

MICRO-MECHANICS (HOLDINGS) LTD

Unaudited Second Quarter Financial Statements Announcement for the period ended 31/12/2017

PART I INFORMATION REQUIRED FOR ANNOUNCEMENTS OF FULL YEAR RESULTS

1(a) A statement of comprehensive income (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Note	Group					
		Q2			Half year		
		Oct to Dec 2017 S\$	Oct to Dec 2016 S\$	Change	Jul to Dec 2017 S\$	Jul to Dec 2016 S\$	Change
Revenue	(1)	15,649,498	14,181,744	10.3%	33,343,952	27,540,263	21.1%
Cost of sales	(2)	(6,866,011)	(6,322,434)	8.6%	(13,787,084)	(12,020,049)	14.7%
Gross profit		8,783,487	7,859,310	11.8%	19,556,868	15,520,214	26.0%
Other income	(3)	235,062	384,798	(38.9%)	362,847	667,665	(45.7%)
Distribution costs	(4)	(831,099)	(819,555)	1.4%	(1,658,715)	(1,555,411)	6.6%
Administrative expenses	(5)	(2,325,498)	(2,294,959)	1.3%	(4,856,630)	(4,236,074)	14.6%
Other operating expenses	(6)	(924,885)	(867,783)	6.6%	(1,771,298)	(1,630,358)	8.6%
Profit from operations		4,937,067	4,261,811	15.8%	11,633,072	8,766,036	32.7%
Finance costs		-	-	-	-	-	-
Profit before income tax	(7)	4,937,067	4,261,811	15.8%	11,633,072	8,766,036	32.7%
Income tax expense	(8)	(1,033,293)	(899,572)	14.9%	(2,558,308)	(2,023,309)	26.4%
Profit after tax		3,903,774	3,362,239	16.1%	9,074,764	6,742,727	34.6%
Non-controlling interests		-	-	-	-	-	-
Profit for the period		3,903,774	3,362,239	16.1%	9,074,764	6,742,727	34.6%
Statement of Comprehensive Income							
Profit for the period		3,903,774	3,362,239	16.1%	9,074,764	6,742,727	34.6%
Other comprehensive income:							
Foreign currency translation differences for foreign operations, net of tax		221,423	97,394	127.3%	280,592	(37,849)	(841.3%)
Total comprehensive income for the period		4,125,197	3,459,633	19.2%	9,355,356	6,704,878	39.5%

Notes:

- (1) Please refer to section 8 of this announcement for an analysis of the Group's revenue.
- (2) Cost of sales increased in line with the increase in sales. Production headcount increased from 313 in 2Q17 to 334 in 2Q18. Depreciation increased by S\$298k to S\$1.3 million in 2Q18 as compared to S\$961k in 2Q17 mainly due to the recongition of right-of-use assets in the current financial period. (See Note 9 below).

(3) Other income consists of:

	Q2			Half year		
	Oct to Dec 2017 S\$	Oct to Dec 2016 S\$	Change	Jul to Dec 2017 S\$	Jul to Dec 2016 S\$	Change
Gain on disposal of property, plant and equipment	118,947	55,829	113.1%	120,753	59,358	103.4%
Interest income	42,369	32,639	29.8%	81,747	68,248	19.8%
Rental income	28,821	28,600	0.8%	56,948	57,493	(0.9%)
Government grant – Skill Redevelopment and Capability Development Scheme	16,581	21,791	(23.9%)	38,104	35,117	8.5%
Exchange gain	-	197,049	(100.0%)	-	387,401	(100.0%)
Others	28,344	48,890	(42.0%)	65,295	60,048	8.7%

(4) Please refer to section 8 of this announcement for an analysis of the Group’s distribution expenses.

(5) Please refer to section 8 of this announcement for an analysis of the Group’s administrative expenses.

(6) Please refer to section 8 of this announcement for an analysis of the Group’s other operating expenses.

(7) Profit before income tax was arrived at after charging the following expenses:

	Q2			Half year		
	Oct to Dec 2017 S\$	Oct to Dec 2016 S\$	Change	Jul to Dec 2017 S\$	Jul to Dec 2016 S\$	Change
Depreciation of property, plant and equipment	1,189,275	1,107,556	7.4%	2,295,960	2,185,988	5.0%
Depreciation of right-of-use assets	274,686	-	n.m.	544,384	-	n.m.
Exchange loss	56,704	-	n.m.	59,165	-	n.m.
Interest expense	17,576	-	n.m.	41,668	-	n.m.
Inventory written off	25,916	19,060	36.0%	59,904	47,662	25.7%
Property, plant and equipment written off	52	1,432	(96.4%)	1,461	5,710	(74.4%)

n.m. - not meaningful

(8) The effective tax rate for 2Q18 was 20.9% as compared to 21.1% for 2Q17. Included in the tax expense for 1H18 was a provision of S\$334k made in relation to withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

(9) Depreciation expenses in 2Q18 increased by 32.2% to S\$1.5 million was due to additional machine purchased and the recongition of right-of-use assets related to the Group’s leases.

