



FINANCIAL YEAR 2018 ANNUAL REPORT

◆ CORPORATE PROFILE

Micro-Mechanics designs, manufactures and markets high precision parts and tools used in process-critical applications for the wafer-fabrication and assembly processes of the semiconductor industry.

Beginning in 1983 with a small factory in Singapore, the Group has grown steadily to become a publicly-listed corporation with a global presence. Today, Micro-Mechanics serves a worldwide base of customers from five manufacturing facilities located in Singapore, Malaysia, China, the Philippines and the USA, and a direct sales presence in Taiwan and Europe.

The Group's strategy is to relentlessly pursue product and operational improvements while providing fast, effective and local support to its customers worldwide.

In addition to designing and manufacturing a market-leading range of consumable tools and parts used in the assembly and testing of semiconductors, the Group also engages in the contract manufacturing of precision parts and tools used in process-critical applications for the semiconductor wafer-fabrication industry.

Since listing on the Singapore Exchange in June 2003, Micro-Mechanics has received 27 awards in recognition of its high standards of corporate governance, quality of disclosure, transparency and investor relations. The Group has also received productivity awards for its continuing efforts to improve the efficiency and productivity of its operations.

◆ MISSION STATEMENT

Our mission is to provide our customers with "*Perfect Parts and Tools, On Time, Every Time*", based on scalable, repeatable and cost-effective manufacturing processes.

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CHAIRMAN'S STATEMENT

Dear stakeholders,

On behalf of our Board of Directors, I am pleased to report that Micro-Mechanics delivered another set of record results for its financial year ended 30 June 2018 ("FY2018") as the Group's net profit improved 16.1% to S\$17.1 million on revenue growth of 13.8% to S\$65.1 million.

In the following pages of this Annual Report, our Executive Management has provided a clear and detailed review of the Group's financial and operational performance in FY2018 as well as an outline of our key operating strategies.

In line with Micro-Mechanics' long-held practice of rewarding shareholders, we intend to share the Group's better performance by making a higher dividend payment for FY2018. Subject to approval at the upcoming Annual General Meeting on 29 October 2018, we will distribute a final dividend of 5.0 cents per share and a special dividend of 1.0 cent per share on 20 November 2018. Together with the interim dividend of 4.0 cents per share, this will result in our total dividend payout for FY2018 increasing to 10.0 cents per share, compared to 8.0 cents per share for FY2017.

We are especially pleased this year that our Founder and CEO, Christopher Borch, received recognition at the Singapore Corporate Awards in July 2018 when he was honoured to receive the Best CEO Award (for the category of companies with market capitalisation up to S\$300 million). Including this award, the Group has received 27 awards since our listing in 2003 recognising our efforts to establish good corporate governance, transparency and investor relations practices.

Micro-Mechanics also continues to score well in the Singapore Governance and Transparency Index (SGTI) which is the leading index for assessing corporate governance practices of Singapore-listed companies. In the latest SGTI released on 7 August 2018, Micro-Mechanics received a score of 97 points to rank 23rd out of 589 listed companies (excluding 43 REITS and Business Trusts). This is a significant achievement as the top 25 companies in the SGTI are mainly large capitalisation companies.

We are grateful for these corporate accolades. They are encouraging and recognition of the Group helps everyone at Micro-Mechanics to see governance not as a tedious compliance task or box-ticking but as part of an indispensable methodology for building and safeguarding stakeholder value.

We shall continue to strive for even higher standards across all levels of the Group. Building a strong corporate culture based on transparency, clear metrics of performance, stakeholder accountability and an unwavering commitment to good governance will assist much in the Board's overarching endeavour of creating and protecting shareholder value, fair dealing with all our stakeholders and being a good corporate citizen with sustainable practices.

We would like to thank everyone at Micro-Mechanics, from the shop floor to the Board room, for working tirelessly to implement not just the *letter* but the *spirit* of good governance with sound structures, repeatable processes and reporting that is accurate, complete and timely.

In closing, I would like to thank my fellow directors for their sound judgement, practical advice and hard work. On behalf of the Board, I would like to express our appreciation to all our people for their commitment, efforts and invaluable contributions. We also wish to thank our customers, business partners and suppliers for their continued support and patronage of Micro-Mechanics.

We look forward to continue working together to build a wonderful organisation.

Sumitri Menon
Independent Non-Executive Chairman

EXECUTIVE MANAGEMENT REPORT

To all our stakeholders,

Micro-Mechanics delivered another record financial performance for the 12 months ended 30 June 2018 ("FY2018") as our Group's net profit improved 16.1% to S\$17.1 million on the back of 13.8% growth in revenue to S\$65.1 million.

During FY2018, the Group witnessed higher sales in our major geographical markets, particularly in China, the USA and the Philippines. As China continues to develop into a major center for global chip manufacturing, we remain focused on strengthening our operations in Suzhou to ensure fast, effective and local support to customers. As a result of these efforts, we have benefited from multi-year sales growth in China.

Sales in China increased 21% to S\$18.0 million in FY2018 to remain as the Group's largest market and accounted for 27% of revenue. Sales in the USA jumped 33% to S\$12.2 million. At 19% of Group revenue, the USA has overtaken Malaysia's contribution of 18% to become the Group's second-largest market. Together with the Philippines (10%), Singapore (8%) and Taiwan (7%), these six countries represent nearly 90% of the Group's business. With factories in China, the USA, Malaysia, the Philippines, Singapore and a sales office in Taiwan, the Group is well-positioned to provide fast, effective and local support to our customers in these major market areas.

While growing the Group's top line and the value we create for our customers remain key priorities, we have also been working tirelessly to maintain a strong gross profit (GP) margin by focusing on various strategies, such as *24/7 Machining*, IT automation and department integration to improve our efficiency and operational effectiveness. In spite of ongoing cost pressures, these and other efforts enabled us to hold our GP margin relatively steady at 57.0% in FY2018.

We also continue to work diligently to keep a tight rein on our overhead expense structure. In FY2018, the Group's total distribution, administrative and other expenses, including other income increased by just 6.1% to S\$15.2 million. When measured as a percentage of sales, our overhead expenses declined to 23.4% as compared to 25.1% in FY2017.

Our improvement initiatives have also allowed the Group to maintain a lean manpower structure. Although we added 19 people to end FY2018 with a headcount of 485, these new personnel were mainly in non-supervisory and production roles aimed at strengthening our core manufacturing and delivery responsiveness. As we move forward, we intend to continue automating our operations and enhancing our processes.

At the beginning of FY2017, we announced the cessation of our efforts at the Group's subsidiary in the USA ("MMUS") to make parts for equipment makers in a variety of industries. After evaluating the engineering and investment requirements for success in each of these different market segments, and after making promising inroads with several leading makers of semiconductor wafer-fabrication equipment, we decided to align our efforts at MMUS with the Group's core business of manufacturing process critical parts and tools primarily for the semiconductor industry.

During FY2018, MMUS increased its sales by 29.6% to S\$12.3 million and posted a net profit of S\$0.5 million compared to a loss of S\$0.6 million in FY2017. With these encouraging results, growing customer engagement and positive long-term outlook for the semiconductor industry, we believe our strategy of focusing the Group's five plants on the semiconductor industry is the right approach.

As we move into FY2019, the Group remains in a strong financial position. We had total assets of S\$73.3 million, shareholders' equity of S\$60.3 million, cash and cash equivalents of S\$21.1 million and no bank borrowings at the end of FY2018.

Although the chip industry has continued growing strongly into 2018 with worldwide sales up 20.4% in the first six months, the World Semiconductor Trade Statistics expects the industry's growth to moderate to about 12.4% for the year 2018. This implies a much slower growth rate of 4% to 5% in the second half of the year.

Because the tools and parts we manufacture are typically purchased by our customers well before the sale of the finished chip is recorded, the Group's revenue growth generally tends to reflect the future direction of the

semiconductor industry. Indeed, our top line growth in 4Q18 slowed to 1.5% compared to 4Q17, which is in line with the industry projections for slower growth in the second half of 2018.

As such cyclicalities is typical for the semiconductor industry, our approach is to focus on its long-term trends and not get preoccupied by short-term variations. We continue to believe the semiconductor industry is poised for a prolonged period of solid growth as chips are becoming increasingly embedded in nearly every aspect of modern life, from today's smart phones to tomorrow's driverless cars. Hence, the key to the Group's success lies in our continuing ability to seize long-term opportunities and correctly identify the initiatives and investments that bring value to our customers.

During FY2018, we invested a record S\$10.6 million for new equipment to increase the manufacturing capacity and capabilities of our factories. Because the time to specify, order and qualify new equipment can easily stretch beyond a year, it can also be difficult to align our investments to short-term industry conditions. For example, our net profit in 4Q18 fell S\$0.6 million to S\$4.0 million, which included S\$0.5 million of additional depreciation expenses, compared to the same quarter a year ago. For FY2019, we expect to incur capital expenditure of about S\$6 million.

At the same time, we are always working to develop new materials and processes based on the long-term needs of our customers for greater precision, repeatability and reliability. For example, in 4Q18, our engineers in California completed the development of a critical part used in the wafer-fabrication process while our R&D team in Singapore produced several proprietary materials we believe are essential to the industry at 10 nanometer and below device geometries. Both of these engineering efforts involved more than 18 months of difficult and costly engineering work.

While we will begin to register revenue from this initiative during 1Q19, we believe that this pattern of longer and more costly development cycles is becoming the norm as the semiconductor industry moves below 10 nanometer device geometries and into increasingly difficult processing

methods. Although the landscape is more challenging due to the ever-changing nature and increasingly stringent demands of the semiconductor industry, we believe these requirements play well to our technical, financial and managerial strengths and our focus on building stakeholder value that is sustainable.

While short-term business planning and forecasting remains difficult and continues to be clouded by a host of political and economic uncertainties, we understand what is required for the Group to sustain its growth over the long term. We intend to maintain our focus on 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, the Group's mission is clear: To deliver *Perfect Parts and Tools, On Time, Every Time* based on repeatable, scalable and cost-effective processes.

Appreciation

In closing, we would like to express our appreciation to all of our people at Micro-Mechanics for their vision, teamwork and tireless commitment. Indeed, as we are fond of saying: *People Make Everything Happen!*

We look forward to continuing our work to build value for all our stakeholders.

Christopher Reid Borch

Chief Executive Officer

Low Ming Wah

Chief Operating Officer

Chow Kam Wing

Chief Financial Officer

AWARDS AND ACCOLADES



Since becoming a public company in 2003, Micro-Mechanics has received consistent recognition for our efforts to practice sound corporate governance and transparency.

Our CEO, Christopher Borch, received the *Best CEO Award* at the Singapore Corporate Awards 2018 for the category of companies with market capitalisation up to S\$300 million. In the SGTI 2018, Micro-Mechanics achieved a score of 97 points to rank 23rd out of 589 companies (excluding Reits and Business Trusts) listed on the Singapore Exchange.

The Group has an Investor Relations policy which can be found in the Corporate Governance section of this Annual Report.

SINGAPORE CORPORATE AWARDS

2018	Best CEO Award
2017	Gold Award – Best Managed Board Gold Award – Best Investor Relations
2016	Silver Award – Best Managed Board
2015	Silver Award – Best Managed Board Silver Award – Best Investor Relations
2014	Silver Award – Best Investor Relations
2013	Silver Award – Best Investor Relations
2012	Gold Award – Best Managed Board Silver Award – Best Investor Relations
2011	Silver Award – Best Investor Relations
2010	Bronze Award – Best Investor Relations
2008	Chief Financial Officer of the Year (Sesdaq)

(For companies with market capitalisation of less than S\$300 million)

ASIAMONEY CORPORATE GOVERNANCE POLL

2010	Best for Shareholders' Rights and Equitable Treatment in Singapore
2009	Best for Shareholders' Rights and Equitable Treatment in Singapore

FORBES

2006	Asia 200 Best Under A Billion Companies
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INVESTORS' CHOICE AWARDS – SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

2017	Singapore Corporate Governance Award (Small Cap) Singapore Corporate Governance Award (Information Technology) Shareholder Communications Excellence Award
2016	Singapore Corporate Governance Award (Mid and Small Cap) Most Transparent Company (Information Technology)
2015	Most Transparent Company (Mainboard Small Caps)
2011	Most Transparent Company (Mainboard Small Caps)
2010	Most Transparent Company (Mainboard Small Caps)
2009	Most Transparent Company (Mainboard Small Caps)
2008	Most Transparent Company (Mainboard Small Caps)
2006	Corporate Governance Award (Sesdaq)
2005	Most Transparent Company (Sesdaq)

The Group is also a winner of productivity awards which are an endorsement of our continuing efforts to improve efficiency and raise productivity of our operations.

PRODUCTIVITY AWARDS

2018	Inaugural winner of Productivity Award conferred by the Singapore Precision Engineering and Technology Association (SPETA) in partnership with Singapore Institute of Manufacturing Technology (SIMTech)
2017	Winner of Singapore Productivity Awards by the Singapore Business Federation (SBF)

FINANCIAL HIGHLIGHTS

INCOME STATEMENT SUMMARY

Financial year-end 30 June

(S\$ million)	FY2014	FY2015	FY2016	FY2017	FY2018
Revenue	43.9	52.2	51.3	57.2	65.1
Gross Profit	22.2	28.7	29.1	33.0	37.1
Profit Before Tax	9.7	15.4	15.7	18.5	21.9
Net Profit	7.7	12.0	11.9	14.8	17.1
EPS (cents)	5.6	8.7	8.6	10.6	12.3
Weighted average number of shares in issue	139,031,881	139,031,881	139,031,881	139,031,881	139,031,881

BALANCE SHEET SUMMARY

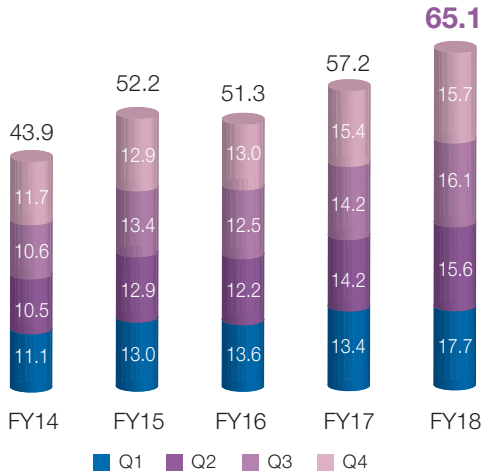
(S\$ million)	As at 30 June 2017	As at 30 June 2018
Total Non-Current Assets	26.6	35.7
Total Current Assets	39.0	37.6
Total Non-Current Liabilities	1.7	3.4
Total Current Liabilities	9.1	9.6
Shareholders' Equity	54.8	60.3
Cash and cash equivalents	23.4	21.1
Trade and other receivables (current)	11.9	11.9
Trade and other payables (current)	7.8	7.1
Short- and Long-term Debt	0.0	0.0
NAV per share (cents)	39.4	43.4

KEY FINANCIAL RATIOS

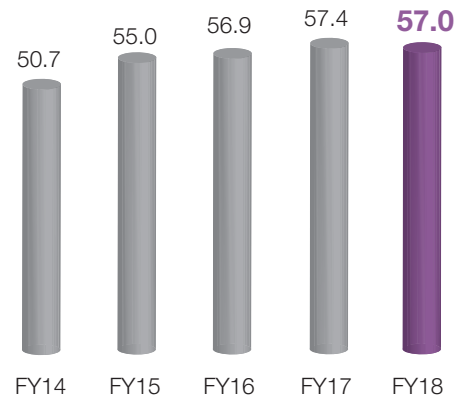
	FY2017	FY2018
Gross Profit Margin	57.4%	57.0%
Net Profit Margin	25.8%	26.3%
Return on Equity	27.0%	28.4%
Dividend Per Share	8.0 cents	10.0 cents
Dividend Payout	75.3%	81.1%

FINANCIAL HIGHLIGHTS

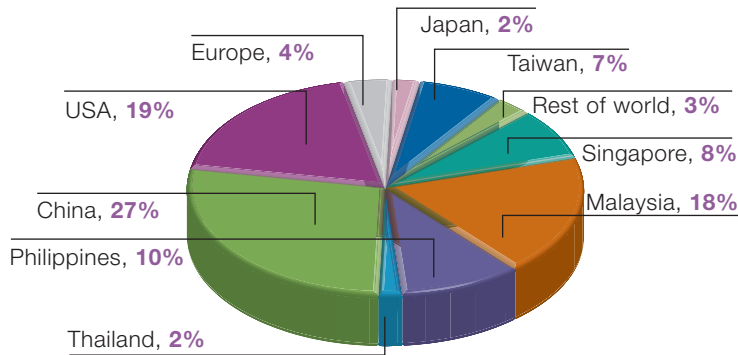
GROUP REVENUE (S\$M)



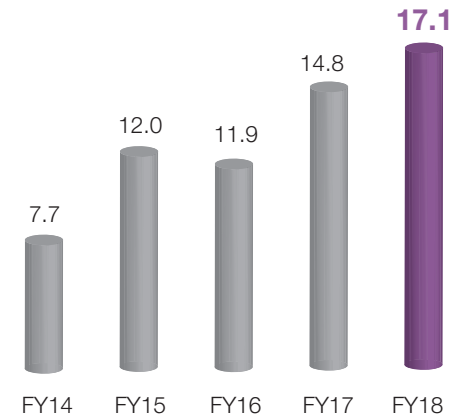
GROUP GROSS PROFIT MARGIN (%)



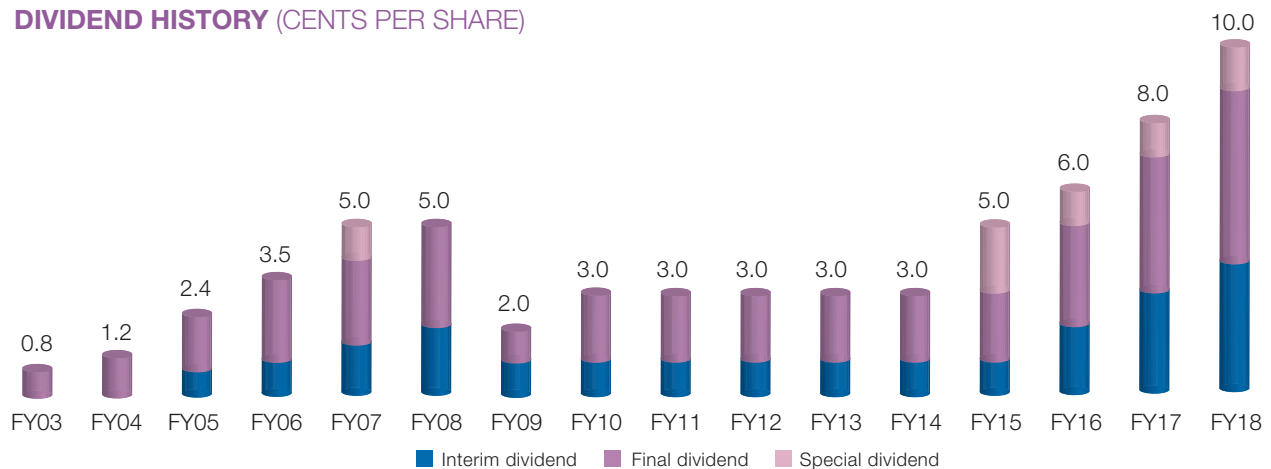
REVENUE BREAKDOWN BY GEOGRAPHICAL MARKET (FY2018)



GROUP NET PROFIT (S\$M)



DIVIDEND HISTORY (CENTS PER SHARE)



BOARD OF DIRECTORS



Sumitri Mirnalini Menon @ Rabia
Independent Non-Executive Chairman

Ms. Menon is an advocate and solicitor and has been practicing as a lawyer since 1982. She is currently with Menon and Co and was previously a partner with Jansen Menon and Lee. Ms. Menon graduated from the National University of Singapore with a Bachelor of Laws (Honours). She is a Commissioner For Oaths and a Notary Public and member of the Singapore Institute of Directors.



Christopher Reid Borch
Founder & Chief Executive Officer

Mr. Borch has over 35 years of engineering, manufacturing and management experience in the semiconductor industry, including 17 years living and working in Asia. Prior to founding Micro-Mechanics in 1983, Mr. Borch held positions with several leading makers of automatic assembly equipment including Kulicke & Soffa, Inc. Mr. Borch earned his undergraduate degree from Furman University and an MBA from The Wharton School at the University of Pennsylvania. Mr. Borch serves on the Dean's Board of the University of Southern California's Engineering School. In July 2018, Mr. Borch received the Best Chief Executive Officer Award at the Singapore Corporate Awards.



Low Ming Wah
President & Chief Operating Officer

Mr. Low joined Micro-Mechanics in 1989 as the company's first engineer. During his career at Micro-Mechanics, Mr. Low has held key engineering, manufacturing and management positions. Prior to joining Micro-Mechanics, Mr. Low held engineering and design positions with General Electric and Siemens. Mr. Low received his Diploma in Mechanical Engineering from Singapore Polytechnic and an MBA from the University of Hull, UK. He has over 35 years of experience in the semiconductor and precision engineering industry.

Currently, Mr. Low is the Chairman of the Singapore Precision Engineering & Technology Association (SPETA) and the board member of Enterprise Singapore (ESG). He is also the member of the SMEC main committee under Singapore Business Federation and member for FEC Manufacturing Sub-committee under EDB. He is also a member of Singapore Institute of Directors. In 2012, Mr. Low established a bursary fund with the Singapore Polytechnic Graduate Guild Endowment to support students in need of financial assistance. Mr. Low is also the Distinguished Patron for Loving Heart Multi-Service Centre that serves the residents and needy students. In 2015, Ming Wah established a Study Grant with the Singapore Institute of Technology to be given to deserving and financially disadvantaged full-time undergraduates of the institute. In 2017, Ming Wah established a scholarship with Singapore University of Technology and Design to promote meritocratic access to education and provide opportunities to students with demonstrated financial need.



Chow Kam Wing
Chief Financial Officer & Company Secretary

Mr. Chow joined Micro-Mechanics in 1996 and played the key role for the Company's IPO on SGX in 2003 and business expansion and operations in the region. Prior to joining Micro-Mechanics, Mr. Chow has more than 15 years working experience in auditing and accounting in Hong Kong.

Currently, Mr Chow is Committee Member of the Corporate Governance Committee of Institute of Singapore Chartered Accountants (ISCA) and CFO Committee of Australia CPA (Singapore). He served as Audit Committee Member of Singapore Chinese Orchestra (2013- 2017), Committee Member of CFO Committee of ISCA (2008- 2014) and an Advisory Council Member of Singapore CFO Institute under Singapore Accountancy Commission (2015- 2017).

Mr. Chow is a fellow Member of CPA Australia and Member of Institute of Singapore Chartered Accountants and Hong Kong Institute of Certified Public Accountants. He received his MBA from the University of Wales in the United Kingdom.

In February 2008, Mr. Chow was recognized as the Chief Financial Officer of the Year at the Singapore Corporate Awards.

BOARD OF DIRECTORS



Girija Pande
Independent Director

Girija Pande is Chairman of Apex Avalon Consulting Singapore and ex President of Tata Consultancy Services (TCS) Asia Pacific-part of India's largest business conglomerate. TCS today is a global Tech giant valued at over \$100 bn with over 300,000 FTE.

Mr Pande has over three decades of experience across Asia in senior positions with ANZ Banking Group and Tata Consultancy Services (TCS) Ltd, where he spent 11 years. In his last role as Chairman of TCS, Mr. Pande grew its APAC business from scratch to over 11,000 associates in 14 countries. He was conferred the best CEO award from Singapore HR Institute. Mr. Pande was also Vice Chairman of TCS' joint-venture with the Chinese Government and instrumental in building the business to over 2,500 associates in six cities in China. Mr. Pande served as Economic Advisor to the Mayor of Guangzhou.

He was council member for the Singapore Government's high powered Manpower Council set up by the Infocom Development Authority (IDA) and served on the Advisory Board of Singapore Management University, the boards of Singapore International Chamber of Commerce, Institute of South Asian Studies (NUS) and is a Trustee of SINDA. He serves on many major Boards of Cos in Asia – some of which are listed.

He received the best CEO Award from SHRI Singapore & Social Services Award by Ministry of Social & Family Development. He also serves on Boards of National Council of Social Services & National Healthcare Group in Singapore.

He has co authored a successful book on building business in China & India – "The Silk Road Rediscovered" published by John Wiley.



Lai Chin Yee
Independent Director

Ms. Lai was appointed as our Independent Director on 1 June 2014. She has more than 30 years of experience in areas including auditing, taxation, finance and accounting and is currently the Finance Director of Qian Hu Corporation Limited, a company listed on the Singapore Exchange Securities Trading Limited ("SGX-ST"). Prior to her current job, Ms. Lai was an auditor with international accounting firms from 1987 to 2000. She is also the Lead Independent Director of Ryobi Kiso Holdings Ltd since December 2009, a company listed on the SGX-ST.

Ms. Lai was appointed by the Ministry of Finance as a member of the Tax Advisory Committee from September 2004 to September 2006. She also served as a council member of the Council on Corporate Disclosure and Governance from December 2006 to August 2007 and was a member of the CFO Committee of the Institute of Singapore Chartered Accountants (ISCA) from 2009 to 2012.

In April 2018, Ms Lai was elected as a council member of ISCA. She was appointed as a member of the CPE Committee and the Corporate Governance & Risk Management Committee of ISCA in June 2018.

