equipment		**(450)**	(443)	**—**	(213)
Investment in development costs		**(5,763)**	(5,356)	**—**	—
Receipt/(payment) of escrow cash deposit		**385**	(331)	**—**	—
Disposal of property, plant and equipment		**17**	—	**—**	—
Finance income		**34**	55	**—**	6
Net cash flows from investing activities		**(9,353)**	(6,075)	**—**	(207)
Financing activities					
Issue of ordinary shares		**25**	—	**25**	—
Purchase of treasury shares		**—**	(190)	**—**	(190)
Purchase of own shares for cancellation		**(669)**	—	**—**	—
Dividend paid to shareholders		**(1,134)**	(1,118)	**—**	(1,118)
Net cash flows from financing activities		**(1,778)**	(1,308)	**25**	(1,308)
(Decrease)/increase in cash and cash equivalents		**(327)**	196	**2**	(1,985)
Movement in cash and cash equivalents:					
At start of year	21	**13,596**	13,188	**169**	2,154
(Decrease)/increase in cash and cash equivalents		**(327)**	196	**2**	(1,985)
Effects of exchange rate changes		**(822)**	212	**—**	—
At end of year	21	**12,447**	13,596	**171**	169

During the year ending 31 March 2017, 774,181 shares in CML Microsystems Plc were issued in part consideration for the acquisition of Sicomm equity to the value of £2,633,000 (see note 34). As a significant non-cash transaction, this is not reflected in the above consolidated cash flow statement.

Consolidated statement of changes in equity
for the year ended 31 March 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Foreign exchange reserve £'000	Accumulated profits £'000	Total £'000
At 31 March 2015	813	5,700	—	—	287	(266)	22,437	28,971
Profit for year							2,925	2,925
Other comprehensive income net of taxes								
Foreign exchange differences						584		584
Net actuarial gain recognised directly to equity							1,570	1,570
Deferred tax on actuarial gain							(283)	(283)
Total comprehensive income for year	—	—	—	—	—	584	4,212	4,796
	813	5,700	—	—	287	318	26,649	33,767
Transactions with owners in their capacity as owners								
Dividend paid							(1,118)	(1,118)
Purchase of treasury shares				(190)				(190)
Total transactions with owners in their capacity as owners	—	—	—	(190)	—	—	(1,118)	(1,308)
Share-based payments in year					117			117
Cancellation/transfer of share-based payments					(16)		16	—
At 31 March 2016	813	5,700	—	(190)	388	318	25,547	32,576
Profit for year							**3,867**	**3,867**
Other comprehensive income net of taxes								
Foreign exchange differences						**1,068**		**1,068**
Net actuarial loss recognised directly to equity							**(1,048)**	**(1,048)**
Deferred tax on actuarial loss							**178**	**178**
Total comprehensive income for year	**—**	**—**	**—**	**—**	**—**	**1,068**	**2,997**	**4,065**
	813	**5,700**	**—**	**(190)**	**388**	**1,386**	**28,544**	**36,641**
Transactions with owners in their capacity as owners								
Issue of ordinary shares re acquisition	**39**	**2,594**						**2,633**
Issue of ordinary shares	**—**	**25**						**25**
Dividend paid							**(1,134)**	**(1,134)**
Share purchase for cancellation	**(9)**		**9**				**(669)**	**(669)**
Total transactions with owners in their capacity as owners	**30**	**2,619**	**9**	**—**	**—**	**—**	**(1,803)**	**855**
Share-based payments in year					**139**			**139**
Cancellation/transfer of share-based payments					**(23)**		**23**	**—**
At 31 March 2017	**843**	**8,319**	**9**	**(190)**	**504**	**1,386**	**26,764**	**37,635**

There is considered to be no significant tax effect of foreign exchange differences in the above consolidated statement of changes in equity.

Company statement of financial position
as at 31 March 2017

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Assets					
Non-current assets					
Property, plant and equipment	15		**4,730**		4,809
Investment properties	16		**3,550**		3,550
Investments	17		**11,968**		9,329
Deferred tax assets	26		**113**		100
			20,361		17,788
Current assets					
Trade receivables and prepayments	20	**66**		405	
Cash and cash equivalents	21	**171**		169	
			237		574
Total assets			**20,598**		18,362
Liabilities					
Current liabilities					
Trade and other payables	24		**911**		632
			911		632
Non-current liabilities					
Deferred tax liabilities	26		**578**		611
Total liabilities			**1,489**		1,243
Net assets			**19,109**		17,119
Equity					
Share capital	29		**843**		813
Share premium	30		**8,319**		5,700
Capital redemption reserve	30		**9**		—
Treasury shares – own share reserve	30		**(190)**		(190)
Share-based payments reserve	30		**504**		388
Merger reserve	30		**316**		316
Accumulated profits	30		**9,308**		10,092
Total shareholders' equity			**19,109**		17,119

The parent company profit for the financial year attributed in the financial statements of the parent company was £996,000 (2016: £1,802,000). The financial statements on pages 30 to 68 were approved and authorised for issue by the Board on 23 June 2017 and signed on its behalf by:

C A Gurry
Director

N B Pritchard
Director

Registered in England and Wales: 000944010

Company statement of changes in equity
for the year ended 31 March 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Foreign exchange reserve £'000	Accumulated profits £'000	Total £'000
At 31 March 2015	813	5,700	—	—	287	316	9,392	16,508
Profit for year							1,802	1,802
Total comprehensive income for year	—	—	—	—	—	—	1,802	1,802
	813	5,700	—	—	287	316	11,194	18,310
Transactions with owners in their capacity as owners								
Dividend paid							(1,118)	(1,118)
Purchase of treasury shares				(190)				(190)
Total transactions with owners in their capacity as owners	—	—	—	(190)	—	—	(1,118)	(1,308)
Share-based payments in year					117			117
Cancellation/transfer of share-based payments					(16)		16	—
At 31 March 2016	813	5,700	—	(190)	388	316	10,092	17,119
Profit for year							**996**	**996**
Total comprehensive income for year	**—**	**—**	**—**	**—**	**—**	**—**	**996**	**996**
	813	**5,700**	**—**	**(190)**	**388**	**316**	**11,088**	**18,115**
Transactions with owners in their capacity as owners								
Issue of ordinary shares re acquisition	**39**	**2,594**						**2,633**
Issue of ordinary shares	**—**	**25**						**25**
Dividend paid							**(1,134)**	**(1,134)**
Share purchase for cancellation	**(9)**		**9**				**(669)**	**(669)**
Total transactions with owners in their capacity as owners	**30**	**2,619**	**9**	**—**	**—**	**—**	**(1,803)**	**855**
Share-based payments in year					**139**			**139**
Cancellation/transfer of share-based payments					**(23)**		**23**	**—**
At 31 March 2017	**843**	**8,319**	**9**	**(190)**	**504**	**316**	**9,308**	**19,109**

Notes to the financial statements
for the year ended 31 March 2017

1 Accounting policies
The financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as endorsed by the EU ("IFRS") and the requirements of the Companies Act applicable to companies reporting under IFRS. The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

a) Basis of accounting
The financial statements have been prepared under the historical cost convention with the exception of investment properties that are carried at valuation. This is done on a going concern basis as the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

The Group's presentational currency is Pounds Sterling since that is the currency in which the majority of the Group's transactions are denominated. The Company's functional currency is Pounds Sterling.

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. The profit for the year for the Company was £996,000 (2016: £1,802,000).

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

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

d) Revenue
The Group recognises revenues from semiconductor products or services when the significant risks and rewards of ownership have passed to the customer. This is generally when goods have been despatched to the customer and the revenues can be measured reliably. Revenue is measured at the fair value of the consideration receivable excluding discounts, rebates, Value Added Tax and other sales taxes or duties. Other income such as interest earned and property income is recognised as earned. Warranty for all product sold or any loss or damage suffered by a purchaser only extends to the refund of the purchase price or replacement of the product originally sold regardless of how the claim has arisen therefore it is only accounted for on an actual identified potential liability.

e) Goodwill and externally acquired intangibles

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Under IFRS 1 the Group elected to adopt the 31 March 2005 balance sheet amortised value prepared under UK GAAP for goodwill and carry out annual impairment reviews as required under IAS 36 and in accordance with IAS 38. Goodwill is reviewed annually for impairment by comparing its carrying value to the net selling price of the cash generating unit; any resultant loss being charged through the consolidated income statement. Net selling price is determined using a five-year average of projected future earnings as applied to the price earnings ratio for the technology sector. No impairments are reversed.

Externally acquired 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 (note 34). These acquired intangibles have been amortised in accordance with the following:

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

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

Notes to the financial statements continued
for the year ended 31 March 2017

1 Accounting policies continued

f) Research and development
Development expenditures that satisfy the recognition criteria as set out in IAS 38 are shown at historical cost less accumulated amortisation since they have a finite useful life. In determining the period over which the carrying value of the intangible fixed assets are amortised, the Group is required to consider the likely period over which the developed products are likely to generate economic benefits. Amortisation is calculated using the straight-line method to allocate the cost of the development over a period up to four years, representing the period over which economic benefit is derived from developed products and is charged to administration costs in the income statement. Research and other development expenditures that fall outside the scope of IAS 38 are charged to the income statement when incurred. An internally-generated intangible asset arising from the Group's business development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of an asset can be measured reliably;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

g) Property, plant and equipment and investment property
All property, plant and equipment, other than investment properties, are stated at historical cost. Depreciation is provided on all property, plant and equipment other than freehold land and investment properties at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Freehold and long leasehold premises	2% straight line
Short leasehold improvements	period of the lease
Plant and equipment	25% straight line
Motor vehicles	25% straight line

Investment properties are stated at their fair values and are revalued annually by the Directors and every third year by an independent chartered surveyor on an open market basis. No depreciation is provided on freehold investment properties or on leasehold investment properties. In accordance with IAS 40, gains and losses arising on revaluation of investment properties are shown in the income statement.

h) Taxation
The tax expense represents the sum of the tax currently payable, adjustments in respect of prior years and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the year end.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the year end. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

i) Inventories
Inventories are valued on a first-in, first-out basis and are stated at the lower of cost and net realisable value. In respect of work in progress and finished goods, cost comprises direct materials, direct labour and a proportion of overhead expenses appropriate to the business.

j) Foreign currencies
Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the year end. Transactions in foreign currencies are recorded at the rates ruling at the date of the transactions. All differences are taken to the income statement. The financial statements of the overseas subsidiaries are translated into Sterling at the average rate of exchange for the period for the income statement and at the closing rate for the statement of financial position. Translation differences are dealt with through the foreign exchange reserve in shareholders' equity. The Group decided to deem the cumulative amount of exchange differences arising on consolidation of the net investments in subsidiaries at 1 April 2004 to be zero.