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Note	Group 31 Dec 17 S\$	Group 30 Jun 17 S\$	Company 31 Dec 17 S\$	Company 30 Jun 17 S\$
Non-current assets					
Property, plant and equipment		29,494,674	26,157,348	-	-
Right-of-use assets	(1)	1,390,280	-	-	-
Subsidiaries		-	-	18,364,744	18,364,744
Trade and other receivables		346,004	439,394	1,520,662	982,318
		31,230,958	26,596,742	19,885,406	19,347,062
Current assets					
Inventories		4,283,913	3,669,372	-	-
Trade and other receivables		12,252,958	11,906,718	3,384,130	2,191,763
Cash and cash equivalents		22,394,810	23,422,290	8,281,157	11,554,207
		38,931,681	38,998,380	11,665,287	13,745,970
Total assets		70,162,639	65,595,122	31,550,693	33,093,032
Shareholders' equity					
Share capital		14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve		(5,155,705)	(5,436,297)	-	-
Accumulated profits		47,547,839	45,424,669	16,229,357	17,961,838
		57,175,065	54,771,303	31,012,288	32,744,769
Non-current liabilities					
Deferred tax liabilities		1,636,802	1,406,658	334,476	-
Other payables & accrual	(1)	1,535,554	279,650	-	-
		3,172,356	1,686,308	334,476	-
Current liabilities					
Trade and other payables	(1)	8,018,936	7,810,579	199,739	343,311
Current tax payable		1,796,282	1,326,932	4,190	4,952
		9,815,218	9,137,511	203,929	348,263
Total liabilities		12,987,574	10,823,819	538,405	348,263
Total equity and liabilities		70,162,639	65,595,122	31,550,693	33,093,032

Notes:

- (1) Right-of-use assets related mainly to leases of various factories occupied by the Group and the recognition of the corresponding lease liabilities due to adoption of new accounting standard FRS116 Leases in the current financial year.

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less or on demand

As at 31 Dec 17		As at 30 June 17	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Amount repayable after one year

As at 31 Dec 17		As at 30 June 17	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Details of any collateral

Not applicable

1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Note	GROUP			
		Q2		Half year	
		Oct to Dec 2017 S\$	Oct to Dec 2016 S\$	Jul to Dec 2017 S\$	Jul to Dec 2016 S\$
Cash flows from operating activities					
Profit for the year		3,903,774	3,362,239	9,074,764	6,742,727
Adjustments for:					
Depreciation of property, plant and equipment and right-of-use assets		1,463,961	1,107,556	2,840,344	2,185,988
Property, plant and equipment written off		52	1,432	1,461	5,710
Gain on disposal of property, plant and equipment		(118,947)	(55,829)	(120,753)	(59,358)
Interest income		(42,369)	(32,639)	(81,747)	(68,248)
Interest expenses		17,576	-	41,668	-
Tax expenses		1,033,293	899,572	2,558,308	2,023,309
Operating profit before changes in working capital		6,257,340	5,282,331	14,314,045	10,830,128
Inventories		(424,275)	156,676	(617,026)	127,350
Trade and other receivables		3,125,513	(329,129)	(236,759)	(731,285)
Trade and other payables		(150,131)	838,689	280,141	618,054
Cash generated from operations		8,808,447	5,948,567	13,740,401	10,844,247
Income tax paid		(1,271,112)	(1,136,592)	(1,848,338)	(1,758,794)
Net cash from operating activities		7,537,335	4,811,975	11,892,063	9,085,453
Cash flows from investing activities					
Purchase of property, plant and equipment	(1)	(3,832,377)	(1,319,309)	(5,986,928)	(2,209,213)
Proceeds from disposal of property, plant and equipment		380,281	81,070	382,089	84,600
Interest received		44,121	3,409	86,192	67,212
Net cash used in investing activities		(3,407,975)	(1,234,830)	(5,518,647)	(2,057,401)
Cash flows from financing activities					
Leases paid		(276,643)	-	(552,308)	-
Dividends paid		(6,951,594)	(5,561,275)	(6,951,594)	(5,561,275)
Net cash used in financing activities		(7,228,237)	(5,561,275)	(7,503,902)	(5,561,275)
Net (decrease)/increase in cash and cash equivalents		(3,098,877)	(1,984,130)	(1,130,486)	1,466,777
Cash and cash equivalents at beginning of period		25,225,479	23,485,642	23,261,940	19,907,478
Effect of exchange rate fluctuations		103,708	(674,425)	98,856	(547,168)
Cash and cash equivalents at the end of period	(2)	22,230,310	20,827,087	22,230,310	20,827,087

Notes:

(1) The Group purchased approximately S\$2.9 million of equipment for its factories in Malaysia, the Philippines, China and the USA.