Ms. Lai graduated with a Bachelor degree in Accountancy from the National University of Singapore. She is a Fellow of the ISCA and a member of the Singapore Institute of Directors (SID). In 2009, Ms. Lai was named the Chief Financial Officer of the Year (for companies listed on the SGX-ST with less than \$300 million in market capitalisation) at the Singapore Corporate Awards.

EXECUTIVE OFFICERS

SINGAPORE

Micro-Mechanics Pte Ltd
Mr. Neo Say Chow (Manufacturing Manager)

MALAYSIA

Micro-Mechanics Technology Sdn. Bhd.
Mr. Tan Beng Lim (General Manager)

PEOPLE'S REPUBLIC OF CHINA

Micro-Mechanics Technology (Suzhou) Co. Ltd.
Mr. Shen Zi Quan (Deputy General Manager)

THE PHILIPPINES

Micro-Mechanics Technology International, Inc.
Mr. Richie Manuel (Factory Manager)

THE UNITED STATES

Micro-Mechanics, Inc.
Mr. Colin Wojno (Factory Manager)

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CORPORATE INFORMATION

Board of Directors

Sumitri Mirnalini Menon @ Rabia

Independent Non-Executive Chairman

First appointed: 16 May 2003

(Email: smenon@micro-mechanics.com)

(re-appointed on 28 October 2015)

Christopher Reid Borch

Executive Director

First appointed: 25 June 1996

(Email: cborch@micro-mechanics.com)

(re-appointed on 30 October 2017)

Low Ming Wah

Executive Director

First appointed: 25 June 1996

(Email: mwlow@micro-mechanics.com)

(re-appointed on 28 October 2016)

Chow Kam Wing

Executive Director

First appointed 20 January 2003

(Email: kam.chow@micro-mechanics.com)

(re-appointed on 28 October 2015)

Girija Prasad Pande

Independent Director

First appointed: 10 September 2009

(Email: gpande@micro-mechanics.com)

(re-appointed on 28 October 2016)

Lai Chin Yee

Independent Director

First appointed: 1 June 2014

(Email: laicy@micro-mechanics.com)

(re-appointed on 30 October 2017)

Audit Committee

Lai Chin Yee

Chairman

Sumitri Mirnalini Menon @ Rabia

Girija Prasad Pande

Nominating Committee

Sumitri Mirnalini Menon @ Rabia

Chairman

Girija Prasad Pande

Lai Chin Yee

Remuneration Committee

Girija Prasad Pande

Chairman

Sumitri Mirnalini Menon @ Rabia

Lai Chin Yee

Risk Management Committee

Lai Chin Yee

Chairman

Girija Prasad Pande

Sumitri Mirnalini Menon @ Rabia

Low Ming Wah

Chow Kam Wing

Company Secretary

Chow Kam Wing

Chartered Public Accountant

(Singapore)

Registered Office

Company No: 199604632W

31 Kaki Bukit Place

Eunos Techpark

Singapore 416209

Tel: 65-6746-8800

Fax: 65-6746-7700

Share Registrar &

Share Transfer Office

M & C Services Private Limited

112 Robinson Road

#05-01

Singapore 068902

Auditors

KPMG LLP, Certified Public Accountant

16 Raffles Quay

#22-00 Hong Leong Building

Singapore 048581

Partner-in-charge: Yeo Lik Khim

(appointed since Financial Year 2017)

Internal Auditors

Nexia TS Risk Advisory Pte Ltd

100 Beach Road

#30-00 Shaw Tower

Singapore 189702

Principal Banker

DBS Bank Ltd

12 Marina Boulevard

DBS Asia Central

Marina Bay Financial Centre Tower 3

Singapore 018982

Investor Relations Consultant

Octant Consulting

7500A Beach Road

#04-329 The Plaza

Singapore 199591

Tel: 65-6296-3583

Email: herman@octant.com.sg/

lisa@octant.com.sg

SUSTAINABILITY REPORT

Year ended 30 June 2018

SUSTAINABILITY AND MICRO-MECHANICS – BOARD STATEMENT

The Board of Micro-Mechanics (Holdings) Ltd is pleased to present our first Sustainability Report. The Board has been involved in the development of this sustainability report as well as the identification of our material Environment, Social and Governance (ESG) factors. Supported by our Sustainability Steering Committee, we oversee the direction, monitoring and management of the performance of each of these factors. The sustainability report is aligned to the Singapore Exchange (SGX); SGX-ST Listing Rules 711A and 711B and references the internationally recognised Global Reporting Initiative (GRI) Standards (2016).

Although this is our first formal report, sustainability practices have always been a consideration in all our Company decisions. The rapid advancement of the semiconductor industry facilitated our growth as well as that of our competitors. We believe sustainability practices in our business help to identify improvements opportunities within our organisation and this enhances our competitiveness in the industry.

Sustainability issues around eco-efficiencies and fair working environments are increasingly high on the supply-chain criteria of many global businesses. As a designer, manufacturer and marketer of high precision parts and tools for global customers, Micro-Mechanics must adapt to changing demands and practices in order to stay relevant in the markets. In addition, sustainability practices like resource consumption optimisation and safer working environment which result in less lost time, will lead to bottom line savings for the organisation.

We have formalised our sustainability approach by setting up a sustainability governance team and identifying the areas to pursue immediately and in the coming years. We have also identified performance measures and developed targets to move our performance forward year-on-year.

“At Micro-Mechanics we are committed to running a sustainable and responsible company, not just because it is the right thing to do, but because it makes good business sense. We believe that operating safely and efficiently ensures a well governed, well managed business that will continue to grow and flourish for many years into the future. We are excited to have begun formalising and standardising our sustainability performance and look forward to continuing to capitalise on the opportunities that this provides,” said Mr. Chris Borch, CEO of Micro-Mechanics (Holdings) Ltd.



SUSTAINABILITY REPORT

Year ended 30 June 2018

ABOUT THIS REPORT

Micro-Mechanics's first sustainability report discloses the company's sustainability direction and approach, as well as our performance over the last year and how we intend to move forward in the coming twelve months. This report covers the period of 1 July 2017 to 30 June 2018. We will report on our sustainability performance annually.

This report is in compliance with the requirements of SGX-ST Listing Rules 711A and 711B. The report is with reference to the Global Reporting Initiative (GRI) Standards (2016). The GRI Index and the relevant references are presented on pages 33 to 35.

Reporting Scope

Micro-Mechanics designs, manufactures and markets high precision parts and tools used in process-critical applications for the wafer-fabrication and assembly processes of the semiconductor industry. The Group operates from five manufacturing facilities located in Singapore, Malaysia, China, the Philippines and the USA and a direct sales presence in Taiwan and Europe. The Group's strategy is to relentlessly pursue product and operational improvements while providing fast, effective and local support to its customers worldwide.

For our first sustainability report, we have decided to focus on our operations in Singapore. This has allowed us to take a close look at what is important to us as a company and to develop systems and processes for governing, monitoring and managing our sustainability performance. With these processes now in place in Singapore, our next step is to determine how we plan to roll out these processes to our overseas operations.

We look forward to any enquiries, comments or feedback on both our sustainability performance and inaugural sustainability report (Email address: Investor@micro-mechanics.com).

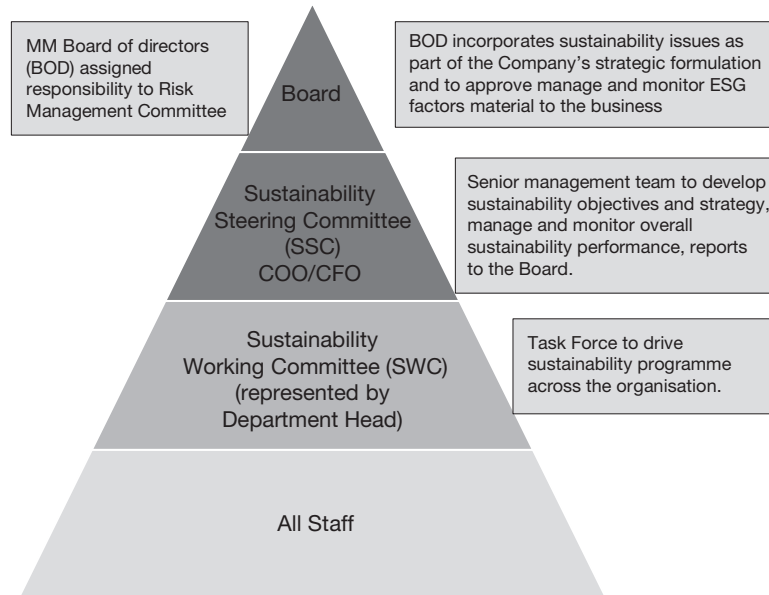
SUSTAINABILITY GOVERNANCE

One of our first steps towards formalising our sustainability approach was to establish a team of individuals to take on the responsibility within Micro-Mechanics. As sustainability is integral to our success, responsibility for sustainability starts at the top, with the senior management team. A Sustainability Steering Committee (SSC) was formed with the supervision of our Chief Financial Officer and Chief Operating Officer. The Committee will identify key sustainability areas, set achievement targets and develop performance measurement indicators for the coming and subsequent years. The SSC has met regularly throughout the 2017/18 financial year to discuss and guide progress. The SSC is supported by a Sustainability Working Committee (SWC) comprising of department heads from Design and Development, Sales and Marketing, Manufacturing, Research and Development, Quality, Purchasing and Finance. The SWC team members are responsible for ensuring the execution of these decisions throughout their departments, as well as providing feedback and support to the SSC. SSC reports the progress of sustainability reporting to Risk Management Committee (RMC) on a quarterly basis. The RMC comprises three independent directors, CFO and COO. The chairman of RMC is an independent director.

SUSTAINABILITY REPORT

Year ended 30 June 2018

Sustainability Governance Structure



The Sustainability Working Committee is represented by personnel from the following departments:

- Manufacturing
- Sales & Marketing
- Design & Development
- Finance & Admin
- Research & Development

MATERIALITY

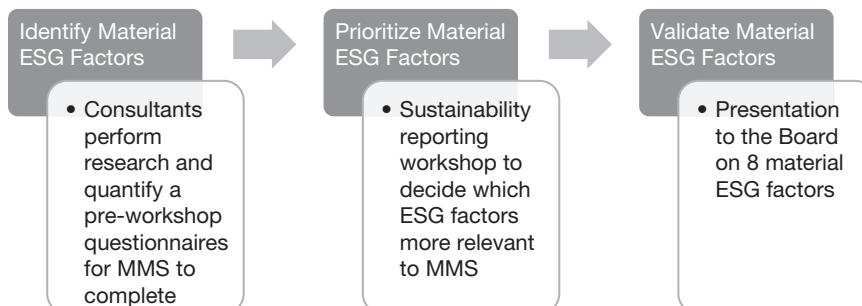
Sustainability covers a very large range of subjects. As understanding and evolution of sustainability progresses, it is important to crystallise what sustainability means to Micro-Mechanics. We need to focus on the Environmental, Social and Governance (ESG) areas that are most relevant to us in order to optimise the results of our efforts. In order for us to determine what those most relevant areas are, as well as to develop the contents of this report, we carried out a materiality assessment.

With the support of an external consultant, our materiality assessment began with a look at sustainability related risks and opportunities in the semiconductor industry, both in the present and with a view to what may happen in the future. Global and regional sustainability issues were also identified. Following this research, a stakeholder engagement survey was carried out on our internal stakeholders to investigate what they considered to be important to the company. Although external stakeholders were not directly engaged, internal stakeholders who took part in the survey were selected specifically because of their regular interaction with external stakeholders and were asked to consider these stakeholders views when completing the questionnaire. The results of this questionnaire were considered during a materiality prioritisation workshop, which established Micro-Mechanics' 8 material ESG factors. These 8 factors were finally validated by the Board of Directors and form the focus of our sustainability efforts in this report.

SUSTAINABILITY REPORT

Year ended 30 June 2018

Materiality Assessment Process



Stakeholder Engagement

Although external stakeholders were not engaged specifically to examine their most material ESG factors, we have regular interactions with them and from these interactions we were able to glean information on which areas they may have the most concerns. Key stakeholders and how we interact with them are detailed below:

Stakeholders	Engagement methods
Investors and shareholders	<ul style="list-style-type: none"> • Media releases • Quarterly SGX announcements • Half yearly results briefings for investors and media • Yearly AGM for shareholders • Annual Report • Adhoc meetings with our Investor Relations Consultants • Email communications – investor@micro-mechanics.com
Employees	<ul style="list-style-type: none"> • Materiality prioritisation session • Company handbook- code of conduct • New Staff Orientation • Half yearly Employee Improvement Dialogue with employees • Whistle blowing policy in place
Customers	<ul style="list-style-type: none"> • Customers visit by sales personnel • Participate in Semiconductor trade Shows • Customers material safety compliance requirements such as RoHs, Reach • Customers satisfaction survey • Factory visit by customers
Suppliers	<ul style="list-style-type: none"> • Supplier selection process • Suppliers assessment • Meetings with suppliers
Regulators	<ul style="list-style-type: none"> • Seminar/updates received from local government agencies • Internal processes in place to ensure compliance with local government laws and regulations • Zero tolerance of non-compliance tone set by the top management
Local communities	<ul style="list-style-type: none"> • Compliance with local government laws and regulations such as pollution at surrounding factory areas, chemical discharge to drainage, etc. • Help local employment by applying locals first policy

SUSTAINABILITY REPORT

Year ended 30 June 2018

As a result of our materiality assessment, material ESG factors were determined to be:

Our Operations	1	Economic Performance
	2	Training and Education
	3	Occupational Health & Safety
	4	Diversity and Equal Opportunity
	5	Energy
Our Supply Chain	6	Materials
	7	Supplier Social Assessment
Our Governance	8	Compliance with regulations (anti-corruption, socioeconomic and environmental)

These factors will be discussed here in our sustainability report, except for Economic Performance. Economic performance is key to the sustainability of the company. However, our practices and performance in this area have been detailed in our financial statements. Please refer to pages 66 to 109 for more details.

OUR OPERATIONS

TRAINING AND EDUCATION

The success of our operations relies on the quality of our employees. We encourage training as we believe knowledge is an asset that adds value to our employees and company, simultaneously also to our customers. Micro-Mechanics trains and educates our employees with relevant knowledge and skills, to ensure a high quality of work is delivered. We are committed to providing our employees with equal opportunities to develop their potential through comprehensive training programs. Our well-planned training provides career pathways for employees and encourages retention, which we place high on our list of priorities.

<p><i>Policies and guides:</i></p> <ul style="list-style-type: none"> Employee handbook with details on company's training policies 	<p><i>Performance:</i></p> <ul style="list-style-type: none"> 100% of employees given access to a full suite of relevant training 	<p><i>Target:</i></p> <ul style="list-style-type: none"> Continue to provide a diverse and relevant suite of training for our employees
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Human Resource Policy – Training

In our human resource policy, we clearly state that we are committed to providing our people with opportunities to develop their potential through a comprehensive training programme. The focus of our training programme is on upgrading of skills and educating staff in areas directly related to their present work and future development.

Supervisors are tasked to source relevant courses and make recommendation for their staff to attend. Full details of the content and costs of each course are to be provided in each application form. All applications for training subsidies must be endorsed by the respective department heads before submission to Finance Admin Department.

Employees who have attended any training or seminar are required to submit an evaluation form to Finance Admin Department within one week after the training or seminar. Feedback is gathered to check training relevance and determine if others should be encouraged to attend the same training or seminar in the future.

SUSTAINABILITY REPORT

Year ended 30 June 2018

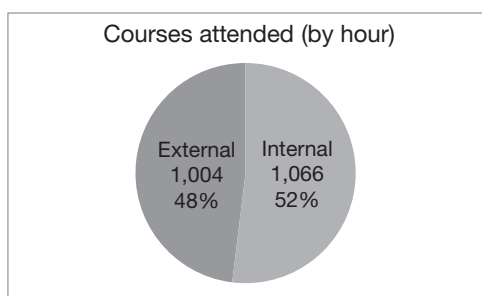
Management Initiatives

We practise continuous training for employees to ensure their skills are up-to-date and remain applicable to the different product demands required by our customers. Management and employees have mutual commitment in our Employee Improvement Dialogue (EID). EID is our appraisal system that helps to determine the training and development needs for each employee. For example, our designers undergo core product training and its application, and will also learn about all aspects of related manufacturing processes and machine capabilities. This will enhance their all-round knowledge and facilitate their progression through the company to more skilled roles, such as Sales Technical Support. In another example, our operators who perform manual polishing and deburring of parts are also developed to allow them to be capable of handling machine set up and inspection and thus could progress to a machinist position.

Last June 2017, we digitised our Employee Improvement Dialogue (EID) process into our Company Human Resource web-based system, making it more readily accessible and easier to manage. The EID is a two-way communication tool shared between the appraiser (supervisor) and appraisee (employee). The process involves a face to face session where the appraiser can review an appraisee’s strengths, improvement areas and expectations. There are 14 performance measurements for the appraiser to grade. Any performance measures graded below standard will need to be improved by the next EID 6 months later. The appraisee is encouraged to comment on the evaluation and share any concerns related to their job, their department or their career path within the company. Upon mutual agreement, both will endorse the EID. This ensures transparency in the process. The aim of EID is to improve the performance of our employees in an open and transparent manner and all the records can be reviewed and updated by the respective employee online.

In Micro-Mechanics, our employees are offered training in line with their career development with us. External training is approved as long as it is relevant to the employee’s work. Internal training will be organized for those employees who will benefit from extra skills and knowledge. In addition, other general training for all employees is provided, such as for work safety, business contingency, life-saving skills or handling pandemic situations.

Despite the heavy schedule this financial year, our employees have conducted or attended approximately 2,070 hours of training, which translates to an average of 17 hours training per employee.



The training attended by employees over the past year is listed below:

- On the job training for newly joined employees as part of their orientation and job scope.
- Internal training on products and manufacturing capabilities.
- Business Continuity Management (BCM) awareness training which includes Pandemic awareness. This is to ensure all employees know the importance of BCM and what needs to be done to keep the company going and sustainable when any unexpected event or disaster occurs.

SUSTAINABILITY REPORT

Year ended 30 June 2018

- Selected employees attend a series of quarterly internal management workshops by MM University to help them understand company's vision, mission, strategies and culture, and framework for making well informed decisions in line with company's objectives and goals.
- Employees attend seminars, talks and training programs organized by third parties on a need basis.
- Information Technology training whenever there are new updates on ERP system, Human Resource system and IT Governance.
- Company sponsored Diploma or Degree courses relevant to employees' work for selected employees in line with their career development.

OCCUPATIONAL HEALTH AND SAFETY

Over the course of business operations, our employees will invariably be exposed to health and safety risks. As a socially responsible corporation, Micro-Mechanics regularly assesses and mitigates risks in our workplace to minimise occupational health and safety issues. It is in our best interest to safeguard our employees' health and safety because we believe employees are our most important asset.

It is our responsibility to provide a healthy and safe working environment for employees as well as visitors. We use our core values (Transparency, Teamwork, and Communication) to drive and promote Occupational Health and Safety awareness, we constantly educate our employees on the potential health risks and safety hazards in our work environment and the proper precautions to undertake for their own safety.

Micro-Mechanics' current 7S culture was derived from the original 5S (Sort, Set in Order, Shine, Standardise and Sustain) practice with the inclusion of Safety and Sustainability. An audit is carried out periodically to ensure every aspect of occupational health and safety is addressed and the impact of any hazard eliminated, minimized or controlled. We are committed to ensuring our work environment is safe for our employees. 7S is one of our half-yearly KPIs and it is aligned to our bonus incentive program in order to incentivize our employees to participate.

<p><i>Policies and guides:</i></p> <ul style="list-style-type: none"> • Environment Health & Safety Handbook 	<p><i>Performance:</i></p> <ul style="list-style-type: none"> • Accident frequency rate¹ – 3.8 injuries per million-man hours • Accident severity rate² 950 days per million-man hours 	<p><i>Target:</i></p> <ul style="list-style-type: none"> • Zero workplace incidents resulting in a fatality or permanent injury
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The accident severity rate was high due to one serious accident in our production in June 2017. The Company has reported the case to the Ministry of Manpower. There were no workplace injuries resulting in a fatality or permanent injury.

¹ Accident frequency rate is number of accidents/number of man-hours worked x 1,000,000. Contractors are not included.

² Accident severity rate is number of lost days/number of man-hours worked x 1,000,000. Contractors are not included.

SUSTAINABILITY REPORT

Year ended 30 June 2018

Health and Safety Policy

Micro-Mechanics' in-house Environment, Health & Safety Handbook incorporates all necessary safe work practices. As employees play an equally important role in creating a safe work environment, we ensure they are fully aware of the possible dangers, safety measures to be taken and how to always act in a mature and responsible manner.

Our health and safety policy outlines how we aim to achieve our safety objectives:

- Educate our employees on the potential health risk and safety hazards in the work environment and the proper precautions to undertake. For new employees, a health and safety briefing is part of our orientation program. On the production floor, supervisors brief their staff on health and safety hazards daily.
- Regularly review our work environment conditions and work practices to identify any new or arising safety hazards and potential health risks. We then update the Risk Assessments report to management and Ministry of Manpower.
- Upgrade our equipment and providing our employees with all the necessary safety equipment and procedures to perform the job function safely.
- All machines and equipment must have safety features included. For example: infrared sensors and physical barriers have been installed to prevent accidental touching of hot surfaces when machines are in the heating cycle.
- Provide an open channel of communication across all levels to gather feedback and comments on safety and health related issues for open discussion during supervisor's daily briefing and during 7S audits. Employees are encouraged to approach supervisors or administration officers for any safety and health concerns.

The Environment Health & Safety Handbook also includes our Emergency Response Plan which is part of our ISO22301 Business Continuity Management System.

Our safety facilities, such as fire extinguishers, are inspected by third party vendor bi-annually. Signage and machine guarding are regularly checked and inspected by supervisors, Safety committee members and 7S audit team.

Standards, certificates and management plans

As a certified ISO22301 Business Continuity Management (BCM) company since 2012, we ensure all our employees know our Emergency Response Plan (ERP) which details the various preventive measures and operational actions that need to be undertaken by Micro-Mechanics. For example, fire equipment such as fire extinguishers and sprinklers are checked periodically by a third party vendor. We took part in Community Emergency Preparedness Programme (CEPP) in which we learned basic firefighting, so that we have the knowledge to expediently control or extinguish any fire that may occur within the building. To ensure all employees know and are familiar with evacuation protocols, escape routes and assembly points, Micro-Mechanics also conducts fire evacuation drills annually. We are committed to our employees' safety in order to safeguard our greatest assets – human lives.

SUSTAINABILITY REPORT

Year ended 30 June 2018



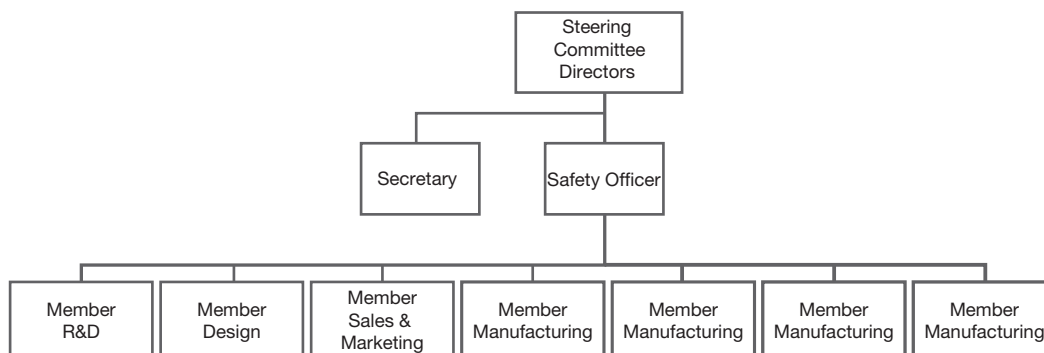
Micro-Mechanics established Pandemic Response Plan to ensure that businesses remain viable in the event of a Pandemic outbreak. A pandemic outbreak refers to an infectious disease that spreads widely across a large geographical region or even worldwide which may impact our business operations. Annual training is carried out to ensure our employees understand the procedures required to perform their duties when disaster occurs. The training also educates staff in the handling of outbreaks such as Bird Flu disease, SARS, MERS and others.

Under ISO 22301 Business Continuity Management System, Micro-Mechanics is fully committed to make Business Continuity Management and Crisis Management as an integral part of our business operations in order to minimize the impact to our customers, as we want to maintain the public's confidence in us and to protect the interest of all stakeholders in the event of a crisis that disrupts our operations. We ensure our capability to maintain or restore Critical Business Functions (CBF) within 48 hours following a BCM plan in the event of disaster. We have alternate operation sites in Singapore and related companies in Asia to support the operations during disaster. Annually, we carry out simulation exercises to test the readiness.

Management Initiatives

Micro-Mechanics established a Health & Safety Committee to regularly update management on any health and safety activities to ensure we meet statutory obligations in all areas pertaining to health and safety at work, including statutory training and reporting. In addition, our periodic 7S audit ensures issues are addressed, mitigated and updated for review by the 7S and Health & Safety Committee.