k) Investments
Investments are stated at cost less any provision for diminution in value.

l) Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly-liquid investments with original maturities of three months or less and bank overdrafts where there is a set-off arrangement with the bank. Other bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

m) Employee benefits – pension obligations
Group companies operate both defined benefit and defined contribution pension schemes. The schemes are funded through payments to funds administered 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. Actuarial gains and losses from experience adjustments and changes in actuarial assumptions are immediately recognised in other comprehensive income and charged or credited directly to equity. For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due.

n) Employee benefits – share-based payments
Share options which are equity settled are valued using the Black-Scholes model. This fair value at the date of the grant is charged to the income statement over the vesting period of the share-based payment scheme. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

Cancelled or settled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in the profit or loss in the year that the options are cancelled or settled.

o) Government grants
Government grants receivable to assist the Group with costs in respect of development work are credited against capitalised development costs or capitalised property, plant and equipment so as to match them with the expenditure to which they relate. Other grants that are not of a capital nature are credited to the income statement as part of other operating income. Grants are only recognised when all conditions of the grant have been complied with and are matched to the expenditure to which they relate.

p) Leases
Leases of property, plant and equipment where the Group has substantially all the risk and rewards of ownership are classified as finance leases. Leases in which a significant number of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis. Rental income under operating leases is credited to the income statement on a straight-line basis and any contingent rents are recognised as income in the period to which they relate.

q) Dividends
Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

r) Critical accounting estimates and judgements
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual result. The amortisation period of development costs, the valuation of investment properties and other intangibles, and the impairment of goodwill are considered to be critical accounting estimates and judgements; details of which are referred to in accounting policies, sections e, f and g. Deferred tax assets are only recognised when there is a reasonable expectation of recovery.

Notes to the financial statements continued
for the year ended 31 March 2017

1 Accounting policies continued

s) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

t) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group has become a party to the contractual provision of the instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Trade receivables are classified as loans and receivables and are initially recognised at fair value then at amortised cost using the effective interest method. They are subsequently measured at their amortised cost less any provision for impairment. An impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of impairment is the difference between the asset's carrying amount and the present value of its estimated future cash flows. The amount of the impairment is recognised in the consolidated income statement. Trade payables are not interest bearing and are initially stated at their fair value then amortised cost using the effective interest method. Cash and cash equivalents include cash in hand, deposits held on call with banks or legal bodies, other short-term highly-liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within current liabilities on the consolidated statement of financial position. Borrowings are recognised initially at their fair value. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the year end. Finance charges are accounted for on an accruals basis and are added to the carrying amount to the extent that they are not settled in the period in which they arise.

u) Impairment of property, plant and equipment and intangible assets other than goodwill

At each year end, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that an asset may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease until the associated revaluation reserve is extinguished.

v) 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.

w) 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.

x) 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.

y) Adoption of International Accounting Standards

New standards, amendments to published standards and interpretations to existing standards effective in 2016, with their dates of adoption adopted by the Group and brief description:

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	Clarifies that preparers should not use revenue-based methods to calculate charges for the depreciation or amortisation of items of property, plant and equipment or intangible assets.
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	Introduces guidance as to how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 Business Combinations. Proposes that a joint operator should apply the relevant principles for business combinations accounting in IFRS 3 and other relevant IFRSs when accounting for these acquisitions.
Amendments to IAS 1: Disclosure Initiative	1 January 2016	Amended to further clarify the concept of materiality, namely that it is applicable to the financial statements as a whole, not just the primary statements and that it applies to specific disclosures required by an IFRS and, therefore, an entity does not have to disclose information required by an IFRS if that information would not be material.
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016	Bearer plants brought into the scope of IAS 16 because their operation is similar to manufacturing. Initial measurement at cost, then accounting choice either cost or revaluation model may be applied to each class of bearer plant. Related agricultural produce remains in scope of IAS 41.
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016	The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016	Restoration of the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities[1]	1 January 2016	Clarifies that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity. This clarification extends to the equity method for entities that are subsidiaries and that hold interests in associates and joint ventures. IFRS 12 clarifies that an investment entity is not excluded from the scope of the standard.

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

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

Annual Improvements to IFRSs 2014–2016 Cycle	1 January 2017	The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses[1]	1 January 2017	Clarifies deferred tax on unrealised losses generated by debt instruments carried at fair value.
Amendments to IAS 7: Disclosure Initiative[1]	1 January 2017	The amendments clarify and improve information provided to users of financial statements.
IAS 28 Investments in Associates and Joint Ventures	1 January 2018	Clarifies whether an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds.
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018	Amendments to provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
Amendments to IFRS 4: Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018	To address the temporary accounting consequences of the different effective dates of IFRS 9 Financial Instruments and the forthcoming insurance contracts Standard.
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	Provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance.

1. Not yet endorsed in the EU.

Notes to the financial statements continued
for the year ended 31 March 2017

1 Accounting policies continued

y) Adoption of International Accounting Standards continued

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

IFRS 9 Financial Instruments[1]	1 January 2018	Replacement to IAS 39 and is built on a logical, single classification and measurement approach for financial assets which reflects both the business model in which they are operated and their cash flow characteristics. Also addresses the so-called 'own credit' issue and includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.
IFRS 15 Revenue from Contracts with Customers[1]	1 January 2018	Introduces requirements for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Also results in enhanced disclosure about revenue and provides or improves guidance for transactions that were not previously addressed comprehensively and for multiple-element arrangements.
IFRS 16 Leases[1]	1 January 2019	The new standard recognises a leased asset and a lease liability for almost all leases and requires them to be accounted for in a consistent manner. This introduces a single lessee accounting model and eliminates the previous distinction between an operating lease and a finance lease.

1. Not yet endorsed in the EU.

The Directors anticipate that the adoption of these Standards and Interpretations as appropriate in future periods will have no material impact on the financial statements of the Group, subject to any future business combinations.

2 Segmental analysis

Reported segments and their results in accordance with IFRS 8, are based on internal management reporting information that is regularly reviewed by the Chief Operating Decision Maker (C A Gurry). The measurement policies the Group uses for segmental reporting under IFRS 8 are the same as those used in its financial statements.

Information about revenue, profit/loss, assets and liabilities

	2017		2016	
	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000
Total segmental revenue	**27,737**	**27,737**	22,833	22,833
Consisting of:				
Segmental revenue – excluding acquisition	**26,076**	**26,076**	22,833	22,833
Segmental revenue – acquisition	**1,661**	**1,661**	—	—
Profit				
Segmental result	**4,174**	**4,174**	3,269	3,269
Consisting of:				
Segmental result – excluding acquisition	**3,694**	**3,694**	3,269	3,269
Segmental result – acquisition	**480**	**480**	—	—
Finance income		**34**		55
Income tax expense		**(341)**		(399)
Profit after taxation		**3,867**		2,925
Assets and liabilities				
Segmental assets	**44,759**	**44,759**	36,600	36,600
Unallocated corporate assets				
Investment properties		**3,550**		3,550
Deferred tax assets		**1,419**		893
Current tax assets		**971**		830
Consolidated total assets		**50,699**		41,873
Segmental liabilities	**6,231**	**6,231**	4,190	4,190
Unallocated corporate liabilities				
Deferred tax liabilities		**3,692**		3,001
Current tax liabilities		**57**		39
Retirement benefit obligation		**3,084**		2,067
Consolidated total liabilities		**13,064**		9,297

Other segmental information

	2017		2016	
	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000
Property, plant and equipment additions	**450**	**450**	443	443
Development cost additions	**5,763**	**5,763**	5,356	5,356
Depreciation	**325**	**325**	254	254
Amortisation of development costs	**4,100**	**4,100**	3,330	3,330
Amortisation of acquired intangibles	**102**	**102**	—	—
Other non-cash income/(expense)	**31**	**31**	(13)	(13)

Geographical information

The acquired Sicomm group of companies are included within the 'Far East' classification below.

	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2017					
Revenue to third parties	**6,744**	**4,856**	**6,047**	**10,090**	**27,737**
Property, plant and equipment	**5,056**	**243**	**16**	**15**	**5,330**
Investment properties	**3,550**	**—**	**—**	**—**	**3,550**
Development costs	**3,827**	**7,574**	**—**	**—**	**11,401**
Goodwill	**—**	**3,512**	**—**	**5,794**	**9,306**
Other intangible assets arising on acquisition	**—**	**—**	**—**	**1,339**	**1,339**
Total assets	**35,192**	**11,482**	**1,969**	**2,056**	**50,699**
Year ended 31 March 2016					
Revenue to third parties	5,037	4,082	4,858	8,856	22,833
Property, plant and equipment	4,997	143	12	19	5,171
Investment properties	3,550	—	—	—	3,550
Development costs	3,121	6,171	—	—	9,292
Goodwill	—	3,512	—	—	3,512
Total assets	28,281	10,100	1,412	2,080	41,873

3 Revenue

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

Continuing business	2017 £'000	2016 £'000
Europe	**7,600**	6,571
Far East	**13,460**	10,704
Americas	**6,117**	5,122
Others	**560**	436
	27,737	22,833

Notes to the financial statements continued
for the year ended 31 March 2017

4 Profit from continuing operations

	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Profit from operations is stated after charging or crediting:				
Cost of sales:				
Depreciation	**72**		75	
Amount of inventories written down	**119**		60	
Cost of inventories recognised as expense	**7,619**		5,767	
Other (stock) movements	**112**		678	
		7,922		6,580
Distribution and administration costs:				
Distribution costs (mainly staff costs)		**3,182**		2,822
Administration costs:				
Amortisation of development costs	**4,100**		3,330	
Research and development expensed	**1,057**		732	
Amortisation of acquired intangibles	**102**		—	
Depreciation	**253**		179	
Foreign exchange (gains)/losses	**(800)**		(259)	
Rentals under operating leases:				
Land and buildings	**452**		344	
Other operating leases	**115**		89	
Provision creation (see note 28)	**453**		—	
Auditor's fees (see below)	**171**		142	
Other expenses (mainly staff costs)	**7,031**		5,893	
		12,934		10,450
		16,116		13,272

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

	2017 £'000	2016 £'000
Audit services		
Statutory audit of Company's annual accounts and Group consolidation	**63**	60
Other services		
The auditing of accounts of associates of the Company pursuant to legislation (including that of countries and territories outside the United Kingdom)		
This includes:		
Audit of subsidiaries where such services are provided by RSM UK Audit LLP or its associates	**16**	13
Audit of associated pension schemes	**16**	11
Other services supplied pursuant to such legislation	**5**	7
Tax services		
Tax compliance services	**16**	14
	116	105
Amounts payable to other auditors in respect of both audit and non-audit services:		
Statutory audit services	**42**	33
Tax compliance services	**6**	2
Other services	**7**	2
	55	37

5 Other operating income

Continuing business	2017 £'000	2016 £'000
Rental income	**306**	270
Government grants and consulting	**202**	71
Other income	**106**	64
	614	405

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

6 Employees

Group	2017 £'000	2016 £'000
Staff costs, including Directors, during the year amounted to:		
Wages and salaries	**10,343**	9,067
Social security costs	**1,181**	1,020
Other pension and health care costs	**973**	932
Share-based payments	**139**	117
	12,636	11,136

Attributable staff costs to the parent company comprise £1,086,000 (2016: £915,000).

