MICRO-MECHANICS (HOLDINGS) LTD

Unaudited First Quarter Financial Statements Announcement for the period ended 30/09/2017

PART I INFORMATION REQUIRED FOR ANNOUNCEMENTS OF FIRST QUARTER 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.

		Group (First Quarter) 3 months ended		
	Note	30 Sep 17 S$	30 Sep 16 S$	Change
Revenue	(1)	17,694,454	13,358,519	32.5%
Cost of sales	(2)	(6,921,073)	(5,697,615)	21.5%
Gross profit		**10,773,381**	**7,660,904**	40.6%
Other income	(3)	127,785	282,867	(54.8%)
Distribution costs	(4)	(827,616)	(735,856)	12.5%
Administrative expenses	(5)	(2,531,132)	(1,941,115)	30.4%
Other operating expenses	(6)	(846,413)	(762,575)	11.0%
Profit from operations		**6,696,005**	**4,504,225**	48.7%
Finance costs		-	-	-
Profit before income tax	(7)	**6,696,005**	**4,504,225**	48.7%
Income tax expense	(8)	(1,525,015)	(1,123,737)	35.7%
Profit after tax		**5,170,990**	**3,380,488**	53.0%
Non-controlling interests		-	-	-
Profit for the period		**5,170,990**	**3,380,488**	53.0%
Statement of Comprehensive Income				
Profit for the period		**5,170,990**	**3,380,488**	53.0%
Other comprehensive income: Foreign currency translation differences for foreign operations, net of tax		59,169	(135,243)	(143.8%)
Total comprehensive income for the period		**5,230,159**	**3,245,245**	**61.2%**

Notes:

(1) Please refer to section 8 of this announcement for an analysis of the Group's revenue.

(2) Cost of sales increased due to the increase in sales. Production headcount increased from 310 in 1Q17 to 329 in 1Q18. Depreciation increased by S$249k to S$1.4 million in 1Q18 compared to S$1.1 million in 1Q17. (See Note 9 below).

(3) Other income consists of:

	Group (First Quarter) 3 months ended		
	30 Sep 17 S$	**30 Sep 16 S$**	**Change**
Gain on disposal of property, plant and equipment	1,806	3,529	(48.8%)
Interest income	39,378	35,609	10.6%
Rental income	28,127	28,893	(2.7%)
Government grant –Wage Credit, and Capability Development Scheme	21,523	13,326	61.5%
Exchange gain	-	190,352	(100.0%)
Others	36,951	11,158	231.2%

(4) Please refer to section 8 of this announcement for an analysis of the Group's distrbution 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:

	Group (First Quarter) 3 months ended		
	30 Sep 17 S$	**30 Sep 16 S$**	**Change**
Depreciation of property, plant, equipment and right-of-use assets	1,376,383	1,078,432	27.6%
Exchange loss	2,461	-	n.m.
Interest expense	24,092	-	n.m.
Inventories written off	47,931	28,602	67.6%
Property, plant and equipment written off	1,409	4,278	(67.1%)

n.m: Not meaningful

(8) The effective tax rate for 1Q18 was 22.8% as compared to 24.9% for 1Q17. Included in the tax expense for the current quarter is a provision of S$191k for withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

(9) Depreciation expenses in 1Q18 increased by 27.6% to S$1.4 million due to additional machines purchased during FY2017 and right-of-use assets related to the Group's leases mainly on various factories it occupies.

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 30 Sep 17 S$	Group 30 Jun 17 S$	Company 30 Sep 17 S$	Company 30 Jun 17 S$
Non-current assets					
Property, plant and equipment		27,104,132	26,157,348	-	-
Right-of-use assets	(1)	1,667,416	-	-	-
Subsidiaries		-	-	18,364,744	18,364,744
Trade and other receivables		937,421	439,394	968,767	982,318
		29,708,969	26,596,742	19,333,511	19,347,062
Current assets					
Inventories		3,873,038	3,669,372	-	-
Trade and other receivables		14,775,818	11,906,718	1,576,735	2,191,763
Cash and cash equivalents		25,386,129	23,422,290	12,028,308	11,554,207
		44,034,985	38,998,380	13,605,043	13,745,970
Total assets		73,743,954	65,595,122	32,938,554	33,093,032
Shareholders' equity					
Share capital		14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve		(5,377,128)	(5,436,297)	-	-
Accumulated profits		50,595,659	45,424,669	17,548,225	17,961,838
		60,001,462	54,771,303	32,331,156	32,744,769
Non-current liabilities					
Deferred tax liabilities		1,592,193	1,406,658	190,730	-
Other payables & accruals	(1)	1,652,967	279,650	-	-
		3,245,160	1,686,308	190,730	-
Current liabilities					
Trade and other payables	(1)	8,406,165	7,810,579	411,716	343,311
Current tax payable		2,091,167	1,326,932	4,952	4,952
		10,497,332	9,137,511	416,668	348,263
Total liabilities		13,742,492	10,823,819	607,398	348,263
Total equity and liabilities		73,743,954	65,595,122	33,938,554	33,093,032