Our Health & Safety Committee



SUSTAINABILITY REPORT

Year ended 30 June 2018

Personal Protective Equipment (PPE), which is mandatory, is provided for our employees as well as visitors. PPE are protective equipment designed to protect the wearer’s body from hazards such as excessive noise, airborne particulate matter, heat and much more. For example, safety goggles are issued to our employees and visitors, safety boots are provided to all our employees on the production floor. Ear-plugs are provided to employees working in noisy environment and 3M masks are provided to employees who work in contact with small particles. It is essential that we ensure all employees follow the proper procedures. We believe communication and transparency are the best way to improve.

Recently, Micro-Mechanics also installed two Automated External Defibrillators (AED) in our premises. Both AEDs are in my Responder which means they are accessible by the public in case of emergency. We hope this little gesture of contribution to the public can help to increase the survivability of a person suffering from cardiac arrest within or around our premises.



Regarding machine guarding, we have designed our own safety barriers for our machines to ensure that there is a safe distance between our employees and the machine when it is in operational mode. In addition to the barriers, we also installed infrared sensor on the machines which will force the machine to stop if the sensor detects any movement across it. We also designed our own shielding guard for our grinding process to prevent small particles such as material chips flying-off which could cause injury to employees.

Micro-Mechanics has also invested heavily in the infrastructure to improve health and safety conditions of our work environment. For example, we have installed innovative products such as MistBuster® for our air filtration system. The system is equipped with its own patent technology which ensures high efficiency mist cleaning of any type of cutting fluid and particles.

Safety barriers and Infrared sensor

Mist Buster



SUSTAINABILITY REPORT

Year ended 30 June 2018

To extend our efforts in providing a good environment and also meeting National Environment Agency's (NEA) requirement, Micro-Mechanics installed air purifiers with high efficiency particulate air (HEPA) filter. The HEPA filters are used and changed regularly. Micro-Mechanics engages Industrial Hygienist to conduct its indoor air quality checks. To date, the air concentrated factors tested were Formaldehyde, Respirable particles and Carbon dioxide Ozone, Carbon dioxide, Carbon monoxide and Variable Mould Count. Micro-Mechanics is an air-conditioned workplace and poor air quality can result in potential health and discomfort problems for employees. As such, we ensure good air quality to prevent health issues which can lead to the decline in work productivity.

From the results on air quality measured recently as shown in below table, we comply with the NEA requirement guidelines.

Formaldehyde (ppm)	Before Feb 2018	After Feb 2018
Office Area	0.06	0.04
Production Area	0.11	0.06
<i>The NEA guideline for Formaldehyde (ppm) is 0.1</i>		
<i>Formaldehyde is a colourless, pungent gas which is toxic and is a known cancer causing substance. In high enough concentrations it can irritate the respiratory tract and cause headaches.</i>		

Respirable suspended particles ($\mu\text{g}/\text{m}^3$)	Before Feb 2018	After Feb 2018
Office Area	12.24	7.77
Production Area	129.89	36.31
<i>The NEA guideline for Respirable suspended particles ($\mu\text{g}/\text{m}^3$) is 150</i>		
<i>Particles with sizes less than 10 microns are known as PM10. These particles can get deep into the lungs and cause a broad range of negative health effects, in particular, respiratory and cardiovascular illnesses.</i>		

Ozone (ppm)	Before Feb 2018	After Feb 2018
Office Area	0	0
Production Area	0	0
<i>The NEA guideline for Ozone (ppm) is 0.05</i>		

A pale blue gas with a sharp odour similar to chlorine. Ozone affects the respiratory system, irritating the mucous membranes of the nose, throat and airways. Individuals with sensitive respiratory systems (such as with asthma or respiratory disease) are more susceptible to the effects of ozone.

Carbon dioxide (ppm)	Before Feb 2018	After Feb 2018
Office Area	694	848.5
Production Area	717	555
<i>The NEA guideline for Carbon dioxide (ppm) is 1000</i>		
<i>A colourless and odourless gas, it is produced by humans through respiration and if allowed to build up may cause light-headed, shortness of breath and nausea. In high concentration it may cause asphyxiation.</i>		

SUSTAINABILITY REPORT

Year ended 30 June 2018

Carbon monoxide (ppm)	Before Feb 2018	After Feb 2018
Office Area	1	1.05
Production Area	2	1.35
<i>The NEA guideline for Carbon monoxide (ppm) is 9</i>		
<i>A colourless and odourless gas, which in high concentrations may kill or incapacitate humans, low level exposure is associated with visual impairment, reduced work capacity, and reduced mental function and poor learning ability. Persons suffering from heart and circulatory problems, foetuses, young infants, pregnant women and elderly people are likely to be more susceptible to the effects of carbon monoxide.</i>		

Total viable mould count (CFU/m ³)	Before Feb 2018	After Feb 2018
Office Area	75	80
Production Area	67.5	75
<i>The NEA guideline for Total viable mould count (CFU/m³) is 500</i>		
<i>Caused by damp environments, moulds are known allergens which may aggravate asthma in susceptible people.</i>		

We endeavour to comply with the Workplace Safety and Health Act (WSH) guidelines legislated by Singapore Government. For example, we conducted Risk Assessment and reviewed them when needed. We also engage a qualified external safety officer to qualify our Risk Assessment before submitting to Ministry of Manpower. Another example, Hearing Conservation Programme (HCP); the noise is monitored regularly and our employees are provided with the best safety wear from industrial leading brands, such as ear plugs from 3M. We ensure best practices are put in place and implemented.

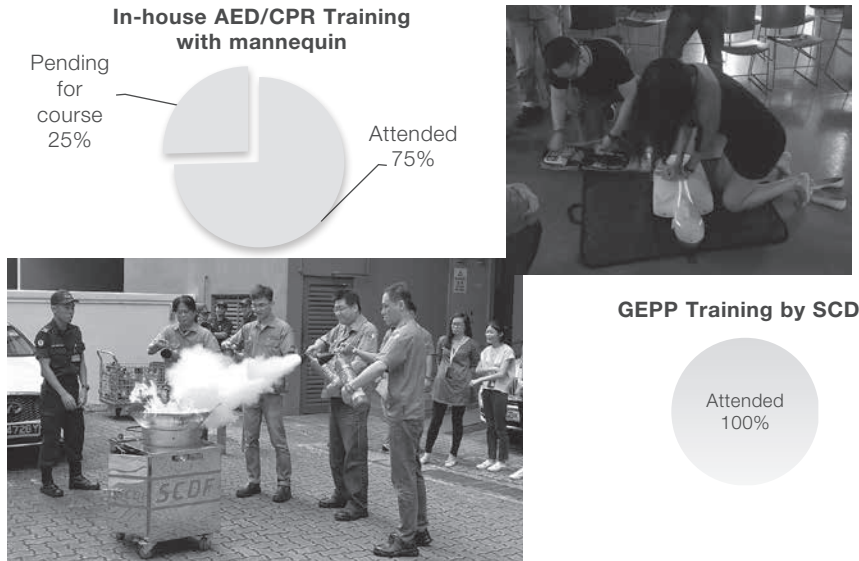
In the event of work-related incidences, full incident investigation with record details will be compiled by Safety Committee and Administration officer and submitted to the management and Ministry of Manpower.

Health and safety training

To foster awareness of Occupational Health and Safety, and engage the community, Micro-Mechanics engages Singapore Civil Defence Force (SCDF) half yearly to train our employees on Community Emergency Preparedness Programme (CEPP). As of 2017, all employees participated and were trained how to use basic equipment such as a Fire Extinguisher. On top of the training provided by SCDF, Micro-Mechanics sees the need to include Automated External Defibrillators (AED)/Cardiopulmonary resuscitation (CPR) training half yearly for any emergency such as heart attack in the workplace as well as in the public area near our premises. The Company has acquired AED & CPR Kits which also include an inflatable half-sized CPR mannequin for our in-house training. Since late of 2017, 75% of our employees have been trained in the AED/CPR procedures. First aiders were appointed, trained and certified by government accredited institution so that they are able to render first aid and stabilize casualties until advanced help arrives.

SUSTAINABILITY REPORT

Year ended 30 June 2018



DIVERSITY AND EQUAL OPPORTUNITY

We employ staff based on their competencies and capabilities for the job. We have employees from different backgrounds and it is our policy to recruit and select employees on the basis of merit such as skills, experience and ability regardless of age, race, gender, religion or family status.

<p><i>Policies and guides:</i></p> <ul style="list-style-type: none"> Employee handbook with details on company’s human resource policies 	<p><i>Performance:</i></p> <ul style="list-style-type: none"> 33% female Board members 43% female staff base 	<p><i>Target:</i></p> <ul style="list-style-type: none"> Continue to hire people with diversified background
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Human resource policy

The Employee Handbook contains our human resource policy which describes Micro-Mechanics approach to diversity and equal opportunity. With this document, employees can understand our process for hiring and promotion as well as how they can chart their career path in our company. The Employee Handbook is available on the employee intranet and each employee is given a hardcopy of it for reference. All employees will be updated for any amendments. Administration officer will explain the Employee Handbook in detail to all new employees during their orientation session.

Management Initiatives

Recruitment of employees must be supported with an approved Requisition-to-Hire Form to be processed by the Finance Administration department. This ensures the recruitment, whether for new hire or replacement, is necessary after the justifications are accepted and approved by Management. Recruitment details like job description, salary scale and other related information provide better job-matching. Headcount is approved by the Board annually as part of the budget process.

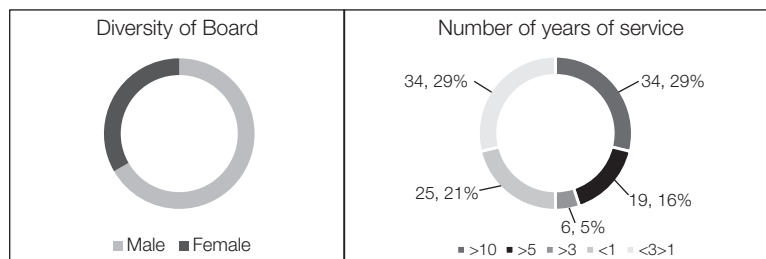
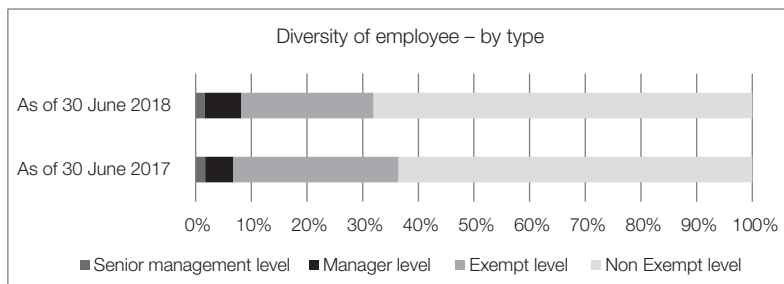
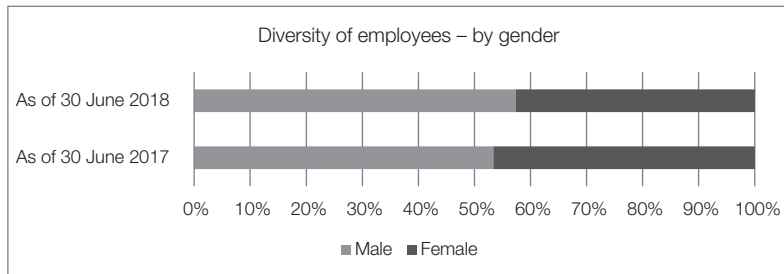
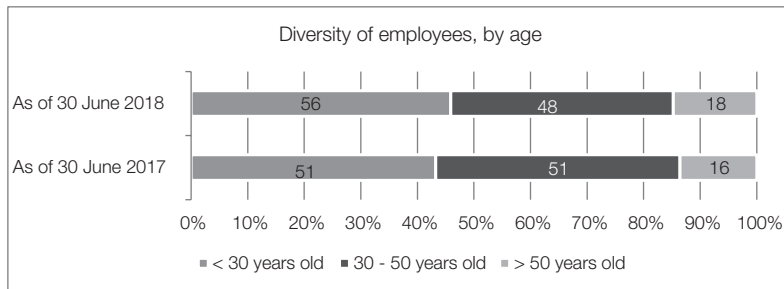
SUSTAINABILITY REPORT

Year ended 30 June 2018

Our recruitment policies comply with the Tripartite Guidelines on Fair Employment Practices and have fair employment practices that are open, merit-based and non-discriminatory. Advertisements for job openings are published on the government job portal to support initiatives to give priority to hire local job seekers.

At Board level, we are mindful of Board members' diversity to ensure holistic and multi-faceted views and advice are provided to Management. Thus, members are considered and invited to our Board based on their different competencies, expertise, background, race, gender and nationality.

Performance data – Our Employee Profile



SUSTAINABILITY REPORT

Year ended 30 June 2018

Micro-Mechanics Singapore had a staff base of 118 as of 30 June 2017, which increased to 122 as of 30 June 2018. On the employee diversity front, our staff are quite evenly balanced across ages and gender.

ENERGY

Depletion of natural resources is a global concern, as is the usage of non-renewable energy, which is the primary source of Green House Gas (GHG). A global movement has been growing over the past decade or two to mitigate effects of GHG emissions by reducing reliance on non-renewable fuels. Micro-Mechanics' business operations consume non-renewable energy in the form of electricity, which is produced using natural gas. In addition, we have installed a diesel generator for emergency use. However, power disruption is rare in Singapore and thus usage of diesel is minimal.

Electrical energy is used mainly for the operation of machineries and air-conditioning. We have established some policies for reducing energy consumption. With the right policies implemented, we can capture benefits in terms of both financial cost saving and environmental conservation.

<i>Policies and guides:</i> Work instruction – Resource conservation	<i>Performance:</i> kWh/revenue – 0.098	<i>Target:</i> Remain within 10% of 2017 energy intensity (0.093 @ June 2017)
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Work instruction – Resource Conservation

We have developed a work instruction that defines a systematic approach to conservation of resources. It outlines our role in energy conservation, such as electricity saving, paper recycling, purchasing of energy saving hardware/equipment with low energy demand and conservation of other resources through reuse of reject parts, wooden pallets, carton boxes and packaging materials. This work instruction dictates the efficient use of resources as well as recycling of end-of-use material where possible.

Management initiatives

Micro-Mechanics has taken the initiative in regard to the accomplishment of resource conservation by monitoring the consumption of electrical energy. In order to better manage electricity usage, we analyse our general utilities usage and report to management on monthly basis.

We carry out regular maintenance on all equipment to maintain their efficiency and reliability. We have a weekly maintenance checklist for our machines, which involves checks such as the air pressure, the machine oil fluid and the working condition of the cooler. We also engage our employees to play a role in reducing the energy consumption of the workshop machines and office equipment. For instance, we encourage use of “Power Save” function in machines and equipment where available although we have set the machines and equipment to auto off. When purchasing new equipment, we will include a checklist for our machines manufacturing partners with regards to details of machine electrical consumption, available energy-saving features and electrical power-saving operating procedures.

We also review our processes to achieve manufacturing efficiency in a manner that will reduce energy consumed. We design fixtures or look for equipment such as tooling pre-setters that enable us to do offline set up for our tooling or work piece, while keeping our machines running which reduces their idle time and thus their energy consumption.

SUSTAINABILITY REPORT

Year ended 30 June 2018

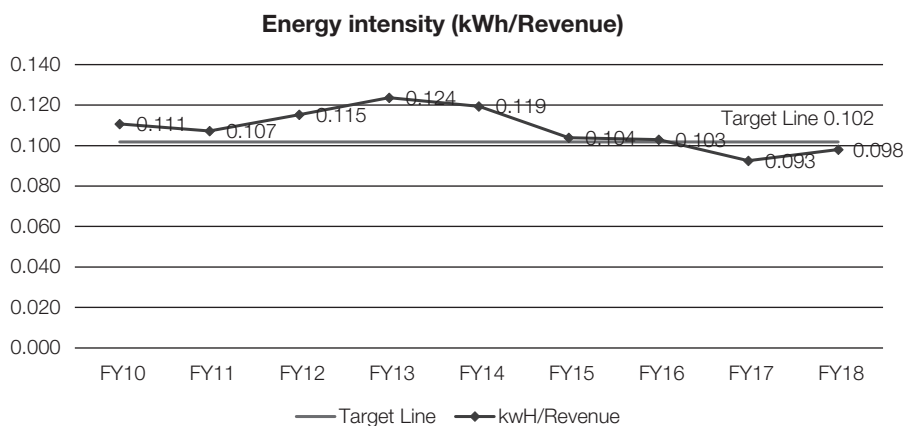
Lighting and air-conditioning also contribute to electrical energy consumption. Our conservation efforts entail maintaining the temperature of our air-conditioning at 23 to 24 degrees Celsius and using the most energy efficient light sources.

Staircases within the company compound are kept well-lit by using LED lights, keeping the area safe for human traffic and electricity consumption at low levels. Since our production floor consumes most of the electrical energy in term of lighting (up to 16 hrs/day), we replaced all our 400 fluorescent lamps of T8 type to the more energy efficient T5 type lamps. This has reduced the wattage consumed from the initial 36 watts(T8) to 28 watts(T5). During the next phase, in June 2018, we will replace all the fluorescent lamps in our office area. T8 consumption was 14,400 watts as compared to 11,200 watts for T5. This translates to a saving of 22% and in terms of value based on current tariff rate, our dollar saving is S\$3.7k annually.

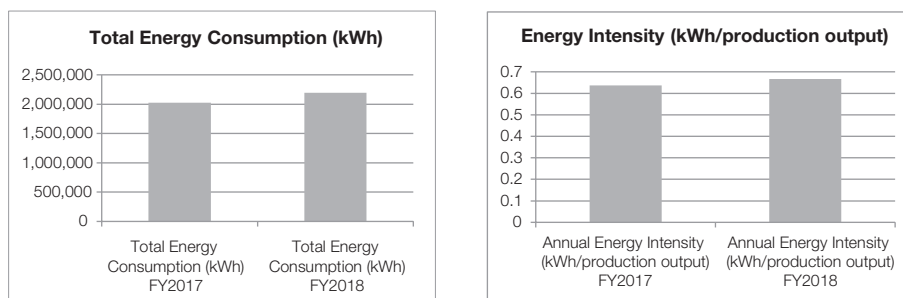
Our cargo lift is also kept unused and shut down unless there are bulk deliveries or during maintenance work. All employees are encouraged to use the passenger lift or stairs as a form of exercise.

Performance data

Our energy usage is dependent on our monthly orders and more orders will increase the power consumption. In order to track and review our energy consumption, we compare the power consumed (kWh) to production output and revenue factors to better understand our performance.



Performance data Figure 1.1



SUSTAINABILITY REPORT

Year ended 30 June 2018

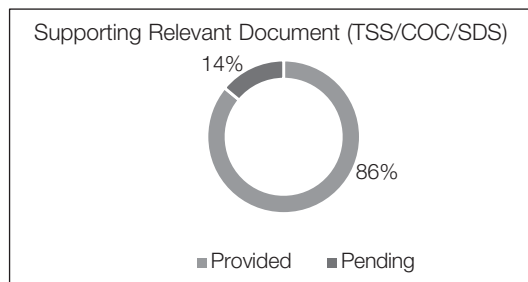
OUR SUPPLY CHAIN

As a nation, Singapore sources a high number of materials from overseas and as a result, supply chain assessment is particularly important. At Micro-Mechanics, we view suppliers as part of our value supply chain. Since material quality and consistencies would impact our production output directly, we expect our suppliers to share the common goal of driving their respective processes in a sustainable manner. Being part of the increasingly globalized value chains in the semiconductor and electronics industry, Micro-Mechanics is keen to contribute our part in the sustainability management of environmental, social and economic impacts as well as developing good governance practices throughout the lifecycles of our manufacturing supply chain.

MATERIALS

<p><i>Policies and guides:</i> Attachment of Certificate of Conformance (COC) or Technical Specification Sheet (TSS) or Safety Data Sheet (SDS)</p>	<p><i>Performance:</i> 86% of direct materials purchased are attached with COC or TSS or SDS</p>	<p><i>Target:</i> 80% of direct materials purchased are attached with COC or TSS or SDS</p>
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A COC or TSS or SDS is required from our direct material suppliers in every shipment to Micro-Mechanics. Material must be tested in accordance to Micro-Mechanics' required specifications. COC contains the supplier's background, purchase order number, production number, lot size, and certification. TSS contains the material specific name, chemical composition, physical and mechanical properties while SDS contains potential hazards and safety measures in terms of health, fire, reactivity and environmental.



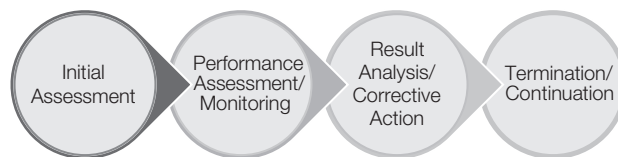
86% of direct material suppliers provide TSS/COC/SDS with their own initiatives. This shows their commitment towards driving sustainability development.

Management Initiatives

Micro-Mechanics believes our product quality is primarily dependent on the nature of the raw material used in our production. As such, we re-evaluate our material suppliers annually. We implement a number of procurement standards in selecting, monitoring, auditing and managing our suppliers to prevent any possible disruption so as to uphold our responsibilities in ensuring quality in our product output.

SUSTAINABILITY REPORT

Year ended 30 June 2018



In addition to the COC, TSS or SDS, we are also working towards requiring direct material suppliers to comply with Restriction of Hazardous Substances (RoHS) and Registration, Evaluation, Authorisation and Restriction of Chemical Substances (REACH). As at end February 2018, 34 % of our direct material suppliers provide REACH and RoHS report for our reference. In the absence of supplier’s information like specific properties and requirements, testing of materials are outsourced to third party laboratories to ensure it complies with our requirements.

Micro-Mechanics engages services from government approved waste management companies to handle, transport, treat and dispose of waste. We monitor the life cycle of raw materials and ensure any waste generated is properly handled through incineration, landfill or other disposal methods that are in compliance with local rules and regulations, for instance, the Environmental Public Health (Toxic Industrial Waste) Regulations 1988 in Singapore.

SUPPLIER SOCIAL ASSESSMENT

We encourage all our direct material suppliers to meet Micro-Mechanics requirements and follow certain standards such as Responsible Business Alliance (“RBA”).

<p><i>Policies and guides:</i> Practice Responsible Business Alliance (RBA) principles</p>	<p><i>Performance:</i> 86% of direct material suppliers complied to RBA principles using our vendor declaration form</p>	<p><i>Target:</i> 80% of direct material supplier complies to RBA principles using our vendor declaration form</p>
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For the upcoming financial year, we target to have 80% of our direct material suppliers to comply with RBA principles. We will continue to work with the suppliers and target towards 100% in the coming year.

Responsible Business Alliance

The Responsible Business Alliance (RBA), formally known as Electronics Industry Citizenship Coalition (EICC) is a set of standards on social, environmental and ethical matters, specially dedicated to the supply chain in the electronics industry. This Code of Conduct strictly follows international standards such as Universal Declaration of Human Rights, ILO International Labour Standards, Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, ISO and Standards Association.

At Micro-Mechanics, we fully support the vision and goals of RBA and make reference to RBA principles diligently whilst encouraging our suppliers and business partners to do the same. In Micro-Mechanics, we have a mature Purchasing Department in charge of our supply chain management. We believe by prompting proper compliance and governance in our manufacturing supply chain, this will further enhance sustainability in the longer term.

SUSTAINABILITY REPORT

Year ended 30 June 2018



RBA principles are used as one of the selection and evaluation tools to assess Micro-Mechanics suppliers and business partners. Only qualified suppliers meeting Micro-Mechanics' purchasing standards are included in our Approved Vendor List.

Management Initiatives

We actively share our corporate values, roles and responsibilities in our sustainability development efforts to our existing customer-supplier communications. At the same time, we expect our suppliers to comply with RBA principles requirements including incorporating sustainability efforts in their business operations.

We ensure suppliers act in accordance to the RBA principles stated below:

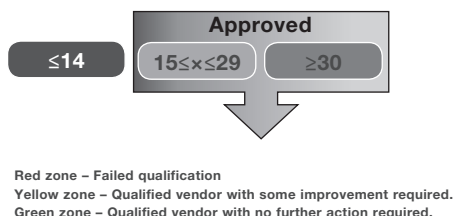
- Endeavouring to provide a safe and healthy environment for employees, contractors, suppliers and the communities in which they operate.
- Recognizing the importance of human rights, resource conservation, community wellbeing and business ethics.
- Commitment to the prevention of pollution in the workplace and the promotion of workplace health and safety.
- Use of environmentally friendly materials and providing a safe plant and system of work.
- Implement appropriate measures on pollution prevention and minimization.
- Ensuring the safe handling of hazardous substances.
- Understanding of relevant occupational health and safety concerns.
- Adherence to applicable resource conservation practices.
- Commitment to comply with applicable local environmental, occupational health and safety, and local labour laws.
- Ensuring that employment is freely chosen and not using child labour.
- Treating employees fairly, including ensuring appropriate working hours and wages payment in compliance with local labour laws.

SUSTAINABILITY REPORT

Year ended 30 June 2018

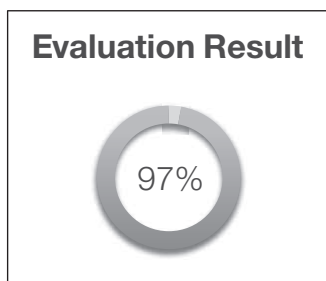
- Non-discriminatory recruitment policies and freedom of association for all employees.
- Zero tolerance on any form of bribery, corruption, extortion and embezzlement.
- Fair conduct of business (including rejection of anti-competitive behaviour).
- Commitment to protecting the personal information of our customers, suppliers, and employees.