	2017 Number	2016 Number
The average number of employees, including Directors, during the year was:		
Administration	**49**	33
Engineering	**99**	83
Manufacturing	**39**	33
Selling	**28**	29
	215	178

Attributable average number of employees to the parent company seven employees (2016: seven employees).

7 Directors' emoluments

	2017 £'000	2016 £'000
Remuneration (including fees)	**833**	783
Emoluments in respect of the highest paid Director amounted to:		
Remuneration	**313**	289

Further details on Directors' emoluments, including contributions to pension, can be found in the Directors' remuneration report on pages 18 to 22.

8 Finance income

	2017 £'000	2016 £'000
Bank interest receivable	**34**	55

Notes to the financial statements continued
for the year ended 31 March 2017

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

	2017 £'000	2016 £'000
Current tax		
UK corporation tax on results of the period	**(419)**	(501)
Adjustment in respect of previous periods	**(1)**	—
	(420)	(501)
Foreign tax on results of the period	**511**	433
Foreign tax – adjustment in respect of previous periods	**—**	(2)
Total current tax	**91**	(70)
Deferred tax		
Current period movement	**272**	453
Adjustments to deferred tax charge in respect of previous periods	**(22)**	16
Total deferred tax	**250**	469
Tax charge on profit on ordinary activities (note 9b)	**341**	399

b) Factors affecting tax expense for period

Tax assessed for the period is lower than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

	2017 £'000	2016 £'000
Profit before tax	**4,208**	3,324
Profit before tax multiplied by the standard rate of UK corporation tax of 20% (2016: 20%)	**842**	665
Effects of:		
Capital allowances less than depreciation	**15**	15
Expenses not deductible for tax purposes	**76**	69
Share-based payments – tax effect	**5**	3
Research and development tax credits	**(719)**	(562)
Different tax rates in countries in which the Group operates	**159**	251
Adjustments to current tax charge in respect of previous periods	**—**	(2)
Adjustments to deferred tax charge in respect of previous periods	**(22)**	16
Reduction in deferred tax rate	**(23)**	(10)
Non-taxable income and other	**8**	(46)
Tax expense for period (note 9a)	**341**	399

10 Dividend – proposed

It is proposed to pay a dividend of 7.4p per ordinary share of 5p in respect of the year ended 31 March 2017. During the year a dividend of 7.0p per ordinary share of 5p was paid in respect of the year ended 31 March 2016. It is proposed to pay the dividend, if approved, on 7 August 2017 to shareholders registered on 7 July 2017 (2016: 29 July 2016 to shareholders registered on 24 June 2016).

11 Earnings per ordinary share

	2017 p	2016 p
Basic earnings per share		
From profit for year	**23.09**	18.03
From operations excluding acquisition	**20.17**	18.03
Diluted earnings per share		
From profit for year	**22.84**	17.94
From operations excluding acquisition	**19.95**	17.94

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:

	2017			2016		
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	**3,867**	**16,745,457**	**23.09**	2,925	16,219,037	18.03
Basic earnings per share – from operations excluding acquisition	**3,377**	**16,745,457**	**20.17**	2,925	16,219,037	18.03
Diluted earnings per share						
Basic earnings per share	**3,867**	**16,745,457**	**23.09**	2,925	16,219,037	18.03
Dilutive effect of share options	**—**	**183,699**	**(0.25)**	—	86,877	(0.09)
Diluted earnings per share – from profit for year	**3,867**	**16,929,156**	**22.84**	2,925	16,305,914	17.94
Diluted earnings per share – from operations excluding acquisition	**3,377**	**16,929,156**	**19.95**	2,925	16,305,914	17.94

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

The Company issued 774,181 of its own 5p ordinary shares at a price of 340p per share as part of its acquisition on 3 August 2016 of the Sicomm group of companies (see note 34).

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

12 Adjusted EBITDA

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

	2017 £'000	2016 £'000
Profit after taxation (earnings)	**3,867**	2,925
Adjustments for:		
Finance income	**(34)**	(55)
Income tax expense	**341**	399
Depreciation	**325**	254
Amortisation of development costs	**4,100**	3,330
Amortisation of intangibles recognised on acquisition	**102**	—
Share-based payments	**139**	117
Adjusted EBITDA	**8,840**	6,970

Notes to the financial statements continued
for the year ended 31 March 2017

13 Goodwill

	2017 £'000	2016 £'000
Group – goodwill		
Cost and net book value		
At 1 April	**3,512**	3,512
Additions – acquisition	**5,669**	—
Foreign exchange difference	**125**	—
At 31 March	**9,306**	3,512

The opening goodwill arose on the acquisition of Hyperstone GmbH that was amortised under UK GAAP until 31 March 2004. The additional goodwill in the year relates to the acquisition of the Sicomm group of companies (see note 34). This Sicomm goodwill is held in RMB upon Group consolidation and therefore is subject to foreign exchange fluctuations between periods. An annual impairment review is carried out in accordance with the accounting policies set out in note 1.
The directors consider no impairment is required. Goodwill is reviewed annually for impairment by comparing its carrying value to the net selling price of the cash generating unit or value in use; any resultant loss being charged through the consolidated income statement. Discount rate range from 10% to 18% and growth rates vary from 7% to 15%. Net selling price is determined using a five-year average of projected future earnings as applied to the price earnings ratio for the technology sector. No impairments are reversed.

14 Other intangibles arising on acquisition

	Brands £'000	Customer relationships £'000	Intellectual property £'000	Total £'000
Group – intangibles recognised on acquisition				
Cost/valuation				
At 1 April 2015	—	—	—	—
Additions	—	—	—	—
At 31 March 2016	—	—	—	—
Additions	**96**	**934**	**402**	**1,432**
Foreign exchange difference	**—**	**6**	**3**	**9**
At 31 March 2017	**96**	**940**	**405**	**1,441**
Amortisation				
At 1 April 2015	—	—	—	—
Charge for the year	—	—	—	—
At 31 March 2016	—	—	—	—
Charge for the year	**6**	**69**	**27**	**102**
At 31 March 2017	**6**	**69**	**27**	**102**
Net book value				
At 31 March 2017	**90**	**871**	**378**	**1,339**
At 31 March 2016	—	—	—	—

The intangibles assets above were recognised on the acquisition of Sicomm in accordance with the provisions of IFRS 3 Business Combinations.

15 Property, plant and equipment

	Freehold and long leasehold premises £'000	Short leasehold improvements £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Group					
Cost					
At 1 April 2015	5,849	48	10,735	82	16,714
Additions	213	—	195	35	443
Foreign exchange difference	—	1	159	—	160
At 31 March 2016	6,062	49	11,089	117	17,317
Additions – acquisition	**—**	**—**	**234**	**60**	**294**
Additions	**—**	**—**	**450**	**—**	**450**
Disposals	**—**	**—**	**(17)**	**—**	**(17)**
Foreign exchange difference	**—**	**9**	**231**	**1**	**241**
At 31 March 2017	**6,062**	**58**	**11,987**	**178**	**18,285**
Depreciation					
At 1 April 2015	1,175	44	10,463	56	11,738
Charge for the year	78	—	167	9	254
Foreign exchange difference	—	1	153	—	154
At 31 March 2016	1,253	45	10,783	65	12,146
Depreciation – acquisition	**—**	**—**	**210**	**50**	**260**
Fair value adjustments – acquisition	**—**	**—**	**14**	**—**	**14**
Charge for the year	**79**	**—**	**226**	**20**	**325**
Disposals	**—**	**—**	**(17)**	**—**	**(17)**
Foreign exchange difference	**—**	**9**	**217**	**1**	**227**
At 31 March 2017	**1,332**	**54**	**11,433**	**136**	**12,955**
Net book value					
At 31 March 2017	**4,730**	**4**	**554**	**42**	**5,330**
At 31 March 2016	4,809	4	306	52	5,171

	Equipment £'000	Freehold and long leasehold premises £'000	Total £'000
Company			
Cost			
At 1 April 2015	49	5,849	5,898
Additions	—	213	213
At 31 March 2016	49	6,062	6,111
Additions	**—**	**—**	**—**
At 31 March 2017	**49**	**6,062**	**6,111**
Depreciation			
At 1 April 2015	44	1,175	1,219
Charge for the year	5	78	83
At 31 March 2016	49	1,253	1,302
Charge for the year	**—**	**79**	**79**
At 31 March 2017	**49**	**1,332**	**1,381**
Net book value			
At 31 March 2017	**—**	**4,730**	**4,730**
At 31 March 2016	—	4,809	4,809

Notes to the financial statements continued
for the year ended 31 March 2017

16 Investment properties

Group and Company	Investment properties £'000	Total £'000
Valuation		
At 1 April 2015	3,550	3,550
Additions	—	—
Foreign exchange difference	—	—
At 31 March 2016	3,550	3,550
Additions – acquisition	—	—
Additions	—	—
Foreign exchange difference	—	—
At 31 March 2017	**3,550**	**3,550**
Depreciation		
At 1 April 2015	—	—
Charge for the year	—	—
Foreign exchange difference	—	—
At 31 March 2016	—	—
Depreciation – acquisition	—	—
Charge for the year	—	—
Foreign exchange difference	—	—
At 31 March 2017	—	—
Net book value		
At 31 March 2017	**3,550**	**3,550**
At 31 March 2016	3,550	3,550

Investment properties in both the Group and Company comprise £3,550,000 (2016: £3,550,000) of freehold and leasehold land and buildings and it is from the operating leases on these properties that the Group's rental income is generated. Everett Newlyn, Chartered Surveyors and Commercial Property Consultants professionally valued the investment properties on the basis of open market value as at 31 March 2015. The Directors do not consider that the present valuation has materially changed as at 31 March 2017 having considered the local property market.

The value of the investment properties were they to be held at historic cost would be £2,792,000 (2016: £2,792,000). The Company does not incur significant costs not otherwise recharged to its tenants for its investment properties.

The investment properties are measured at fair value. Valuations are based on what is determined to be the highest and best use. When considering the highest and best use the Directors will consider, on a property by property basis, its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer will consider the cost and likelihood of achieving and implementing this change in arriving at its valuation.

