

**MICRO-MECHANICS (HOLDINGS) LTD**

**Unaudited First Quarter Financial Statements Announcement for the period ended 30/09/2018**

**PART I INFORMATION REQUIRED FOR ANNOUNCEMENTS OF FIRST QUARTER RESULTS**

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

	Note	Group (First Quarter) 3 months ended		
		30 Sep 18 S\$	30 Sep 17 S\$	Change
Revenue	(1)	16,884,314	17,694,454	(4.6%)
Cost of sales	(2)	(6,844,654)	(6,921,073)	(1.1%)
<b>Gross profit</b>		<b>10,039,660</b>	<b>10,773,381</b>	(6.8%)
Other income	(3)	134,509	127,785	5.3%
Distribution costs	(4)	(893,848)	(827,616)	8.0%
Administrative expenses	(5)	(2,441,089)	(2,531,132)	(3.6%)
Other operating expenses	(6)	(847,309)	(846,413)	0.1%
<b>Profit from operations</b>		<b>5,991,923</b>	<b>6,696,005</b>	(10.5%)
Finance costs		-	-	-
<b>Profit before income tax</b>	(7)	<b>5,991,923</b>	<b>6,696,005</b>	(10.5%)
Income tax expense	(8)	(1,485,751)	(1,525,015)	(2.6%)
<b>Profit after tax</b>		<b>4,506,172</b>	<b>5,170,990</b>	(12.9%)
<b>Non-controlling interests</b>		-	-	-
<b>Profit for the period</b>		<b>4,506,172</b>	<b>5,170,990</b>	(12.9%)
<b>Statement of Comprehensive Income</b>				
Profit for the period		4,506,172	5,170,990	(12.9%)
<b>Other comprehensive income: Item that is or may be reclassified subsequently to profit or loss:</b>				
Foreign currency translation differences for foreign operations, net of tax		(610,380)	59,169	(1131.6%)
<b>Total comprehensive income for the period</b>		<b>3,895,792</b>	<b>5,230,159</b>	<b>(25.5%)</b>

Notes:

- (1) Please refer to section 8 of this announcement for an analysis of the Group's revenue.
- (2) Cost of sales decreased due to the decrease in sales. Production headcount increased from 329 in 1Q18 to 349 in 1Q19. Depreciation for production assets increased by S\$232k to approximately S\$1.4 million in 1Q19 as compared to S\$1.2 million in 1Q18 due mainly to additional assets purchased in FY2018. (See Note 7 below).

(3) Other income consists of:

	Group (First Quarter) 3 months ended		
	30 Sep 18 S\$	30 Sep 17 S\$	Change
(Loss)/gain on disposal of property, plant and equipment	(9,586)	1,806	(630.8%)
Interest income from banks and others	53,800	39,378	36.6%
Rental income	30,757	28,127	9.4%
Government grant – Skill Redevelopment, Wage Credit and Capability Development Scheme	11,358	21,523	(47.2%)
Exchange gain	18,675	-	100%
Others	29,505	36,951	(20.2%)

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

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

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

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

	Group (First Quarter) 3 months ended		
	30 Sep 18 S\$	30 Sep 17 S\$	Change
Depreciation of property, plant and equipment	1,347,441	1,106,685	21.8%
Depreciation of right-of-use asset	274,152	269,698	1.7%
Exchange loss	-	2,461	n.m.
Interest expense on lease liabilities	30,196	24,092	25.3%
Inventories written off	21,263	47,931	(55.6%)
Property, plant and equipment written off	806	1,409	(42.8%)

n.m: Not meaningful

The Group's total depreciation expenses increased from approximately S\$1.4 million in 1Q18 to S\$1.6 million in 1Q19, of which S\$0.2 million was in relation to production assets. The increase in total depreciation expenses was due to higher depreciation charge for property, plant and equipment as result of assets purchased in FY2018.