Micro-Mechanics requires all suppliers to perform a self-assessment of their performance in sustainability development through an internal audit headed by Quality and Purchasing team. This is an essential monitoring tool in gathering information on whether suppliers meet our expectations. The questionnaire consists of nineteen (19) questions and a minimum score of 15 is mandated for a vendor to be considered as an approved supplier.



Based on the suppliers’ assessment result, a traffic light system is established to classify them into three categories as shown in the chart above. Vendors not meeting a minimum score of 15 are considered to have failed the qualification and they will be removed from the list. Vendor Approved List is maintained in our ERP system and amendments will be updated via vendor setup form submission to our Finance Department.

In addition, Micro- Mechanics willingly works with suppliers by providing support for sustainability improvement. Analysis of the results will be conveyed via established communications to our suppliers to address key information. Suppliers categorized in the yellow zone will receive suggested recommendations for improvement. Continuous monitoring after assessments is our practice to ensure suppliers have put in effort in driving towards sustainable development. Suppliers with repeated serious non-compliance issues will ultimately lead to immediate termination of the relationship or contract.



97% of evaluated direct material suppliers scored ≥30

Supply Risk Analysis

Under Business Continuity Management, Micro-Mechanics conducts risk assessments on our material supply chain in order to counter situational disruptions. Our strategy for building supply chain resilience is to establish backup supplies sources and inventory stock up guidelines although cost may increase in doing so when such situations arise. However, these strategies and practices are essential for our production department to avoid production delays and ensure a high level of on-time product shipment to our customers.

SUSTAINABILITY REPORT

Year ended 30 June 2018

COMPLIANCE WITH LAWS AND REGULATIONS, INCLUDING ANTI-CORRUPTION

Our reputation and trust from our customers, suppliers and employees are critical to our organization's success. Any corruption incident linked to our company will damage our reputation and trust from stakeholders. Similarly, this applies also to any incident of non-compliance with laws and regulations. The Board and the company have zero tolerance towards any corruption and non-compliance of rules and regulations.

<p><i>Policies and guides:</i> Micro-Mechanics Company Handbook</p>	<p><i>Performance:</i> Zero incidents of significant fines and non-monetary sanctions against Micro-Mechanics and negative statement from Micro-Mechanics</p>	<p><i>Target:</i> Zero incidents of corruption and non-compliance of rules and regulations</p>
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Corporate Policies

We have a number of policies that will help address any incident of non-compliance. These are included in our Company Handbook as follows:

<i>Type of regulation</i>	<i>Policy name</i>	<i>Objective of policy</i>
General employee conduct	Conflict of Interest policy	Sets out the principles of business conduct expected from all employees including directors. Emphasizing the group's policy to conduct business with integrity, in an ethical and proper manner, and in compliance with applicable laws and regulations.
	Regulatory and Compliance Breach policy	
	Gift & Entertainment policy	
Customer privacy	Personal Data Protection Act Policy	Provide guidelines on usage of personal data in accordance with the regulatory requirements.
Anti-corruption and Anti-Money Laundering regulation	Anti-corruption & Whistle blowing policy	<p>Encourage reporting of suspected misconduct by establishing defined processes through which such reports may be made with confidence that employees and other persons making such reports will be treated fairly and protected from reprisal.</p> <p>Whistle blowing policy provides guidelines for whistle blower to raise a concern by all means including sending letter or email or by phone to any one of our Whistle Blower Officers who are Board directors. Whistle Blower Officer will report to Audit Committee in a timely manner and is obliged to acknowledge receipt of the information and provide explanation as to how the matter is being handled if the report is not anonymous.</p>

SUSTAINABILITY REPORT

Year ended 30 June 2018

Our employees are well versed in the regulatory environment and a combination of briefings and self-declarations keep them updated on changes and developments. We receive constant reviews and updates from relevant regulatory websites, our secretarial firm and our auditors. Emails are circulated to directors and relevant employees for related applicable regulatory updates. The new employee orientation includes a briefing on the laws and regulations they must adhere to.

Our Board appoints an external professional firm to conduct internal audit reporting direct to Audit Committee. There is also an annual year-end accounting audit conducted by professional firm to ensure our accounting practises are in compliance with the respective regulatory authorities and financial reporting standards.

As we are ISO22301 Business Continuity Management System certified since 2012, the annual audit does comprise regulation compliance. We have a list of legal registrars which will update as and when required. This list is available in our IT system and is accessible by all management levels.

Our Enterprise Resource Planning system (ERP) enables us to record all transactions from start to end, which help to identify any corruption acts easily. With the help of ERP, our finance team will monitor bank accounts and funds movements on a daily basis and report any unusual activities. Weekly cash movement reports are also submitted to the management. Another anti-corruption measure includes mandating all employees to seek approval from directors if gifts or gratuities from suppliers exceed S\$200. We will not only take appropriate disciplinary action but also report it to the local authority if any corruption cases are found. We are planning to implement ISO37001 Anti-Bribery Management System in the coming year.

SUSTAINABILITY REPORT

Year ended 30 June 2018

GRI Standards (2016)		Notes/Page number(s)
General Disclosures		
Organisational Profile		
102-1	Name of the organisation	Micro-Mechanics (Holdings) Ltd
102-2	Activities, brands, products, and services	Corporate Profile, inside cover
102-3	Location of headquarters	Corporate Profile, cover
102-4	Location of operations	Corporate Profile, inside cover Notes to the Financial Statements, page 107-108
102-5	Ownership and legal form	Corporate Profile, inside cover Notes to the Financial Statements, page 87
102-6	Markets served	Corporate Profile, inside cover
102-7	Scale of the organisation	Corporate Profile, inside cover Executive Management Report, page 2-3 Financial Highlights, page 5 Diversity and Equal Opportunity, page 23
102-8	Information on employees and other workers	Diversity and Equal Opportunity, page 23-24
		Micro-Mechanics (Holdings) Ltd does not have significant portion of its activities being carried out by workers who are not employees.
102-9	Supply chain	Our supply chain, page 27-30
102-10	Significant changes to organisation and its supply chain	No significant changes during FY2018.
102-11	Precautionary principle or approach	Micro-Mechanics (Holdings) Ltd does not specifically address the principles of the precautionary approach.
102-12	External initiatives	Our Awards and Accolades, page 4 Occupational, Health and Safety, page 18, 22 Our supply chain, page 28-30 Diversity and Equal Opportunity, page 23
102-13	Membership of associations	Singapore Business Federation Singapore Precision Engineering and Technology Association
Strategy		
102-14	Statement from senior decision-maker	Board Statement, page 11

SUSTAINABILITY REPORT

Year ended 30 June 2018

GRI Standards (2016)		Notes/Page number(s)
Ethics and Integrity		
102-16	Values, principles, standards, and norms of behaviour	Board Statement, page 11 Corporate Governance Report, page 36-57 Compliance with Laws and Regulations, including Anti-corruption, page 31-32
Governance		
102-18	Governance structure	Sustainability governance, page 12-13
Stakeholder Engagement		
102-40	List of stakeholder groups	Stakeholder Engagement, page 14
102-41	Collective bargaining agreements	There are no collective bargaining agreements in place at Micro-Mechanics (Holdings) Ltd.
102-42	Identifying and selecting stakeholders	Stakeholder Engagement, page 14
102-43	Approach to stakeholder engagement	Stakeholder Engagement, page 14
102-44	Key topics and concerns raised	Stakeholder Engagement, page 14
Reporting Practice		
102-45	Entities included in the consolidated financial statements	Notes to the Financial Statements, page 87
102-46	Defining report content and topic Boundaries	About this Report, page 12 Materiality, page 13-15 All ESG factors are relevant within our organisation only
102-47	List of material topics	Materiality, page 15
102-48	Restatements of information	This is the first Sustainability Report published by Micro-Mechanics (Holdings) Ltd.
102-49	Changes in reporting	This is the first Sustainability Report published by Micro-Mechanics (Holdings) Ltd.
102-50	Reporting period	About This Report, page 12
102-51	Date of most recent report	Not applicable
102-52	Reporting cycle	About this Report, page 12
102-53	Contact point for questions regarding the report	About this Report, page 12
102-54	Claims of reporting in accordance with GRI Standards	About this Report, page 12
102-55	GRI content index	GRI Index, page 33-35
102-56	External assurance	Micro-Mechanics (Holdings) Ltd has not sought external assurance for this reporting period and may consider it for future periods.

SUSTAINABILITY REPORT

Year ended 30 June 2018

GRI Standards (2016)		Notes/Page number(s)
Management Approach		
103-1	Explanation of the material topic and its boundary	Sustainability Governance, page 12 Materiality, page 13-15 Materiality and management initiatives are discussed within the section for each material factor, page 15-32
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
Material Topics		
Anti-corruption		
205-3	Confirmed incidents of corruption and actions taken	Compliance with laws and regulations, including anti-corruption, page 31-32
Energy		
302-1	Energy consumption within the organisation	Energy, page 25-26
302-3	Energy intensity	Energy, page 25-26 Energy disclosed in this report refers to purchased electricity only
Occupational Health and Safety		
403-2	Types of injury and rates of injury, occupational diseases, lose days, and absenteeism, and number of work-related fatalities	Occupational Health and Safety, page 17
Training and Education		
404-1	Average hours of training per year per employee	Training and Education, page 15-16
404-2	Programs for upgrading employee skills and transition assistance programs	Training and Education, page 15-17
Supplier Social Assessment		
414-1	New suppliers that were screened using social criteria	Our Supply Chain, page 27-30
Diversity and Equal Opportunity		
405-1	Diversity of employees and governance bodies	Diversity and equal opportunity, page 23-24
Socioeconomic Compliance		
419-1	Non-compliance with laws and regulations in the social and economic area	Compliance with Laws and Regulations, including Anti-corruption page 31-32

CORPORATE GOVERNANCE

The Board of Directors and management of Micro-Mechanics (Holdings) Ltd. (the “**Company**”) are committed to a high standard of corporate governance and transparency and to the protection of shareholders’ interests. The Company’s corporate governance policies and processes are in line with the revised Code of Corporate Governance (the “**Code**”) released by the Council on Corporate Disclosure and Governance in May 2012. Explanations will be provided for non-compliance.

This report describes the Company’s corporate governance policies and processes for the financial year ended 30 June 2018 (“**FY2018**”) with specific reference to specific guidelines in the Code.

HIGHLIGHTS

In the latest Singapore Governance and Transparency Index (SGTI) 2018 released on 7 August 2018, Micro-Mechanics ranked 23rd (19th in 2017) out of 589 companies listed under general category on the Singapore Exchange. Our latest score has improved to 97 from 92 in SGTI 2017.

General

- Question:** (a) *Has the Company complied with all the principles and guidelines of the Code? If not, please state the specific deviations and the alternative corporate governance practices adopted by the Company in lieu of the recommendations in the Code.*
- (b) *In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the Code?*

The Company has complied with most of the principles and guidelines of the Code. Explanations will be provided for non-compliance in this statement.

BOARD MATTERS

The Board’s Conduct on Affairs Board, Composition and Guidance

Guideline 2.1

- Question:** *Does the Company comply with the guideline on the proportion of independent directors on the Board? If not, please state the reasons for the deviation and the remedial action taken by the Company.*

The Board comprises six Directors, three of whom are independent and non-executive directors and three are executive directors. The particulars of the directors are set out on pages 7 and 8. The Directors are not related to one another.

Guideline 2.5

In view of the scope and nature of the operations of the company and requirements of the business, the Board thinks that the number of Directors on the Board is currently appropriate.

Guideline 1.1

The Board believes that its primary role is to protect and enhance long-term shareholder value. To this end, it sets the overall strategy for the Company and its subsidiaries (collectively, the “**Group**”) and oversees management. To fulfill this objective, the Board takes responsibility for implementing and maintaining sound corporate governance practices for the Group. The Board provides leadership, sets strategic direction, establishes a framework of prudent and effective controls, risk policies and procedures and requires goals from management as well as monitors the achievement of those goals.

CORPORATE GOVERNANCE

The Board encourages stakeholder engagement by identifying the key stakeholder groups and understanding their perceptions on the company especially the sustainability issues. Setting high ethical standards for all levels within the company is the Board's priority.

Guideline 1.2

All directors must objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the company.

Guideline 1.3

To assist in the execution of its responsibilities, the Board has established the following committees, namely an Audit Committee, a Nominating Committee, a Remuneration Committee and a Risk Management Committee. These committees are chaired by independent and non-executive directors and function within clearly defined terms of reference and operating procedures. The Board and the Committees meet regularly and, if necessary, on an ad hoc basis.

Guideline 1.4

To facilitate the ease, frequency and speed of Board meetings, the Company's Articles of Association allow Board members to attend meetings via any electronic or telegraphic methods of simultaneous communication including via tele-conference.

Guideline 1.5

Question: What are the types of material transactions which require approval from the Board?

The Board regularly reviews all matters within its purview including but not limited to business strategies, development plans and the performance of the Group. Reviews are also made of the annual budget, announcements of financial results, annual reports, performance bonus incentives and any acquisition or disposal of material assets. There are comprehensive internal guidelines on matters that require the Board's approval, such as directors dealing in company's shares, changes in the Company's constitution and structure, material capital commitments, commencing and defending litigation etc. These guidelines were approved by the Board and reviewed annually.

Guideline 1.6

- Question:**
- (a) *Are new directors given formal training? If not, please explain why.*
 - (b) *What are the types of information and training provided to (i) new directors and (ii) existing directors to keep them up-to-date?*

The Board recognizes the importance of appropriate orientation training and continuing education for its directors. Newly appointed directors are fully briefed as to the business activities of the Group and its strategic directions. Newly appointed directors receive a formal letter explaining their statutory duties and responsibilities as a director.

The directors are also updated in a timely manner on regulatory changes which have a bearing on the Company and the directors' obligations towards the Company.

With effect from 1 July 2010, all directors are encouraged to obtain at least 8 hours continuing education each financial year by way of seminars, courses, and other programs relating to the discharge of their duties as directors. In addition, independent directors are encouraged to visit one or more of the Group's facilities outside Singapore and attend in-house training programs offered by the Group to its employees in order to more fully understand the Group's business and day-to-day operations.

CORPORATE GOVERNANCE

The Company is prepared to undertake funding for such continuing education. During FY2018, all directors met the continuing education target.

Attendances and number of meetings

Guideline 1.4

The following table shows the number of meetings held and directors' attendances during the financial year under review:

	<u>Board</u>	<u>Audit Committee</u>	<u>Remuneration Committee</u>	<u>Nominating Committee</u>	<u>Risk Mgt committee</u>	<u>AGM</u>
Number of meetings held	4	5	3	2	4	1
Directors:			Number of Meetings Attended			
Christopher Reid Borch	4	NA	1*	NA	NA	1
Low Ming Wah	4	1*	2*	NA	4	1
Chow Kam Wing	4	5**	3**	2**	4	1
Sumitri Mirnalini Menon @ Rabia	4	5	3	2	4	1
Girija Prasad Pande	4	5	3	2	4	1
Lai Chin Yee	4	5	3	2	4	1

NA – not applicable as the director is not a member of the Committee

* – attendance by invitation of the Committee

** – attendance as Secretary of the Committee

Separation of the roles of Chairman and Chief Executive Officer

Guideline 3.1 and 5.3

Ms Sumitri Mirnalini Menon @ Rabia is the non-executive chairman of the Board of Directors and Mr. Christopher Borch is the chief executive officer of the Group. The chairman, the CEO and the executive directors are not related to one another.

The major responsibilities of the non-executive chairman are:

- to ensure that Board meetings are held when necessary to enable the Board to perform its duties and facilitate the Company's operations;
- to set Board meeting agendas in consultation with the company secretary and the executive directors;
- to review all Board papers;
- to provide adequate, timely and relevant materials and Board papers to the Board members to help to ensure the quality, quantity and timeliness of the flow of information between management and the Board;
- to ensure the Company practices effective communications with shareholders;
- to assist in ensuring compliance with the Company's guidelines on corporate governance;
- to propose new members to be appointed to the Board with consultation with the NC.

CORPORATE GOVERNANCE

As chief executive officer, Mr. Borch has overall responsibility for the management and daily operation of the Group and is supported by the executive directors and executive officers. The separation of the chairman and chief executive officer roles enables Mr. Borch to focus on his executive duties including the Group's strategic planning and operations.

Board Membership and Performance

Guideline 4.1

The Nominating Committee ("NC") has three members, all of whom are independent and non-executive directors. The members are:

Chairman:	Sumitri Mirnalini Menon @ Rabia
Member:	Girija Pande
Member:	Lai Chin Yee

The NC makes recommendations to the Board on all board appointments and re-appointments. The NC aids the Board in obtaining an appropriate mix of relevant knowledge and experience among Board appointees.

Guideline 2.6

- Question:**
- (a) *What is the Board's policy with regard to diversity in identifying director nominees?*
 - (b) *Please state whether the current composition of the Board provides diversity on each of the following – skills, experience, gender and knowledge of the Company, and elaborate with numerical data where appropriate.*
 - (c) *What steps has the Board taken to achieve the balance and diversity necessary to maximize its effectiveness?*

To ensure an independent Board, the Board will make sure that all Board members are not relating to each other. The Board comprises at least half of the members are independent and non-executive and Chairman of the Board and all Committees are chaired by independent and non-executive. The Board does not have a formal Board diversity policy but the Board encourages diversity of the members in terms of their competency, expertise, background, races, gender and nationalities so that the members can contribute to the Board with different perspectives and insights.

We are satisfied with our current composition of the Board which has three independent and non-executive directors and three executive directors. The background of independent directors includes a lawyer, a Chief Financial Officer of a listed company and a senior management from a reputable global organisation. We have six members of which we have four nationalities and one third of the members are female. For detailed particular of our members, please refer to page 7 and 8.

Guideline 4.6

- Question:** *Please describe the board nomination process for the Company in the last financial year for (i) selecting and appointing new directors and (ii) re-electing incumbent directors.*

The NC's process for identifying and selecting candidates for the Board (whether in the event of a vacancy or to add to the Board) has been and is as follows. The Board sets selection criteria based on the desired complementary skill set i.e. managerial, technical, financial, legal etc expertise and experience in a similar or related industry. The NC shall have recourse to both internal sources as well as external sources to draw up a list of potential candidates. Internal sources include the Company's own directors and management. External sources include the Company's auditors,

CORPORATE GOVERNANCE

its secretarial services providers, its human resource consultants, the Singapore Institute of Directors, the Register of Women Directors and Securities Investors Association of Singapore, etc. Interviews shall be conducted by the NC and short-listed candidates are recommended to the Board for consideration.

Regarding re-electing incumbent directors, the Board will comply with the Company's Articles of Association requiring one-third of our directors to retire and subject themselves to re-election by shareholders at every AGM. After taking into account their contribution and performance, the NC will recommend the Board re-nominate the retired directors for re-appointment at the forthcoming AGM.

Each member of the NC abstains from voting on any resolutions and making any recommendation and/or participating in respect of matters in which he or she is interested.

Guideline 5.1

Question: (a) *What was the process upon which the Board reached the conclusion on its performance for the financial year?*

(b) *Has the Board met its performance objectives?*

The NC is charged with carrying out an annual Board appraisal. Briefly, the process followed is for each Board member (executive and non-executive) to complete an evaluation form within a stipulated period. The completed form is returned by each member to the chairman of the NC who compiles a consolidated report after discussion with the NC members.

The NC's report and any recommendations are then tabled for discussion by the whole Board. The Board takes this evaluation process seriously. The evaluation form and process have been designed to obtain constructive feedback and initiate dialogue among Board members with a view to enhancing shareholder value, the effectiveness of the Board as a whole and the discharge of each Member's duties. The evaluation tracks and reviews quantitative as well as qualitative indicators to measure the Board's performance. Objective quantitative indicators include standard ones such as the performance of the Company's share price measured against the STI and its peers, dividend rates and capital efficiency indicators such as ROI etc. Qualitative governance indicators regarded cover the composition of the Board, its independence, processes, functioning, advisory and oversight functions, risk and crisis management protocols, compliance record and protocols, the discharge of its duties towards shareholders and the sufficiency and effectiveness of its committees. The contribution of each director to the effectiveness of the Board is tracked via their attendance at Board and Committee meetings.

Guideline 4.2

The NC's written terms of reference, which describe its major responsibilities, are:

- to make recommendations to the Board on the re-nomination of retiring directors standing for re-election at the Company's Annual General Meeting ("**AGM**"), having regard to the directors' contribution and performance;
- to determine annually whether or not an independent director is independent;
- to determine whether a director is able to and has been adequately carrying out his/her duties as a director of the Company;
- to ensure that disclosure of key information relating to directors is in the annual reports as required by the Code;

CORPORATE GOVERNANCE

- to decide how the Board's performance may periodically be evaluated against objective criteria;
- to review the board's succession plan, in particular, the roles of Chairman and CEO; and
- to develop a process for the evaluation of the Board's performance as a whole, that of its committees and if and when appropriate, its individual members.

Guideline 4.4

- Question:**
- (a) *What is the maximum number of listed company board representations that the Company has prescribed for its directors? What are the reasons for this number?*
 - (b) *If a maximum number has not been determined, what are the reasons?*
 - (c) *What are the specific considerations in deciding on the capacity of directors?*

The NC also investigated each director's other board appointments and found their directorship in other companies had no relationship or conflict of interests to the Company. It is part of the NC's duties to review and ascertain whether any director who has multiple Board representations is able to and has been effectively carrying out his duties as a director in accordance with its internal guidelines in this regard and to ensure these guidelines remain relevant. All directors are required to formally declare their other Board representations.

On 1 May 2010, the Board resolved to limit each director to holding not more than FOUR directorships in listed companies including the Company. At the end of the financial year end it was confirmed that this restriction was complied with by all directors.

Policy on the independence of independent directors

The Company is committed to have a strong independent element on the Board and has adopted a policy and established a process to obtain and maintain the requisite degree of independent representation for good and sound governance. As prescribed by the policy, the process:

- Establishes the methodology the Board shall use to assess the independence of each independent director bearing in mind the definition of independence in the Code;
- Identifies the information that shall be collected from each independent director to make the assessment of independence; and
- Fixes the elements of disclosure to shareholders with regard to the assessment to be made, including the disclosure of any relationships and associations that may be perceived to affect the independence or objectivity of an independent director.

The process requires the NC to make a formal assessment and report to the Board their findings as to whether the independent directors are independent of management and independent in character and judgment and whether there are any business or other relationships that could materially affect or interfere with the exercise of objective, unfettered or independent judgment by the independent directors or the independent directors' ability to fulfill their mandate and duties. The Board's rigorous review of the process is an important element in this process as the NC itself comprises only independent directors. The key features of the process are briefly set out below.

CORPORATE GOVERNANCE

On an annual basis, the NC shall require each independent director to complete, confirm and sign a Declaration of Independence, the content and form of which has been approved. Each declaration shall be reviewed by the other members of the NC. This forms the basis of the assessment. All relevant facts and circumstances shall be considered in making the assessment. Generally (but without limiting the scope of the factors which may be taken into account), in accordance with best practices, independence is, prima facie, established if the criteria set out below are met.

Guideline 2.3

A director is independent if he or she:

- (a) is not employed by the Company or any of its related corporations for the current or any of the past three financial years;
- (b) does not have close family ties to an executive director of the Company or any of its related corporations;
- (c) does not have an immediate family member who is, or has been in any of the past three financial years, employed by the Company or any of its related corporations as a senior executive officer whose remuneration is determined by the RC;
- (d) does not accept any compensation from the Company or any of its subsidiaries other than compensation for board service for the current or immediate past financial year;
- (e) does not have an immediate family member who is accepting any compensation from the Company or any of its subsidiaries other than compensation for board service for the current or immediate past financial year;
- (f) is not a substantial shareholder of or a partner in (with 5% or more stake), or an executive officer of, or a director of any for-profit business organization to which the Company or any of its subsidiaries made, or from which the Company or any of its subsidiaries received, significant payments (in excess of an aggregate of S\$200,000 per annum) in the current or immediate past financial year;
- (g) does not have an immediate family member who is a substantial shareholder of or a partner in (with 5% or more stake), or an executive officer of, or a director of any for-profit business organization to which the Company or any of its subsidiaries made, or from which the Company or any of its subsidiaries received, significant payments (in excess of an aggregate of S\$200,000 per annum) in the current or immediate past financial year;
- (h) has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the independent director's ability to act in the best interests of the Company; and
- (i) does not have a relationship which would interfere, or be reasonably perceived to interfere with, the exercise of independent judgment in carrying out the functions of an independent director of the Company.

Independent directors are obliged to update the Board with any new information in relation to interests or relationships relevant to independence. The Board shall re-assess independence as and when any new interests or relationships are disclosed or come to light, as well as annually.

Following this process, the NC shall report to the Board, drawing to its attention in particular any failure to meet any of the above criteria and to any other relevant circumstances and the NC shall make recommendations. However, it is the Board's duty and prerogative to determine the sufficiency or otherwise of independence and to determine its composition. In accordance with best practices and the Code, the Board shall provide a justification if an appointee fails to meet any of the criteria above but the Board still considers the appointee an independent director.

