

THIS CIRCULAR AND ITS ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, fund manager, solicitor, accountant or other appropriate independent financial adviser duly authorised under the Financial Services and Markets Act 2000 ("FSMA") if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you sell or have sold or otherwise transferred all of your Ordinary Shares, please send this Circular and the Form of Proxy as soon as possible to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you sell or have sold or otherwise transferred part only of your holding of Ordinary Shares, please consult the bank, stockbroker or other agent through whom the sale or transfer was effected. However, neither this Circular nor the Form of Proxy should be forwarded to or sent in or into any jurisdiction in which to do so would constitute a breach of the relevant laws of such jurisdiction.

The distribution of this Circular and any accompanying documents into jurisdictions other than the United Kingdom may be restricted by law. Any person not in the United Kingdom into whose possession this Circular and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of such jurisdiction.



CML MICROSYSTEMS PLC

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

**Proposed Return of Capital to Shareholders of 50 pence per
Ordinary Share by way of a B Share Scheme**

**Circular to Shareholders
and
Notice of General Meeting**

This Circular should be read as a whole. Your attention is drawn to the letter from your Chairman which is set out in Part I of this Circular and which contains the recommendation of the Board that you vote in favour of the Resolution to be proposed at the General Meeting referred to below.

You should note that the B Share Scheme is conditional upon, among other things, the approval by Shareholders of the Resolution.

This Circular contains notice of a General Meeting of the Company to be held at Oval Park, Hatfield Road, Langford, Maldon, Essex, CM9 6WG at 10.00 a.m. on 18 March 2021. A Form of Proxy for use in connection with the Resolution to be proposed at the General Meeting is enclosed.

Whether or not you intend to attend the General Meeting in person, holders of Ordinary Shares are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it so as to be received by the Company's Registrar, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD, as soon as possible but, in any event, so as to arrive no later than 10.00 a.m. on 16 March 2021. Alternatively, holders of Ordinary Shares may appoint a proxy electronically through the CREST electronic proxy appointment service, by using the procedures described in the CREST manual and logging on to the following website: www.euroclear.com/CREST.

No application will be made to the FCA or to the London Stock Exchange for any of the B Shares to be admitted to the Official List or to trading on the London Stock Exchange's main market for listed securities, nor will the B Shares be listed or admitted to trading on any other recognised investment exchange. The B Shares will not be transferable, save in the very limited circumstances set out in paragraph (G) of Part III of this Circular.

The attention of Overseas Shareholders is drawn to paragraph 4 of Part II of this Circular.

No person has been authorised to give any information or make any representations other than those contained in this Circular and, if given or made, such information or representations must not be relied on as having been so authorised. The delivery of this Circular shall not, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this Circular or that the information in it is correct as at any subsequent time to its date.

The contents of this document are not to be construed as legal, business or tax advice. Each Shareholder should consult their own legal adviser, financial adviser or tax adviser for legal, financial or tax advice respectively.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of Forms of Proxy and CREST proxy instructions	10.00 a.m. on 16 March 2021
General Meeting	10.00 a.m. on 18 March 2021
Record Time	6.00 p.m. on 18 March 2021
Ordinary Shares marked as ex-rights	Start of trading on 19 March 2021
B Shares issued based on Ordinary Shares held at the Record Time	8.00 a.m. on 19 March 2021
Expected Redemption Date	6.00 p.m. on 19 March 2021
Expected redemption and cancellation of B Shares	19 March 2021
Despatch of payments and CREST accounts credited in respect of proceeds, if B Shares redeemed on 19 March 2021	26 March 2021

Notes:

- (1) If any of the above times or dates should change, the revised times and/or dates will be notified to Shareholders by an announcement through the Regulatory News Service of the London Stock Exchange.
- (2) References to time in this document are to London time.
- (3) All events in the above timetable following the holding of the General Meeting are conditional on the passing of the Resolution at such meeting.

PART I
LETTER FROM THE CHAIRMAN OF CML

Directors

Nigel Clark (*Group Chairman and Financial Director*)

Chris Gurry (*Group Managing Director*)

Hugh Rudden (*Group Sales and Marketing Director*)

Jim Lindop (*Independent Non-executive Director*)

Geoff Barnes (*Independent Non-executive Director*)

Registered Office

Oval Park

Hatfield Road

Langford, Maldon

Essex

CM9 6WG

Dear Shareholder

22 February 2021

**Proposed Return of Capital to Shareholders of 50 pence per Ordinary Share
by way of a B Share Scheme**

1. Introduction

On 5 February 2021, the Company announced that it had completed the Disposal of Hyperstone, the Group's storage division, to Swissbit, a specialist producer of industrial-grade data-storage and embedded IoT solutions, for US\$49 million in cash.