(2) Cash and cash equivalent is derived from:

	Group 31 Dec 17 S\$	Group 31 Dec 16 S\$
Cash and cash equivalent balances	22,394,810	20,988,287
Less: Pledged cash placed with bank	(164,500)	(161,200)
	22,230,310	20,827,087

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Share Capital S\$	Foreign Currency Translation Reserve S\$	Accumulated Profits S\$	Total S\$
The Group				
As at 1 July 2016	14,782,931	(4,934,067)	40,394,683	50,243,547
Total comprehensive income for the period				
Net profit for the period	-	-	6,742,727	6,742,727
Other comprehensive income				
Foreign currency translation differences, net of tax	-	(37,849)	-	(37,849)
Total comprehensive income for the period	-	(37,849)	6,742,727	6,704,878
Transactions with owners, recorded directly in equity				
Final dividend of 3 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2016	-	-	(5,561,275)	(5,561,275)
Total transactions with owners, recorded directly in equity	-	-	(5,561,275)	(5,561,275)
As at 31 December 2016	14,782,931	(4,971,916)	41,576,135	51,387,150
As at 1 July 2017	14,782,931	(5,436,297)	45,424,669	54,771,303
Total comprehensive income for the period				
Net profit for the period	-	-	9,074,764	9,074,764
Other comprehensive income				
Foreign currency translation differences, net of tax	-	280,592	-	280,592
Total comprehensive income for the period	-	280,592	9,074,764	9,355,356
Transactions with owners, recorded directly in equity				
Final dividend of 4 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2017	-	-	(6,951,594)	(6,951,594)
Total transactions with owners, recorded directly in equity	-	-	(6,951,594)	(6,951,594)
As at 31 December 2017	14,782,931	(5,155,705)	47,547,839	57,175,065

	Share Capital	Foreign Currency Translation Reserve	Accumulated Profits	Total
	S\$	S\$	S\$	S\$
The Company				
As at 1 July 2016	14,782,931	-	17,550,014	32,332,945
Total comprehensive income for the period				
Net profit for the period	-	-	3,188,350	3,188,350
Total comprehensive income for the period	-	-	3,188,350	3,188,350
Transactions with owners, recorded directly in equity				
Final dividend of 3 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2016	-	-	(5,561,275)	(5,561,275)
Total transactions with owners, recorded directly in equity	-	-	(5,561,275)	(5,561,275)
As at 31 December 2016	14,782,931	-	15,177,089	29,960,020
As at 1 July 2017	14,782,931	-	17,961,838	32,744,769
Total comprehensive income for the period				
Net profit for the period	-	-	5,219,113	5,219,113
Total comprehensive income for the period	-	-	5,219,113	5,219,113
Transactions with owners, recorded directly in equity				
Final dividend of 4 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2017	-	-	(6,951,594)	(6,951,594)
Total transactions with owners, recorded directly in equity	-	-	(6,951,594)	(6,951,594)
As at 31 December 2017	14,782,931	-	16,229,357	31,012,288

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Nil

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

The total number of shares were 139,031,881 ordinary shares as at both 31 December 2017 and 31 December 2016. The Company did not have any treasury shares as at the end of the current financial period or at the end of the immediately preceding year.

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the Group's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Except as disclosed in paragraph 5, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as compared to the most recent audited financial statements for the financial year ended 30 June 2017.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

The Group has early adopted FRS 115 Revenue from Contracts with Customers and FRS 116 Leases with a date of initial application of 1 July 2017.

FRS 115 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It supersedes existing revenue recognition guidance, including FRS 11 Construction Contracts, FRS 18 Revenue, INT FRS 113 Customer Loyalty Programmes, and INT FRS 115 Agreements for the Construction of Real Estate, INT FRS 118 Transfer of Assets from Customers and INT FRS 31 Revenue – Barter Transactions Involving Advertising Services.

For period ending 31 December 2017, there was no material impact on the results and financial position of the Group, arising from the adoption of FRS 115.