CORPORATE GOVERNANCE

The Board shall make the following disclosure to shareholders in the Company's annual report with regard to the matter of independent directors:

- The status of each of its members, that is whether each is an independent or non-independent director (and any change in status that occurred during the year) and their period of office.
- The justification for designating any member an independent director who fails to meet all of the criteria stated above or whose status requires an explanation for any reason.
- The policy and criteria mentioned above.

Independent and non-independent directors standing for re-election will be so identified in the Notice of Annual General Meeting. If the Board's assessment of a director's independence changes, that change will be disclosed immediately through an announcement on the Singapore Exchange website and the Company's website.

Guideline 2.3

Question: (a) *Is there any director who is deemed to be independent by the Board, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him not to be independent? If so, please identify the director and specify the nature of such relationship.*

(b) *What are the Board's reasons for considering him independent? Please provide a detailed explanation.*

All of our independent director are deemed to be independent according the Code and the policy mentioned above.

Ms Sumitri Mirnalini Menon@Rabia, Mr. Girija Pande and Miss Lai Chin Yee have satisfied the criteria stipulated in the above policy and the Board is of the view they are in fact independent and non-executive directors. For key information relating to the directors, please refer to the particulars of the directors as set out on pages 7 and 8. The dates of first appointment and last re-appointment of each director are provided in the Corporate Information section on page 10.

Guideline 2.7 and 2.8

The roles of independent and non-executive directors are to constructively challenge the Management's proposed strategies and also review their performance in line with agreed goals. Chairman of the Board, Audit Committee (AC), Nominating Committee (NC), Remuneration Committee (RC) and Risk Management Committee are independent and non-executive directors to ensure its independence and objectivity. Members of AC, NC and RC are all independent and non-executive directors. Management and Executive Directors are invited for meetings only on a need basis.

Guideline 4.7

The Company's Articles of Association require one-third of our directors to retire and subject themselves to re-election by shareholders at every AGM. At the forthcoming AGM, Mr Chow Kam Wing and Ms Sumitri Mirnalini Menon will retire by rotation. Mr Chow and Ms Menon will be standing for re-election. After taking into account their contributions and performance the NC has recommended to the Board that Mr Chow and Ms Menon be re-nominated for re-appointment at the forthcoming AGM.

Each member of the NC abstains from voting on any resolutions and making any recommendation and/or participating in respect of matters in which he or she is interested.

CORPORATE GOVERNANCE

Guideline 2.4

Question: *Has any independent director served on the Board for more than nine years from the date of his first appointment? If so, please identify the director and set out the Board's reasons for considering him independent.*

The Board notes that Ms Sumitri Mirnalini Menon @ Rabia shall be serving as independent director for the fifteenth year. After careful deliberation, the Board (excluding Ms Sumitri Mirnalini Menon @ Rabia) is of the view that her length of service has not compromised her director's objectivity and her commitment and ability to discharge her duty as independent directors.

Ms Sumitri Mirnalini Menon @ Rabia has fulfilled all the criteria according to Guideline 2.3 being an independent director. The Board also judged her independent in character and judgment and noted factors demonstrating continued independence such as expressions of frank, divergent and independent views at meetings, the complete absence of any other circumstances that might compromise independence and the absence of any evidence of a lack thereof. The Board is confident that Ms Sumitri Mirnalini Menon @ Rabia has the ability to continue exercising strong independent judgment in the discharge of her duties and have requested that she continue for the ensuing year. Ms Sumitri Mirnalini Menon @ Rabia has acceded to the Board's request.

ACCESS TO INFORMATION

Guideline 6.1

Question: *What types of information does the Company provide to independent directors to enable them to understand its business, the business and financial environment as well as the risks faced by the Company? How frequently is the information provided?*

The management supplies financial, marketing, human resource and asset management reports and financial highlight to the Board monthly. Quarterly, the Board will receive quarterly financial report with budget variance analysis. The Directors have separate, unfettered and direct access to the management team, the company secretary, the internal auditor and the external auditors at all times.

Every quarter, there will be Board meeting and Committee meetings for the independent directors to meet up with the management to understand more about Company's business and financial environment and review and approve transactions according to the Internal Guideline and Listing Rules. Risk Management Committee holds quarterly meeting on matters relating risk governance.

Guideline 6.2

The Board and the Committees are furnished with complete, adequate and reliable board/committee papers and information in a timely manner prior to any meeting so as to facilitate directors in the proper and effective discharge of their duties. Detailed Board papers are prepared for each meeting of the Board and are normally circulated one week in advance of each meeting. The Board papers include sufficient information from management on financial, business and corporate issues to enable the directors to properly consider these matters before the Board at meetings. A budget variance report is also submitted to the Board every quarter. According to the Board evaluation, the Board members are satisfied with the arrangement and support from the company secretary.

CORPORATE GOVERNANCE

Guideline 6.3

The company secretary attends and minutes all Board meetings. He assists with proper procedure and compliance with the Companies Act, the Company's Memorandum and Articles of Association and other applicable rules and regulations. The directors have full access to the company secretary with regard to any corporate issues.

Guideline 6.4

The appointment or the removal of the company secretary is subject to the approval of the Board.

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies Level and Mix of Remuneration

Guideline 7.1

The Remuneration Committee ("RC") has three members, all of whom are independent and non-executive directors.

The members are:

Chairman:	Girija Pande
Member:	Sumitri Mirnalini Menon @ Rabia
Member:	Lai Chin Yee

Guideline 7.2

The RC's written terms of reference which describe its major responsibilities, are:

- to make recommendations to the Board on the framework for remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind for the Board and key executives and to determine specific remuneration packages for each executive director;
- to review all benefits and long-term incentive schemes (including share schemes), whether directors should be eligible for benefits under long-term incentive schemes and compensation/remuneration packages for the Board and key executives;
- to review service contracts of the executive directors; and
- to review remuneration packages of employees who are related to any director or substantial shareholders.

Principle 8 and 9

Guideline 9.6

- Question:**
- (a) *Please describe how the remuneration received by executive directors and key management personnel has been determined by the performance criteria.*
 - (b) *What were the performance conditions used to determine their entitlement under the short-term and long-term incentive schemes?*
 - (c) *Were all of these performance conditions met? If not, what were the reasons?*

CORPORATE GOVERNANCE

The Company adopts a remuneration package for employees including executive directors, which is made up of fixed and variable components. The fixed component is the basic salary and the variable components are the Performance Bonus Incentive (“**PBI**”) scheme, special bonus and the schemes mentioned below being the Sales Incentive scheme and the Performance Shares Plan.

For employees, the PBI is linked to the performance of the relevant subsidiary and its achievement of established targets approved by the Remuneration Committee such as profitability, sales turnover, assets management, human resource management, quality, customer services and delivery time etc. For executive directors, the PBI is linked to the performance of the Group and the achievement of established targets same as the employees. The Company also has a Sales Incentive scheme for its sales and marketing teams structured on pre-defined targets. Executive directors are not entitled to the Sales Incentive.

During the financial year, most of the performance targets were met but there are still room for improvement on cycle time and quality in some subsidiaries.

Guideline 9.5 and 8.2

The Performance Shares Plan (“**Plan**”) was approved by Shareholders on 30 October 2008. The main objectives of the Plan are as follows:

- to increase the Company’s flexibility and effectiveness in its continuing efforts to reward, retain and motivate employees towards sustained superior work performance;
- to incentivize employees to excel in their performance and encourage greater dedication and loyalty to the Group;
- to supplement and enhance the remuneration packages of employees.

The life of the Plan is 10 years from the date approved by the shareholders and the Plan is administered by the Remuneration Committee. The total performance shares is not more than 5% of total issued share capital. All employees and directors are eligible for the Plan. The performance share is an integral part of the PBI as mentioned above. Payment of PBI to the employees and directors is either in form of cash or shares under the Plan.

During the year, no ordinary shares were issued to the employees or directors. The Remuneration Committee did not propose any performance share for FY2018.

As at 30 June 18, there were 54 employees, 3 executive directors and 3 independent non-executive directors holding company shares.

Guideline 9.1

Service contracts with the CEO, COO and CFO who are also executive directors are renewable every two years and the notice period in each of the service contracts is three months. There are no onerous clauses or ‘golden handshake’ provisions in connection with termination. There are no termination, retirement and post-employment benefits that are granted to the executive directors, the CEO and the key management personnel. These service contracts are subject to the review and approval of the Remuneration Committee. An over-riding principle of our remuneration policy is that no director is involved in deciding his own remuneration.

CORPORATE GOVERNANCE

Disclosure of Remuneration

The Board supports and is keenly aware of the need for transparency. However, after deliberation and debate, the Board is of the view that full disclosure of the specific remuneration of each executive director, the CEO and the key management personnel is not in the best interests of the Company and therefore shareholders. Inter alia, the Board took into account the very sensitive nature of the matter, the relative size of our Company, the competitive business environment we operate in and the irrevocable negative impact such disclosure would have on the Company.

Guideline 9.2

Question: *Has the Company disclosed each director's and the CEO's remuneration as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?*

The breakdown of the level and mix of remuneration of each Director and the key executives in FY2018 is as follows:

Remuneration of Directors

<u>Remuneration band & name of Director</u>	<u>Director's fee</u>	<u>Salary</u>	<u>Bonus</u>	<u>Allowances/ Benefits</u>	<u>Total</u>
<u>S\$750,000 to S\$1,000,000</u>					
Christopher R. Borch	4%	41%	54%	1%	100%
Low Ming Wah	4%	39%	54%	3%	100%
Chow Kam Wing	4%	40%	54%	2%	100%
Sumitri Mirnalini Menon @ Rabia	66,000	–	–	–	66,000
Girija Prasad Pande	46,000	–	–	–	46,000
Lai Chin Yee	58,000	–	–	–	58,000

Guideline 8.3

The independent and non-executive directors receive directors' fees in line with the level of contribution, time spent, efforts and responsibilities of each independent and non-executive director. The calculation of director's fees for independent and non-executive directors is as follows:

- the base director's fee + 15% for each Committee Chairperson;
- the base director's fee + 30% for Audit Committee Chairperson;
- the base director's fee + 50% for Board Chairperson.

The compensation to independent non-executive directors have been in line with market by benchmarking with the peer listed companies of similar size and market capitalization.

The director's fees are subject to shareholders' approval at the Annual General Meeting.

CORPORATE GOVERNANCE

Guideline 9.3

Question: *Has the Company disclosed each key management personnel's remuneration, in bands of S\$250,000 or in more detail, as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?*

Remuneration of key management personnel

Remuneration band & name of key management personnel	Director's fee	Salary	Bonus	Allowances/ Benefits	Total
Below S\$250,000					
Colin Wojno	–	76%	19%	5%	100%
Tan Beng Lim	–	53%	33%	14%	100%
Richie Cajili Manuel	–	50%	47%	3%	100%
Shen Zi Quan	–	53%	40%	7%	100%
Neo Say Chow	–	59%	22%	19%	100%

Question: *Please disclose the aggregate remuneration paid to the top five key management personnel (who are not directors or the CEO).*

The aggregate remuneration paid to the top 5 key management personnel is S\$754,249.

Guideline 9.4

Question: *Is there any employee who is an immediate family member of a director or the CEO, and whose remuneration exceeds S\$50,000 during the year? If so, please identify the employee and specify the relationship with the relevant director or the CEO.*

There was no family member of the substantial shareholders, a director or the CEO in the financial year under review, working in the company and its subsidiaries earning more than S\$50,000 a year.

ACCOUNTABILITY AND AUDIT

Accountability

Principle 10

The Board is accountable to the shareholders while the management is accountable to the Board. The Board is mindful of its obligation to provide timely, reliable and fair disclosure of material information in compliance with the SGX-ST Listing Manual and present the financial results quarterly, half yearly and yearly to the public. The management announced the quarterly and the half yearly financial results within 30 days from the relevant financial period. The CEO and CFO certify all such financial results.

In presenting the financial results, the Board has sought to provide a balanced and reader friendly assessment of the Company's performance and position.

To continually ensure the accountability of management to the Board, the management provides all members of the Board with a useful and balanced summary of the Company's performance and financial position such as Profit & Loss Accounts, Balance Sheets and other management reports on a monthly basis.

CORPORATE GOVERNANCE

Audit Committee

Guideline 12.1

The Audit Committee (“**AC**”) comprises three members, all of whom are independent and non-executive Directors.

Chairman:	Lai Chin Yee
Member:	Sumitri Mirnalini Menon @ Rabia
Member:	Girija Pande

All the members have had many years of experience in senior positions in financial, legal and/or commercial sectors. They have sufficient financial expertise and experience to discharge the AC’s functions. The Chair, who is a Chartered Accountant of Singapore, has been Finance Director of a listed company and Audit Committee Chair in other listed companies in Singapore.

The AC’s written terms of reference which describe its major responsibilities are:

- to review with the external and internal auditors the audit plan and the results of the external auditor’s examination and evaluation of the Group’s system of internal controls;
- to review (i) the quarterly, half yearly and yearly announcement of financial results, and (ii) the consolidated financial statements, balance sheets and statements of profit & loss accounts, and the external auditor’s reports on those financial statements, before submission to the Board for approval;
- to review and discuss with external and internal auditors any suspected fraud or irregularities, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on the Company’s operating results and/or financial position;
- to make recommendations to the Board on the appointment, re-appointment and removal of the external and internal auditors, and approve the remuneration and terms of engagement of the external and internal auditors;
- to review the independence of the external auditors annually including the nature and extent of non-audit services provided by the external auditors;
- to review interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual;
- to review the adequacy and effectiveness of the internal control framework and risk management processes including financial, operational, compliance and information technology controls and help ensure adequate measures are in place;
- to review the compliance with the Code of Best Practice on Security Transactions;
- to undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual;
- to review the scope of the work of the internal auditor and to review with the internal auditor the audit plan and the results of the internal auditor’s examination and evaluation of the Group’s system of internal controls;
- to review the corporate governance processes.

CORPORATE GOVERNANCE

Guideline 12.5

In the financial year under review, the AC met with the external auditor without the presence of executive directors and senior management. All AC meetings were run without the presence of executive directors and senior management unless invited by the AC to attend for any particular reason.

Guideline 12.6

Question: *Please provide a breakdown of the fees paid in total to the external auditors for audit and non-audit services for the financial year*

The AC has reviewed the non-audit services performed by the external auditors and is satisfied that the provision of such services has not affected the independence of the external auditors. The AC has recommended their re-appointment at the forthcoming AGM. The aggregate amount of fees paid to the external auditors for the year is S\$167k and the non-audit services fee is S\$33k.

Some of the subsidiaries in the Group are being audited by external auditors other than those of the Company. The AC is satisfied that there are sound internal controls applied in these subsidiaries and the scope of audit performed by these other external auditors is adequate. Furthermore, the external auditor of the Company visited these subsidiaries and did review their accounts.

Guideline 12.8

It is the Company's practice for our external auditor to present the AC with their audit plan and with updates relating to any change of accounting standards impacting on the financial statements before an audit commences. It is also the responsibility of the CFO to update the Board on any changes in accounting standards which may have an impact on the financial statements. During the financial year in review, the changes in accounting standards did not have any significant impact on the Company's financial statements.

Guideline 12.9

It is the company's practice not to recruit any former/current partner or director of the company's existing internal or external auditing firm acting as Board member or any Committee member.

Whistle Blowing Policy

Guideline 12.7

The Board has formulated a written and comprehensive Whistle Blowing policy which has been disseminated throughout the Group and is an integral part of the Company Handbook. The Board believes that this policy will, inter alia, act as a deterrent to malpractice and wrongdoing, encourage openness, promote transparency and underpin the risk management systems of the Group.

The Whistle Blowing Officers are the members of the Board. Any Whistle Blowing Officer to whom a concern has been raised is obliged to make a report to the Audit Committee of the substance of the concern without breaching employee confidentiality. The AC is obliged to review all reports received and take or approve appropriate action.

The policy requires that the Whistle Blowing Officer shall consider any concern raised seriously even if they made anonymously.

CORPORATE GOVERNANCE

The policy covers all and any improprieties and wrongdoings:

- affecting the financial position of the company;
- relating to the honesty and integrity of the company's dealings;
- relating to the honesty and integrity of any employee or director in the course of his or her employment or dealing with or on behalf of the company.

A whistle blower can choose to raise a concern by any means convenient including sending a letter or email or by telephone to any Whistle Blowing officer directly. Within 10 working days, the Whistle Blowing officer is obliged to acknowledge receipt of the information and provide an explanation as to how the matter is being handled if the report is not anonymous. The concern is appropriately and expeditiously dealt with and could be referred to the police, our external auditor or an independent investigator depending on the nature of the disclosure and the outcome of preliminary investigations.

All concerns raised must be referred to the AC in a timely manner.

INTERNAL CONTROLS AND INTERNAL AUDIT

Guideline 13.1, 13.2 and 13.5

We maintain a sound internal control and internal audit system to ensure the integrity and reliability of our financial information, as well as to safeguard shareholder value and the Group's assets. The system is strengthened and reinforced by the Group's internal auditor who carries out regular internal audits to ensure compliance with stipulated internal controls, applicable laws and regulations.

The internal audit function has been outsourced to a reputable auditing firm which was appointed by the Audit Committee. The AC reviews the audit plan yearly with the internal auditor and the effectiveness of the internal audit function.

Guideline 13.4 and 13.3

Question: *does the Company have an internal audit function?*

Since August 2011, Nexia TS Risk Advisory Pte Ltd has been the internal auditor of the Group. The internal auditor reports directly to the AC. The internal auditor meets with the AC half yearly to present the internal audit reports. The AC approves the internal audit schedule and plan and reviews the activities of the internal auditor on a regular basis. Outsourcing the internal audit function enhances continuity, objectivity and independence and thus good corporate governance.

The recruitment, selection and appointment of the internal auditor was made by the AC after reviewing suitable candidates identified by internal and external parties including the external auditor, company secretary and others. The internal auditor is independent and is not associated with or related to the substantial shareholders, directors or the CEO and the CFO.

The internal audit in-charge is a qualified accountant with many years of internal audit experience. The internal audit has been carried out in accordance with the IIA standards.

CORPORATE GOVERNANCE

RISK MANAGEMENT

The Company has put in place internal controls necessary to identify and manage significant business risks. The Company's internal audit function provides an independent resource and perspective to the AC by highlighting any areas of concern discovered during the course of performing such internal audit process.

Management regularly reviews the Company's business and operational activities to identify areas of financial, operational, compliance and information technology risk as well as measures to control these risks. These include detailed financial and management reporting and detailed operational manuals and reports. Targets are set to measure and monitor the performance of operations periodically, such as growth, profit margins, inventory efficiency, accounts receivable management, personnel attendance, cycle time and housekeeping.

The Company's assets and our employees are insured under a comprehensive insurance program which is reviewed annually. These also include product liability insurance and directors and officers liability insurance.

In June 2016, our Singapore plant operations was successfully certified as conforming to the Business Continuity Management System standard ISO22301:2012; it was audited in May 2018 and successfully renewed.

Financial risk management is discussed in Note 19 to the financial statements set out on page 98.

Risk Management Committee

Risk Management Committee was formed on 28 August 14 to strengthen the Group's risk management processes and framework. It comprises three independent directors and two executive directors:

Chairman:	Lai Chin Yee
Member:	Sumitri Mirnalini Menon @ Rabia
Member:	Girija Pande
Member:	Low Ming Wah
Member:	Chow Kam Wing

The Committee is guided by the terms of reference to assist the Board as follows:

- determine the Group's level of risk tolerance and risk policies
- ensure the management maintains a sound system of risk management
- recommend and review the implementation of risk management framework
- review the processes and procedures for ensuring that all material risks are properly identified and that appropriate systems of monitoring and control are in place
- review the Group's risk profiles regularly
- review breaches of risk appetite and tolerances

The Committee will take reference of ISO 31000 Risk Management Standards and Committee of Sponsoring of the Treadway Commission (COSO) Model for assessing the effectiveness of its risk management system and ISO27000 for its IT governance.

CORPORATE GOVERNANCE

At the management level, an Enterprise Risk Management Working Committee is formed comprising key management personnel for the development and implementation of enterprise risk management system. It will report regularly to Risk Management Committee.

Guideline 11.1 and 11.3

The Risk Management Committee reports to the Board quarterly. The Board determines and reviews the company's levels of risk tolerance and risk policies and oversees the risk management and internal control systems.

Guideline 11.3 and Listing Rule 1207 (10)

- Question:**
- (a) *In relation to the major risks faced by the Company, including financial, operational, compliance, information technology and sustainability, please state the bases for the Board's view on the adequacy and effectiveness of the Company's internal controls and risk management systems.*
- (b) *In respect of the past 12 months, has the Board received assurance from the CEO and the CFO as well as the internal auditor that: (i) the financial records have been properly maintained and the financial statements give true and fair view of the Company's operations and finances; and (ii) the Company's risk management and internal control systems are effective? If not, how does the Board assure itself of points (i) and (ii) above?*

The Board's opinion is, with the concurrence of the AC, that there are adequate internal controls in place to address material financial, operational and compliance risks during the financial year and up to the date of this report after considering the following:

- work done and reports by the internal and external auditors given during the year;
- quarterly report by Risk Management Committee;
- the lack of any concern raised by a whistle blower;
- certification as conforming to the Business Continuity Management System standard ISO22301:2012;
- assurance obtained from the CEO and CFO as well as internal auditor (a) that the financial records have been properly maintained and the financial statements give true and fair view of the company's operations and finances and (b) regarding the effectiveness of the company's risk management and internal control systems. The audited report was signed by the CEO and CFO. Similar assurance from subsidiary and finance heads.

Areas of concern

The Board would report on the following risk which became apparent or was brought to its attention.

Earthquake Damage in California – California is an earthquake prone area. The Group's factory in the USA is situated in Morgan Hill, California. The Board has ascertained that insurance deductibles on any policy obtainable to cover damage as a consequence is very high such as, as in the Board's view, to make coverage ineffective. Furthermore, the greater damage is likely to be caused by flooding in the event of a large earthquake, and this consequence is not insurable at all in this region. After due consideration, the management has decided not to insure against earthquake damage. The management has taken and shall continue to take steps to minimize potential damages and loss by employee education training programs and by proper bracing and anchoring of the contents in the plant. As at 30 June 2018, our USA operations recorded annual revenue of S\$12.3 million and had total assets of S\$16.8 million.

CORPORATE GOVERNANCE

SHAREHOLDER RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

CONDUCT OF SHAREHOLDER MEETINGS

Principle 15

Investor Relations Practices and Guidelines

The main objectives of the Company's Investor Relations (IR) are to:

- maintain an open and active dialogue with existing and potential shareholders.
- ensure all investors have equal and adequate access to clear, comprehensive, and relevant information on a timely basis.

Guideline 15.2

The Company's primary communication platforms are its annual report, announcements posted on the SGXNET and Company website, and Annual General Meeting. The Company augments its communications with regular analyst/media briefings, one-on-one meetings and conference calls when required.

The Company announces its financial results via SGXNET and strives to provide material information beyond the mandatory regulatory requirements of the SGX-ST Listing Manual. Where there is inadvertent disclosure made to a select group, we will make the same disclosure publicly to all others as promptly as possible.

Guideline 15.4

- Question:**
- Does the Company regularly communicate with shareholders and attend to their questions? How often does the Company meet with institutional and retail investors?*
 - Is this done by a dedicated investor relations team (or equivalent)? If not, who performs this role?*
 - How does the Company keep shareholders informed of corporate developments, apart from SGXNET announcements and the annual report?*

Regular media and analyst briefings are organized to enable a better appreciation of the Group's performance and developments. The Company holds investor briefings, inviting the media and analysts, after the release of the first half and full year financial results.

Our website www.micro-mechanics.com is updated in a timely manner with the Group's latest announcements. In addition, shareholders can also view our latest financial highlight, financial reports, company presentations, investor factsheet, research reports, annual reports, stock quote and Frequently Asked Questions (FAQs) under the Investor Relations section. Anyone may subscribe to the Company's announcements by registering for "email alerts" via our website.

Guideline 15.3 and 14.1

To enhance and encourage communication with investors, the Company provides an email address for investors at investor@micro-mechanics.com and contact details of our Investor Relations Consultants. We have a practice to post FAQs which are informative on our website to provide shareholders and the public with more information about the Company. Announcements via SGXnet will be made to inform the shareholders and the public if there are any changes in the company or its business which would be likely to materially affect the price or value of the company's shares.

CORPORATE GOVERNANCE

The CEO is Head of the IR team and oversees the IR strategy. He is supported by the CFO and external IR consultants engaged by the Company to reinforce its communications and interactions with investors and analysts. IR contact information is also publicly disclosed in our annual reports, announcements and website.

The Company conducts its IR on the following principles:

- Operate an open-door policy with regard to investor/analyst enquiries which should be responded to within three working days;
- Management and IR team are accessible to requests for one-on-one meetings and conference calls with investors and analysts;
- Information deemed to be price-sensitive is disseminated without delay via announcements and/or press releases on SGXNET;
- Discuss only publicly-available and publicly known information during dialogues with investors and analysts, principally following announcements of financial results;
- Maintain a blackout period prior to the planned release of financial statements during which no meetings and presentations will be held with analysts or investors. The blackout period is two weeks for quarterly financial results and one month for the half yearly/full-year financial results;
- Endeavour to provide comprehensive information in financial results announcements to help shareholders and potential investors make informed decisions;
- Announce the date of release of quarterly financial reports at least a week in advance;
- Allocate sufficient time to address queries of shareholders outside the formal business of the AGM.