The Disposal reflects a strategic decision to refocus the Group exclusively on the larger global Communications market which the Board believes represents a high growth sector. The Disposal enables CML to direct all its efforts on capturing the exciting opportunities that exist and leverage its standing as a key supplier to many of the world's tier one original equipment manufacturers.

The sale of Hyperstone has resulted in a net cash injection of circa. £33m into the Group which, when added to the net cash balance sheet position that existed prior to the Disposal, leaves the business strongly placed to achieve its future growth objectives.

After giving due consideration to the ongoing needs of the Group, including the legal obligations to its pension fund, organic investment needs and the retention of capital to execute future acquisitions within the Communications sector, the Board believes it appropriate to arrange a return of capital to Shareholders.

From the proceeds of the Disposal, the Board proposes to return approximately £8.28 million in aggregate to Shareholders and has chosen to implement this as a return of capital through the issue of a new class of shares ("**B Shares**") which the Company will redeem for cash in order to return 50 pence per Ordinary Share to Shareholders (the "**B Share Scheme**").

The B Share Scheme is intended to enable all Shareholders to participate equally in the return and to provide capital treatment for most UK tax resident Shareholders. Redemption is expected to occur on or around 19 March 2021.

The purpose of this document is to provide Shareholders with further information relating to the B Share Scheme and to give notice of the General Meeting at which a Resolution will be considered

and, if thought fit, passed to allow the B Share Scheme to take place. This Circular also explains why the Board considers the Resolution to be proposed to be in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders vote in favour of the Resolution to be proposed at the General Meeting in order that the B Share Scheme can proceed.

2. The B Share Scheme

Under the terms of the B Share Scheme and assuming the Resolution is passed at the General Meeting, each Shareholder will receive one B Share for each Ordinary Share held at the Record Time. The return paid to Shareholders on the subsequent redemption of each B Share will be 50 pence, giving a cash return of 50 pence per Ordinary Share held at the Record Time.

The Company expects to redeem the B Shares on or around 19 March 2021 and for the proceeds to be paid to Shareholders approximately one week after the Redemption Date.

The B Shares will be a newly-created class of share and will not be transferable, save in the very limited circumstances set out in paragraph (G) of Part III of this Circular. The B Shares will not be admitted to the Official List, the London Stock Exchange's main market for listed securities or listed or admitted to trading on any other recognised investment exchange. The B Shares will be cancelled on redemption. Part II of this Circular sets out further details of the B Share Scheme and Part III of this Circular sets out the rights and restrictions attaching to the B Shares.

This structure should result in the majority of UK taxpayers receiving their cash proceeds on redemption of the B Shares as capital for taxation purposes. Part IV of this Circular sets out a summary of the potential tax consequences in the UK. Shareholders who are subject to taxation in a jurisdiction other than the UK or who are in any doubt as to their tax position should consult an appropriate independent and authorised professional adviser.

The return of capital under the B Share Scheme is separate from and will not affect the Company's dividend policy. Any future interim or final dividends declared by the Company will be in addition to the return of capital under the B Share Scheme.

3. Taxation

A guide to certain UK tax consequences of the B Share Scheme under current UK law and HM Revenue & Customs' practice is set out in Part IV of this Circular.

The tax consequences of the B Scheme may vary for Overseas Shareholders. Shareholders who are subject to taxation in a jurisdiction other than the UK or who are in any doubt as to their tax position should consult an appropriate independent and authorised professional adviser.

4. General Meeting

The return of capital by way of the B Share Scheme requires the approval of Shareholders to the Resolution to be proposed at the General Meeting. Accordingly, there is set out at the end of this

document a notice of the General Meeting to be held at 10.00 a.m. on 18 March 2021 at Oval Park, Hatfield Road, Langford, Maldon, Essex, CM9 6WG.

Further details of the Resolution to be proposed at the General Meeting can be found at paragraph 8 of Part II of this Circular.

5. Action to be taken

Enclosed with this Circular is a Form of Proxy for use by Shareholders in connection with the General Meeting. Shareholders should complete and return the Form of Proxy in accordance with the instructions printed on it as soon as possible and in any event so that it may be received by the Company's Registrars, Neville Registers Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD, by no later than 10.00 a.m. on 16 March 2021. Alternatively, holders of Ordinary Shares may appoint a proxy electronically through the CREST electronic proxy appointment service, by using the procedures described in the CREST manual and logging on to the following website: www.euroclear.com/CREST. Electronic proxy appointments must be received by no later than 10.00 a.m. on 16 March 2021. Further details of the electronic appointment methods are found in the notes to the notice of the General Meeting set out at the end of this document.