The methods of fair value measurement are classified into a hierarchy based on the reliability of the information used to determine the valuation, as follows:

- level 1: valuation based on inputs on quoted market prices in active markets;
- level 2: valuation based on inputs other than quoted prices included within level 1 that maximise the use of observable data directly or from market prices or indirectly derived from market prices; and
- level 3: where one or more inputs to valuations are not based on observable market data.

The values used below utilise a level 2 methodology:

	Carrying/ fair value £'000	Valuation technique	Key observable inputs	Range (weighted average) 2017
Investment properties	**3,550**	Income capitalisation	Estimated rental value	£4 – £8 per sq ft
			Per sq ft p.a.	8% – 11%
			Equivalent yield	8.1%
	3,550			

The prior period comparative values were as follows:

	Carrying/ fair value £'000	Valuation technique	Key observable inputs	Range (weighted average) 2016
Investment properties	3,550	Income capitalisation	Estimated rental value	£5 – £9 per sq ft
			Per sq ft p.a.	9% – 11%
			Equivalent yield	7.5%
	3,550			

17 Investments

Group – investments	2017 £'000	2016 £'000
Cost and net book value		
At 1 April	—	—
Additions – acquisition	**84**	—
Foreign exchange difference	**1**	—
At 31 March	**85**	—

The investment represents the Group's 14.29% equity investment in Quanzhou Cybercomm Wireless Communication Technologies Institute Co., Inc., a Chinese industrial institutional body, acquired with the acquisition of the Sicomm group of companies.

Company – investments	2017 £'000	2016 £'000
Cost of investment in subsidiary undertakings:		
As at 1 April	**4,960**	4,960
Additions – acquisitions	**8,004**	—
As at 1 April and 31 March	**12,964**	4,960
Advances to subsidiary undertakings:		
As at 1 April	**4,369**	2,249
(Decrease)/increase in advances	**(5,365)**	2,120
As at 31 March	**(996)**	4,369
Net book value		
As at 31 March	**11,968**	9,329

Notes to the financial statements continued
for the year ended 31 March 2017

17 Investments continued

The Group is headed by the Company, CML Microsystems Plc. Details of the subsidiary undertakings of the Company are as follows:

Name	Country of incorporation	Percentage held	Status	Holding
CML Microsystems Inc	USA	100%	Trading in USA	Direct
CML Microcircuits (UK) Ltd	England	100%	Trading in England	Direct
CML Microcircuits (USA) Inc	USA	100%	Trading in USA	Indirect
CML Microcircuits (Singapore) Pte Ltd	Singapore	100%	Trading in Singapore	Direct
Wuxi Sicomm Technologies, Inc	China	100%	Trading in China	Indirect
Shanghai Futiake Investment Consulting Co., Ltd	China	100%	Holding company	Direct
Quanzhou Sicomm Communication Technologies Co., Ltd	China	100%	Trading in China	Indirect
Applied Technology (UK) Ltd	England	100%	Dormant	Direct
Integrated Micro Systems Ltd	England	100%	Dormant	Direct
Hyperstone GmbH	Germany	100%	Trading in Germany	Direct
Hyperstone Inc	USA	100%	Trading in USA	Indirect
Hyperstone Asia Pacific Ltd	Taiwan	100%	Trading in Taiwan	Direct

All of the above companies 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, or dormant as stated. The above all share the same reporting date as the Company, with the exception of the three Chinese subsidiaries above which have, in line with Chinese laws and regulations, a 31 December year end. The Group has accordingly taken up the financial results and financial position of these Chinese subsidiaries up to 31 March 2017.

Company locations are as follows:

CML Microsystems Inc	465 Corporate Square Drive, Winston-Salem, NC 27105, USA
CML Microcircuits (UK) Ltd	Oval Park, Langford, Maldon, Essex, CM9 6WG England
CML Microcircuits (USA) Inc	465 Corporate Square Drive, Winston-Salem, NC 27105, 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 306, 113 Wuhua Road, Shanghai, China
Quanzhou Sicomm Communication Technologies Co., Ltd	9 Chifeng Road, Licheng, Hitech District, Quanzhou, Fujian, China
Applied Technology (UK) Ltd	Oval Park, Langford, Maldon, Essex, CM9 6WG England
Integrated Micro Systems Ltd	Oval Park, Langford, Maldon, Essex, CM9 6WG England
Hyperstone GmbH	Line-Eid-Strasse 3, 78467 Konstanz, Germany
Hyperstone Inc	465 Corporate Square Drive, Winston-Salem, NC 27105, USA
Hyperstone Asia Pacific Ltd	3F, No.501, Sec.2, Tiding Boulevard, Neihu District, Taipei City 114, Taiwan

18 Development costs

Group – development costs	2017 £'000	2016 £'000
Cost		
At 1 April	**27,107**	23,487
Additions – internal sources	**5,763**	5,356
Fully amortised costs	**(4,108)**	(2,019)
Foreign exchange difference	**487**	283
At 31 March	**29,249**	27,107
Amortisation		
At 1 April	**17,815**	16,504
Charged in the year	**4,100**	3,330
Fully amortised costs	**(4,108)**	(2,019)
Foreign exchange difference	**41**	—
At 31 March	**17,848**	17,815
Net book value		
At 31 March	**11,401**	9,292
At 31 March 2015		6,983

No government grants have been credited to the cost of development in arriving at the net book value at the year end (2016: £Nil).

19 Inventories

	Group	
	2017 £'000	2016 £'000
Raw materials	**803**	752
Work in progress	**193**	184
Finished goods	**1,158**	635
	2,154	1,571

20 Trade receivables and prepayments

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Amounts falling due within one year:				
Trade receivables	**2,011**	2,771	**—**	—
Other receivables	**214**	182	**28**	18
Prepayments and accrued income	**472**	505	**38**	387
	2,697	3,458	**66**	405

Notes to the financial statements continued
for the year ended 31 March 2017

21 Cash and cash equivalents

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Cash on deposit	**8,431**	10,562	**90**	88
Cash at bank	**4,016**	3,034	**81**	81
	12,447	13,596	**171**	169

22 Bank loans and overdrafts

There were no bank overdrafts or loans in the current or prior period for either the Group or Company.

23 Derivatives and other financial instruments

Financial instruments

The Group's financial instruments can comprise cash balances, bank loans, overdraft facilities and items such as trade receivables and trade payables that arise directly from its operations. The 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 IAS 39, 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.

The risks arising from the Group's financial instruments are interest rate/liquidity risk and foreign currency risk.

The policies for managing these risks are summarised below and have been applied throughout the year.

Interest rate/liquidity risk

Cash balances are placed so as to maximise interest earned while maintaining the liquidity requirements of the business. The Directors regularly review the placing of cash balances. A significant movement in LIBOR would be required to have a material impact on the cash flow of the Group. The gross overdraft facility provided by the Group's principal bankers is £750,000 (2016: £750,000); US$100,000 (2016: US$100,000); €Nil (2016: €Nil) and is subject to renewal annually. In addition, the Group's German subsidiary has, through its principal bankers, a €1m gross overdraft facility (2016: €1m), renewable on an annual basis.

Foreign currency risk

The Group has overseas subsidiary operations in Germany, the USA, China, Taiwan and Singapore. As a result, the Group's Sterling statement of financial position could be affected by movements in the Euro, US Dollar, Chinese Renminbi, Singapore Dollar and Taiwan Dollar to Sterling exchange rates. At 31 March 2017, the Group had monetary assets denominated in foreign currencies of approximately £5.9m (2016: £11.3m), of which approximately 67% (2016: 70%) was denominated in US Dollars, 26% in Chinese Renminbi (2016: £Nil) and 5% (2016: 25%) was denominated in Euros.

It had no monetary liabilities wholly denominated in Euros (2016: £Nil). The effects of foreign exchange recognised in the income statement amounted to a gain of £800,000 (2016: gain of £259,000).

Financial instruments recognised in the consolidated statement of financial position

All financial instruments are recognised initially at their fair value and subsequently measured at amortised cost (see note 1t).

	2017 £'000	2016 £'000
Non-current financial assets		
Equity investment (see note 17)	**85**	—
Total	**85**	—

	Group		Company	
	2017 Loans and receivables £'000	2016 Loans and receivables £'000	**2017 Loans and receivables £'000**	2016 Loans and receivables £'000
Current financial assets				
Trade and other receivables	**2,225**	2,953	**28**	18
Cash and cash equivalents	**12,447**	13,596	**171**	169
Total	**14,672**	16,549	**199**	187

Trade and other receivables are all due within six months.

The average credit period was 26 days (2016: 44 days). There were no allowances made, based on the knowledge of the financial circumstances of individual debtors at the year end, for estimated irrecoverable amounts from the sale of goods at the year end (2016: no allowances).

At 31 March 2017, £Nil (2016: £Nil) of trade receivables were impaired in relation to customers who are known to be in financial difficulty and from whom payment was overdue by more than three months. The Group holds no collateral against receivables at the year end.

There were no trade and other receivables that were past due at 31 March 2017 (2016: £Nil). There are no significant credit risks arising from financial assets that are either past due, or impaired. The Group believes that balances are ultimately recoverable based on a review of past payment history and the current financial status of the customers.

At 31 March 2017, £137,000 (2016: £281,000) of trade receivables was denominated in Sterling, £1,546,000 (2016: £1,892,000) in US Dollars, £302,000 (2016: £598,000) in Euros, £26,000 in Chinese Renminbi (2016: £Nil), £Nil in Singaporean Dollars (2016: £Nil), and £Nil in Taiwanese Dollars (2016: £Nil). The Directors consider that the carrying amount of trade and other receivables approximate to their fair value. Cash and cash equivalents of £12,447,000 (2016: £13,596,000) comprise cash and short-term deposits held by the Group treasury function. The carrying amount of these assets approximates to their fair values.

	Group		Company	
	2017 Other financial liabilities £'000	2016 Other financial liabilities £'000	**2017 Other financial liabilities £'000**	2016 Other financial liabilities £'000
Current financial liabilities				
Trade and other payables	**2,164**	1,102	**574**	225
Accruals	**3,297**	2,804	**262**	336
Provisions – current	**51**	—	**—**	—
Total	**5,512**	3,906	**836**	561

Sensitivity analysis

Interest rate sensitivity

A sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant through the reporting period. A 100 basis point change has been used. At the reporting date if the interest rate had been 100 basis points:

- higher and all other variables were constant, the Group's profit before taxation would have increased by £76,000 (2016: increased by £108,000); or
- lower and all other variables were constant, the Group's profit before taxation would have decreased by £34,000 (2016: decreased by £55,000); or
- higher and all other variables were constant, the Group's other equity and reserves would have increased by £61,000 (2016: increased by £86,000); or
- lower and all other variables were constant, the Group's other equity and reserves would have decreased by £27,000 (2016: decreased by £44,000).