(8) The effective tax rate for 1Q19 was 24.8% as compared to 22.8% for 1Q18. Included in the tax expense for the current quarter is a provision of S\$216k for withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

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

	Note	Group 30 Sep 18 S\$	Group 30 Jun 18 S\$	Group 1 Jul 17* S\$	Company 30 Sep 18 S\$	Company 30 Jun 18 S\$
<b>Non-current assets</b>						
Property, plant and equipment		32,348,740	33,265,855	26,157,348	-	-
Right-of-use asset	(1)	2,038,762	2,279,133	1,872,724	-	-
Subsidiaries		-	-	-	29,095,544	29,095,544
Trade and other receivables		294,886	125,034	439,394	-	-
Deferred tax asset		54,780	56,529	-	-	-
		34,737,168	35,726,551	28,469,466	29,095,544	29,095,544
<b>Current assets</b>						
Inventories		4,792,146	4,578,394	3,669,372	-	-
Trade and other receivables		13,014,937	11,898,398	11,906,718	1,990,895	2,687,634
Cash and cash equivalents		23,909,987	21,087,382	23,422,290	5,271,818	2,017,182
		41,717,070	37,564,174	38,998,380	7,262,713	4,704,816
<b>Total assets</b>		76,454,238	73,290,725	67,467,846	36,358,257	33,800,360
<b>Shareholders' equity</b>						
Share capital		14,782,931	14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve		292,213	902,593	-	-	-
Accumulated profits		49,125,189	44,619,017	39,988,372	20,717,666	18,472,255
		64,200,333	60,304,541	54,771,303	35,500,597	33,255,186
<b>Non-current liabilities</b>						
Deferred tax liabilities		1,654,012	1,476,961	1,406,658	408,359	192,772
Trade and other payables		213,240	595,729	400,171	-	-
Lease liabilities	(1)	2,088,152	1,289,588	835,582	-	-
		3,955,404	3,362,278	2,642,411	408,359	192,772
<b>Current liabilities</b>						
Trade and other payables		6,008,633	7,077,091	7,810,579	443,070	346,171
Lease liabilities	(1)	36,952	923,845	916,621	-	-
Current tax payable		2,252,916	1,622,970	1,326,932	6,231	6,231
		8,298,501	9,623,906	10,054,132	449,301	352,402
Total liabilities		12,253,905	12,986,184	10,823,819	857,660	545,174
<b>Total equity and liabilities</b>		76,454,238	73,290,725	67,467,846	36,358,257	33,800,360

Notes:

- (1) Right-of-use asset related to leases on various factories occupied by the Group and the accrual of corresponding lease liabilities due to the adoption of new accounting standard FRS116 Leases in the last financial year.

\*The Group has adopted the new Singapore Financial Reporting Standards (International) ("SFRS(I)") framework for the financial year ending 30 June 2019 and has applied SFRS(1) I with 1 July 2017 as the date of transition, which requires the first SFRS(I) financial statement to comprise of an opening SFRS(1) statement of financial position at the date of transition to SFRS(I)s. (Please refer to page 6 for more details).

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

**Amount repayable in one year or less or on demand**

<b>As at 30 Sep 18</b>		<b>As at 30 Sep 17</b>	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

**Amount repayable after one year**

<b>As at 30 Sep 18</b>		<b>As at 30 Sep 17</b>	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