In light of the COVID-19 pandemic and the restrictions imposed by the UK government at the time of publication of the Notice of the General Meeting, the Company will convene the General Meeting with the minimum necessary quorum of two shareholders (members) (which the Company will facilitate), and further members will not be permitted to attend the General Meeting in person. However, member participation remains important to us and we would therefore strongly encourage members to participate in the General Meeting by voting by proxy.

6. Recommendation

The Board considers the B Share Scheme and the passing of the Resolution to be proposed at the General Meeting to be in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolution to be proposed at the General Meeting, as each director intends to do in respect of his own beneficial holdings.

Yours faithfully



Nigel Clark (*Group Chairman and Finance Director*)

PART II
DETAILS OF THE B SHARE SCHEME

1. B Share Scheme

The B Share Scheme is the way in which the Company proposes to effect the return of capital to Shareholders. This will involve the allotment and issue of bonus B Shares to Shareholders and the subsequent redemption of the B Shares by the Company.

The exact aggregate amount to be returned under the B Share Scheme will depend on the number of Ordinary Shares in issue at the Record Time. Based on the number of Ordinary Shares in issue as at close of business on 19 February 2021 (being the last practicable date prior to publication of this Circular), the aggregate amount to be returned under the B Share Scheme is approximately £8.28 million, or 50 pence per Ordinary Share.

2. Conditions to the implementation of the B Share Scheme

The B Share Scheme is conditional on approval by Shareholders of the Resolution to be proposed at the General Meeting and if this condition is not satisfied the B Share Scheme will not take effect.

3. Allotment, issue and redemption of B Shares

Each Shareholder will receive one B Share for each Ordinary Share held at the Record Time.

The Company will have the right to redeem each B Share for 50 pence without any further action from the holder of such B Share. The Company intends to redeem and then cancel each such B Share shortly following the issue of the B Shares.

The rights and restrictions attached to the B Shares are more fully set out in Part III of this Circular.

It is proposed that the Company will capitalise a sum of approximately £8.28 million standing to the credit of the Company's share premium account in order to pay up in full the B Shares with a nominal value of 50 pence each.

The exact number of B Shares to be issued will be equal to the number of Ordinary Shares in issue at the Record Time (excluding those held in treasury by the Company). As at close of business on 19 February 2021 (being the last practicable date prior to publication of this Circular) there were 17,190,152 Ordinary Shares in issue of which 638,467 were held in treasury by the Company, representing approximately 3.71 per cent of the Ordinary Share capital in issue as at 19 February 2021.

The B Shares will not be admitted to listing on the Official List or admitted to trading on the London Stock Exchange's main market for listed securities, nor will they be listed or admitted to trading on

any other recognised investment exchange. The B Shares will not be transferable, save in the very limited circumstances set out in paragraph (G) of Part III of this Circular.

No share certificates will be issued in respect of the B Shares.

The return of capital under the B Share Scheme is separate from and will not affect the Company's dividend policy. Any future interim or final dividends declared by the Company will be in addition to the return of capital under the B Share Scheme.

4. Overseas Shareholders

Shareholders who are not resident in the United Kingdom or who are citizens, residents or nationals of other countries should consult their professional advisers to ascertain whether the issue, holding, redemption or disposal of the B Shares will be subject to any restrictions or require compliance with any formalities imposed by the laws or regulations of, or any body or authority located in, the jurisdiction in which they are resident or to which they are subject. In particular, it is the responsibility of any Overseas Shareholder to satisfy itself as to full observance of the laws of each relevant jurisdiction in connection with the B Share Scheme, including the obtaining of any government, exchange control or other consents which may be required, or the compliance with other necessary formalities needing to be observed and the payment of any issue, transfer or other taxes or duties in such jurisdiction.

The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Neither this document nor any other document issued or to be issued by or on behalf of the Company in connection with the B Share Scheme constitutes an invitation, offer or other action on the part of the Company in any jurisdiction in which such invitation, offer or other action is unlawful.