Notes:

(1) Right-of-use assets related mainly to leases on the various factories occupied by the Group and the recognition of the correponding lease liabilities as a result of the early 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 30 Sep 17		As at 30 Sep 16	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Amount repayable after one year

As at 30 Sep 17		As at 30 Sep 16	
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.

		Group (First Quarter) 3 months ended	
	Note	30 Sep 2017 S$	30 Sep 2016 S$
Cash flows from operating activities			
Profit for the year		5,170,990	3,380,488
Adjustments for:			
Depreciation of property, plant, equipment and right-of-use assets		1,376,383	1,078,432
Property, plant and equipment written off		1,409	4,278
Gain on disposal of property, plant and equipment		(1,806)	(3,529)
Interest income		(39,378)	(35,609)
Interest expenses		24,092	-
Tax expense		1,525,015	1,123,737
Operating profit before changes in working capital		8,056,705	5,547,797
Inventories		(192,751)	(29,326)
Trade and other receivables		(3,362,272)	(402,156)
Trade and other payables		430,272	(220,635)
Cash generated from operations		4,931,954	4,895,680
Income tax paid		(577,226)	(622,202)
Net cash from operating activities		4,354,728	4,273,478
Cash flows from investing activities			
Purchase of property, plant and equipment	(1)	(2,154,551)	(889,904)
Proceeds from disposal of property, plant and equipment		1,808	3,530
Interest received		42,071	63,803
Net cash used in investing activities		(2,110,672)	(822,571)
Cash flows from financing activities			
Leases paid		(275,665)	-
Dividends paid		-	-
Net cash used in financing activities		(275,665)	-
Net increase in cash and cash equivalents		1,968,391	3,450,907
Cash and cash equivalents at beginning of period		23,261,940	19,907,478
Effect of exchange rate fluctuations		(4,852)	127,257
Cash and cash equivalents at the end of period	(2)	25,225,479	23,485,642

Notes:

(1) The Group purchased approximately S$1.9 million of equipment for its factories in China, Malaysia and the Philippines.

(2) Cash and cash equivalents is derived from:

	Group 30 Sep 17 S$	Group 30 Sep 16 S$
Cash and cash equivalent balances	25,386,129	23,650,342
Less: Pledged cash placed with bank	(160,650)	(164,700)
	25,225,479	23,485,642

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:				
Profit for the period	-	-	3,380,488	3,380,488
Other comprehensive income:				
Foreign currency translation difference	-	(135,243)	-	(135,243)
Total comprehensive income for the period	-	(135,243)	3,380,488	3,245,245
As at 30 Sep 2016	**14,782,931**	**(5,069,310)**	**43,775,171**	**53,488,792**
As at 1 July 2017	14,782,931	(5,436,297)	45,424,669	54,771,303
Total comprehensive income for the period:				
Profit for the period	-	-	5,170,990	5,170,990
Other comprehensive income:				
Foreign currency translation difference	-	59,169	-	59,169
Total comprehensive income for the period	-	59,169	5,170,990	5,230,159
As at 30 Sep 2017	**14,782,931**	**(5,377,128)**	**50,595,659**	**60,001,462**