Encouraging Greater Shareholder Participation

Guideline 14.2

Annual reports and notices of AGMs are sent to all shareholders 21 days before AGM. Such notices are also published in the local newspapers and announced via SGXNET. Shareholders are encouraged to attend the Company's AGMs. To enhance shareholders' participation, the Company holds its AGM at central locations within walking distance from MRT stations.

During AGM, it is our practice that the Chairman will read out the rules, including voting procedures that govern the AGM so that the shareholders can participate in and vote effectively.

Guideline 16.3

At AGMs, the CEO, COO and CFO will conduct a presentation on the Company's developments, financial results, outlook and strategy to provide shareholders with updates on the Company's progress. Shareholders also have the opportunity to share with and communicate their views to the Board. The Chairpersons of the Audit, Nominating, Remuneration Committees and Risk Management Committee as well as the external auditors are requested to be present and available to address any queries by shareholders.

CORPORATE GOVERNANCE

Guideline 16.5 and 16.2

All resolutions tabled at the AGM are voted by Poll, and counted and validated by an independent scrutineer. The Board takes note that there should be a separate resolution at general meetings on each substantially separate issue and will provide reasons and material implications where resolutions are interlinked.

Guideline 16.4 and 16.5

The Company publishes the results of the voting on each resolution tabled and posts the minutes of the AGM recording the shareholders' questions and answers via SGXNET. The minutes of the AGM include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting and responses from the Board and Management.

Training and Development for Employees

We are committed to providing our employees with opportunities to develop their potential through relevant training programs. The focus of such training programs is on skills upgrading and education in areas directly related to an employee's present work and/or future development. During FY2018, about 442 confirmed employees received formal and structured training programs of 5,045 hours, not including on-the-job training.

Anti-corruption

Our company has zero tolerance to any kind and form of bribery. An employee is not allowed to take or give bribes or any unauthorized gifts, violation of which is subject to termination and a report will be made to the local authority. Entertainment with customers/suppliers includes breakfast, lunch or dinner only. Any gift from suppliers over S\$200 is subject to approval by a director.

To strengthen our efforts on anti-corruption, we will implement and adopt the Singapore Standard (SS) ISO 37001 on anti-bribery management systems in the financial coming year.

Guideline 15.5

Dividend policy

Effective from FY2016, the Company's dividend policy is to declare 40% or more of the net profit according to the audited report.

SECURITIES TRADING CODE

The Company has adopted an internal compliance code which is applicable to all officers in relation to dealings in the Company's securities. Its officers are not allowed to deal in the Company's shares during the stipulated black-out periods (i.e. the period commencing two weeks before the announcement of the Company's financial statements for quarterly results and one month before half year or full year financial results, and ending on the date of announcement of such results) or if they are in possession of unpublished material price-sensitive information pertaining to the Group.

All directors and all employees of the Group have been instructed to observe the internal compliance code and all applicable insider trading laws at all times even when dealing in securities within permitted trading periods. In this regard, all directors and employees are requested to sign a Declaration of Compliance with the internal compliance code annually and submit the same to the company secretary who in turn tables the duly signed declarations to the Audit Committee for inspection.

CORPORATE GOVERNANCE

INTERESTED PERSON TRANSACTIONS

The Company has adopted a policy in respect of any transactions with interested persons and requires that all such transactions be at arm's length and reviewed by the Audit Committee quarterly.

On 27 February 2015, the Group announced that its wholly-owned subsidiary Micro-Mechanics Inc (MMUS) has entered into a lease agreement with Sarcadia LLC, a controlling shareholder and a family trust set up by Mr. Christopher Reid Borch, the CEO of the Company, (Pursuant to the Lease, Sarcadia LLC will lease the premises to MMUS for a period of 3 years with effect from 1 May 2018. The estimate rental fees payable for the duration of the lease is US\$1,152,000). For the financial year ended 30 June 2018, the Group has paid US\$362,000 (FY2017: US\$350,000) being rental to Sarcadia LLC.

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.

DIRECTORSHIPS

Guideline 4.4

The following lists the present and past directorships of our Directors in listed companies other than directorships held in our Company.

Name	Present Directorships	Past Directorships (preceding 3 years)
Christopher Borch	NIL	NIL
Low Ming Wah	NIL	NIL
Chow Kam Wing	NIL	NIL
Sumitri Mirnalini Menon @ Rabia	NIL	NIL
Girija Pande	Ascendas Property Fund Trustee Pte. Ltd.	NIL
Lai Chin Yee	Qian Hu Corporation Limited Ryobi Kiso Holdings Limited	NIL

DIRECTORS' STATEMENT

Year ended 30 June 2018

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 30 June 2018.

In our opinion:

- (a) the financial statements set out on pages 66 to 109 are drawn up so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 30 June 2018 and the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

DIRECTORS

The directors in office at the date of this statement are as follows:

Christopher Reid Borch
 Low Ming Wah
 Chow Kam Wing
 Sumitri Mirnalini Menon @ Rabia
 Girija Prasad Pande
 Lai Chin Yee

DIRECTORS' INTERESTS

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the Act), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures and share options in the Company are as follows:

Name of director in which interests are held	At beginning of the year	At end of the year	At 21 July 2018
Ordinary shares			
Christopher Reid Borch	73,335,169	72,335,169	72,335,169
Low Ming Wah	7,127,001	7,127,001	7,127,001
Chow Kam Wing	2,812,000	2,812,000	2,812,000
Sumitri Mirnalini Menon @ Rabia	300,000	300,000	300,000
Girija Prasad Pande	200,000	200,000	200,000
Lai Chin Yee	–	20,000	20,000

By virtue of Section 7 of the Act, Christopher Reid Borch is deemed to have an interest in all the wholly-owned subsidiaries of the Company at the beginning and at the end of the financial year.

DIRECTORS' STATEMENT

Year ended 30 June 2018

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company or of related corporations at the beginning of the financial year or at the end of the financial year.

Neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTIONS

During the financial year, there were:

- (a) no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries; and
- (b) no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries.

As at the end of the financial year, there were no unissued shares of the Company or its subsidiaries under option.

AUDIT COMMITTEE

The members of the Audit Committee during the year and at the date of this statement are as follows:

- Lai Chin Yee (Chairman), Independent director
- Sumitri Mirnalini Menon @ Rabia, Independent director
- Girija Prasad Pande, Independent director

The Audit Committee performs the functions specified by section 201B of the Companies Act, the Listing Manual of the Singapore Exchange and the Code of Corporate Governance.

The Audit Committee has held five meetings during the year. In performing these functions, the Audit Committee reviewed the scope of work of the Company's external auditors, and their evaluation of the Company's system of internal accounting controls.

The Audit Committee also reviewed the following:

- the scope and results of the work of the internal auditor;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption;
- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual);
- the assistance provided by the Company's officers to the external auditors and the independence of the external auditors; and
- corporate governance processes.

DIRECTORS' STATEMENT

Year ended 30 June 2018

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

In appointing our auditors for the Company, subsidiaries and significant associates, we have complied with Rules 712, 715 and 716 of the SGX Listing Manual.

AUDITORS

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Christopher Reid Borch

Director

Chow Kam Wing

Director

25 August 2018

INDEPENDENT AUDITORS' REPORT

Members of the Company
Micro-Mechanics (Holdings) Ltd.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Micro-Mechanics (Holdings) Ltd. (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 66 to 109.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 30 June 2018, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the 'Auditors' responsibilities for the audit of the financial statements' section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Micro-Mechanics (Holdings) Ltd.

Valuation of Property, Plant and Equipment (PPE) (Refer to Note 4 to the financial statements)	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group has PPE with a net book value of \$33.3 million.</p> <p>Management assessed and concluded that there are no impairment indicators on the Group's PPE including those in the CGU from the United States, Micro-Mechanics Inc. (MMUS). Notwithstanding there are no impairment indicators noted, management acknowledged that this is the first year MMUS recorded full year profit. Accordingly, management had proceeded to estimate the recoverable amount of MMUS's PPE, based on indicative valuation from the third party valuer and management's best estimates.</p> <p>The recoverable amount estimated by management is higher than the carrying amount of PPE, which further supported management's assessment of no impairment indicators.</p> <p>The impairment assessment exercise and the estimation of the recoverable amount is subjective and involves management's judgement.</p>	<p>Our procedures in relation to management's impairment assessment of PPE included, among others:</p> <ul style="list-style-type: none"> • Reviewed management's assessment of existence of impairment indicators, which among others, include observable indicators that the assets value has declined, any adverse economic effect on the CGU and evidence of obsolescence. • Assessed the independence and competency of the external valuer. • Obtained an understanding of the work of the external valuer and compared the indicative fair value determined by the external valuer against the fair value determined by management. • For the remaining PPE not included under the work of external valuer, reviewed the repair and maintenance expense for evidence of significant damages to the PPE and/or deterioration to the conditions of PPE, and sighted to the PPE to verify the physical condition of the PPE to corroborate management's estimates of PPE's carrying value which approximates fair value. • Reviewed the disclosures included in the financial statements against the requirements of the accounting standards. <p>We found management's process of assessing for impairment indicators to be appropriate and the estimates used to determine recoverable amounts to be balanced.</p>

INDEPENDENT AUDITORS' REPORT

Members of the Company
Micro-Mechanics (Holdings) Ltd.

Valuation of the Company's investment in Micro-Mechanics Inc. (MMUS) (Refer to Note 5 to the financial statements)

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Company has investment in MMUS stated at cost less accumulated impairment losses amounting to \$19.9 million. While MMUS started to generate full year profit for the financial year ended 30 June 2018, MMUS's net assets value was still lower than the cost of investment recorded in the Company's statement of financial position.</p> <p>In performing the impairment assessment, judgement is required to assess management assumptions used in computing the recoverable amount. There is a risk of impairment should the carrying amount of investment exceed the recoverable amount.</p>	<p>Our procedures in relation to the valuation of investment in MMUS included, among others:</p> <ul style="list-style-type: none"> • Evaluated management's computation and assumptions used in determining the recoverable amount of MMUS. The recoverable amount of \$22.6 million was determined based on value-in-use (VIU) method, using a discounted cash flows (DCF) model. • Assessed the reasonableness of the management assumptions made in the DCF model by comparing the parameters in the DCF against available market data and historical performances of MMUS. • Performed sensitivity analysis on the DCF model. <p>We found the estimates used in determining the recoverable amount to be balanced.</p>

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report except for Shareholders' Statistics (the Report) which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Micro-Mechanics (Holdings) Ltd.

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

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Micro-Mechanics (Holdings) Ltd.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Yeo Lik Khim.

KPMG LLP

*Public Accountants and
Chartered Accountants*

Singapore

25 August 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 30 June 2018

	Note	Group		Company	
		2018 \$	2017 \$	2018 \$	2017 \$
Assets					
Property, plant and equipment	4	33,265,855	26,157,348	–	–
Right-of-use assets	4	2,279,133	–	–	–
Subsidiaries	5	–	–	29,095,544	18,364,744
Trade and other receivables	7	125,034	439,394	–	982,318
Deferred tax asset	11	56,529	–	–	–
Non-current assets		<u>35,726,551</u>	<u>26,596,742</u>	<u>29,095,544</u>	<u>19,347,062</u>
Inventories	6	4,578,394	3,669,372	–	–
Trade and other receivables	7	11,898,398	11,906,718	2,687,634	2,191,764
Cash and cash equivalents	8	21,087,382	23,422,290	2,017,182	11,554,207
Current assets		<u>37,564,174</u>	<u>38,998,380</u>	<u>4,704,816</u>	<u>13,745,971</u>
Total assets		<u>73,290,725</u>	<u>65,595,122</u>	<u>33,800,360</u>	<u>33,093,033</u>
Shareholders' equity					
Share capital	9	14,782,931	14,782,931	14,782,931	14,782,931
Reserves	10	45,521,610	39,988,372	18,472,255	17,961,839
Total equity		<u>60,304,541</u>	<u>54,771,303</u>	<u>33,255,186</u>	<u>32,744,770</u>
Liabilities					
Deferred tax liabilities	11	1,476,961	1,406,658	192,772	–
Trade and other payables	12	595,729	279,650	–	–
Lease liabilities	13	1,289,588	–	–	–
Non-current liabilities		<u>3,362,278</u>	<u>1,686,308</u>	<u>192,772</u>	<u>–</u>
Trade and other payables	12	7,077,091	7,810,579	346,171	343,311
Lease liabilities	13	923,845	–	–	–
Current tax payable		1,622,970	1,326,932	6,231	4,952
Current liabilities		<u>9,623,906</u>	<u>9,137,511</u>	<u>352,402</u>	<u>348,263</u>
Total liabilities		<u>12,986,184</u>	<u>10,823,819</u>	<u>545,174</u>	<u>348,263</u>
Total equity and liabilities		<u>73,290,725</u>	<u>65,595,122</u>	<u>33,800,360</u>	<u>33,093,033</u>

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June 2018

	Note	2018 \$	2017 \$
Revenue	14	65,101,858	57,229,665
Cost of sales		<u>(28,012,129)</u>	<u>(24,361,714)</u>
Gross profit		37,089,729	32,867,951
Other income		777,282	724,740
Distribution costs		(3,238,392)	(3,150,117)
Administrative expenses		(9,252,145)	(8,591,240)
Other operating expenses		<u>(3,526,127)</u>	<u>(3,348,497)</u>
Profit before tax	15	21,850,347	18,502,837
Tax expense	16	<u>(4,706,833)</u>	<u>(3,740,620)</u>
Profit for the year		<u>17,143,514</u>	<u>14,762,217</u>
Attributable to:			
Owners of the Company		17,143,514	14,762,217
Non-controlling interests		<u>–</u>	<u>–</u>
Profit for the year		<u>17,143,514</u>	<u>14,762,217</u>
Other comprehensive income			
Item that is or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations, net of tax		855,088	(502,230)
Item that will not be reclassified to profit or loss:			
Remeasurement income on retirement benefits	12	50,708	–
Related tax	11	<u>(3,203)</u>	<u>–</u>
Total comprehensive income for the year		<u>18,046,107</u>	<u>14,259,987</u>
Total comprehensive income attributable to:			
Owners of the Company		18,046,107	14,259,987
Non-controlling interests		<u>–</u>	<u>–</u>
Total comprehensive income for the year		<u>18,046,107</u>	<u>14,259,987</u>
Earnings per share (in cents) – basic and diluted	17	<u>12.33</u>	<u>10.62</u>

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2018

	Share capital \$	Foreign currency translation reserve \$	Accumulated profits \$	Total \$
At 1 July 2016	14,782,931	(4,934,067)	40,394,683	50,243,547
Total comprehensive income for the year				
Profit for the year	–	–	14,762,217	14,762,217
Other comprehensive income				
Foreign currency translation differences	–	(502,230)	–	(502,230)
Total other comprehensive income	–	(502,230)	–	(502,230)
Total comprehensive income for the year	–	(502,230)	14,762,217	14,259,987
Transactions with owners of the Company, recognised directly in equity				
Interim dividend of 3.0 cents per share (tax-exempt) in respect of 2017	–	–	(4,170,956)	(4,170,956)
Final dividend of 4.0 cents per share (tax-exempt) in respect of 2016	–	–	(5,561,275)	(5,561,275)
Total transactions with owners of the Company	–	–	(9,732,231)	(9,732,231)
At 30 June 2017	14,782,931	(5,436,297)	45,424,669	54,771,303

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2018

	Share capital \$	Foreign currency translation reserve \$	Accumulated remeasurement on retirement benefits \$	Accumulated profits \$	Total \$
At 1 July 2017	14,782,931	(5,436,297)	–	45,424,669	54,771,303
Total comprehensive income for the year					
Profit for the year	–	–	–	17,143,514	17,143,514
Other comprehensive income					
Foreign currency translation differences	–	855,088	–	–	855,088
Remeasurement income on retirement benefits, net of tax	–	–	47,505	–	47,505
Total other comprehensive income	–	855,088	47,505	–	902,593
Total comprehensive income for the year	–	855,088	47,505	17,143,514	18,046,107
Transactions with owners of the Company, recognised directly in equity					
Interim dividend of 4.0 cents per share (tax-exempt) in respect of 2018	–	–	–	(5,561,275)	(5,561,275)
Final dividend of 5.0 cents per share (tax-exempt) in respect of 2017	–	–	–	(6,951,594)	(6,951,594)
Total transactions with owners of the Company	–	–	–	(12,512,869)	(12,512,869)
At 30 June 2018	14,782,931	(4,581,209)	47,505	50,055,314	60,304,541

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Profit for the year		17,143,514	14,762,217
Adjustments for:			
Depreciation of property, plant and equipment		5,908,386	4,337,877
Property, plant and equipment written off		6,189	5,735
Gain on disposal of property, plant and equipment		(247,801)	(61,877)
Interest income		(157,486)	(130,269)
Interest expense on lease liabilities		84,035	–
Tax expense		4,706,833	3,740,620
		<u>27,443,670</u>	<u>22,654,303</u>
Changes in working capital:			
Inventories		(849,826)	(430,762)
Trade and other receivables		427,937	(2,077,984)
Trade and other payables		(846,796)	1,836,266
Cash generated from operations		26,174,985	21,981,823
Income tax paid		(3,760,766)	(3,886,695)
Net cash from operating activities		<u>22,414,219</u>	<u>18,095,128</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(12,120,713)	(5,094,291)
Proceeds from disposal of property, plant and equipment		553,957	111,177
Interest received		159,444	127,501
Net cash used in investing activities		<u>(11,407,312)</u>	<u>(4,855,613)</u>
Cash flows from financing activities			
Payment of lease liabilities		(1,108,513)	–
Dividends paid		(12,512,869)	(9,732,231)
Net cash used in financing activities		<u>(13,621,382)</u>	<u>(9,732,231)</u>
Net (decrease)/increase in cash and cash equivalents		(2,614,475)	3,507,284
Cash and cash equivalents at 1 July		23,261,940	19,907,478
Effect of exchange rate fluctuations		270,916	(152,822)
Cash and cash equivalents at 30 June*	8	<u>20,918,381</u>	<u>23,261,940</u>

* Differ from cash and cash equivalents in consolidated statements of financial position due to deposits pledged not considered as part of the cash and cash equivalents in consolidated statement of cash flows. Refer to Note 8 for details.

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 25 August 2018.

1 DOMICILE AND ACTIVITIES

Micro-Mechanics (Holdings) Ltd. (the Company) is incorporated in Singapore. The address of the Company's registered office is 31 Kaki Bukit Place, Eunos Techpark, Singapore 416209.

The financial statements of the Group as at and for the year ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The Group is primarily involved in the manufacturing of precision tools and components.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (FRS).

2.2 Basis of measurement

The financial statements are prepared on the historical cost basis, except for certain financial instruments which are stated at fair value.

2.3 Functional and presentation currency

The financial statements are presented in Singapore dollars which is the Company's functional currency.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with FRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the application of the Group's accounting policies, management applies the following critical judgement which is expected to have a significant effect on the amounts recognised in the financial statements:

Impairment on non-financial assets

The carrying value of non-financial assets (including property, plant and equipment and investment in subsidiaries) are tested for impairment whenever there is any objective evidence or indication that the non-financial assets may be impaired. This determination and derivation of the relevant inputs requires significant judgement. This impairment assessment takes into account the market value of the asset, changes to the technological, market, economic or legal environment in which the Group operates, market interest rates, evidence of obsolescence or physical damage to the asset and changes to the expected usage to the asset.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

2 BASIS OF PREPARATION (continued)

2.4 Use of estimates and judgements (continued)

Impairment on non-financial assets (continued)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 4 – estimation of useful lives of property, plant and equipment
- Note 5 – valuation of investments in subsidiaries
- Note 6 – valuation of inventories
- Note 7 – valuation of trade receivables

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial statements and have been applied consistently by Group entities.

3.1 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less accumulated impairment losses.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the financial year are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the financial year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Foreign currency (continued)

Foreign currency transactions (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the end of the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the closing rate. For acquisitions prior to 1 January 2005, the exchange rates at the date of acquisition were used.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item which is considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented as equity in the foreign currency translation reserve.

3.3 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Property, plant and equipment (continued)

Recognition and measurement (continued)

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within income/other expenses in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years are as follows:

Leasehold properties	50 years
Plant and equipment	5 to 10 years
Furniture, fittings and office equipment	5 years
Motor vehicles	5 years

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready to use, or in respect of assets under construction, from the date that the asset is completed and ready for use. Property, plant and equipment under construction are not depreciated.

Fully depreciated assets are retained in the financial statements until they are no longer in use. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.4 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Leases (continued)

- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - The Group has the right to operate the asset; or
 - The Group designated the asset in a way that predetermines how and for what purpose it will be used.

Recognition and measurement

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Depreciation

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

3.5 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.6 Financial instruments

Non-derivative financial assets

Financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL). A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial instruments (continued)

Non-derivative financial assets (continued)

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into financial assets at amortised cost category.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets at amortised cost comprise cash and cash equivalents, and trade and other receivables, excluding advances to suppliers, prepayments and forward exchange contracts.

Cash and cash equivalents comprise cash balances and bank deposits.

Non-derivative financial liabilities

The Group's financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial instruments (continued)

Non-derivative financial liabilities (continued)

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise trade and other payables excluding advances from customers, foreign exchange contracts and retirement benefits.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below:

Non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

3.7 Impairment

Non-derivative financial assets

A financial asset measured at amortised cost is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

Financial assets at amortised cost

Loss allowances are measured on either of the following bases:

- 12-month 'expected credit loss' (ECLs): these are ECLs that result from possible default events within 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment (continued)

Non-derivative financial assets (continued)

Financial assets at amortised cost (continued)

The Group has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, including forward looking information.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Credit impaired financial assets

At each reporting date, the Group assess whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax asset, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment (continued)

Non-financial assets (continued)

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 Employee benefits

(i) **Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) **Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA from a recognised rating agency that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid. In countries where there is no deep market in such bonds, the market yields on the government bonds shall be used.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefits expense in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Employee benefits (continued)

(ii) **Defined benefit plans** (continued)

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

(iii) **Unconsumed leave**

Employees' entitlement for unconsumed leave is recognised as a liability.

(iv) **Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.9 Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Lease liabilities (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short term leases of machineries that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.10 Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Income tax expense (continued)

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.11 Revenue

Revenue from the manufacture and sale of precision tools is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over the product to a customer.

3.12 Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

3.13 Dividend income

Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established.

3.14 Government grants

An unconditional government grant related to computer software and equipment is recognised initially as deferred income at fair value. The grant is then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grant that compensates the Group for expenses incurred is recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

3.15 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

3.16 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Executive Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Segment reporting (continued)

Segment results that are reported to the Executive Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

3.17 Changes in accounting policies following adoption of new standards and interpretations

From 1 July 2017, as a result of the amendments to FRS 7, the Group has provided additional disclosure in relation to the changes in liabilities arising from financing activities for the year ended 30 June 2018. Comparative information has not been presented (see note 13).

In addition, the Group has early adopted FRS 115 *Revenue from Contracts with Customers*, FRS 109 *Financial Instruments* and FRS 116 *Leases* with a date of initial application of 1 July 2017. As a result, the Group has changed its accounting policies as detailed below.

FRS 115 Revenue from Contracts with Customers

The Group applied FRS 115 retrospectively. Following the adoption of FRS 115, the Group identified additional performance obligations in the sale of precision tools contract under Cost, Insurance and Freight (CIF) and Cost and Freight (CFR) term. Transaction prices are allocated to these additional performance obligations of freight and insurance services, and revenue are recognised when these performance obligations are satisfied. Management determines the impact to the comparative financial information to be insignificant. Accordingly, no restatement on the comparative information is made.

FRS 109 Financial Instruments

The Group applied FRS 109 retrospectively. There are no differences in the carrying amounts of financial assets and financial liabilities on 1 July 2016 and 30 June 2017 resulting from the adoption of FRS 109. Accordingly, there is no impact to the retained earnings and reserves as at 1 July 2016 and 30 June 2017. FRS 109 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

FRS 109 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) and replaces the existing FRS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Classification under FRS 109 is generally based on the business model in which a financial asset is managed and its contractual cash flows characteristics. Under FRS 39, the Group classified its non-derivative financial assets under loans and receivables. Under FRS 109, this is classified under financial assets measured at amortised cost. Derivative financial instruments continue to be classified as fair value through profit or loss under FRS 109. FRS 109 largely retains the existing requirements in FRS 39 for the classification of financial liabilities and accordingly there is no impact to the classification of the financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Changes in accounting policies following adoption of new standards and interpretations (continued)

FRS 109 Financial Instruments (continued)

FRS 109 contains impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. Based on the lifetime expected credit loss model applied by the Group, there were no loss allowances recognised on the date of initial application. FRS 109 also contains new requirements on hedge accounting which are aligned more closely with risk management and establishes a more principle-based approach to hedge accounting. The Group does not apply any hedge accounting currently.

FRS 116 Leases

The Group applies FRS 116 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under FRS 17. At the date of initial application, the Group recognises right-of-use (ROU) assets and lease liabilities for all leases qualified under FRS 116, except for the leases which the Group applies practical expedients. Subsequent to initial recognition, the Group depreciates ROU assets over the shorter of the useful life of the ROU assets or the lease term. The Group also recognises interest expense on the lease liabilities.