Notes to the financial statements continued
for the year ended 31 March 2017

23 Derivatives and other financial instruments continued

Sensitivity analysis continued

Foreign currency sensitivity

The following table details the Group's sensitivity to a 10% change in exchange rates against the Sterling equivalents. The sensitivity analysis of the Group's exposure to foreign exchange risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

	US$ impact		Euro impact	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
10% movement in rates will have an impact on:				
Profit before taxation	**1,412**	2,215	**424**	334
Equity	**1,440**	2,042	**299**	237

The Group closely monitors its access to bank and other credit facilities in comparison to its outstanding commitments on a regular basis to ensure that it has sufficient funds to meet the obligations of the Group as they fall due.

The Board receives regular forecasts that estimate the cash flows over the next twelve months, so that management can ensure that sufficient financing is in place as it is required. Detailed analysis of the debt facilities held and available to the Group are disclosed in this note above.

24 Trade and other payables

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Amounts falling due within one year:				
Trade payables	**1,401**	815	**—**	—
Other taxation and social security costs	**296**	284	**75**	71
Other payables and deferred income	**763**	287	**574**	225
Accruals	**3,297**	2,804	**262**	336
	5,757	4,190	**911**	632

25 Current tax liabilities/assets

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Current tax liabilities	**57**	39	**—**	—
Current tax assets	**971**	830	**—**	—

£419,000 (2016: £502,000) of the current tax asset is an R&D claim that by its nature is subject to HMRC approval.

26 Deferred tax

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Provision for deferred taxation comprises:				
Accelerated capital allowances	**(424)**	(620)	**(578)**	(612)
Tax losses carried forward	**557**	382	**17**	27
Pensions	**524**	372	**—**	—
Share-based payments	**96**	74	**96**	74
Research and development	**(2,883)**	(2,381)	**—**	—
Provisions	**19**	24	**—**	—
Intangibles assets	**(201)**	—	**—**	—
Other	**39**	41	**—**	—
	(2,273)	(2,108)	**(465)**	(511)
Deferred tax asset	**1,419**	893	**113**	100
Deferred tax liability	**(3,692)**	(3,001)	**(578)**	(611)
	(2,273)	(2,108)	**(465)**	(511)
At 1 April	**(2,108)**	(1,203)	**(511)**	(557)
Net deferred tax assets acquired	**37**	—	**—**	—
Foreign exchange difference	**(130)**	(153)	**—**	—
Deferred tax (charged)/credited in income statement for year (see note 9)	**(250)**	(469)	**46**	46
Deferred tax (charged)/credited to statement of total comprehensive income	**178**	(283)	**—**	—
At 31 March	**(2,273)**	(2,108)	**(465)**	(511)

The financial statements include a deferred tax asset of £1,419,000 (2016: £893,000) of which £540,000 (2016: £382,000) 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 tax credit of £178,000 (2016: deferred tax charge of £283,000) relates to the retirement benefit obligation (see note 27). The Directors consider the deferred tax asset relating to the retirement benefit obligation to be recoverable on the basis that the deficit is a long-term liability that will be satisfied from future profitability.

The Finance Act 2016 provides that the rate of corporation tax from 1 April 2017 will be 19% and from 1 April 2020 would be 17%. The Directors consider it appropriate to use 20%, 19% and 17% as the rate deferred tax should be provided for depending on when the timing differences are expected to be reversed.

Deferred tax assets recoverable/(liabilities) expected to be settled under twelve months are £58,000 and £27,000 respectively (2016: £64,000 and £10,000 respectively). Deferred tax assets recoverable/(liabilities) expected to be settled over twelve months are £1,361,000 and £3,665,000 respectively (2016: £829,000 and £2,991,000 respectively). Deferred tax assets/(liabilities) expected net by jurisdiction consist of the Far East £9,000 (2016: £5,000), Europe (£2,496,000) (2016: (£2,149,000)) and the Americas £214,000 (2016: £36,000).

Notes to the financial statements continued
for the year ended 31 March 2017

27 Retirement benefit obligations

The Group operates several pension schemes. 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. Today the majority of the Group's employees are members of defined contribution type schemes. All schemes are independent of the Group's finances.

The latest triennial actuarial valuation is currently being prepared. The latest available triennial actuarial valuation of the defined benefit scheme in the UK at 1 April 2014, using the defined accrued benefit method, disclosed assets with a market value of £15,727,000, equivalent to 80% of the accrued liabilities, after allowing for expected future increases in earnings. The main actuarial assumptions used were: investment return 5% p.a. pre-retirement, 5% p.a. post retirement; general growth in salaries is not applicable; pensions accrued prior to 6 April 1997 will increase in payment at 3% p.a. compound; limited price indexation 3.25% p.a. with a minimum of 2.5%; early leaver indexation 3% p.a. As at 1 April 2014 the calculation carried out in accordance with Section 143 of the Pension Act 2004 showed a funding level of 91%. Funding of the defined benefit scheme is agreed with the Trustees following each triennial actuarial valuation and the current funding agreement expires on 31 March 2018. Under the scheme's trust deed the Company has the authority to appoint up to two-thirds of the Trustees. Currently there are two member-appointed Trustees and two Company-appointed Trustees.

For the defined contribution schemes operated throughout the Group the employer contributions are generally up to 6% of eligible salary but are subject to minimum employee contributions.

The total contributions to the schemes over the year were:

	2017 £'000	2016 £'000
Pension contributions		
UK defined benefit pension	**151**	151
Defined contribution pension schemes (UK and overseas)	**516**	446
	667	597

In relation to the defined contribution scheme, the Group had outstanding contributions of £58,000 (2016: £Nil).

Details from this point to the end of this note (note 27) relate to the UK defined benefit scheme only.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

a) Financial assumptions

	2017	2016
Discount rate	**2.9%**	3.8%
Future salary increases	**n/a**	n/a
Expected duration of liabilities (years)	**18**	18
Pension revaluation in deferment post 2001 (Consumer Prices Index – max. 5.0%)	**2.2%**	1.8%
Pension escalation in payment (Retail Prices Index – max. 5.0%, min. 3.0% from 6 April 1997 to 5 April 2005)	**3.0%**	3.0%
Proportion of employees opting for early retirement	**0%**	0%
Inflation assumption	**3.2%**	2.8%

b) Demographic assumptions

	2017	2016
Assumed life expectancy in years, on retirement at 65		
Retiring today		
Males	**22.0**	22.1
Females	**24.0**	24.1
Retiring in 20 years		
Males	**23.3**	23.5
Females	**25.5**	25.6

On the basis of the above assumptions, the amounts that have been charged to administration expenses within the income statement and the statement of total comprehensive income for the year to 31 March 2017 and 31 March 2016 are as follows:

	2017 £'000	2016 £'000
Amounts recognised in the income statement are as follows:		
Administration expense	**(130)**	(127)
Net interest on deficit	**(79)**	(126)
Total	**(209)**	(253)
Amounts recognised in the statement of total comprehensive income:		
Actual return on assets less return implied by net interest income	**2,007**	475
Experience gains on liabilities	**1,361**	460
Change in assumptions:		
Discount rate	**(3,910)**	635
Inflation rate	**(743)**	—
Demographic assumptions	**237**	—
Net actuarial (loss)/gain recognised in OCI/re-measurement	**(1,048)**	1,570

	2017 £'000	2016 £'000
Amounts recognised in the statement of financial position:		
Present value of funded obligations	**(22,547)**	(19,111)
Fair value of plan assets	**19,463**	17,044
Deficit under IAS 19 as reported by the actuary	**(3,084)**	(2,067)

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 key assumptions

	Defined benefit obligation ("DBO") £'000	Change in DBO compared to assumptions %
Main assumptions	22,547	n/a
Discount rate +0.5%	20,616	(9%)
RPI +0.5%	23,142	3%
Mortality improvement +0.5%	23,295	3%

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

	2017 £'000	2016 £'000
Opening defined benefit obligation	**19,111**	19,976
Expenses incurred	**130**	127
Interest cost	**722**	710
Actuarial loss/(gain)	**3,055**	(1,095)
Benefits paid (including expenses)	**(471)**	(607)
Closing defined benefit obligation	**22,547**	19,111
Comprising:		
Deferred members	**15,837**	13,068
Pension members	**6,710**	6,043

Notes to the financial statements continued
for the year ended 31 March 2017

27 Retirement benefit obligation continued

Sensitivity to key assumptions continued

The projected unit valuation method has been used to arrive at the above service cost. The use of this method is prescribed in IAS 19. To produce a stable future contribution rate this valuation method assumes that the average age of the scheme membership will remain broadly constant in future due to a flow of new entrants to the scheme. If a scheme is closed to new members this will not be the case and the costs of benefits accruing, as a percentage of pensionable salaries, will be expected to increase over time.

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

	2017 £'000	2016 £'000
Opening fair value of plan assets	**17,044**	16,352
Expected return on assets	**643**	584
Actuarial gain on assets	**2,007**	475
Contributions by employer	**240**	240
Benefits paid	**(341)**	(480)
Expenses paid	**(130)**	(127)
Closing fair value of plan assets	**19,463**	17,044

The actual return on plan assets was £2,650,000 (2016: £1,059,000). The expected return on plan assets is calculated using the assets, market conditions and the long-term expected rate of interest set at the start of the accounting period. The Company expects to contribute £151,200 (2016: £151,200) as contributions to the CML Microsystems Plc Retirements Scheme in the next accounting year.

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

	2017 £'000	2016 £'000
Equities (all quoted)	**14,172**	11,450
Fixed interest bonds	**1,995**	1,621
Index linked bonds	**200**	284
Property	**312**	383
Cash	**1,424**	2,525
Other	**1,360**	781
Closing fair value of plan assets	**19,463**	17,044

As with all defined benefit schemes the sponsor is exposed to various risks as there are a significant number of variables that can affect the value of the assets and the extent of the liabilities at any one time. Fundamentally the main risks are the mortality of the members and the return achieved on the scheme assets by the Trustees since the Company is liable to make good any deficit. In assessing the risk before the scheme reaches its conclusion the actuary uses various assumptions (as shown in this report) but these are only assumptions based on what is considered good practice at the time. These assumptions, whether reflecting a deficit or surplus are assumptions and hence can only be relied on as estimates but are used to base the contributions payable by the Company. These contributions are agreed with the Trustees of the scheme on a triennial basis with the next review to be agreed by 31 March 2018.