FRS 116 Leases eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. The lessee is required to recognize right-of-use (ROU) assets and lease liabilities for all leases with term of more than 12 months, unless the underlying asset is of low value. The lessor continues to classify its leases as operating leases or finance leases with more extensive disclosures. It supersedes existing lease accounting guidance, including FRS 17 Leases, INT FRS 104 Determining whether an Arrangement contains a Lease, INT FRS 15 Operating leases – incentives, and INT FRS27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Under FRS116, on 1 July 2017, operating factory leases were recognised as ROU assets with corresponding lease liabilities based on present value computed. For the period ending 31 December 2017, the Group recognised depreciation of ROU assets of S\$544k and interest expense on unwinding of lease liabilities amounting S\$42k was recorded in the income statement.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	GROUP			
	Q2		Half year	
	Oct to Dec 2017	Oct to Dec 2016	Jul to Dec 2017	Jul to Dec 2016
Earnings per ordinary share for the year based on net profit after tax and non-controlling interest:-				
(i) Based on weighted average number of ordinary shares in issue	2.81 cents	2.42 cents	6.53 cents	4.85 cents
(ii) On a fully diluted basis	2.81 cents	2.42 cents	6.53 cents	4.85 cents

The calculation is based on the weighted average number of shares in issue during the financial year. The weighted average number of shares outstanding during the year was 139,031,881 (31 December 2016: 139,031,881).

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-**
(a) current financial period reported on; and
(b) immediately preceding financial year.

	Group 31 Dec 17	Group 30 Jun 17	Company 31 Dec 17	Company 30 Jun 17
Net Asset Value per ordinary share (cents)	41.12	39.39	22.31	23.55

The net asset value per ordinary share is calculated based on net assets of S\$57.2 million (30 June 2017: S\$54.8 million) and 139,031,881 (30 June 2017: 139,031,881) shares in issue at the end of the current financial year reported on/immediately preceding financial year.

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**
(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

REVIEW OF PROFIT AND LOSS

Semiconductor Industry Review

Global semiconductor sales continued to grow at a fast pace during the second half of 2017. Based on statistics compiled by the Semiconductor Industry Association (SIA), worldwide chip sales during the five months from July to November 2017 increased 22.6% to US\$179.3 billion, compared to US\$146.2 billion in the corresponding period in 2016.

With chip sales notching up its highest-ever monthly sales of US\$37.7 billion in November 2017, the SIA said that the semiconductor industry is poised to reach US\$400 billion in annual sales for the first time. While global market growth continues to be led by sales of memory products, the SIA said sales of all other major semiconductor categories have also increased showing the breadth of the market's strength this year.

In its latest Semiconductor Market Forecast released on 28 November 2017, the World Semiconductor Trade Statistics (WSTS) said it now expects worldwide chip sales to reach a record US\$408.7 billion in 2017. This represents an increase of 20.6% which is the industry's largest growth year since 2010. The WSTS also projects that semiconductor sales will increase another 7% to US\$437 billion in 2018.

Group Revenue

		1Q	2Q	3Q	4Q	Full Year
REVENUE	FY2018	S\$17,694,454	S\$15,649,498	NA	NA	NA
	FY2017	S\$13,358,519	S\$14,181,744	S\$14,241,672	S\$15,447,730	S\$57,229,665
	% growth	32.5%	10.3%	NA	NA	NA

For the three months ended 31 December 2017 (2Q18), the Group's revenue increased 10.3% yoy to S\$15.6 million from S\$14.2 million in 2Q17. This was driven mainly by higher sales in Singapore, the Philippines, China and the USA. Group revenue in 2Q18 would have been higher if not for the translational impact of the depreciation of the US dollar and the Philippine Peso by 2.6% and 7.1% respectively against the Group's reporting currency in Singapore Dollars.

On a quarter-on-quarter (qoq) basis, Group revenue in 2Q18 decreased 11.6% from 1Q18 due mainly to lower sales to customers in Malaysia, China, Singapore, the Philippines and Taiwan.

For the six months ended 31 December 2017 (1H18), Group revenue increased 21.1% to S\$33.3 million from S\$27.5 million in the previous half-year period. This was due mainly to higher sales in Malaysia, Singapore, the Philippines, China and the USA.

Revenue breakdown by Geographical Market

Country	Group										
	1Q18 S\$	2Q18		2Q17		% change	1H18		1H17		% change
	S\$ m	%	S\$ m	%		S\$ m	%	S\$ m	%		
Singapore	1.7	1.3	9%	1.1	8%	24%	3.1	9%	2.0	8%	52%
Malaysia	3.5	2.9	19%	3.1	21%	(4%)	6.4	19%	6.1	22%	5%
Philippines	1.7	1.6	10%	1.2	9%	31%	3.3	10%	2.4	9%	34%
Thailand	0.3	0.3	2%	0.4	3%	(33%)	0.6	2%	0.8	3%	(28%)
China	5.2	4.1	26%	3.6	25%	14%	9.3	28%	7.1	26%	31%
USA	2.8	3.0	19%	2.2	16%	34%	5.7	17%	3.9	14%	45%
Europe	0.6	0.6	4%	0.6	4%	11%	1.2	4%	1.2	4%	8%
Japan	0.3	0.3	2%	0.3	2%	(1%)	0.6	2%	0.6	2%	3%
Taiwan	1.2	1.0	6%	1.2	9%	(21%)	2.2	7%	2.5	9%	(12%)
Rest of world	0.4	0.5	3%	0.5	3%	5%	0.9	2%	0.9	3%	5%
Total	17.7	15.6	100%	14.2	100%	10%	33.3	100%	27.5	100%	21%