5. CML Microsystems Plc Employee Share Schemes

Under the Group Employee Share Schemes, the Company has granted options over Ordinary Shares at varying exercise prices and with varying vesting dates. Participants under the Group Employee Share Schemes are not the beneficial owners of Ordinary Shares under those schemes (save where options are exercised before the Record Time) and so will not participate in the B Share Scheme, other than in their separate capacity as Shareholders (if applicable). Where a participant under the Group Employee Share Scheme has exercised an option before the Record Time, the participant will receive the B Shares in the same way as other Shareholders.

As at close of business on 19 February 2021 (being the last practicable date prior to publication of this Circular), the total number of unvested options under the Group Employee Share Schemes was 556,457. In aggregate, these outstanding options represented approximately 3.23 per cent of the issued Ordinary Shares of the Company.

6. Dealings and despatch of documents

The B Share Scheme will be carried out by reference to holdings of Ordinary Shares on the Company's register of members as at the Record Time.

No share certificates will be issued by the Company in respect of B Shares.

All cheques will be sent by post, at the risk of the Shareholder(s) entitled thereto, to the registered address of the relevant Shareholder (or, in the case of joint Shareholders, to the address of the joint Shareholder whose name stands first in the register of members in respect of such joint shareholding).

7. General Meeting

The General Meeting will be held at Oval Park, Hatfield Road, Langford, Maldon, Essex, CM9 6WG at 10.00 a.m. on 18 March 2021. A notice convening the General Meeting is set out at the end of this Circular.

Shareholders will find enclosed with this Circular a Form of Proxy for use at the General Meeting. Shareholders holding shares in CREST may appoint a proxy through a CREST Proxy Instruction.

Further details on proxy appointments and the action to be taken are set out in the Notice of General Meeting at the end of this Circular.

8. Summary of the Resolution to be proposed at the General Meeting

The Resolution will be proposed at the General Meeting as a special resolution, the passing of which requires at least 75 per cent of the votes cast (whether in person or by proxy) to be in favour.

A summary of the Resolution is set out below:

(a) To adopt new Articles of Association

The Resolution proposes the adoption of new Articles of Association in order to implement the B Share Scheme. The only changes made by the new Articles of Association will be:

- To remove the Company's memorandum of association.

Under the Act, with effect from 1 October 2009, the objects clause and all other provisions which are contained in a company's memorandum are deemed to be contained in the company's articles of association. The Companies Act 2006 also states that, unless a company's articles provide otherwise, the company's objects are unrestricted. This removes

the need for companies to have objects clauses. For this reason, the Company is proposing to remove its objects clause, together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, would otherwise be treated as forming part of the Articles of Association. One of the effects of this will be to remove the statement currently in the Company's memorandum regarding limited liability, so the new Articles of Association therefore also contain an express statement regarding the limited liability of Shareholders.

The Act also abolished the requirement for a company to have an authorised share capital, and the Articles of Association reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Act, save in respect of employees' share schemes or shares issued for non-cash consideration.

- To delete certain historic provisions that refer to the old Companies Act 1985:
 - The Act abolished the requirement for a company to have an authorised share capital and the new Articles of Association reflect this, by deleting Article 3. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.
 - Article 6 of the existing Articles of Association refers to provisions of the Companies Act 1985 that have since been superseded by the Act. Article 6 merely states the law as set out in the Act and it will therefore be deleted in the new Articles of Association.
- To insert into the Articles of Association the rights and restrictions attaching to the B Shares, as a new Article 7, as set out in Part III of this Circular.

The proposed new Articles of Association are available on the Company's website at www.cmlmicroplc.com.

(b) To approve the B Share Scheme

The Resolution proposes to authorise the Board to:

- (i) capitalise a sum not exceeding £8.6 million, standing to the credit of the Company's share premium account, to pay up in full the B Shares; and
- (ii) allot and issue B Shares up to an aggregate nominal amount of £8.6 million, on the basis of one B Share for each Ordinary Share (excluding Ordinary Shares held by the Company in treasury) held at the Record Time. This authority granted to the Directors will expire at the end of the next annual general meeting of the Company.

PART III

RIGHTS AND RESTRICTIONS ATTACHED TO THE B SHARES

The following sets out the rights of the B Shares and the restrictions to which they are subject. These are included in the revised Articles of Association proposed to be adopted at the General Meeting.

The following paragraphs will be inserted as a new Article 7 in the revised Articles of Association.

Please note that the defined terms in this Part III have been aligned with those in the Articles of Association and therefore defined terms used elsewhere in this Circular do not apply to this Part III.

7. Rights and Restrictions Attached to B Shares

(A) General

The redeemable preference shares of 50 pence each in the capital of the Company (the **"B Shares"**) shall have the rights, and be subject to the restrictions, attaching to those shares set out in these Articles save that in the event of a conflict between any provision in this Article 7 and any other provision in these Articles, the provisions in this Article 7 shall prevail.