	Share Capital S$	Foreign Currency Translation Reserve S$	Accumulated Profits S$	Total S$
The Company				
As at 1 July 2016	14,782,931	-	17,550,014	32,332,945
Total comprehensive income for the period:				
Loss for the period	-	-	(135,610)	(135,610)
Total comprehensive income for the period	-	-	(135,610)	(135,610)
As at 30 Sep 2016	**14,782,931**	**-**	**17,414,404**	**32,197,335**
As at 1 July 2017	14,782,931	-	17,961,838	32,744,769
Total comprehensive income for the period:				
Loss for the period	-	-	(413,613)	(413,613)
Total comprehensive income for the period	-	-	(413,613)	(413,613)
As at 30 Sep 2017	**14,782,931**	**-**	**17,548,225**	**32,331,156**

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 30 September 2017 and 30 September 2016. The Company did not have any treasury shares as at the end of the current financial year or at the end of the immediately preceeding 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 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 compared with 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 30 September 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 30 September 2017, the Group recognised depreciation of ROU assets of S$267k and interest expense on unwinding of lease liabilities amounting S$24k 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 (First Quarter) 3 months ended	
	30 Sep 2017	30 Sep 2016
Earnings per ordinary share for the period based on net profit after tax and non-controlling interest:-		
(i) Based on weighted average number of ordinary shares in issue	3.72 cents	2.43 cents
(ii) On a fully diluted basis	3.72 cents	2.43 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 (30 Sep 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 30 Sep 17	Group 30 Jun 17	Company 30 Sep 17	Company 30 Jun 17
Net Asset Value per ordinary share (cents)	43.16	39.39	23.25	23.55

The net asset value per ordinary share is calculated based on net assets of S$60.0 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 currrent 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 into the second half of 2017. Based on statistics compiled by the Semiconductor Industry Association (SIA), worldwide chip sales in July and August 2017 increased 24% to US$68.6 billion, compared to US$55.3 billion during the same two-month period in 2016.

The SIA said chip sales in August increased year-on-year (yoy) for the thirteenth consecutive month to reach US$35 billion for the first time. The SIA said every major regional market and semiconductor product category posted gains on both a month-on-month and yoy basis with memory products continuing to be a major driver of overall market growth.

On 18 August 2017, the World Semiconductor Trade Statistics (WSTS) revised its annual semiconductor sales forecast for the third time this year. The WSTS now expects chip sales to grow 17.0% to US$397 billion in 2017 compared to its previous projection of 11.5%. It forecasts sales to rise another 4.3% to US$414 billion in 2018.

Group Revenue

REVENUE		1Q	2Q	3Q	4Q	Full Year
	FY2018	**S$17,694,454**	**NA**	**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%**	**NA**	**NA**	**NA**	**NA**

For the three months ended 30 September 2017 (1Q18), the Group's revenue grew 32.5% to achieve a quarterly record of S$17.7 million as compared to S$13.4 million in 1Q17. This was due to higher demand from customers across the Group's key geographical markets, reflecting the strong underlying growth of the global semiconductor industry since the beginning of 2017.

On a quarter-on-quarter (qoq) basis, Group revenue in 1Q18 increased 14.5% from S$15.4 million in 4Q17 due mainly to higher sales from customers in Malaysia and China.

Revenue breakdown by Geographical Market

Country	4Q17		1Q18		1Q17		% change
	S$ m	%	S$ m	%	S$ m	%	
Singapore	1.4	9%	1.7	10%	0.9	7%	86%
Malaysia	3.0	20%	3.5	20%	3.0	23%	14%
Philippines	1.4	9%	1.7	9%	1.2	9%	38%
Thailand	0.4	2%	0.3	2%	0.4	3%	(24%)
China	4.0	26%	5.2	29%	3.5	26%	48%
USA	2.8	18%	2.8	16%	1.7	13%	59%
Europe	0.5	3%	0.6	3%	0.6	4%	5%
Japan	0.2	2%	0.3	2%	0.3	2%	8%
Taiwan	1.3	8%	1.2	7%	1.3	10%	(4%)
Rest of world	0.4	3%	0.4	2%	0.5	3%	4%
	15.4	100%	17.7	100%	13.4	100%	33%

In 1Q18, the Group witnessed broad-based sales increases in all of our geographical markets except for Thailand and Taiwan. Sales in China increased by 48.1% to S$5.2 million and contributed 29.5% of the total Group's revenue to remain our largest market. Our second largest market in Malaysia saw sales increased by 14.3% to S$3.5 million and accounted for 19.5% of the Group's revenue.