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

	2017 IAS 19 £'000	2016 IAS 19 £'000	2015 IAS 19 £'000	2014 IAS 19 £'000	2013 IAS 19 £'000
Defined benefit obligation	**22,547**	19,111	19,976	18,473	21,679
Plan assets	**19,463**	17,044	16,352	15,775	15,557
Deficit	**(3,084)**	(2,067)	(3,624)	(2,698)	(6,122)
Experience adjustments on plan liabilities	**1,493**	460	472	1,108	129
Actuarial gain on plan assets	**2,007**	475	507	200	1,098

28 Provisions

	£'000
At 31 March 2016	—
Additional provisions in year	474
At 31 March 2017	**474**
Analysed as:	
Current liabilities	51
Non-current liabilities	423
At 31 March 2017	**474**

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

29 Share capital

	2017 £'000	2016 £'000
Authorised		
25,000,000 ordinary shares of 5p each (2016: 25,000,000 ordinary shares of 5p each)	**1,250**	1,250
Issued and fully paid		
At 1 April		
16,256,537 ordinary shares of 5p each	**813**	813
Issued in year: 9,077 ordinary shares (2016: Nil) of 5p were issued in the year as a result of employees exercising their options	**—**	—
Issued in year: 774,181 ordinary shares (2016: Nil) of 5p were issued in the year as a result of acquisition of Sicomm (see note 34)	**39**	—
Cancelled in year: 179,439 ordinary shares were bought and cancelled by the Company	**(9)**	—
At 31 March		
16,860,356 ordinary shares of 5p	**843**	813

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

Share options

The Company has a number of approved and unapproved share option schemes in place for the benefit of its employees. On 2 August 2000 the Company approved at the Annual General Meeting a scheme, which was United Kingdom Revenue & Customs Approved. This scheme was amended and reapproved at the Extraordinary General Meeting held on 10 February 2004. At the 2008 Annual General Meeting a new Enterprise Management Incentive share option plan was approved. On 18 November 2011 a further scheme was approved which is United Kingdom 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.

Notes to the financial statements continued
for the year ended 31 March 2017

29 Share capital continued

Share options continued

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				
	2016 Number	Granted Number	Exercised Number	Forfeited Number	**2017 Number**
From 18 June 2010 to 17 June 2017 at £1.16	3,063	—	—	—	**3,063**
From 15 June 2014 to 14 June 2021 at £2.20	88,833	—	(3,272)	(1,725)	**83,836**
From 15 June 2014 to 14 June 2021 at £2.30	12,500	—	—	—	**12,500**
From 2 September 2015 to 1 September 2022 at £2.84	20,000	—	—	—	**20,000**
From 2 October 2015 to 1 October 2022 at £3.22	278,938	—	(5,805)	(19,479)	**253,654**
From 2 October 2015 to 1 October 2022 at £3.34	5,000	—	—	—	**5,000**
From 1 May 2016 to 1 May 2023 at £3.84	31,220	—	—	—	**31,220**
From 1 July 2016 to 1 July 2023 at £0.00	5,311	—	—	—	**5,311**
From 17 September 2017 to 17 September 2024 at £3.125	20,000	—	—	—	**20,000**
From 2 April 2018 to 2 April 2025 at £3.45	20,000	—	—	—	**20,000**
From 25 September 2018 to 25 September 2025 at £3.51	446,451	—	—	(22,064)	**424,387**
From 25 September 2018 to 25 September 2025 at £3.475	100,000	—	—	—	**100,000**
From 22 December 2019 to 22 December 2026 at £3.70	—	20,000	—	—	**20,000**
	1,031,316	20,000	(9,077)	(43,268)	**998,971**

9,077 options were exercised in the year (2016: no options). The weighted average market price of the share options exercised in the year was 409.0p (2016: £Nil). The weighted average exercise price of options exercised in the year was 285.2p (2016: £Nil). 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 332.7p (2016: 451.9p).

30 Other equity reserves

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Share premium				
At 1 April	**5,700**	5,700	**5,700**	5,700
Issued in year: 9,077 ordinary shares (2016: Nil) of 5p were issued in the year as a result of employees exercising their options	**25**	—	**25**	—
Issued in year: 774,181 ordinary shares (2016: Nil) of 5p were issued in the year as a result of acquisition of Sicomm (see note 34)	**2,594**	—	**2,594**	—
At 31 March	**8,319**	5,700	**8,319**	5,700

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

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Capital redemption reserve				
At 1 April	**—**	—	**—**	—
Own shares purchased and cancelled	**9**	—	**9**	—
At 31 March	**9**	—	**9**	—

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

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Treasury shares – own share reserve				
At 1 April	**(190)**	—	**(190)**	—
Purchased in the year	**—**	(190)	**—**	(190)
At 31 March	**(190)**	(190)	**(190)**	(190)

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

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Share-based payments reserve				
At 1 April	**388**	287	**388**	287
Options exercised or released	**(23)**	(16)	**(23)**	(16)
Charged in year	**139**	117	**139**	117
At 31 March	**504**	388	**504**	388

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

Grant date	22/12/16	25/09/15	25/09/15	02/04/15	17/09/14	01/07/13	01/05/13
Share price at grant date (£)	3.70	3.475	3.475	3.45	3.125	4.80	3.88
Exercise price (£)	3.70	3.475	3.51	3.45	3.125	0.00	3.84
Number of employees	1	4	158	1	1	2	7
Shares under option	20,000	100,000	424,387	20,000	20,000	5,311	31,220
Vesting period (years)	3	3	3	3	3	1	3
Expected volatility	16.02%	33.20%	33.20%	38.00%	26.84%	n/a	43.30%
Option life (years)	10	10	10	10	10	10	10
Expected life (years)	3	3	3	3	3	1	3
Risk-free rate	1.15%	1.83%	1.83%	2.09%	2.43%	n/a	3.60%
Expected dividend yield	1.86%	1.92%	1.92%	1.57%	1.26%	n/a	1.20%
Possibility of ceasing employment before vesting	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Fair value per option (£)	0.35	0.74	0.73	0.87	0.60	4.80	0.71

Notes to the financial statements continued
for the year ended 31 March 2017

30 Other equity reserves continued

Grant date	01/10/12	01/10/12	01/09/12	15/06/11	15/06/11	18/06/07
Share price at grant date (£)	3.34	3.34	2.84	2.30	2.20	1.16
Exercise price (£)	3.34	3.22	2.84	2.20	2.20	1.16
Number of employees	1	124	1	1	22	1
Shares under option	5,000	253,654	20,000	12,500	83,836	3,063
Vesting period (years)	3	3	3	3	3	3
Expected volatility	29.36%	29.36%	29.36%	35.70%	35.70%	24.60%
Option life (years)	10	10	10	10	10	10
Expected life (years)	3	3	3	3	3	3
Risk-free rate	3.09%	3.09%	3.09%	4.28%	4.28%	5.78%
Expected dividend yield	1.49%	1.49%	1.49%	1.50%	1.50%	2.79%
Possibility of ceasing employment before vesting	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Fair value per option (£)	0.67	0.67	0.67	0.58	0.58	0.22

The weighted average exercise price of all options is £3.27 (2016: £3.26) and the weighted average expected remaining contractual life is three years (2016: three years).

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.

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'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.

	2017 £'000	2016 £'000
Foreign exchange reserve		
At 1 April	**318**	(266)
Retranslation of overseas subsidiaries	**1,068**	584
At 31 March	**1,386**	318

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

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Accumulated profits				
At 1 April	**25,547**	22,437	**10,092**	9,392
Profit for the year	**3,867**	2,925	**996**	1,802
Dividend paid	**(1,134)**	(1,118)	**(1,134)**	(1,118)
Cancellation/transfer of share-based payments	**23**	16	**23**	16
Net actuarial (loss)/gain	**(1,048)**	1,570	**—**	—
Deferred tax gain/(loss) on actuarial (loss)/gain	**178**	(283)	**—**	—
Own shares purchased and cancelled	**(669)**	—	**(669)**	—
At 31 March	**26,764**	25,547	**9,308**	10,092

31 Capital commitments

Capital commitments which have been authorised by the balance sheet date, primarily representing a three year purchasing commitment with a supplier, but for which no provision has been made in these financial statements are £3,078,000 (2016: £3,889,000).

32 Operating lease arrangements

The Group as a lessee

	2017 £'000	2016 £'000
Land and buildings		
Minimum lease payments under operating leases recognised in income statement as an expense for the period	**452**	354

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

	2017 £'000	2016 £'000
Within one year	**433**	330
In the second to fifth year inclusive	**916**	580
After five years	**254**	—
	1,603	910

Operating lease payments represent rentals payable by the Group for some of its office properties. Leases are normally negotiated for a term of three years and rentals are fixed for that period, apart from the property in the US that was for a twelve-year period.

	2017 £'000	2016 £'000
Other		
Minimum lease payments under operating leases recognised in income statement as an expense for the period	**115**	89

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

	2017 £'000	2016 £'000
Within one year	**91**	93
In the second to fifth year inclusive	**137**	111
	228	204

The Group and Company as a lessor

Property rental income earned during the year was £290,000 (2016: £270,000). Though current market conditions are unfavourable the Group now has all properties let albeit with fairly short leases so it is impractical to estimate what the estimated yields will be in the longer term but over the shorter term yields are expected to be 7%.

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

	2017 £'000	2016 £'000
Within one year	**246**	263
In the second to fifth year inclusive	**256**	366
After five years	**—**	33
	502	662

Notes to the financial statements continued
for the year ended 31 March 2017

33 Notes to the cash flow statement

	2017 £'000	2016 £'000
Group		
Movement in working capital:		
(Increase)/decrease in inventories	**(583)**	192
Decrease/(increase) in receivables	**761**	(594)
Increase in payables	**1,567**	719
	1,745	317

Analysis of changes in net cash – Group:

	Net cash at 1 April 2016 £'000	Cash flow £'000	Exchange movement £'000	Net cash at 31 March 2017 £'000
Cash and cash equivalents	13,596	(327)	(822)	**12,447**
	13,596	**(327)**	**(822)**	**12,447**

	2017 £'000	2016 £'000
Company		
Movement in working capital:		
Decrease/(increase) in advance to subsidiary undertaking	**5,366**	(2,120)
Decrease/(increase) in receivables	**339**	(377)
Increase in payables	**221**	77
	5,926	(2,420)

Analysis of changes in net cash – Company:

	Net cash at 1 April 2016 £'000	Cash flow £'000	Exchange movement £'000	Net cash at 31 March 2017 £'000
Cash and cash equivalents	169	2	—	**171**
	169	**2**	**—**	**171**

34 Acquisition of Sicomm group of companies

Following the definitive agreement to acquire all its shares announced on 27 May 2016, and having satisfied the principal regulatory conditions and other transaction closing conditions, the Group took control (100% of voting rights) of the China-based Wuxi Sicomm Technologies Inc ("Sicomm") and affiliated companies on 3 August 2016. The total consideration was $11.05m (£8.01m), payable in cash and in shares (see below). The 774,181 new shares were also admitted for trading by the London Stock Exchange in August 2016. The majority of the shares are subject to specific lock-in restrictions over a three-year period and were provided under existing AGM resolution approval.