**Details of any collateral**

Not applicable

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

	Note	Group (First Quarter) 3 months ended	
		30 Sep 2018 S\$	30 Sep 2017 S\$
<b>Cash flows from operating activities</b>			
Profit for the year		4,506,172	5,170,990
Adjustments for:			
Depreciation of property, plant and equipment		1,621,593	1,376,383
Property, plant and equipment written off		806	1,409
Loss/(gain) on disposal of property, plant and equipment		9,586	(1,806)
Interest income		(53,800)	(39,378)
Interest expense on lease liabilities		30,196	24,092
Tax expense		1,485,751	1,525,015
<b>Operating profit before changes in working capital</b>		7,600,304	8,056,705
Inventories		(280,359)	(192,751)
Trade and other receivables		(1,505,277)	(3,362,272)
Trade and other payables		(1,278,375)	430,272
Cash generated from operations		4,536,293	4,931,954
Income tax paid		(652,541)	(577,226)
<b>Net cash from operating activities</b>		3,883,752	4,354,728
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(1)	(699,820)	(2,154,551)
Proceeds from disposal of property, plant and equipment		1,823	1,808
Interest received		58,702	42,071
<b>Net cash used in investing activities</b>		(639,295)	(2,110,672)
<b>Cash flows from financing activities</b>			
Leases paid		(229,469)	(275,665)
<b>Net cash used in financing activities</b>		(229,469)	(275,665)
<b>Net increase in cash and cash equivalents</b>		3,014,988	1,968,391
Cash and cash equivalents at beginning of period		20,918,381	23,261,940
Effect of exchange rate fluctuations		(188,482)	(4,852)
<b>Cash and cash equivalents at the end of period</b>	(2)	23,744,887	25,225,479

Notes:

- (1) The Group purchased approximately S\$0.7 million of equipment for its factories in China, Malaysia and Singapore.

(2) Cash and cash equivalents is derived from:

	<b>Group 30 Sep 18 S\$</b>	<b>Group 30 Sep 17 S\$</b>
Cash and cash equivalent balances	23,909,987	25,386,129
Less: Pledged cash placed with bank	(165,100)	(160,650)
	<b>23,744,887</b>	<b>25,225,479</b>

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

	<b>Share Capital S\$</b>	<b>Foreign Currency Translation Reserve S\$</b>	<b>Accumulated remeasurement on retirement benefits S\$</b>	<b>Accumulated Profits S\$</b>	<b>Total S\$</b>
<b>The Group</b>					
As at 1 July 2017	14,782,931	(5,436,297)		45,424,669	54,771,303
Effect on transition to SFRS(1)s – (Note 1)	-	5,436,297	-	(5,436,297)	-
<b>Balance as at 1 Jul 2017 (SFRS(I))</b>	<b>14,782,931</b>	<b>-</b>	<b>-</b>	<b>39,988,372</b>	<b>54,771,303</b>
<b>Total comprehensive income for the period:</b>					
Profit for the period	-	-	-	5,170,990	5,170,990
<b>Other comprehensive income:</b>					
Foreign currency translation difference	-	59,169	-	-	59,169
Total comprehensive income for the period	-	59,169	-	5,170,990	5,230,159
<b>As at 30 Sep 2017</b>	<b>14,782,931</b>	<b>59,169</b>	<b>-</b>	<b>45,159,362</b>	<b>60,001,462</b>
As at 1 July 2018	14,782,931	855,088	47,505	44,619,017	60,304,541
<b>Total comprehensive income for the period:</b>					
Profit for the period	-	-	-	4,506,172	4,506,172
<b>Other comprehensive income:</b>					
Foreign currency translation difference	-	(610,380)	-	-	(610,380)
Total comprehensive income for the period	-	(610,380)	-	4,506,172	3,895,792
<b>As at 30 Sep 2018</b>	<b>14,782,931</b>	<b>244,708</b>	<b>47,505</b>	<b>49,125,189</b>	<b>64,200,333</b>

Note 1

The Group has adopted SFRS(I) for the financial year ending 30 June 2019 and has applied SFRS(I) 1 with 1 July 2017 as the date of transition.

The Group has elected the optional exemption in SFRS(I) 1 to reset its cumulative Foreign Currency Translation Reserve (“FCTR”) for all foreign operations to NIL at the date of transition, and reclassify the cumulative FCTR of approximately S\$5.44 million as at 1 July 2017 as determined in accordance with the previous Financial Reporting Standards (FRS) at that date to retained earnings. After the date of transition, any gain or loss on disposal of any foreign operations will exclude translation differences that arose before the date of transition.