Sales in the USA increased 58.5% to S$2.8 million and was our third largest market with a contribution of 15.6% to the Group's revenue. Sales to customers in Singapore increased by 85.6% to S$1.7 million while sales in the Philippines grew 38.0% to S$1.7 million.

Capacity Utilisation

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

Our average capacity utilisation rate increased to 64% in 1Q18 from 56% in 1Q17, in tandem with the increase in Group sales.

Gross Profit (GP) Margin

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

The Group's gross profit (GP) increased by 40.6% to S$10.8 million in 1Q18 which was a faster pace as compared to the 32.5% of revenue growth during the quarter.

As a result, our GP margin increased to 60.9% in 1Q18 as compared to 57.3% in 1Q17. This was due mainly to the increase in our capacity utilisation, as well as cost, productivity and cycle time improvements across our worldwide manufacturing operations.

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 % of sales	S$4,077,376 23.0%	NA	NA	NA	NA
	FY2017 % of sales	S$3,156,679 23.6%	S$3,597,499 25.4%	S$3,858,659 27.1%	S$3,752,277 24.3%	S$14,365,114 25.1%

Other income in 1Q18 decreased 54.8% to S$128k from S$283k in 1Q17. This was due mainly to the absence of foreign exchange gain of S$190k recorded in 1Q17. In addition to invoicing in various currencies, the Group uses currency hedging to mitigate the effect of currency fluctuations.

We continued to keep a tight rein on our expense structure during 1Q18. Distribution costs increased 12.5% to S$828k mainly due to higher commissions and sales incentives paid. Administrative expenses increased 30.4% to S$2.5 million from S$1.9 million due mainly to higher salary and related benefits as well as higher bonus incentive accruals. Included in the administrave expenses was interest expense on the unwinding of lease liabilities amounting S$24k. Other operating expenses increased 11.0% to S$846k.

In aggregate, our administrative, distribution and other operating expenses (inclusive of other income) in 1Q18 increased by 29.2% to S$4.1 million from S$3.2 million in 1Q17. However, as a percentage of Group sales, these overhead expenses decreased slightly to 23.0% in 1Q18 from 23.6% in the same period a year ago.

Profit before Tax and Net Profit

Net Profit after tax		1Q	2Q	3Q	4Q	Full Year
	FY2018	S$5,170,990	NA	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%	NA	NA	NA	NA

As a result of the above factors, the Group recorded a 48.7% increase in profit before tax to S$6.7 million in 1Q18 from S$4.5 million in 1Q17.

After deducting income tax of S$1.5 million (S$1.1 million in 1Q17), the Group reported its highest-ever quarterly net profit of S$5.2 million in 1Q18, an increase of 53.0% from S$3.4 million in 1Q17. The Group's net profit margin in 1Q18 improved to 29.2% as compared to 25.3% in 1Q17. Correspondingly, the Group's earnings per share increased to 3.72 cents in 1Q18 from 2.43 cents in 1Q17.

The effective tax rate for 1Q18 was 22.8% as compared to 24.9% for 1Q17. Tax expense for the quarter included a provision of S$191k for withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

Balance Sheet

As at 30 September 2017, the Group remained in a sound financial position with a balance sheet that had total assets of S$73.7 million, shareholders' equity of S$60.0 million, cash and cash equivalents of S$25.4 million and no bank borrowings.

Long Term Assets

As at 30 September 2017, non-current assets increased to S$29.7 million from S$26.6 million as at 30 June 2017. This was partly due to recognition of S$1.7 million of net right-of-use assets mainly from its various factories it occupies as a result of 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** **≥ 90 days** **Write-off**	**S$13,623,255** **2.2%** **-**	**NA**	**NA**	**NA**
	FY2017 **≥ 90 days** **Write-off**	**S$9,298,863** **0.8%** **-**	**S$10,247,177** **0.2%** **-**	**S$10,153,208** **0.2%** **-**	**S$11,013,276** **0.1%** **-**

Total trade receivables as at 30 September 2017 increased to S$13.6 million, as compared to S$11.0 million as at 30 June 2017. Of this, 2.2% was outstanding for 90 days or more (0.1% at end of 30 June 2017). There was no bad debt expense during 1Q18 and 1Q17.