Founded in 2003, Sicomm is a fabless semiconductor company and solutions provider specialising in the development of integrated baseband processors and RF semiconductors for global wireless communication markets. Sicomm has approximately 30 employees and is headquartered in Wuxi, China, with offices in Shanghai and Quanzhou. The company's product range, which partially competed with existing CML solutions, is targeted for use within consumer, industrial and professional radio products and focuses on the customer need to achieve the right balance between cost, functionality and technical performance.

This acquisition expands the Group's product portfolio, strengthens its Far Eastern regional support resources and reinforces CML's position as a leader in the professional and industrial wireless communication semiconductor market.

For the above reasons, combined with the anticipated profitability of Sicomm products in other Group markets, synergies to arise from integrating the Sicomm business into existing Group businesses, plus the ability to hire the workforce of the Sicomm group of companies (including the founder and management team), the Group paid a premium over the acquisition net assets, giving rise to goodwill. All intangible assets in accordance with IFRS 3 Business Combinations were recognised at their provisional fair values on the date of acquisition, with the residual excess over net assets being recognised as goodwill. Intangibles arising from the acquisition consist of brand values, customer relationships and intellectual property and have been independently valued by professional advisors.

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

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

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

The acquisition cost was satisfied by:

	£'000
Cash	**5,377**
Share consideration	**2,633**
Total consideration	**8,010**

Net cash outflow arising on acquisition:

	£'000
Cash consideration paid (less cash retention)	**5,032**
Cash returned under escrow due diligence deposit	**(385)**
Acquisition-related costs	**281**
Cash and cash equivalents within the Sicomm business on acquisition	**(1,456)**
Total net cash outflow on acquisition	**3,472**

The cash consideration excludes a £348,000 (RMB3m) retention which is included in other payables. Other costs relating to the acquisition have not been included in the consideration cost. Directly attributable acquisition costs include external legal and accounting costs incurred in compiling the acquisition legal contracts and the performance of due diligence activity and amount to £281,000. These costs have been charged in distribution and administrative expenses in the consolidated income statement.

Sicomm, in common with other Chinese companies, has a 31 December calendar year end. In the eight months to 31 March 2017, Sicomm contributed revenue of £1,661,000 and net profit before taxation of £480,000. Had the acquisition taken place from the start of the Group's financial year (from 1 April 2016), and based on figures prior to CML control, management estimate that Sicomm would have contributed revenue of £2,235,000 and net profit before taxation of £569,000 to the Group results.

Notes to the financial statements continued
for the year ended 31 March 2017

35 Related party transactions
Transactions and balances with operating companies that were eliminated in the consolidation consist of:

Company	2017 £'000	2016 £'000
Management fees charged to subsidiary undertakings by parent:		
CML Microcircuits (UK) Ltd	**1,000**	1,000
CML Microcircuits (USA) Inc	**152**	134
Hyperstone GmbH	**209**	183
	1,361	1,317
Dividends paid to parent:		
Received from CML Microsystems Inc	**—**	199
Received from Hyperstone GmbH	**901**	1,098
Received from CML Microcircuits (Singapore) Pte Ltd	**288**	314
	1,189	1,611
Advances to subsidiary undertakings:		
CML Microcircuits (UK) Ltd	**(996)**	4,369
	(996)	4,369

The outstanding amounts at the current and comparative year end are unsecured.

Group	2017 £'000	2016 £'000
Inter group sales:		
CML Microcircuits (UK) Ltd:		
To CML Microcircuits (Singapore) Pte Ltd	**4,996**	4,034
To CML Microcircuits (USA) Inc	**2,542**	1,493
Hyperstone GmbH:		
To Hyperstone USA	**3,094**	3,043
To Hyperstone Asia Pacific Ltd	**4,688**	4,521
	15,320	13,091

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	2017 £'000	2016 £'000
Employee benefits	**910**	885
Pension contributions	**47**	45
Share-based payments	**19**	16
	976	946

36 Listings
CML Microsystems Plc ordinary shares are traded on the Official List of the London Stock Exchange and the Company is incorporated and domiciled in the United Kingdom.

37 Approval of financial statements
These financial statements were formally approved by the Board of Directors on 23 June 2017.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of CML Microsystems Plc (the "Company") will be held at Pontlands Park Hotel, West Hanningfield Road, Great Baddow, Chelmsford, Essex CM2 8HR on Wednesday 2 August 2017 at 11am to transact the following business:

Ordinary business
Ordinary resolutions

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

1. To receive and adopt the Group's consolidated financial statements and the reports of the Directors and auditor for the year ended 31 March 2017.
2. To receive and approve the Directors' remuneration report for the year ended 31 March 2017.
3. To declare a final dividend of 7.4p per 5p ordinary share for the year ended 31 March 2017 to be paid on 7 August 2017 to shareholders whose names appear on the register at the close of business on 7 July 2017.
4. To re-appoint H F Rudden, who retires by rotation, as a Director of the Company.
5. To re-appoint N G Clark, who retires by rotation, as a Director of the Company.
6. To re-appoint G F Barnes who was appointed to the Board as a Director of the Company on 1 April 2017.
7. To send or supply all documents or information relating to the Company to members by making them available on a website.
8. To re-appoint RSM UK Audit LLP as auditor of the Company.
9. To authorise the Directors to determine the remuneration of the auditor.

Special business
Ordinary resolution

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

10. That pursuant to Section 551 of the Companies Act 2006 (the "Act"), the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot Relevant Securities:
    a. comprising equity securities (as defined in Section 560(1) of the Act) up to an aggregate nominal amount of £562,011 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph b) of this resolution) in connection with a rights issue:
        i. to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and
        ii. to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and
    b. otherwise than pursuant to paragraph a) of this resolution, up to an aggregate nominal amount of £281,005 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph a) of this resolution in excess of £281,005, provided that (unless previously revoked, varied or renewed) these authorities shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the date which is 15 months after the date of the annual general meeting at which this resolution is passed (whichever is the earlier), save that, in each case, the Company may make an offer or agreement before the authority expires which would or might require Relevant Securities to be allotted after the authority expires and the Directors may allot Relevant Securities pursuant to any such offer or agreement as if the authority had not expired.

In this resolution, "Relevant Securities" means shares in the Company or rights to subscribe for or to convert any security into shares in the Company; a reference to the allotment of Relevant Securities includes the grant of such a right; and a reference to the nominal amount of a Relevant Security which is a right to subscribe for or to convert any security into shares in the Company is to the nominal amount of the shares which may be allotted pursuant to that right. These authorities are in substitution for all existing authorities under Section 551 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

Notice of Annual General Meeting continued

Special business continued

Special resolutions

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

11. That, subject to the passing of resolution 10 and pursuant to Sections 570 and 573 of the Companies Act 2006 (the "Act"), the Directors be and are generally empowered to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authorities granted by resolution 10 and to sell ordinary shares held by the Company as treasury shares for cash as if Section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited to:
   a. the allotment of equity securities or sale of treasury shares in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise, but, in the case of an allotment pursuant to the authority granted by paragraph a) of resolution 10, such power shall be limited to the allotment of equity securities in connection with a rights issue):
      i. to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and
      ii. to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary;
      iii. but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and
   b. the allotment of equity securities pursuant to the authority granted by paragraph b) of resolution 10 or sale of treasury shares (in each case, otherwise than pursuant to paragraph a) of this resolution) up to an aggregate nominal amount of £42,150, and (unless previously revoked, varied or renewed) this power shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the date which is 15 months after the date of the annual general meeting at which this resolution is passed (whichever is the earlier), save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted or treasury shares to be sold for cash after this power expires and the Directors may allot equity securities or sell treasury shares for cash pursuant to any such offer or agreement as if this power had not expired. This power is in substitution for all existing powers under Sections 570 and 573 of the Companies Act 2006 (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

12. Subject to resolution 10 being passed, and in addition to any authority granted under Resolution 11 to allot equity securities (pursuant to the 2006 Act) for cash under the authority given by that resolution, to authorise the Directors to allot equity securities (pursuant to Sections 570 and 573 of the 2006 Act) for cash under the authority given by resolution 10 and/or to sell treasury shares as if Section 561(1) of the 2006 Act did not apply to any such allotment or sale, provided that this power shall be:
   a. limited, in the case of the authority granted under paragraph a) of resolution 11 and/or in the case of any sale of treasury shares, to the allotment of equity securities or sale of treasury shares up to a nominal amount of £41,941 (being 4.99% of the Company's issued ordinary share capital, excluding treasury shares); and
   b. used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

   and (unless previously revoked, varied or renewed) this power shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the date which is 15 months after the date of the annual general meeting at which this resolution is passed (whichever is the earlier), save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted or treasury shares to be sold for cash after this power expires and the Directors may allot equity securities or sell treasury shares for cash pursuant to any such offer or agreement as if this power had not expired.

13. That, pursuant to Section 701 of the Companies Act 2006 (the "Act"), the Company be and is generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 5p each in the capital of the Company ("Shares"), provided that:
   a. the maximum aggregate number of Shares which may be purchased is 2,529,053;
   b. the minimum price (excluding expenses) which may be paid for a Share is 5p (being the nominal amount of a Share);
   c. the maximum price (excluding expenses) which may be paid for a Share is the higher of:
      i. an amount equal to 105% of the average of the middle market quotations for a Share as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately preceding the day on which the purchase is made; and
      ii. an amount equal to the higher of the price of the last independent trade of a Share and the highest current independent bid for a Share on the trading venue where the purchase is carried out;
   d. an ordinary share so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of applicable laws or regulations of the United Kingdom Listing Authority, held as a treasury share, and (unless previously revoked, varied or renewed) this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the date which is 15 months after the date of the annual general meeting at which this resolution is passed (whichever is the earlier), save that the Company may enter into a contract to purchase Shares before this authority expires under which such purchase will or may be completed or executed wholly or partly after this authority expires and may make a purchase of Shares pursuant to any such contract as if this authority had not expired.

By order of the Board

N B Pritchard
Company Secretary
23 June 2017

Registered office
Oval Park
Langford
Maldon
Essex CM9 6WG

Registered in England and Wales: 000944010

Notice of Annual General Meeting continued

1 Attending the AGM in person

If you wish to attend the AGM in person, you should arrive at the venue for the AGM in good time to allow your attendance to be registered. You must bring some form of identification as evidence of your identity prior to the Company's representatives allowing your admittance to the AGM.

2 Appointment of proxies

Members who are entitled to attend and vote at the AGM are entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent a member. To be validly appointed, a proxy must be appointed using the procedures set out in these notes and in the notes to the accompanying proxy form.