(B) Income

Each B Share will carry a right to a fixed non-cumulative dividend of 1 per cent of its nominal value, payable annually in arrears on the anniversary of the B Share issuance (so long as the B Share remains in issue on that date).

(C) Capital

- (i) On a return of capital on a winding-up (excluding any intra-group reorganisation on a solvent basis), the holders of the B Shares shall be entitled, in priority to any payment to the holders of every other class of share in the capital of the Company, to 50 pence per B Share held by them.
- (ii) On a winding-up, the holders of the B Shares shall not be entitled to any further right of participation in the profits or assets of the Company in excess of that specified in Article 7(C)(i) above. In the event that there is a winding-up to which Article 7(C)(i) applies and the amounts available for payment are insufficient to pay the amounts due on all the B Shares in full, the holders of the B Shares shall be entitled to their *pro rata* proportion of the amounts to which they would otherwise be entitled.

- (iii) The aggregate entitlement of each holder of B Shares on a winding-up in respect of all the B Shares held by him shall be rounded down to the nearest whole penny.
- (iv) The holders of the B Shares shall not be entitled to any further right of participation in the profits or assets of the Company in their capacity as holders of B Shares.

(D) *Attendance and voting at general meetings*

The holders of the B Shares shall not be entitled, in their capacity as holders of such B Shares, to receive notice of any general meeting of the Company nor to attend, speak or vote at any such general meeting.

(E) *Class rights*

- (i) The Company may from time to time create, allot and issue further shares, whether ranking *pari passu* with or in priority or subsequent to the B Shares. The creation, allotment or issue of any such further shares (whether or not ranking in any respect in priority to the B Shares) shall be treated as being in accordance with the rights attaching to the B Shares and shall not involve a variation of such rights for any purpose or require the consent of the holders of the B Shares.
- (ii) A reduction by the Company of the capital paid up or credited as paid up on the B Shares and the cancellation of such shares shall be treated as being in accordance with the rights attaching to the B Shares and shall not involve a variation of such rights for any purpose or require the consent of the holders of the B Shares.
- (iii) Without prejudice to the generality of the foregoing, the Company is authorised to reduce (or purchase shares in) its capital of any class or classes and such reduction (or purchase) shall not involve a variation of any rights attaching to the B Shares for any purpose or require the consent of the holders of the B Shares.

(F) *Form*

The B Shares shall not be listed or traded on any stock exchange nor shall any share certificates be issued in respect of such shares.

(G) *Transfer*

The B Shares may not be transferred except to:

- (i) satisfy *bona fide* market claims in connection with trades of Ordinary Shares initiated on or before 6.00 p.m. on 18 March 2021 that have not settled as of such time;

- (ii) personal representatives upon the death of the holder or to any person entitled to the share on bankruptcy of the holder; or
- (iii) transfer the legal title in the share from one nominee to another, provided that there is no transfer of beneficial title to the share.

(H) *Redemption of B Shares*

Subject to the provisions of the Statutes and these Articles, the Company may elect, by notice issued through the Regulatory News Service of the London Stock Exchange, to redeem, out of the profits available for distribution, the B Shares as follows:

- (i) The B Shares may be redeemed at such time as the board may in its absolute discretion determine (the "**Redemption Date**").
- (ii) On redemption of a B Share on the Redemption Date, the Company shall be liable to pay 50 pence (the "**Redemption Amount**") to the holder of such B Share registered on the Company's relevant register at the Redemption Date. The Company's liability to pay to such holder the Redemption Amount for each such B Share shall be discharged by the Company by a payment to such holder of the Redemption Amount for each such B Share approximately 14 days after the Redemption Date.
- (iii) Neither the Company nor any of its directors, officers or employees shall have any liability to any person for any loss or damage arising as a result of the determination of the Redemption Date in accordance with Article 7(H)(i) above.
- (vii) All B Shares redeemed shall be cancelled and the Company shall not be entitled to re- issue them.

(I) *Deletion of Article 7 when no B Shares in existence*

Article 7 shall remain in force until there are no longer any B Shares in existence, notwithstanding any provision in these Articles to the contrary. Thereafter Article 7 shall be, and shall be deemed to be, of no effect (save to the extent that the provisions of Article 7 are referred to in other articles) and shall be deleted and replaced with the wording "Article 7 has been deleted", and the separate register for the holders of B Shares shall no longer be required to be maintained by the Company; but the validity of anything done under Article 7 before that date shall not otherwise be affected and any actions taken under Article 7 before that date shall be conclusive and not be open to challenge on any grounds whatsoever.