The Group applies the practical expedient in paragraph C3(b) of FRS 116 and apply FRS 116 to contracts that were previously identified as leases applying FRS 17 *Leases* and INT FRS 104 *Determining whether an Arrangement contains a Lease*. The Group applies practical expedient in paragraph C9(a) and C10(c) of FRS 116, that resulted in not applying the requirements in paragraphs 22 to 49 of FRS 116 to short-term leases and leases for which the underlying asset is of low value. Accordingly, the Group recognises the lease payments associated with these leases as an expense on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

4 PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties \$	Plant and equipment \$	Assets under construction \$	Furniture, fittings and office equipment \$	Motor vehicles \$	Total \$
Group						
Cost						
At 1 July 2016	12,528,434	42,477,081	–	6,503,596	689,949	62,199,060
Additions	42,953	4,373,649	374,943	291,615	11,131	5,094,291
Disposals/Write-off	–	(987,686)	–	(123,886)	(59,541)	(1,171,113)
Translation differences on consolidation	(136,265)	(321,638)	(2,523)	(104,820)	(2,828)	(568,074)
Reclassification	–	146,104	(146,104)	–	–	–
At 30 June 2017	<u>12,435,122</u>	<u>45,687,510</u>	<u>226,316</u>	<u>6,566,505</u>	<u>638,711</u>	<u>65,554,164</u>
At 1 July 2017	12,435,122	45,687,510	226,316	6,566,505	638,711	65,554,164
Additions	3,609,454	7,829,359	2,827,506	416,327	784,343	15,466,989
Disposals/Write-off	–	(1,702,481)	–	(441,581)	(586,019)	(2,730,081)
De-recognition due to expiry of lease	(394,155)	–	–	–	–	(394,155)
Translation differences on consolidation	141,301	(69,088)	(1,188)	82,998	(3,212)	150,811
Reclassification	–	3,052,634	(3,052,634)	–	–	–
At 30 June 2018	<u>15,791,722</u>	<u>54,797,934</u>	<u>–</u>	<u>6,624,249</u>	<u>833,823</u>	<u>78,047,728</u>
Accumulated depreciation and impairment loss						
At 1 July 2016	5,777,613	24,996,938	–	5,631,534	241,580	36,647,665
Charge for the year	373,902	3,484,862	–	361,241	117,872	4,337,877
Disposals/Write-off	–	(933,181)	–	(123,357)	(59,540)	(1,116,078)
Translation differences on consolidation	(59,479)	(317,320)	–	(92,522)	(3,327)	(472,648)
At 30 June 2017	<u>6,092,036</u>	<u>27,231,299</u>	<u>–</u>	<u>5,776,896</u>	<u>296,585</u>	<u>39,396,816</u>
At 1 July 2017	6,092,036	27,231,299	–	5,776,896	296,585	39,396,816
Charge for the year	1,389,581	4,005,909	–	369,182	143,714	5,908,386
Disposals/Write-off	–	(1,653,395)	–	(439,649)	(324,692)	(2,417,736)
De-recognition due to expiry of lease	(394,155)	–	–	–	–	(394,155)
Translation differences on consolidation	34,279	(106,358)	–	83,849	(2,341)	9,429
At 30 June 2018	<u>7,121,741</u>	<u>29,477,455</u>	<u>–</u>	<u>5,790,278</u>	<u>113,266</u>	<u>42,502,740</u>
Carrying amounts						
At 1 July 2016	<u>6,750,821</u>	<u>17,480,143</u>	<u>–</u>	<u>872,062</u>	<u>448,369</u>	<u>25,551,395</u>
At 30 June 2017	<u>6,343,086</u>	<u>18,456,211</u>	<u>226,316</u>	<u>789,609</u>	<u>342,126</u>	<u>26,157,348</u>
At 30 June 2018	<u>8,669,981</u>	<u>25,320,479</u>	<u>–</u>	<u>833,971</u>	<u>720,557</u>	<u>35,544,988</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

4 PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment comprise owned and leased assets.

	2018 \$	2017 \$
Property, plant and equipment-owned	33,265,855	26,157,348
Right-of-use assets	2,279,133	–
	<u>35,544,988</u>	<u>26,157,348</u>

Right-of-use assets are included in the following categories of property, plant and equipment:

	Leasehold property \$
Cost	
Initial recognition at 1 July 2017	1,876,724
Additions	1,469,552
De-recognition due to expiry of lease	(394,155)
Translation differences on consolidation	15,473
At 30 Jun 2018	<u>2,967,594</u>
Accumulated depreciation	
At 1 July 2017	–
Charge for the year	1,083,093
De-recognition due to expiry of lease	(394,155)
Translation differences on consolidation	(477)
At 30 June 2018	<u>688,461</u>
Carrying amounts	
At 30 June 2018	<u>2,279,133</u>

Estimation of useful lives of property, plant and equipment

The Group reviews the useful lives of property, plant and equipment at each reporting date in accordance with the accounting policy in note 3.3. The estimation of the useful lives involves significant judgement. The net book value of property, plant and equipment at 30 June 2018 was \$33,265,855 (2017: \$26,157,348) and the annual depreciation charge for the year ended 30 June 2018 was \$4,825,293 (2017: \$4,337,877). If the actual useful lives of the property, plant and equipment were longer or shorter than the management's estimate by one year on average, the Group's annual depreciation charge would reduce by \$562,776 (2017: \$497,167) or increase by \$750,772 (2017: \$663,542) respectively.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

5 SUBSIDIARIES

	2018 \$	2017 \$
Investments in subsidiaries, at cost	35,527,955	24,797,155
Impairment losses	(6,432,411)	(6,432,411)
	<u>29,095,544</u>	<u>18,364,744</u>

The investments in subsidiaries in the Company's statement of financial position are stated at cost less accumulated impairment losses. Details of the subsidiaries are as follows:

Name of subsidiary	Principal activities	Place of incorporation and business	Percentage of equity held by the Group		Cost	
			2018 %	2017 %	2018 \$	2017 \$
Micro-Mechanics Pte Ltd ¹	Manufacturing of precision tools	Singapore	100	100	5,463,500	5,463,500
Micro-Mechanics Technology Sdn Bhd ²	Manufacturing of precision tools	Malaysia	100	100	856,875	856,875
Micro-Mechanics Technology International, Inc. ²	Manufacturing of precision tools	The Philippines	100	100	347,200	347,200
Micro-Mechanics Technology (Suzhou) Co. Ltd ²	Manufacturing of precision tools	People's Republic of China	100	100	2,544,407	2,544,407
Micro-Mechanics Inc. ³	Manufacturing of precision components & modules & sale of precision tools	United States of America	100	100	26,315,973	15,585,173
					<u>35,527,955</u>	<u>24,797,155</u>

1 Audited by KPMG LLP, Singapore.

2 Audited by other member firms of KPMG International.

3 Audited by Fiondella, Milone & LaSaracina LLP.

In 2018, the Company increased its investment in Micro-Mechanics Inc., (MMUS) from \$15,585,173 to \$26,315,973 by way of capital injection in cash.

During the year, the Company carried out a review of the recoverable amount of its investment in MMUS, in view of its net assets value which were lower than the Company's cost of investment. The recoverable amount was determined based on estimated realisable value of the net assets. The recoverable amount of \$22.6 million was determined using pre-tax discount rate of 15.06%. As a result of the review, no impairment loss was recognised in profit or loss during the year (and in 2017).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

6 INVENTORIES

	Group	
	2018	2017
	\$	\$
Raw materials	1,605,084	1,337,133
Work-in-progress	1,048,165	1,098,093
Finished goods	1,925,145	1,234,146
	<u>4,578,394</u>	<u>3,669,372</u>

In 2018, raw materials and changes in finished goods and work-in-progress recognised in cost of sales amounted to \$28,012,129 (2017: \$24,361,714).

Valuation of inventories

The valuation of inventory at the lower of cost and net realisable value requires the Group to review inventories for their saleability and for indicators of obsolescence. This requires management to make estimates based on future market demand and their past experiences with similar inventories. In addition, judgements and estimates regarding future selling prices, level of demand and indicators of obsolescence must be made and used in connection with evaluating whether such write-downs are necessary and the amounts of such write-downs.

7 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Trade receivables	10,874,870	11,013,276	–	–
Other receivables	145,233	131,063	755	1,542
Deposits	343,135	338,372	–	500
Amount owing by subsidiaries (non-trade)	–	–	2,652,090	3,150,588
Financial assets at amortised cost	11,363,238	11,482,711	2,652,845	3,152,630
Advances to suppliers	128,861	443,356	–	–
Prepayments	530,249	325,260	34,789	20,452
Forward exchange contracts	1,084	94,785	–	1,000
Trade and other receivables	<u>12,023,432</u>	<u>12,346,112</u>	<u>2,687,634</u>	<u>3,174,082</u>
Non-current	125,034	439,394	–	982,318
Current	<u>11,898,398</u>	<u>11,906,718</u>	<u>2,687,634</u>	<u>2,191,764</u>
	<u>12,023,432</u>	<u>12,346,112</u>	<u>2,687,634</u>	<u>3,174,082</u>

The Group's non-current trade and other receivables of \$125,034 (2017: \$439,394) was due to advance payment made to suppliers to purchase plant and equipment.

In 2017, the Company's non-current balances comprised the non-trade amount due from subsidiary which bore interest at 1.40% to 2.20% per annum and was not expected to be repaid within the next 12 months. This amount due from subsidiary was discounted using the implicit interest rate based on effective interest rate of 4.25% per annum in 2017. This amount was repaid in 2018.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

8 CASH AND CASH EQUIVALENTS

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash at banks and on hand	9,370,706	10,198,754	217,182	2,454,207
Fixed deposits	11,716,676	13,223,536	1,800,000	9,100,000
	21,087,382	23,422,290	2,017,182	11,554,207
Deposits pledged	(169,001)	(160,350)		
Cash and cash equivalents in the statement of cash flows	20,918,381	23,261,940		

The deposits pledged are for the banker's guarantees issued on behalf of subsidiary in Malaysia.

9 SHARE CAPITAL

	Group and Company			
	2018		2017	
	No. of shares	\$	No. of shares	\$
Fully paid ordinary shares, with no par value				
At 1 July and 30 June	139,031,881	14,782,931	139,031,881	14,782,931

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary share rank equally with regard to the Company's residual assets.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders.

The Group defines capital as share capital and accumulated profit.

The Group aims to obtain an optimal capital structure by balancing capital efficiency and financial flexibility. The Group manages the capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets.

There were no changes in the Group's approach in capital management during the year.

The Group and its subsidiaries are not subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

9 SHARE CAPITAL (continued)

Dividends

The following dividends were declared and paid by the Group and the Company:

For the year ended 30 June

	Group and Company	
	2018	2017
	\$	\$
Final tax-exempt dividend paid of 5.0 cents (2017: 4.0 cents) per share in respect of previous financial year	6,951,594	5,561,275
Interim tax-exempt dividend paid of 4.0 cents (2017: 3.0 cents) per share in respect of current financial year	5,561,275	4,170,956
	<u>12,512,869</u>	<u>9,732,231</u>

After the reporting date, the following dividends were proposed by the directors. The dividends have not been provided for, and there are no income tax consequences.

	Group and Company	
	2018	2017
	\$	\$
Final proposed tax-exempt dividend of 6.0 cents (2017: 5.0 cents) per share	8,341,913	6,951,594

10 RESERVES

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Accumulated profits	50,055,314	45,424,669	18,472,255	17,961,839
Foreign currency translation reserve	(4,581,209)	(5,436,297)	–	–
Accumulated remeasurement on retirement benefits	47,505	–	–	–
	<u>45,521,610</u>	<u>39,988,372</u>	<u>18,472,255</u>	<u>17,961,839</u>

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

The accumulated remeasurement on retirement benefits comprise actuarial gains and losses which are recognised immediately in other comprehensive income in the period which they arise.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

11 DEFERRED TAX LIABILITIES

Movement in deferred tax assets and liabilities (prior to offsetting of balances) during the year is as follows:

	At 1 July 2016 \$	Recognised in profit or loss (note 16) \$	Exchange differences \$	At 30 June 2017 \$	Recognised in profit or loss (note 16) \$	Recognised in other comprehen- sive income \$	Exchange differences \$	At 30 June 2018 \$
Group								
Deferred tax (assets)/ liabilities								
Property, plant and equipment	1,413,169	132,908	(20,118)	1,525,959	(190,249)	-	29,455	1,365,165
Others	(105,183)	(17,520)	3,402	(119,301)	177,885	(3,203)	(114)	55,267
	<u>1,307,986</u>	<u>115,388</u>	<u>(16,716)</u>	<u>1,406,658</u>	<u>(12,364)</u>	<u>(3,203)</u>	<u>29,341</u>	<u>1,420,432</u>

In 2018, the Company's deferred tax expense of \$192,772 for temporary differences related to investments in subsidiaries are recognised in profit or loss.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority. The amounts determined after appropriate offsetting are included in the statement of financial position as follows:

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Deferred tax liabilities	1,476,961	1,406,658	192,772	-
Deferred tax assets	(56,529)	-	-	-
Net deferred tax liabilities	<u>1,420,432</u>	<u>1,406,658</u>	<u>192,772</u>	<u>-</u>

12 TRADE AND OTHER PAYABLES

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Trade payables	797,705	1,441,677	-	-
Other payables	1,835,119	1,565,013	27,108	26,248
Accrued expenses	4,590,335	4,699,234	319,063	317,063
Advances from customers	180,417	103,481	-	-
Forward exchange contracts	63,555	1,174	-	-
Provision for retirement benefits	205,689	279,650	-	-
	<u>7,672,820</u>	<u>8,090,229</u>	<u>346,171</u>	<u>343,311</u>
Non-current	595,729	279,650	-	-
Current	<u>7,077,091</u>	<u>7,810,579</u>	<u>346,171</u>	<u>343,311</u>
	<u>7,672,820</u>	<u>8,090,229</u>	<u>346,171</u>	<u>343,311</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

12 TRADE AND OTHER PAYABLES (continued)

Included in accrued expenses is provision for reinstatement costs of:

	Reinstatement costs \$
At 1 July 2017	–
Provisions made during the year	124,520
Unwind of discount on reinstatement costs	6,424
At 30 June 2018	<u>130,944</u>

The provision is due within 2 to 5 years and is classified as non-current liabilities.

The Group's non-current trade and other payables also include the provision for retirement benefits for employees of \$205,689 (2017: \$279,650).

The following is the expected contractual undiscounted cash outflows of trade and other payables:

	Carrying amount \$	Contractual cash flows \$	Within 1 year \$
Group			
2018			
Non-derivative financial liabilities			
Trade and other payables*	<u>(7,092,215)</u>	<u>(7,092,215)</u>	<u>(7,092,215)</u>
Derivative financial instruments			
Forward exchange contracts –	(62,471)		
– Gross payments		(4,238,709)	(4,238,709)
– Gross receipts		4,176,238	4,176,238
		<u>(62,471)</u>	<u>(62,471)</u>
2017			
Non-derivative financial liabilities			
Trade and other payables*	<u>(7,705,924)</u>	<u>(7,705,924)</u>	<u>(7,705,924)</u>
Derivative financial instruments			
Forward exchange contracts – assets	93,611		
– Gross payments		(9,792,614)	(9,792,614)
– Gross receipts		9,886,225	9,886,225
		<u>93,611</u>	<u>93,611</u>

* Excluding advances from customers, forward exchange contracts, provision for retirement benefits for employees and provision for reinstatement costs.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

12 TRADE AND OTHER PAYABLES (continued)

	Carrying amount \$	Contractual cash flows \$	Within 1 year \$
Company			
2018			
Non-derivative financial liabilities			
Trade and other payables	(346,171)	(346,171)	(346,171)
2017			
Non-derivative financial liabilities			
Trade and other payables	(343,311)	(343,311)	(343,311)

The maturity analyses show the undiscounted cash flows of the Group's and the Company's financial liabilities on the basis of their earliest possible contractual maturity.

It is not expected that the cash flows included in the maturity analyses could occur significantly earlier, or at significantly different amounts.

Provision for retirement benefits

The Group has an unfunded, non-contributory defined benefits retirement plan covering its permanent employees. Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Group latest actuarial valuation date is 30 June 2018.

The following table shows the reconciliation from the opening balances to the closing balances of the retirement benefits liability recognised in the statements of financial position and its components.

	Group	
	2018 \$	2017 \$
At 1 July	279,650	239,401
Included in profit or loss		
Current service cost	25,214	25,995
Interest cost	13,578	11,908
	38,792	37,903
Included in other comprehensive income		
Remeasurements arising from:		
Experience adjustment	(5,057)	-
Change in financial assumptions	(45,651)	-
	(50,708)	-
Exchange difference	(62,045)	2,346
At 30 June	205,689	279,650

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

12 TRADE AND OTHER PAYABLES (continued)

Provision for retirement benefits (continued)

The principal actuarial assumptions at the reporting date (expressed as weighted averages) are as follows:

	Group	
	2018	2017
	%	%
Discount rate	7.22	5.08
Salary increase rate	5.00	5.00

The discount rate assumption is based on the PDEX (PDST-R2) benchmark market yields on government bonds as of the valuation dates (or latest available) considering the average years of remaining working life of the employees as the estimated term of the benefits obligation.

The weighted-average duration of the retirement benefits obligation is 16.4 years (FY17: 18.5 years).

Assumptions regarding future mortality have been based on published statistics and mortality tables.

Funding Policy

Benefit claims under the retirement benefits obligation are paid directly by the Group when they become due. The Group is not expected to make contributions in 2018.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefits obligation by the amounts shown below.

	Group			
	2018		2017	
	1%	1%	1%	1%
	Increase	Decrease	Increase	Decrease
	\$	\$	\$	\$
Discount rate	(30,429)	36,883	(46,350)	56,783
Salary increase rate	35,058	(29,606)	57,333	(46,785)

While the Group believes that, the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the recognised income and expenses and related assets or obligations.

The retirement benefits obligation is exposed to actuarial and longevity risks.

Maturity Profile

No future benefits payments are expected until the financial year 2026.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

13 LEASE LIABILITIES

	2018
	\$
Maturity analysis – contractual undiscounted cash flows	
Less than one year	1,016,887
One to five years	1,356,511
Total undiscounted lease liabilities at 30 June	2,373,398
Lease liabilities included in the statement of financial position at 30 June	
– Current	923,845
– Non-current	1,289,588
	2,213,433

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application is 5.5%.

The Group applies practical expedient in paragraph C9(a) and C10(c) of FRS 116, that resulted in not applying the requirements in paragraphs 22 to 49 of FRS 116 to short-term leases and leases for which the underlying asset is of low value.

Reconciliation of movements of lease liabilities to cash flows arising from financing activities

	2018
	\$
Initial recognition at 1 July 2017	1,752,203
Addition of lease liabilities	1,469,552
Payment of lease liabilities	(1,108,513)
Interest expense on lease liabilities	84,035
Translation difference on consolidation	16,156
At 30 June 2018	2,213,433

14 REVENUE

Revenue of the Group represents the value of goods invoiced to third parties. Revenue comprises sale precision tools.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

15 PROFIT BEFORE TAX

The following items have been included in arriving at profit before tax:

	Group	
	2018	2017
	\$	\$
	<u> </u>	<u> </u>
Other income:		
– Exchange gain (net)	–	173,511
– Interest income	157,486	130,269
– Gain on disposal of property, plant and equipment	247,801	61,877
– Government grants – Skills Redevelopment and Capability Development Scheme	99,455	125,478
– Others	272,540	233,605
	<u>777,282</u>	<u>724,740</u>
 Staff costs:		
– Wages and salaries	19,561,944	18,071,950
– Contribution to defined contribution plans	1,660,167	1,637,601
– Increase in liability for unconsumed leave	82,510	115,541
	<u>21,304,621</u>	<u>19,825,092</u>
 Interest on lease liabilities	84,035	–
Expenses relating to short term leases	11,783	–
Expenses related to leases of low value assets, excluding short term leases of low value assets	1,056	–
Audit fees:		
– auditors of the Company	121,750	113,650
– other member firms of the auditors of the Company	43,462	46,715
– other auditors	61,988	63,558
Non-audit fees:		
– auditors of the Company	30,200	15,600
– other member firms of the auditors of the Company	3,163	3,176
– other auditors	11,802	12,536
Depreciation of property, plant and equipment	5,908,386	4,337,877
Directors' remuneration:		
– directors of the Company	2,887,040	2,717,785
– other directors	305,938	297,134
Exchange loss (net)	25,720	–
Inventories written off	111,139	101,892
Operating lease expenses	505,608	1,264,242
Property, plant and equipment written off	6,189	5,735
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

16 TAX EXPENSE

	Group	
	2018	2017
	\$	\$
Tax charge		
Current year	4,853,975	3,759,944
Overprovision in prior years	(134,778)	(134,712)
	<u>4,719,197</u>	<u>3,625,232</u>
Deferred tax		
Origination and reversal of temporary differences	(34,912)	113,444
Under provision in prior years	22,548	1,944
	<u>(12,364)</u>	<u>115,388</u>
Total tax expenses	<u>4,706,833</u>	<u>3,740,620</u>
Reconciliation of effective tax rate		
Profit before tax	<u>21,850,347</u>	<u>18,502,837</u>
Income tax calculated using the statutory tax rate of 17%	3,714,559	3,145,482
Non-deductible expenses	278,465	219,612
Income not subjected to tax	(89,269)	(84,918)
Deferred tax assets not recognised	–	134,339
Effect of tax incentives granted	(161,537)	(521,286)
Effect of tax rate in foreign jurisdictions	548,605	529,072
Recognition of tax effect of previously unrecognised tax losses	(136,814)	–
Withholding tax paid in foreign jurisdictions	681,145	450,968
Over provision in prior years	(112,230)	(132,768)
Others	(16,091)	119
	<u>4,706,833</u>	<u>3,740,620</u>

During the year, Micro-Mechanics Inc. had a profit before tax of US\$383,489. The tax losses brought forward are subject to agreement with the tax authorities and compliance with tax regulations in the jurisdiction in which the subsidiary operate. Cumulative deferred tax assets with respect to taxable losses of US\$8,716,651 (2017: US\$9,099,339) have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

17 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on:

	Group	
	2018	2017
	\$	\$
Net profit for the year	17,143,514	14,762,217
Number of shares outstanding during the year	139,031,881	139,031,881

There is no difference between the basic earnings per ordinary share and the diluted earnings per ordinary share as there are no potentially dilutive ordinary shares at the end of either financial year.

18 RELATED PARTIES

Key management personnel compensation

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group. The directors and the facility heads of the Company and the subsidiaries are considered as key management personnel of the Group.

	Group	
	2018	2017
	\$	\$
Short-term benefits of key management personnel	3,552,582	3,326,116
Post employment benefits	92,152	84,589

19 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing the risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

19 FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Financial assets at amortised cost

The following analysis provides further details about the calculation of expected credit loss (ECLs) related to trade receivables on the adoption of FRS 109. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The ECLs were calculated based on actual credit loss experience over the past 3 years. The Group performed the calculation of ECL rates separately for distributors, subsidiaries and other customers. The Group also considers the demographics of the customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Based on Group's assessment, there are no ECLs recognised during the financial year.

The maximum exposure to credit risk for financial assets at amortised cost at the reporting date by type of customer is:

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Distributors	530,004	237,593	–	–
Direct customers	10,344,866	10,775,683	–	–
Subsidiaries	–	–	2,652,090	3,150,588
Others	488,368	469,435	755	2,042
	<u>11,363,238</u>	<u>11,482,711</u>	<u>2,652,845</u>	<u>3,152,630</u>

The maximum exposure to credit risk for financial assets at amortised cost at the reporting date by geographical location is:

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Singapore	1,202,693	1,157,955	755	2,042
Malaysia	2,379,247	2,410,370	–	–
Philippines	996,056	901,673	2,652,090	2,168,270
Thailand	143,615	204,757	–	–
USA	1,099,718	1,323,270	–	982,318
Europe	295,065	201,181	–	–
China	4,021,653	4,065,751	–	–
Japan	180,416	169,408	–	–
Taiwan	844,458	792,991	–	–
Others	200,317	255,355	–	–
	<u>11,363,238</u>	<u>11,482,711</u>	<u>2,652,845</u>	<u>3,152,630</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

19 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The aging of financial assets at amortised cost (excluding deposits) at the reporting date is:

Group	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Current	7,240,730	8,167,895	2,652,845	1,712,385
Past due 1 – 30 days	2,786,586	2,364,720	–	–
Past due 31 – 60 days	876,430	576,936	–	–
More than 60 days	116,357	34,788	–	1,439,745
	<u>11,020,103</u>	<u>11,144,339</u>	<u>2,652,845</u>	<u>3,152,130</u>

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group maintains the following line of credit:

- \$2,000,000 overdraft facility that is unsecured. Interest would be payable at 1.25% above the DBS Bank Prime rate.