In 2Q18, the Group witnessed improved yoy sales in Singapore, the Philippines, China, USA and Europe. Sales in China increased 14% to S\$4.1 million in 2Q18 and remained as our largest geographical market with a 26% contribution to Group revenue. Sales in the USA increased 34% to S\$3.0 million in 2Q18 to become our second largest market, accounting for 19% of Group revenue. Malaysia registered a marginal 4% sales decline to S\$2.9 million in 2Q18. Sales in Singapore increased 24% to S\$1.3 million while sales to customers in the Philippines grew 31% to S\$1.6 million.

Capacity Utilisation

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2018		64%	62%	NA	NA
FY2017		56%	56%	59%	62%	58%

Our average capacity utilisation rate increased to 62% in 2Q18 from 56% in 2Q17 in tandem with the increase in Group sales.

Gross Profit (GP) Margin

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2018		60.9%	56.1%	NA	NA
FY2017		57.3%	55.4%	57.4%	59.4%	57.4%

The Group's gross profit (GP) increased 11.8% to S\$8.8 million in 2Q18 as compared to S\$7.9 million in 2Q17. The Group's GP margin in 2Q18 improved to 56.1% from 55.4% in the same period a year ago.

Other income, Distribution Cost, Administrative Expenses and Other Operating Expenses

Admin, Distribution and Other Operating Expenses (net of other income)		1Q	2Q	3Q	4Q	Full Year
	FY2018		S\$4,077,376	S\$3,846,420	NA	NA
% of sales		23.0%	24.6%			
FY2017		S\$3,156,679	S\$3,597,499	S\$3,858,659	S\$3,752,277	S\$14,365,114
% of sales		23.6%	25.4%	27.1%	24.3%	25.1%

Other income in 2Q18 fell to S\$235k from S\$385k in 2Q17 due mainly to the absence of the exchange gain of S\$197k recorded in 2Q17. In addition to invoicing in various local currencies, the Group employs currency hedging to mitigate the possible effects of currency fluctuations.

We maintained tight control over our expense structure during 2Q18. Our distribution costs of S\$831k and administrative expenses of S\$2.3 million in 2Q18 were comparable to the year-ago period. In aggregate, our administrative, distribution and other operating expenses (inclusive of other income) in 2Q18 increased to S\$3.8 million from S\$3.6 million in 2Q17. As a percentage of Group sales, however, these overhead expenses decreased to 24.6% in 2Q18 from 25.4% in the same period a year ago.

Profit before Tax and Net Profit

		1Q	2Q	3Q	4Q	Full Year
Net Profit after tax	FY2018	S\$5,170,990	S\$3,903,774	NA	NA	NA
	FY2017	S\$3,380,488	S\$3,362,239	S\$3,464,162	S\$4,555,328	S\$14,762,217
	% growth	53.0%	16.1%	NA	NA	NA

As a result of the above, the Group recorded a 15.8% increase in profit before tax to S\$4.9 million in 2Q18 from S\$4.3 million in 2Q17. After deducting income tax of S\$1.0 million (S\$0.9 million in 2Q17), the Group reported a 16.1% increase in net profit to S\$3.9 million in 2Q18 from S\$3.4 million in 2Q17. Net profit margin in 2Q18 was 24.9% as compared to 23.7% in 2Q17 and 29.2% in 1Q18.

The effective tax rate for 2Q18 was 20.9% as compared to 21.1% for 2Q17. Tax expense for the quarter included a provision of S\$143k for withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

For 1H18, Group net profit increased 34.6% to S\$9.1 million from S\$6.7 million in 1H17. Net profit margin increased to 27.2% in 1H18 as compared to 24.5% in 1H17. Correspondingly, the Group's earnings per share grew to 6.53 cents in 1H18 from 4.85 cents in 1H17.

Dividend

The Board of Directors has declared the payment of an interim dividend of 4 cents per share (one-tier tax exempt) amounting to approximately S\$5.6 million, to be paid on 13 February 2018 to the shareholders on record as at 5 February 2018.