Trade & Other Payables

As at 30 September 2017, our trade payables totaled S$1.4 million, of which S$53k was outstanding for 30 days or more. Non-trade payables totaled S$2.4 million. Other accrued expenses was S$4.6 million.

Long term liabilities

As at 30 September 2017, the deferred tax liabilities was S$1.6 million as compared to S$1.4 million as at 30 June 2017. The Group adopted the new accounting standard FRS116 Leases at the beginning of current financial period and recorded a lease liabilities of S$1.4 million.

Inventory

As a percentage of annualised sales, our inventory of S$3.9 million as at 30 September 2017 (S$3.7 million as at 30 June 2017) was 5.5% (6.4% as at 30 June 2017). Inventory written off in 1Q18 totaled S$48k, compared to S$29k in 1Q17.

Capital Expenditure

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

Our capital expenditure of S$2.2 million in 1Q18 included S$1.9 million for investments in new machines for our factories in China, Malaysia and the Philippines. For FY2018, we expect to incur capital expenditure of approximately S$10.0 million.

Cash Flow Analysis

The Group generated net cash from operations of S$4.4 million in 1Q18 (S$4.3 million in 1Q17). After deducting net investing activities of S$2.1 million, we ended the quarter with cash of S$25.4 million which includes 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.

During 1Q18, Group sales increased 32.5% to a quarterly record of S$17.7 million from S$13.4 million in 1Q17. 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 improve our GP margin by focusing on various strategies, such as *24/7 Machining,* IT automation and department integration to improve productivity and operational efficiency. Based on these and other efforts, our GP margin in 1Q18 increased to 60.9% from 57.3% in the same period a year ago.

We are also continuing to work diligently to keep a tight rein on overhead expenses. Although total distribution, administrative and other expenses including other income increased to S$4.1 million during 1Q18 from S$3.2 million in 1Q17 and S$3.8 million in 4Q17, as a percentage of sales these overhead expenses declined to 23.0% from 23.6% in 1Q17.

As a result, the Group's profit before tax increased 48.7% to S$6.7 million in 1Q18 from S$4.5 million in the same quarter a year ago. After deducting taxes of S$1.5 million (S$1.1 million in 1Q17), the Group reported a record quarterly net profit of S$5.2 million in 1Q18, an increase of 53% from S$3.4 million in 1Q17.

After making steady progress during FY2017 and closing its fourth quarter on a profitable note, the Group's plant in the USA registered a consecutive quarter of profit in 1Q18. We believe this encouraging performance supports our strategy to align the focus of our USA factory with the Group's core business of manufacturing process critical parts and tools for the semiconductor industry.

At the end of 1Q18, the Group employed 471 great people. Compared with our year-on-year sales growth of more than 30% during the quarter, we only added 20 people or 4.4% to the 451 employees with the Group at the end of 1Q17. 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 1Q18 totaled S$4.4 million (S$4.3 million for 1Q17). After net investing activities of S$2.2 million primarily for new equipment, the Group ended the quarter in a strong financial position with S$25.4 million in cash (including S$161k 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 20.5% during the eight-month period from January through August 2017. Based on the industry's strong growth, the WSTS recently revised its forecast for world-wide semiconductor sales growth during 2017 to 17% from its previous prediction of 11.5%.

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*, *24/7Machining*, 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. 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 and Governance

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.

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 the half year ended 31 December 2016, the Group paid an interim dividend of 3 cents per ordinary share (one-tier tax exempt). Subject to approval at the upcoming Annual General Meeting on 30 October 2017, we plan to distribute a final dividend of 4 cents and a special dividend of 1 cent per ordinary share. This will bring the total dividend payment for FY2017 to 8 cents per ordinary share compared with 6 cents per ordinary share for FY2016.

Including the proposed final dividend and special dividend, we will have distributed a total of 53.9 cents per share to our shareholders since 2003. Based on dividends alone, this translates into a return of nearly 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?

Nil

(b) Corresponding Period of the Immediately Preceding Financial Year

Nil.

(c) Date payable

Nil

(d) Books closure date

Nil

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 quarter ended 30 September 2017, the Group has made rental payment of US$90,000 (30 September 2016: US$87,000) 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 30 September 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
30 October 2017