At the reporting date, the Group has no outstanding payable on the line of credit.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's exposure to foreign currency risk relates primarily to its US dollar, Japanese yen and Philippines peso denominated financial assets and liabilities. The Group is also exposed to the foreign currencies of the countries in which the subsidiaries operate. The Group endeavours to minimise such exposures as far as possible by matching assets and liabilities of the same currency although there is no formal hedging policy. As at 30 June 2018, the Group had outstanding foreign exchange contracts with notional amounts of approximately \$4,238,709 (2017: \$9,886,225) to manage exposure to foreign currency fluctuation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

19 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

The Group's and Company's exposure to foreign currency risks in the Singapore dollar equivalents are as follows:

	US dollar \$	Japanese yen \$	Philippines peso \$
Group			
2018			
Trade and other receivables	5,020,298	180,416	2,652,090
Cash and cash equivalents	872,732	379,085	–
Trade and other payables	(1,306,288)	(37,849)	–
	<u>4,586,742</u>	<u>521,652</u>	<u>2,652,090</u>
2017			
Trade and other receivables	9,864,695	169,408	2,380,831
Cash and cash equivalents	1,677,503	40,453	235,591
Trade and other payables	(726,311)	(208,107)	(708,484)
	<u>10,815,887</u>	<u>1,754</u>	<u>1,907,938</u>
Company			
2018			
Trade and other receivables		–	2,652,090
Cash and cash equivalents		32,761	–
		<u>32,761</u>	<u>2,652,090</u>
2017			
Trade and other receivables		982,318	2,168,269
Cash and cash equivalents		9,693	–
Trade and other payables		(17,648)	–
		<u>974,363</u>	<u>2,168,269</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

19 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Sensitivity analysis

A 10% strengthening of Singapore dollar against the following currencies at the reporting date would increase/ (decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group	
	2018	2017
	\$	\$
US dollar	(458,674)	(1,081,589)
Japanese yen	(52,165)	(175)
Philippines peso	(265,209)	(190,794)
	<u>(776,048)</u>	<u>(1,272,558)</u>

	Company	
	2018	2017
	\$	\$
US dollar	(3,276)	(97,436)
Philippines peso	(265,209)	(216,827)
	<u>(268,485)</u>	<u>(314,263)</u>

A 10% weakening of Singapore dollar against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, in respect of the fixed rate instruments a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

The Group does not have any variable rate instruments as at the reporting date.

The Company's exposure to changes in interest rates relates primarily to its interest-earning financial assets. A 100 basis point increase/decrease in the interest rates on the Company's interest-earning financial assets would result in an approximate \$Nil (2017: \$9,823) change in profit or loss.

In respect of interest-earning financial assets of the Company, the following table indicates their effective interest rates at reporting date and the periods in which they reprice or mature:

	Effective interest rate %	Total \$	Less than 1 year \$	1 to 5 years \$
2017				
Financial assets				
Amount owing by subsidiaries (non-trade)	1.40 to 2.20	982,318	–	982,318

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

19 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Accounting classifications and fair values

Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Note	Financial assets at amortised cost \$	Designated at fair value \$	Other financial liabilities \$	Total carrying amount \$	Fair value \$
Group						
2018						
Trade and other receivables*	7	11,363,238	–	–	11,363,238	
Forward exchange contracts – assets	7	–	1,084	–	1,084	1,084
Cash and cash equivalents	8	21,087,382	–	–	21,087,382	
		<u>32,450,620</u>	<u>1,084</u>	<u>–</u>	<u>32,451,704</u>	
Trade and other payables**	12	–	–	(7,092,215)	(7,092,215)	
Forward exchange contracts – liability	12	–	(63,555)	–	(63,555)	(63,555)
		<u>–</u>	<u>(63,555)</u>	<u>(7,092,215)</u>	<u>(7,155,770)</u>	
2017						
Trade and other receivables*	7	11,482,711	–	–	11,482,711	
Forward exchange contracts – assets	7	–	94,785	–	94,785	94,785
Cash and cash equivalents	8	23,422,290	–	–	23,422,290	
		<u>34,905,001</u>	<u>94,785</u>	<u>–</u>	<u>34,999,786</u>	
Trade and other payables**	12	–	–	(7,705,924)	(7,705,924)	
Forward exchange contracts – liability	12	–	(1,174)	–	(1,174)	(1,174)
		<u>–</u>	<u>(1,174)</u>	<u>(7,705,924)</u>	<u>(7,707,098)</u>	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

19 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Accounting classifications and fair values (continued)

Fair value versus carrying amounts (continued)

	Note	Financial assets at amortised cost \$	Designated at fair value \$	Other financial liabilities \$	Total carrying amount \$	Fair value \$
Company						
2018						
Trade and other receivables*	7	2,652,845	–	–	2,652,845	
Cash and cash equivalents	8	2,017,182	–	–	2,017,182	
		<u>4,670,027</u>	<u>–</u>	<u>–</u>	<u>4,670,027</u>	
Trade and other payables**	12	–	–	(346,171)	(346,171)	
		<u>–</u>	<u>–</u>	<u>(346,171)</u>	<u>(346,171)</u>	
2017						
Trade and other receivables*	7	3,152,630	–	–	3,152,630	3,152,630
Forward exchange contracts – assets	7	–	1,000	–	1,000	1,000
Cash and cash equivalents	8	11,554,207	–	–	11,554,207	
		<u>14,706,837</u>	<u>1,000</u>	<u>–</u>	<u>14,707,837</u>	
Trade and other payables**	12	–	–	(343,311)	(343,311)	
		<u>–</u>	<u>–</u>	<u>(343,311)</u>	<u>(343,311)</u>	

* Excluding advances to suppliers, prepayments and forward exchange contracts.

** Excluding advances from customers, forward exchange contracts, provision for reinstatement costs and provision for retirement benefits for employees.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

19 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Accounting classifications and fair values (continued)

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the LIBOR plus 100 basis points:

	Company	
	2018	2017
Trade and other receivables	–	4.25%

Fair value hierarchy

The table below analyses fair value measurements for financial assets and financial liabilities, the levels of fair value hierarchy based on the inputs to valuation techniques. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 2 \$	Total \$
Group		
2018		
Forward exchange contracts – asset	1,084	1,084
Forward exchange contracts – liability	(63,555)	(63,555)
2017		
Forward exchange contracts – asset	94,785	94,785
Forward exchange contracts – liability	(1,174)	(1,174)
Company		
2017		
Trade and other receivables – non-current	982,318	982,318
Forward exchange contracts – asset	1,000	1,000

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

19 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Accounting classifications and fair values (continued)

Interest rates used for determining fair value (continued)

<u>Type</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between key unobservable inputs and fair value measurement</u>
Forward exchange contracts	<i>Market comparison technique:</i> The fair values are based on financial institutions quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not applicable	Not applicable
Trade and other receivables	<i>Discounted cash flows:</i> The fair values are based on discounted estimated cash flows using LIBOR plus 100 basis points interest rates.	Not applicable	Not applicable

20 SEGMENT REPORTING

The Group has five reportable segments, as discussed below, which are the Group's strategic business units. The strategic business units are managed separately because they require different marketing strategies. For each of the strategic business units, the Group's Executive Directors review internal management reports regularly. The following describes the operations in each of the Group's reportable segments:

- Singapore: Includes manufacturing and distributing of precision tools
- Malaysia: Includes manufacturing and distributing of precision tools
- The Philippines: Includes manufacturing and distributing of precision tools
- USA: Includes manufacturing of precision components and modules and distributing of precision tools
- China: Includes manufacturing and distributing of precision tools

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's Executive Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments.

Inter-segment pricing is determined on mutually agreed terms.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

20 SEGMENT REPORTING Operating Segments

2018	Singapore \$	Malaysia \$	The Philippines \$	USA \$	China \$	Elimination \$	Consolidated \$
Total revenue from external customers	15,918,357	12,883,706	6,631,743	12,308,965	17,359,087	–	65,101,858
Inter-segment revenue	6,341,863	1,296,257	556,401	288	–	(8,194,809)	–
Total revenue	<u>22,260,220</u>	<u>14,179,963</u>	<u>7,188,144</u>	<u>12,309,253</u>	<u>17,359,087</u>	<u>(8,194,809)</u>	<u>65,101,858</u>
Segment results	6,557,974	6,376,285	3,371,300	514,297	6,162,718	(387,915)	22,594,659
Unallocated expenses							(744,312)
Profit from operations							21,850,347
Tax expense							(4,706,833)
Net profit for the year							<u>17,143,514</u>
Segment assets	26,010,560	14,543,356	4,477,450	16,846,424	12,725,963	(3,365,753)	71,238,000
Unallocated assets:							
Others							2,052,725
Total assets							<u>73,290,725</u>
Segment liabilities	4,058,412	789,376	4,051,080	3,512,698	2,256,815	(4,782,174)	9,886,207
Unallocated liabilities:							
Tax							3,099,931
Others							46
Total liabilities							<u>12,986,184</u>
Other segment information							
Capital expenditure	2,154,776	1,512,372	692,312	5,313,331	2,447,922	–	12,120,713
Depreciation	1,885,315	756,298	529,305	1,858,377	879,091	–	5,908,386
Non-current assets	<u>10,731,844</u>	<u>5,846,060</u>	<u>2,265,491</u>	<u>12,224,198</u>	<u>4,754,534</u>	<u>(95,576)</u>	<u>35,726,551</u>

Major customers

Revenues of major customers (contributing more than 10% of total revenue from external customers of each segment) of the reportable segments are as follows:

	Singapore \$	Malaysia \$	The Philippines \$	USA \$	China \$	Total \$
2018						
Revenue	–	1,687,926	4,874,117	9,725,820	2,742,300	19,030,163
Number of customers	–	1	4	3	1	9

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

20 SEGMENT REPORTING (continued) Operating Segments (continued)

2017	Singapore	Malaysia	The Philippines	USA	China	Elimination	Consolidated
	\$	\$	\$	\$	\$	\$	\$
Total revenue from external customers	15,615,344	12,589,352	5,385,006	9,494,141	14,145,822	–	57,229,665
Inter-segment revenue	6,266,911	1,198,573	569,427	190	1,544	(8,036,645)	–
Total revenue	<u>21,882,255</u>	<u>13,787,925</u>	<u>5,954,433</u>	<u>9,494,331</u>	<u>14,147,366</u>	<u>(8,036,645)</u>	<u>57,229,665</u>
Segment results	7,000,814	6,484,760	2,274,665	(609,006)	4,261,120	(366,082)	19,046,271
Unallocated expenses							(543,434)
Profit from operations							18,502,837
Income tax expense							(3,740,620)
Net profit for the year							<u>14,762,217</u>
Segment assets	24,051,148	13,093,636	3,472,063	10,069,319	10,588,843	(7,257,588)	54,017,421
Unallocated assets: Others							11,577,701
Total assets							<u>65,595,122</u>
Segment liabilities	3,343,553	1,015,688	3,154,394	8,141,292	1,961,652	(9,776,350)	7,840,229
Unallocated liabilities: Tax Others							2,733,590 250,000
Total liabilities							<u>10,823,819</u>
Other segment information							
Capital expenditure	2,070,002	1,335,329	462,680	275,691	950,589	–	5,094,291
Depreciation	1,359,548	652,256	443,029	1,388,535	494,509	–	4,337,877
Non-current assets	<u>11,670,204</u>	<u>4,908,915</u>	<u>1,752,262</u>	<u>7,154,904</u>	<u>2,741,962</u>	<u>(1,631,505)</u>	<u>26,596,742</u>

Major customers

Revenues of major customers (contributing more than 10% of total revenue from external customers of each segment) of the reportable segments are as follows:

2017	Singapore	Malaysia	The Philippines	USA	China	Total
	\$	\$	\$	\$	\$	\$
Revenue	–	2,130,014	2,771,159	8,315,396	2,260,970	15,477,539
Number of customers	–	1	3	4	1	9

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2018

21 COMMITMENTS

Apart from the obligations set out elsewhere, the Group had the following commitments as at reporting date:

	Group	
	2018	2017
	\$	\$
Capital commitments:		
– contracted but not provided for	653,355	6,802,993
– authorised but not contracted for	109,109	697,996
	762,464	7,500,989

22 FULL CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ADOPTION OF NEW STANDARDS

Applicable to 2019 financial statements

In December 2017, the Accounting Standards Council (ASC) issued the Singapore Financial Reporting Standards (International) (SFRS(I)). SFRS(I) comprises standards and interpretations that are equivalent to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) at 31 December 2017 that are applicable for annual period beginning on 1 January 2018. Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I) with effect from annual periods beginning on or after 1 January 2018.

The Group's financial statements for the financial year ending 30 June 2019 will be prepared in accordance with SFRS(I). As a result, this will be the last set of financial statements prepared under the current FRS.

In adopting the new framework, the Group will be required to apply the specific transition requirements in SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)*.

Summary of quantitative impact

The Group is currently finalising the analysis of the available accounting policy choices, transitional option exemptions and transitional mandatory exceptions under SFRS(I) 1. Based on management assessment, the adoption of SFRS(I) 1 is not expected to have a significant impact on the Group's and the Company's financial position as at 30 June 2018 and 1 July 2018 and the Group's profit or loss and other comprehensive income for the year ended 30 June 2018.

SHAREHOLDERS' STATISTICS

As at 31 August 2018

SHARE CAPITAL

Number of Shares : 139,031,881
 Class of Shares : Fully paid ordinary shares
 Voting Rights : On a poll – 1 vote for each ordinary share held

Based on the information available to the Company as at 31 August 2018, the percentage of shareholding held in the hands of the public is approximately 39.60% which is more than 10% of the issued ordinary shares of the Company. Therefore Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited has been complied with. The Company did not have any treasury shares or subsidiary holdings (as defined in the Listing Manual) as at 31 August 2018.

SUBSTANTIAL SHAREHOLDERS AS AT 31 AUGUST 2018

	Name	Shareholdings beneficially held by the substantial shareholder		Other shareholdings in which the substantial shareholder is deemed to have an interest	
		No. of Shares	%	No. of Shares	%
1	Christopher Reid Borch	34,474,913*	24.80%	37,860,256**	27.23%
2	Sarcadia LLC	37,760,256	27.16%	–	–
3	Low Ming Wah***	7,126,001	5.13%	1,000	0.00%
4	Frederic Louis Borch****	859,500	0.62%	37,760,256	27.16%
5	Andrea W. Borch****	–	–	37,760,256	27.16%
6	Kyle Christopher Borch****	25,000	0.02%	37,760,256	27.16%
7	Tyler Campbell Borch****	25,000	0.02%	37,760,256	27.16%
8	Cameron Louis Borch****	25,000	0.02%	37,760,256	27.16%
9	Allison Ruth Borch****	25,000	0.02%	37,760,256	27.16%

* Include 5,000,000 shares held in the name of Christopher R. Borch's nominee, Phillip Securities Pte Ltd.

** Deemed to be interested in 37,760,256 shares held by Sarcadia LLC and 100,000 shares held by his children.

*** Deemed to be interested in 1,000 shares held by spouse.

**** Deemed to be interested in 37,760,256 shares held by Sarcadia LLC.

SHAREHOLDERS' STATISTICS

As at 31 August 2018

ANALYSIS OF SHAREHOLDERS BY RANGE AS AT 31 AUGUST 2018

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued share capital
1 – 99	15	1.21	450	0.00
100 – 1,000	259	20.98	199,900	0.15
1,001 – 10,000	596	48.26	2,741,896	1.97
10,001 – 1,000,000	350	28.34	26,792,561	19.27
1,000,001 and above	15	1.21	109,297,074	78.61
Total	1,235	100.00	139,031,881	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 31 AUGUST 2018

Name	No. of Shares	% of Issued share capital
1 Sarcardia LLC	37,760,256	27.16
2 Christopher Reid Borch	29,474,913	21.20
3 Citibank Nominees Singapore Pte Ltd	8,234,256	5.92
4 Low Ming Wah	7,126,001	5.13
5 Phillip Securities Pte Ltd	6,354,900	4.57
6 Raffles Nominees (Pte) Ltd	3,532,000	2.54
7 DBS Nominees Pte Ltd	3,007,850	2.16
8 Chow Kam Wing	2,811,000	2.02
9 Lam Yen Yong	2,191,000	1.58
10 Tan Eng Yam @ Tan Eng Ann	2,141,100	1.54
11 OCBC Securities Private Ltd	1,770,198	1.27
12 Tan Eng Yam Holdings Pte Ltd	1,513,200	1.09
13 Tan Boon Khak Holdings Pte Ltd	1,376,400	0.99
14 Lim Yong Wah	1,002,500	0.72
15 Karl Zurfluh	1,001,500	0.72
16 UOB Kay Hian Pte Ltd	984,700	0.71
17 Yeap Lam Yang	960,000	0.69
18 Frederic Louis Borch	859,500	0.62
19 Chen Wei Ching	820,000	0.59
20 Chew Kwai Yoke	805,000	0.58
Total	113,726,274	81.80

NOTICE OF TWENTY-SECOND ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty-Second Annual General Meeting of the Company will be held at NTUC Centre, Level 7, Room 701, No. 1 Marina Boulevard, Singapore 018989 on Monday, 29 October 2018 at 2.00 p.m. to transact the following business:

Ordinary Business

- 1 To receive and adopt the Directors' Statement and Audited Financial Statements for the financial year ended 30 June 2018 and the Auditors' Report thereon. **[Resolution 1]**
- 2 To declare a final dividend of five cents per ordinary share tax exempt (one-tier) and a special dividend of one cent per ordinary share tax exempt (one-tier) for the financial year ended 30 June 2018. **[Resolution 2]**
- 3 To re-elect Mr Chow Kam Wing, who retires by rotation pursuant to Regulation 97 of the Company's Constitution, as Director of the Company. **[Resolution 3]**
[See Explanatory Note (a)]
- 4 To re-elect Ms Sumitri Mirnalini Menon @ Rabia, who retires by rotation pursuant to Regulation 97 of the Company's Constitution, as Director of the Company. **[Resolution 4]**
[See Explanatory Note (a)]
- 5 To approve the payment of Directors' Fees of S\$290,000 for the financial year ended 30 June 2018 (2017: S\$290,000) **[Resolution 5]**
- 6 To re-appoint KPMG LLP as Auditors of the Company and to authorise the Directors to fix their remuneration. **[Resolution 6]**
- 7 To transact any other business that may be transacted at an Annual General Meeting.

Special Business

To consider and, if thought fit, to pass the following as Ordinary Resolutions, with or without modifications:

8 **Authority to allot and issue shares in the capital of the Company**

That pursuant to Section 161 of the Companies Act, Chapter 50 (Act), the Constitution and the listing rules of the Singapore Exchange Securities Trading Limited (SGX-ST), authority be and is hereby given to the directors of the Company to:

- (a) (i) allot and issue shares in the capital of the Company (**Shares**) (whether by way of rights, bonus or otherwise); and/or
- (ii) make or grant offers, agreements, or options (collectively, **Instruments**) that might or would require Shares to be issued, including but not limited to the creation and issue of warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

NOTICE OF TWENTY-SECOND ANNUAL GENERAL MEETING

- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instruments made or granted by the Directors while this Resolution was in force,

provided that:

- (1) the aggregate number of Shares to be issued pursuant to this Resolution (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time of the passing of this Resolution (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares issued other than on a pro-rata basis to existing shareholders (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 10% of the Company's total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) (as calculated in accordance with sub-paragraph (2) below); and
- (2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) shall be calculated based on the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time of the passing of this Resolution, after adjusting for:
- (a) new Shares arising from the conversion or exercise of convertible securities;
- (b) new Shares arising from the exercise of share options or vesting of share awards outstanding or subsisting at the time this Resolution is passed, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the SGX-ST Listing Manual; and
- (c) any subsequent bonus issue, consolidation or subdivision of Shares;
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the requirements imposed by the SGX-ST from time to time and the provisions of the listing rules of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company; and
- (4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier.

[Resolution 7]

[See Explanatory Note (b)]

By Order of the Board

Chow Kam Wing
Company Secretary
28 September 2018
Singapore

NOTICE OF TWENTY-SECOND ANNUAL GENERAL MEETING

Explanatory Notes:

- (a) For ordinary resolutions 3 and 4 under items 3 and 4 above, detailed information on the two Directors can be found under “Board of Directors”, “Corporate Information” and “Corporate Governance” in the Company’s Annual Report FY2018. Save as disclosed in those sections, there are no relationships including immediate family relationships between each of the said Directors and the other Directors, the Company or its 5% shareholders.

Ms Sumitri Mirnalini Menon @ Rabia, if re-elected as Director of the Company, will remain as the non-executive Chairman of the Board, Chairman of the Nominating Committee and a member of the Audit Committee, Risk Management Committee and Remuneration Committee and will be considered as an independent director.

- (b) The ordinary resolution 7 set out in item 8 above, if passed, will empower the Directors from the date of this Annual General Meeting until the date of the next Annual General Meeting to issue Shares, make or grant instruments convertible into Shares and to issue Shares pursuant to such instruments up to an aggregate number not exceeding 50% of the total number of issued Shares excluding treasury shares and subsidiary holdings, if any, in the capital of the Company, with a sub-limit of 10% for issues other than on a pro-rata basis.

Notes:

- 1 (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the Annual General Meeting. Where such member’s form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.
- (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the Annual General Meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member’s form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

“Relevant intermediary” has the meaning ascribed to it in Section 181 of the Companies Act, Cap 50.

- 2 A proxy need not be a member of the Company.
- 3 The instrument appointing a proxy or proxies must be deposited at the Company’s registered office at 31 Kaki Bukit Place, Eunos Techpark, Singapore 416209 not less than 72 hours before the time appointed for holding the Annual General Meeting.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member’s personal data by the Company (or its agents or service providers) for the purpose of the processing and administration by the Company (or its agents or service providers) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the “Purposes”), (ii) warrants that where the member discloses the personal data of the member’s proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member’s breach of warranty.

NOTICE OF TWENTY-SECOND ANNUAL GENERAL MEETING

NOTICE OF BOOKS CLOSURE AND DIVIDENDS PAYMENT 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 8 November 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 7 November 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 7 November 2018 will be entitled to the proposed dividend.

The proposed dividend, if approved by the members at the Twenty-Second Annual General Meeting to be held on 29 October 2018, will be paid on 20 November 2018.

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MICRO-MECHANICS (HOLDINGS) LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No: 199604632W)

IMPORTANT

1. Relevant intermediaries as defined in Section 181 of the Companies Act, Cap. 50 may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. For CPF/SRS investors who have used their CPF/SRS monies to buy shares in Micro-Mechanics (Holdings) Ltd., this proxy form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors should contact their respective Agent Banks if they have any queries regarding their appointment as proxies.
3. By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the notice of Annual General Meeting dated 28 September 2018.

PROXY FORM

I/We _____ NRIC/Passport/Co. Registration No. _____

of _____

being a member/members of **MICRO-MECHANICS (HOLDINGS) LTD.** hereby appoint

Name	Address	NRIC/Passport No.	Number of Shares Represented

and/or (delete as appropriate)

Name	Address	NRIC/Passport No.	Number of Shares Represented

as my/our proxy/proxies to attend, speak and vote for me/us on my/our behalf at the Annual General Meeting ("AGM") of the Company to be held at NTUC Centre, Level 7, Room 701, No. 1 Marina Boulevard, Singapore 018989 on **Monday, 29 October 2018 at 2.00 p.m.** and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the AGM and at any adjournment thereof.

No.	Resolutions Relating To:	No. of Votes For*	No. of Votes Against*
ORDINARY BUSINESS			
1	Directors' Statement and Audited Financial Statements for the financial year ended 30 June 2018		
2	Payment of final and special dividends		
3	Re-election of Mr Chow Kam Wing as director		
4	Re-election of Ms Sumitri Mirnalini Menon @ Rabia as director		
5	Approval of directors' fees		
6	Re-appointment of KPMG LLP as auditors		
SPECIAL BUSINESS			
7	Authority to allot and issue new shares		

* Voting will be conducted by poll. If you wish to exercise all your votes "For" or "Against" the relevant Resolution, please indicate with an "X" in the relevant box provided. Alternatively, if you wish to exercise your votes both "For" and "Against" the relevant Resolution, please insert the relevant number of Shares in the boxes provided.

Dated this _____ day of _____ 2018

Total Number of Shares held	
(a) CDP Register	
(b) Register of Members	

Signature(s) of Member(s) or
Common Seal of Corporate Member

IMPORTANT

PLEASE READ NOTES OVERLEAF



Notes:

- 1 A member should insert the total number of shares held by him. If the member has shares entered against his name in the Depository Register (maintained by The Central Depository (Pte) Limited), he should insert that number of shares. If the member has shares registered in his name in the Register of Members (maintained by or on behalf of the Company), he should insert that number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members, he should insert the aggregate number of shares entered against his name in the Depository Register and registered in his name in the Register of Members. If the number of shares is not inserted, this form of proxy will be deemed to relate to all the shares held by the member.
- 2 (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the meeting. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

(b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

"Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Cap. 50.

3. A proxy need not be a member of the Company.
4. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 31 Kaki Bukit Place, Eunos Techpark, Singapore 416209 not less than 72 hours before the time appointed for holding the AGM.
5. The instrument appointing a proxy shall be signed by the appointor or his attorney. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid. In the case of a corporation, the instrument appointing a proxy shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.
6. Any corporation which is a member of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at the meeting.
7. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company shall be entitled to reject any instrument of proxy if the member, being the appointor, is not shown to have any shares entered against his name in the Depository Register as at 72 hours before the time of the AGM, as certified by The Central Depository (Pte) Limited to the Company.

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◆ CORPORATE DIRECTORY

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