Balance Sheet

The Group remains in a sound financial position. As at 31 December 2017, we had a balance sheet with total assets of S\$70.2 million, shareholders' equity of S\$57.2 million, cash and cash equivalents of S\$22.4 million and no bank borrowings.

Long Term Assets

As at 31 December 2017, the Group's non-current assets increased to S\$31.2 million as compared to S\$26.6 million as at 30 June 2017. This was partly due to the recognition of right-of-use assets amounted to S\$1.4 million, in relation to the Group's various factories that it occupies, following the adoption of FRS116 Leases in the current financial year.

Trade Receivables

		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
Trade Receivables	FY2018	S\$13,623,255	S\$10,967,376	NA	NA
	≥ 90 days	2.2%	-	NA	NA
	Write-off	-	-	NA	NA
	FY2017	S\$9,298,863	S\$10,247,177	S\$10,153,208	S\$11,013,276
	≥ 90 days	0.8%	0.2%	0.2%	0.1%
	Write-off	-	-	-	-

Total trade receivables of S\$11.0 million as at 31 December 2017 was unchanged from 30 June 2017. Of this, there was no outstanding amounts for 90 days or more (0.1% at end of 30 June 2017). The Group also did not incur any bad debt expenses during 1H18 and 1H17.

Trade & Other Payables

As at 31 December 2017, our trade payables totaled S\$1.1 million, of which S\$12k was outstanding for 30 days or more. Non-trade payables totaled S\$2.4 million. Other accrued expenses stood at S\$6.1 million.

Long term liabilities

As at 31 December 2017, the Group's deferred tax liabilities totaled S\$1.6 million as compared to S\$1.4 million as at 30 June 2017. With the adoption of the new accounting standard FRS116 Leases at the beginning of the current financial period, the Group recorded lease liabilities of S\$1.2 million.

Inventory

As a percentage of annualised sales, our inventory of S\$4.3 million as at 31 December 2017 (S\$3.7 million as at 30 June 2017) was 6.4% (6.4% as at 30 June 2017). Inventory written off in 2Q18 totaled S\$26k (S\$19k in 2Q17).

Capital Expenditure

		1Q	2Q	3Q	4Q	Full Year
Capital Expenditure	FY2018	S\$2,154,551	S\$3,832,377	NA	NA	NA
	% of sales					
	FY2017	S\$889,904	S\$1,319,309	S\$227,880	S\$2,657,198	S\$5,094,291
	% of sales					8.9%

We had capital expenditure of S\$3.8 million in 2Q18 which was mainly in relation to new machines purchased for our factories in Malaysia, the Philippines, China and the USA. For 1H18, our capital expenditure amounted to S\$6.0 million. We expect to incur total capital expenditure of approximately S\$10.0 million during FY2018.

Cash Flow Analysis

The Group generated net cash from operations of S\$7.5 million in 2Q18 (S\$4.8 million in 2Q17). Net cash used for investing activities amounted to S\$3.4 million, which was mainly related to capital expenditure. After paying S\$7.0 million as final and special dividends for FY2017, we closed the period with a cash balance of S\$22.4 million including S\$0.2 million in pledged deposits.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

No forecast or prospect statement had been issued for the current financial reporting year. There is no material variance from our previous financial year commentary under Section 10.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Strategic, Operating and Financial Review

During 1H18, Group revenue increased 21.1% to reach a record of S\$33.3 million from S\$27.5 million during 1H17. The Group's profit before tax in 1H18 also hit a record of S\$11.6 million, an increase of 32.7% from S\$8.8 million in the same period a year ago. For 2Q18, Group revenue climbed 10.3% to S\$15.6 million from S\$14.2 million in the same quarter a year ago while profit before tax increased 15.8% to S\$4.9 million from S\$4.3 million in 2Q17.

While growing the Group's top line and the value we create for our customers remains a key priority, we have also been working tirelessly to enhance our manufacturing processes, productivity and cost structure by focusing on various strategies, such as *24/7Machining*, IT automation and department integration. Hence, in spite of ongoing selling price and cost pressures, our GP margin in 2Q18 improved slightly to 56.1% from 55.4% in 2Q17.

We are also continuing to work diligently to keep a tight rein on overhead expenses. Despite ongoing cost pressures, the Group's total distribution, administrative and other expenses including other income increased only

S\$0.2 million to S\$3.8 million in 2Q18 compared to 2Q17. As a result, our total overhead expenses as a percentage of sales, declined to 24.6% in 2Q18 from 25.4% in 2Q17.

After deducting taxes of S\$1.0 million (S\$0.9 million in 2Q17), the Group reported a net profit of S\$3.9 million in 2Q18, an increase of 16.1% from S\$3.4 million in the same quarter a year ago.