PART IV

UNITED KINGDOM TAXATION

The following comments are intended as a guide to United Kingdom law and HM Revenue & Customs published practice current as at the date of this Circular, both of which are subject to change (potentially with retrospective effect). They do not constitute, and should not be taken as, tax advice. They relate only to certain limited aspects of the United Kingdom taxation treatment of the B Share Scheme and are intended to apply only to Shareholders who are resident in the United Kingdom for United Kingdom tax purposes, who are and will be the absolute beneficial owners of their Ordinary Shares and B Shares and who hold, and will hold, them as investments (and not as securities to be realised in the course of a trade).

The comments may not apply to certain Shareholders, such as dealers in securities, insurance companies and collective investment schemes, Shareholders who are exempt from taxation and Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment. Such persons may be subject to special rules.

Shareholders should always seek their own advice from an appropriate independent and authorised professional if they are in any doubt as to their tax position.

1. Issue of B Shares

The following comments apply for the purposes of the taxation of capital gains and corporation tax on chargeable gains ("**CGT**").

The issue of the B Shares should constitute a tax-free reorganisation of the share capital of the Company. Accordingly:

- Shareholders receiving B Shares should not be treated as having made a disposal of all or any part of their holding of Ordinary Shares.
- A Shareholder's holding of B Shares should be treated as the same asset as that Shareholder's holding of Ordinary Shares and as having been acquired at the same time, and for the same consideration, as the holding of Ordinary Shares.

2. Redemption of the B Shares

Upon the redemption of the B Shares, a Shareholder's aggregate CGT base cost in its holding of Ordinary Shares will have to be apportioned between the B Shares and the Ordinary Shares by reference to their respective values on the first day on which the B Shares are issued.

The amount of capital gains tax, if any, payable by an individual Shareholder as a consequence of the redemption of the B Shares will depend on their own personal tax position. No tax will be payable on any gain realised on the redemption of the B Shares if the amount of the net chargeable gains realised by the Shareholder, when aggregated with other gains realised by that Shareholder in the year of assessment (and after taking account of allowable losses), does not exceed the annual exempt amount (£12,300 for 2020/21). Any gains in excess of this amount will be taxed at a rate of 10 per cent, or 20 per cent for higher rate and additional rate taxpayers at the time of issue of this document. Where the gains of a basic rate taxpayer subject to CGT exceed the unused part of their basic rate band, that excess is subject to tax at the 20 per cent rate.

A corporate Shareholder is normally subject to corporation tax on all of its chargeable gains, subject to any available reliefs and exemptions. Corporate Shareholders may be entitled to indexation allowance up to 31 December 2017 depending on when they acquired the asset.

The Finance Act 2015 enacted legislation which, broadly speaking, treats amounts paid on the redemption of shares as income in the hands of an individual shareholder (rather than a capital receipt) where shareholders are given a choice to elect for capital or income treatment. The Company is of the view that this legislation does not apply to the B Share Scheme on the basis that it does not permit Shareholders any such choice.

3. Stamp duty and stamp duty reserve tax ("SDRT")

No stamp duty or SDRT will arise on the issue or redemption of the B Shares.

DEFINITIONS

The following definitions apply throughout this Circular, unless the context requires otherwise and excluding Part III.

Act	the Companies Act 2006, as amended from time to time;
Articles of Association	the articles of association of the Company;
B Shares	the redeemable preference shares of 50 pence each in the capital of the Company carrying the rights and restrictions set out in Part III of this Circular;
B Share Scheme	the return of capital by way of payment of 50 pence per Ordinary Share to be effected by the allotment, issue and redemption of the B Shares;
Board	the board of directors of the Company;
Circular	this document;
Company	CML Microsystems Plc, of Oval Park, Hatfield Road, Langford, Maldon, Essex, CM9 6WG, a company incorporated in England and Wales with registered number 00944010;
CREST	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear UK & Ireland Limited is the operator (as defined in the CREST Regulations);
CREST Manual	the CREST manual issued by Euroclear UK & Ireland Limited;
CREST Proxy Instruction	the instruction whereby CREST members send a CREST message appointing a proxy for the General Meeting and instructing the proxy how to vote and containing the information set out in the CREST Manual;
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended;
CREST Member	a person who has been admitted by Euroclear UK & Ireland Limited as a system-member (as defined in the CREST