If a member wishes a proxy to speak on their behalf at the meeting, the member will need to appoint their own choice of proxy (not the Chairman of the AGM) and give their instructions directly to them. Such an appointment can be made using the proxy form accompanying this notice of AGM or through CREST.

Members can only appoint more than one proxy where each proxy is appointed to exercise rights attached to different shares. Members cannot appoint more than one proxy to exercise the rights attached to the same share(s). If a member wishes to appoint more than one proxy, they should contact Neville Registrars Limited, by writing to Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA.

A member may instruct their proxy to abstain from voting on a particular resolution to be considered at the meeting by marking the "Withheld" option in relation to that particular resolution when appointing their proxy. It should be noted that an abstention is not a vote in law and will not be counted in the calculation of the proportion of votes "for" or "against" the resolution.

The appointment of a proxy will not prevent a member from attending the AGM and voting in person if he or she wishes.

A person who is not a member of the Company but who has been nominated by a member to enjoy information rights does not have a right to appoint any proxies under the procedures set out in these notes and should read note 8 below.

To be entitled to attend and vote at the AGM (and for the purpose of determining the number of votes a member may cast), members must be entered on the Register of Members of the Company at 6pm on 31 July 2017.

3 Appointment of a proxy using a proxy form

A proxy form for use in connection with the AGM is enclosed. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post using the postal address on the form of proxy to the Company's Registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, or by hand by the Company at its registered office at CML Microsystems Plc, Oval Park, Langford, Maldon, Essex CM9 6WG, not later than 11am on 31 July 2017 or if the AGM is adjourned, at least 48 hours before the time of the adjourned meeting.

If you do not have a proxy form and believe that you should have one, or you require additional proxy forms, please contact the Company's Registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA.

4 Appointment of a proxy through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the following website: www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must in order to be valid, be transmitted so as to be received by the registrar (ID 7RA11) not later than 11am on Monday 31 July 2017 or if the AGM is adjourned at least 48 hours before the time of the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

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

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

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

5 Appointment of proxy by joint holders

In the case of joint holders, where more than one of the joint holders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

6 Corporate representatives

Any corporation which is a member can appoint one or more corporate representatives. Members can only appoint more than one corporate representative where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s).

7 Entitlement to attend and vote

To be entitled to attend and vote at the AGM (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6pm on Monday 31 July 2017 (or, if the AGM is adjourned, at 6pm on the day two days prior to the adjourned meeting). Changes to the Company's register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the AGM.

8 Nominated persons

Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 (the "2006 Act") to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

9 Website giving information regarding the AGM

Information regarding the AGM, including information required by Section 311A of the 2006 Act, is available from the Company's website www.cmlmicroplc.com.

10 Audit concerns

Members should note that it is possible that, pursuant to requests made by members of the Company under Section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the 2006 Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the 2006 Act to publish on a website. In order to be able to exercise the members rights to require the Company to publish audit concerns the relevant request must be made by (a) a member or members having a right to vote at the meeting and holding at least 5% of the voting rights of the Company or (b) at least 100 members having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital. For information on voting rights, including the total number of voting rights, see note 11 and the website referred to in note 9. Where a member or members wishes to request the Company to publish audit concerns such request must be made in accordance with one of the following ways (a) by hard copy request which is signed by a member, states their full name and address and is sent to CML Microsystems Plc, Oval Park, Langford, Maldon, Essex CM9 6WG or (b) a request which states the member's full name and address, and is sent to group@cmlmicroplc.com. Please state "AGM" in the subject line of the email.

11 Voting rights

As at 21 June 2017 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consisted of 16,863,419 ordinary shares, carrying one vote each. The Company holds 50,000 shares in treasury meaning the total voting rights in the Company as at 21 June 2017 were 16,813,419 votes.

12 Payment of dividend

It is proposed to pay the dividend, if approved, on 7 August 2017 to shareholders registered on 7 July 2017.

Notice of Annual General Meeting continued

13 Notification of shareholdings

Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the AGM as his proxy will need to ensure that both he, and his proxy, comply with their respective disclosure obligations under the UK Disclosure and Transparency Rules.

14 Further questions and communication

Under Section 319A of the 2006 Act, the Company must cause to be answered any question relating to the business being dealt with at the AGM put by a member attending the meeting unless answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, or the answer has already been given on a website in the form of an answer to a question, or it is undesirable in the interests of the Company or the good order of the meeting that the question be answered. Members who have any general queries about the AGM should contact the Company Secretary.

Members may not use any electronic address provided in this notice or in any related documents (including the accompanying document and proxy form) to communicate with the Company for any purpose other than those expressly stated.

15 Documents available for inspection

A copy of each of the Directors' service contracts or letter of appointment will be available for inspection at the registered office of the Company during normal business hours on each business day (Saturdays, Sundays and public holidays excepted) from the date of this notice and on the date of the AGM at Pontlands Park Hotel, West Hanningfield Road, Great Baddow, Chelmsford, Essex CM2 8HR from 10.30am until the conclusion thereof.

Five-year record

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Income statement					
Revenue (continuing operations)	**26,076**	22,833	21,804	24,394	24,648
Revenue (acquisition)	**1,661**	—	—	—	—
Revenue (discontinued operations)	**—**	—	—	282	590
Total revenue[1]	**27,737**	22,833	21,804	24,676	25,238
Gross profit[1]	**19,815**	16,253	15,465	17,882	17,564
Gross profit percentage[1]	**71.44%**	71.18%	70.93%	72.47%	69.59%
Profit before taxation[1]	**4,208**	3,324	3,178	5,792	5,071
Adjusted EBITDA[2]	**8,840**	6,970	6,698	8,729	7,875
Earnings per share[1]					
Basic	**23.09p**	18.03p	16.71p	29.96p	25.59p
Diluted	**22.84p**	17.94p	16.51p	29.20p	25.18p
Statement of financial position					
Shareholders' equity[1]	**37,635**	32,576	28,971	27,926	21,366
Dividend per ordinary share					
Dividend proposed/paid per 5p ordinary share[1]	**7.40p**	7.00p	6.90p	6.25p	5.50p

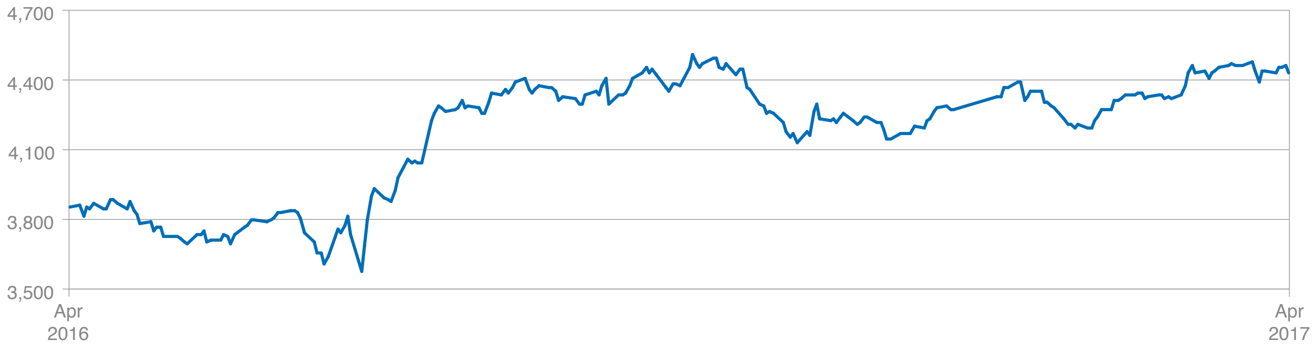
1. As reported in the years' Annual Report.
2. Adjusted EBITDA is defined as profit from operations before all interest, tax, depreciation and amortisation charges and before share-based payments.

	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
Issued 5p ordinary shares (including treasury shares)	**16,860,356**	16,256,537	16,256,537	15,960,027	15,872,598

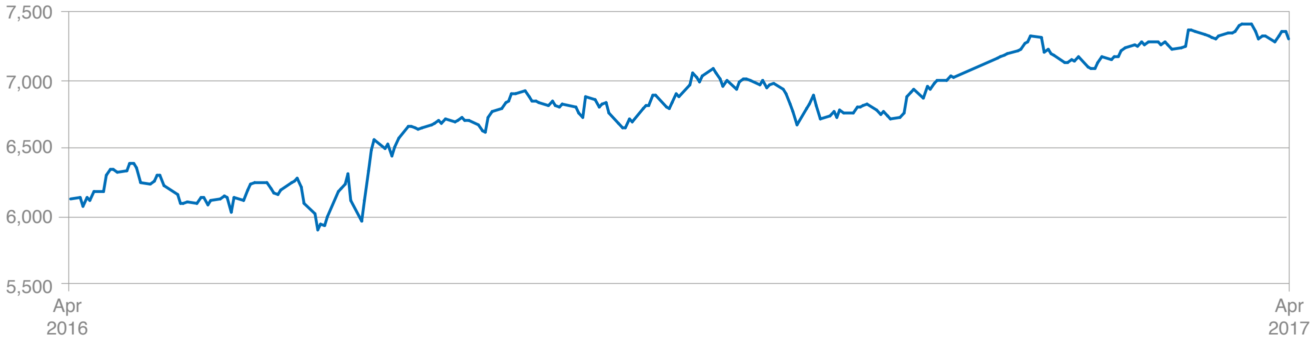
Shareholder information

CML Microsystems plc share price – for the year ended 31 March 2017

Techmark 100 Index – for the year ended 31 March 2017



FTSE 100 Index – for the year ended 31 March 2017



Financial calendar

2017

2 August	Annual General Meeting
30 September	Half-year end
21 November	Anticipated date for half-year results

2018

31 March	Year end
12 June	Anticipated date for preliminary announcement of year end 2018 results

Glossary

API	Application Programmers Interface
ASIC	Application-Specific Integrated Circuit
DMR	Digital Mobile Radio
DTR	Disclosure and Transparency Rules
EU	European Union
GAAP	Generally Accepted Accounting Practice
HDD	Hard Disk Drive
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IC	Integrated Circuit
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIoT	Industrial Internet of Things
IoT	Internet of Things
IP	Intellectual Property
M2M	Machine-to-Machine
MMC	Multimedia Card
NAND	Not And
OEM	Original Equipment Manufacturer
POS	Point-of-Sale
R&D	Research and Development
RF	Radio Frequency
RFID	Radio Frequency Identification
SATA	Serial ATA Interface
SCADA	Supervisory Control And Data Acquisition
SD card	Secure Digital Card
SSD	Solid State Drives
TSR	Total Shareholder Return
USB	Universal Serial Bus

Designed and produced by
lyonsbennett
www.lyonsbennett.com

CML Microsystems Plc

Visit us online at

cmlmicroplc.com

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