At the end of 1H18, the Group employed 482 great people. Compared with our year-on-year sales growth of more than 20% during 1H18, we added only 27 people or 5.8% to the 465 employees with the Group at the end of 1H17. As the Group grows, we plan to continue automating our operations, streamlining our processes and using technology to leverage the know-how and skills of our people.

With no bank borrowings to service and a careful watch over inventory and receivables, net cash generated from operating activities in 2Q18 totaled S\$7.5 million (S\$4.8 million for 2Q17). After net investing activities of S\$3.4 million primarily for new equipment and a dividend payment of S\$7.0 million, the Group ended the quarter in a strong financial position with S\$22.4 million in cash (including S\$0.2 million held as security deposits) and no bank borrowings.

Market, Industry and Competitive Conditions

On a short-term basis, business forecasting and planning will remain difficult. Visibility continues to be clouded by a host of political and economic uncertainties while continued unrest in various parts of the world coupled with rapid technological change and the effects of globalization make markets unpredictable, volatile and cost-competitive.

According to statistics compiled by the SIA, world-wide chip sales increased about 22.6% to US\$179.3 billion during the five months from July to November 2017, compared to US\$146.2 billion in the corresponding period in 2016. Based on the industry's strong growth, the WSTS recently revised its forecast for world-wide semiconductor sales growth during 2017 to 20.6% from its previous prediction of 17%.

We believe the semiconductor industry's robust growth during 2017 may indicate a prolonged period of stronger industry growth as chips become increasingly used in nearly every aspect of modern life. While this would be a welcome change from the sluggish industry conditions witnessed during 2016, the semiconductor industry is being increasingly driven by price-sensitive consumer applications. As such, we expect to see continued price and cycle-time pressures from our customers. Together with rising costs and a shortage of skilled workers, the operating environment for the Group is expected to remain challenging.

Key Operating Strategies

Although market and business conditions are continually changing, we understand what is required for the Group to sustain its growth over the long term. We will maintain our focus on our customers and the value we bring to their businesses. Whether we design and manufacture a tool for a delicate semiconductor assembly process or machine a part used in a critical wafer-processing application, our mission is to deliver *Perfect Parts and Tools, On Time, Every Time* based on repeatable, scalable and cost-effective processes.

At Micro-Mechanics, we are fond of saying that *People Make Everything Happen*. Dealing with relentless cost pressures, adapting to rapid change and implementing new initiatives to improve key outcomes requires an effective culture. We define this as *the way our people make decisions and work together*. To be successful over the long-term, it is essential for our people at all levels to understand, embrace and act in ways that are consistent with our vision, mission, goals, strategies and core values. We intend to keep learning how to better harness the enormous potential of every person at Micro-Mechanics to make better decisions, be more effective and thereby enhance the value we create for our customers and other stakeholders.

To support this aim, we began a training program several years ago called *MM University*. Beginning with a series of workshops on *Customer Value, Business Planning, 24/7 Machining*, and *The Fundamentals of Value-Driven Decision Making*, our initial goal was to help our people understand the need to have a shared framework for making more informed and aligned decisions.

During the last few years, we have learned that it takes more than a series of workshops to build an effective decision-making framework and culture. Additionally, the training material needs to be easy for our people at all levels to understand and reference in their daily work and decision making. To this end, we are working to compile a series of textbooks designed to clearly explain the fundamentals of how we are working to run the company.

During 3Q18, we will release the second edition of *24/7 Decision Making*TM. This enhanced version of our employee text book includes new training material on *Corporate Governance* which is our core methodology for guiding and controlling the Group. When practiced with understanding and commitment, we believe Corporate Governance is the nucleus of all of our many efforts to build long-term growth, profitability and stakeholder value.

In our latest version of *24/7 Decision Making*TM, we have also included additional training material on the importance of safeguarding confidential information, as well as simple best practices for everyone at Micro-Mechanics from the shop floor to the board room with respect to dealing in shares of the Company. Ultimately, we want everyone at Micro-Mechanics to have the tools they can refer to and use every day as they make decisions, take actions and help us build a great company.

Transparency, Governance and Corporate Awards

On 18 July 2017, the Group received two Gold Awards at the Singapore Corporate Awards (SCA) 2017 for *Best Managed Board* and *Best Investor Relations*. In the Singapore Governance and Transparency Index (SGTI) released on 2 August 2017, Micro-Mechanics received a score of 92 points to rank 19th out of 606 companies listed on the Singapore Exchange. The top 20 companies in the SGTI are mainly large capitalisation companies. In recognition of our efforts, the Group received a Special Commendation Award at the Singapore Governance and Transparency Forum 2017 on 1 August 2017.