	Regulations);
Disposal	the sale by the Group of Hyperstone to Swissbit, for US\$49 million in cash;
Form of Proxy	the form of proxy enclosed with this Circular;
FSMA	the Financial Services and Markets Act 2000, as amended from time to time;
General Meeting	the general meeting of the Company to be held at 10.00 a.m. on 18 March 2021 at Oval Park, Hatfield Road, Langford, Maldon, Essex, CM9 6WG;
Group	the Company and its subsidiaries (as defined in the Act);
Group Employee Share Schemes	the 2000 approved share option scheme (as amended), the 2008 enterprise management incentive share option plan and the 2011 share option scheme of the Company;
Hyperstone	the Group's former storage division;
Listing Rules	the listing rules of made by the FCA under section 73A of FSMA;
London Stock Exchange	London Stock Exchange PLC;
Official List	the official list maintained by the FCA pursuant to Part VI of FSMA;
Ordinary Shares	ordinary shares of 5 pence each in the capital of the Company;
Overseas Shareholders	Shareholders who are not resident in the United Kingdom or who are citizens, residents or nationals of a country other than the United Kingdom or who have a registered address which is not in the United Kingdom. For the avoidance of doubt, Shareholders who are not resident in the United Kingdom include Shareholders who are resident in the Channel Islands or the Isle of Man;

Record Time	6.00 p.m. on 18 March 2021 (or such other time and date as the Directors may determine), being the record time for entitlement to receive the B Shares;
Redemption Date	has the meaning given in proposed Article 7(H)(i), as set out in Part III of this Circular;
Resolution	the resolution to be proposed at the General Meeting, as set out in the Notice of General Meeting;
Shareholder	holders of Ordinary Shares and, where the context so requires, holders of B Shares; and
Swissbit	Swissbit AG, a specialist producer of industrial-scale data-storage and embedded IoT solutions.

NOTICE OF GENERAL MEETING of



CML Microsystems Plc
(incorporated in England and Wales with registered number 00944010)

NOTICE IS HEREBY GIVEN that a **GENERAL MEETING** of CML Microsystems Plc (the "**Company**") will be held at Oval Park, Hatfield Road, Langford, Maldon, Essex CM9 6WG, at 10.00 a.m. on 18 March 2021 for the purpose of considering and, if thought fit, passing the following resolution as a special resolution.

THAT:

- (A) the draft articles of association produced to the meeting, marked "A" and signed by the Chairman of the meeting for identification purposes (the "**New Articles of Association**"), be and are hereby approved and adopted as the articles of association of the Company with effect from the passing of this resolution in substitution for, and to the exclusion of, all existing articles of association of the Company; and
- (B) the directors of the Company be and are hereby generally and unconditionally authorised:
 - (i) to capitalise a sum not exceeding £8.6 million standing to the credit of the Company's share premium account, and to apply such sum in paying up in full up to the maximum number of redeemable preference shares of 50 pence each in the capital of the Company carrying the rights and restrictions set out in Article 7 of the New Articles of Association (the "**B Shares**") that may be allotted to the holders of the ordinary shares of 5 pence each in the capital of the Company (the "**Ordinary Shares**") (excluding the Ordinary Shares held by the Company in treasury) pursuant to the authority given by sub-paragraph (B)(ii) below; and
 - (ii) pursuant to section 551 of the Companies Act 2006 (the "**Act**"), to exercise all powers of the Company to allot and issue credited as fully paid up B Shares up to an aggregate nominal amount of £8.6 million to the holders of Ordinary Shares on the basis of one B Share for every Ordinary Share (excluding Ordinary Shares held by the Company in treasury) held and recorded on the register of members of the Company at 6.00 p.m. on 18 March 2021 (or such other time and/or date as the directors may determine) (the "**Record Time**"), in accordance with the terms of the circular sent by the Company to its shareholders on 22 February 2021 and the

directors' determination as to the number of B Shares to be allotted and issued, provided that the authority hereby confirmed shall expire at the end of the next annual general meeting of the Company.

By Order of the Board



Nigel Clark

Group Chairman and Finance Director

22 February 2021

Shareholder Notes

1. Attending the General Meeting in person

In light of the COVID-19 pandemic and the restrictions imposed by the UK government at the time of publication of the Notice of the General Meeting, the Company will convene the General Meeting with the minimum necessary quorum of two shareholders (members) (which the Company will facilitate), and further members will not be permitted to attend the General Meeting in person.

However, member participation remains important to us and we would strongly encourage members to participate in the General Meeting by voting by proxy. Further details are set out below and within the Proxy Form.