At the 18th Investors' Choice Awards 2017 on 19 September 2017, the Group was also conferred the *Shareholder Communications Excellence Award (Small Cap) 2017*, *Singapore Corporate Governance Award (Small Cap) 2017* and *Singapore Corporate Governance Award (Information Technology) 2017* by Securities Investors Association Singapore.

Including these awards, the Group has received recognition 26 times for our good corporate governance and transparency practices since our listing in 2003.

Transparency and good governance are more than just ticking boxes. Indeed, accurate, complete and timely information is the foundation for sound decision making – not just for investors – but for everyone at Micro-Mechanics from the board room to the shop floor. We intend to continue working to build a strong corporate culture based on transparency, clear metrics of performance, stakeholder accountability and an unwavering commitment to good governance.

On 24 November 2017, Micro-Mechanics was also recognized as a winner of the *Singapore Productivity Awards (SPA) 2017* by the Singapore Business Federation (“SBF”). The SPA “*recognizes and celebrates organizations for their leadership and performance in their productivity journeys. Other than celebrating productivity excellence, the Award winners serve as important enterprise role models to spur the wider business community to transform and be more productive.*” This award encourages us to work even harder to live up to this greatly appreciated endorsement and inspiring goal.

Appreciation and Stakeholder Value

Since our listing we have also maintained a consistent practice of rewarding shareholders for their continuous support of Micro-Mechanics. For FY2017, the Group paid an interim dividend of 3 cents per ordinary share, a final dividend of 4 cents per ordinary share, and a special dividend of 1 cent per ordinary share. As a result, the total dividend payment for FY2017 increased to 8 cents per ordinary share compared to 6 cents per ordinary share for FY2016.

For the half year ended 31 December 2017, the Board is pleased to declare an interim dividend of 4 cents per ordinary share (one-tier tax exempt) which is to be paid on 13 February 2018. Including this interim dividend for 1H18, we will have distributed a total of 57.9 cents per share to our shareholders since 2003. Based on dividends alone, this translates into a return of more than 300% for our shareholders who bought Micro-Mechanics shares at our Initial Public Offer.

We would also like to express our appreciation to all of our people at Micro-Mechanics for their vision, teamwork and tireless commitment. Indeed, *People Make Everything Happen!*

We look forward to continue working together to build value for all our stakeholders.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

The Board of Directors has declared the payment of an interim dividend of 4 cents per ordinary share (one tier tax-exempt) amounting to approximately S\$5.6 million.

(b) Corresponding Period of the Immediately Preceding Financial Year

An interim dividend of 3 cents per ordinary share (one tier tax-exempt) was paid on 27 February 2017 in respect of FY2017.

(c) Date payable

The dividend payment will be made on 13 February 2018.

(d) Books closure date

Notice is hereby given that the Share Transfer Books and Register of Members of Micro-Mechanics (Holdings) Ltd. (the "Company") will be closed on 6 February 2018 for the preparation of dividend warrants.

Duly completed registrable transfers received by the Company's Share Registrar, M&C Services Private Limited, 112 Robinson Road, #05-01, Singapore 068902 up to 5:00 p.m. on 5 February 2018 will be registered to determine shareholders' entitlements to the said dividend.

Members whose Securities Accounts with the Central Depository (Pte) Limited are credited with shares at 5:00 p.m. on 5 February 2018 will be entitled to the proposed dividend.

12. If no dividend has been declared/recommended, a statement to that effect.

Not applicable

13. Interested Persons Transactions

The Group does not have a general mandate from shareholders for interested person transactions pursuant to Rule 920 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

For the financial period ended 31 December 2017, the Group has made rental payment of US\$180,000 (31 December 2016: US\$174,000) to Sarcadia LLC, a controlling shareholder of the Company and a family company set up by Mr. Christopher Reid Borch, the CEO of the Company.

Except for the above, there was no other interested person transaction relating to any director, controlling shareholders and their associates as defined in Chapter 9 of the Listing Manual.

14. Confirmation pursuant to Rule 705(5) of the Listing Manual

To the best of the Board of Directors' knowledge, nothing has come to their attention which may render the financial results of the Group and of the Company for the financial period ended 31 December 2017 to be false or misleading in any material aspect.

15. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).

The Company hereby confirms that it has procured undertakings from all its directors and executive officers under Rule 720(1) of the Listing Manual.

PART II ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

- 16. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.**

Not applicable

- 17. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.**

Not applicable

- 18. A breakdown of sales.**

Not applicable

- 19. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.**

Not applicable

- 20. Report of Persons Occupying Managerial Positions who are related to a Director, Chief Executive Officer or Substantial Shareholder**

Not applicable

BY ORDER OF THE BOARD

CHOW KAM WING
Company Secretary
27 January 2018