The Company will include all valid proxy votes (whether submitted electronically or in hard copy form) in its polls at the General Meeting and the Chairman will call for a poll on the Resolution. The Company accordingly requests that members submit their proxy votes in respect of the Resolution as set out in the Notice of the General Meeting, electronically or by post in advance, in accordance with the instructions set out in the Notice of the General Meeting.

Members should submit their votes via proxy as early as possible (and by no later than 10.00 a.m. on 16 March 2021), and members are requested to appoint the Chairman as their proxy. If a member appoints someone else as their proxy, that proxy will not be able to attend the General Meeting in person or cast the member's vote.

2. Shareholder right to appoint a proxy

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

In light of the circumstances of the COVID-19 pandemic, if a member wishes a proxy to speak on their behalf at the meeting, the member will need to appoint the Chairman of the General Meeting as their proxy and give their instructions directly to them. Such an appointment can be made using the Proxy Form accompanying this notice of General Meeting or through CREST.

Members can usually 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). As noted above, members are requested to appoint the Chairman as their proxy this year. If a member appoints someone else as their proxy, that proxy will not be able to attend the General Meeting in person or cast the member's vote.

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

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

3. Appointment of a proxy using a Proxy Form

A Proxy Form for use in connection with the General Meeting is enclosed. To be valid, any Proxy Form or other instrument appointing a proxy, together with a 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 Proxy Form to the Company’s Registrars, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD, or by hand to the Company at its registered office at CML Microsystems Plc, Oval Park, Langford, Maldon, Essex, CM9 6WG, not later than 10.00 a.m. on 16 March 2021 or if the General Meeting is adjourned, at least 48 hours before the time of the adjourned meeting.

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

4. Appointment of a proxy through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so 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 specification, 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 10.00 a.m. on 16 March 2021 or if the General Meeting is adjourned at least 48 hours before the time 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 systems 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 Uncertified Securities Regulations 2001.

5. Appointment of a proxy by joint holders

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

6. Corporate representatives

Any corporation which is a member can appoint one or more corporate representatives. Members can only appoint more than one corporate representative where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s). Corporate representatives, are requested to appoint the Chairman to act as their proxy.

7. Entitled to attend and vote

To be entitled to attend (by proxy) and vote at the General Meeting (and for the purpose of determining the votes that may cast), members must be registered in the Company's Register of Members at 6.00 p.m. on 16 March 2021 (or if the General Meeting is adjourned, at 6.00 p.m. 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 General Meeting.

8. Nominated persons

Any person to whom this notice is sent who is a person nominated under Section 146 of the 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 proxy for the General Meeting. 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 General Meeting

Information regarding the General Meeting, including information required by Section 311A of the Act, is available from the Company’s website www.cmlmicroplc.com.

10. Voting Rights

As of 19 February 2021 (being the latest practicable date prior to the publication of this notice) the Company’s issued share capital consisted of 17,190,152 Ordinary Shares, carrying one vote each. The Company holds 638,467 Ordinary Shares in treasury meaning that the total voting rights in the Company as at 19 February 2021 were 16,551,685 votes.

Shareholders are able to vote in advance of the General Meeting using their Proxy Form.

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

At the General Meeting we will disclose the total of the proxy votes received, the proportion for and against the Resolution and the number of votes withheld. Votes withheld will not be counted in the calculation of the proportion of votes ‘for’ and ‘against’ a resolution. Voting results will be announced as soon as possible after the conclusion of the General Meeting will be published on our website.

11. Notification of shareholdings

Any person holding more than 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the General Meeting as his proxy will need to ensure that both he, and his proxy, comply with their respective disclosure obligations under the UK Disclosure and Transparency Rules. However, all members are requested to appoint the Chairman as their proxy. If a member appoints someone else as their proxy, that proxy will not be able to attend the General Meeting in person or cast the members’ vote.

12. Further questions and communications

Any member attending (by proxy) the meeting has the right to ask questions. Under Section 319A of the Act, the Company must cause to be answered any question relating to the business being dealt with at the General Meeting 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 if 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 General Meeting should contact the Company Secretary.

Members may not use any electronic address provided in this notice or in any related documents to communicate with the Company for any purpose other than those expressly stated.

13. Documents available for inspection

A copy of this Circular, including this Notice, and any other information required by section 311A of the 2006 Act, as well as the proposed new Articles of Association of the Company, will be displayed on the Company's website at www.cmlmicroplc.com from the date of this Notice until the conclusion of the Meeting and 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).