	Share Capital	Foreign Currency Translation Reserve	Accumulated remeasurement on retirement benefits	Accumulated Profits	Total
<b>The Company</b>					
As at 1 July 2017	14,782,931	-	-	17,961,838	32,744,769
<b>Total comprehensive income for the period:</b>					
Loss for the period	-	-	-	(413,613)	(413,613)
Total comprehensive income for the period	-	-	-	(413,613)	(413,613)
<b>As at 30 Sep 2017</b>	<b>14,782,931</b>	<b>-</b>	<b>-</b>	<b>17,548,225</b>	<b>32,331,156</b>
As at 1 July 2018	14,782,931	-	-	18,472,255	33,255,186
<b>Total comprehensive income for the period:</b>					
Profit for the period	-	-	-	2,245,411	2,245,411
Total comprehensive income for the period	-	-	-	2,245,411	2,245,411
<b>As at 30 Sep 2018</b>	<b>14,782,931</b>	<b>-</b>	<b>-</b>	<b>20,717,666</b>	<b>35,500,597</b>

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

Nil

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

The total number of shares were 139,031,881 ordinary shares as at both 30 September 2018 and 30 September 2017. The Company did not have any treasury shares as at the end of the current financial year or at the end of the immediately preceding year.

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

Not applicable.

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

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

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

Not applicable.

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

Except as disclosed in paragraph 5, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period compared with the most recent audited financial statements for the financial year ended 30 June 2018.

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

The Group has adopted SFRS(I) for the financial year ending 30 June 2019 and has applied SFRS(I) 1 with 1 July 2017 as the date of transition.

The Group has elected the optional exemption in SFRS(I) 1 to reset its cumulative Foreign Currency Translation Reserve (“FCTR”) for all foreign operations to NIL at the date of transition, and reclassify the cumulative FCTR of approximately S\$5.44 million as at 1 July 2017 as determined in accordance with the previous Financial Reporting Standards (FRS) at that date to retained earnings. After the date of transition, any gain or loss on disposal of any foreign operations will exclude translation differences that arose before the date of transition.

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

	Group (First Quarter) 3 months ended	
	30 Sep 2018	30 Sep 2017
Earnings per ordinary share for the period based on net profit after tax and non-controlling interest:-		
(i) Based on weighted average number of ordinary shares in issue	3.24 cents	3.72 cents
(ii) On a fully diluted basis	3.24 cents	3.72 cents

The calculation is based on the weighted average number of shares in issue during the financial year. The weighted average number of shares outstanding during the year was 139,031,881 (30 Sep 2017: 139,031,881).

**7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-**

- (a) current financial period reported on; and  
(b) immediately preceding financial year.**

	Group 30 Sep 18	Group 30 Jun 18	Company 30 Sep 18	Company 30 Jun 18
Net Asset Value per ordinary share (cents)	46.18	43.37	25.53	23.92

The net asset value per ordinary share is calculated based on net assets of S\$64.2 million (30 June 2018: S\$60.3 million) and 139,031,881 (30 June 2018: 139,031,881) shares in issue at the end of the current financial year reported on/immediately preceding financial year.

**8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group’s business. It must include a discussion of the following:-**

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and  
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

**REVIEW OF PROFIT AND LOSS**

***Semiconductor industry review***

The semiconductor industry has shown signs of moderating sales growth heading into the second half of 2018 after rising 20.4% during the first six months of the year. Based on statistics compiled by the Semiconductor Industry Association (SIA), worldwide semiconductor sales in July and August 2018 increased 16.3% to US\$79.7 billion compared to the same two month period in 2017. The SIA said that while year-on-year growth has moderated somewhat, sales remained strong across every major product category and regional market, with the China and Americas markets standing out with the largest year-on-year growth.

The World Semiconductor Trade Statistics (WSTS) has updated its Semiconductor Market Forecast on 16 August 2018. WSTS now expects global semiconductor sales in 2018 to grow at a moderate annual rate of 15.7% to a record US\$477 billion. It expects sales of all products to grow with the largest growth coming from memory, analog ICs, discretets, and optoelectronics. It also forecasts all regions to continue growing in 2018.

### Group Revenue

REVENUE		1Q	2Q	3Q	4Q	Full Year
	FY2019	S\$16,884,314	NA	NA	NA	NA
	FY2018	S\$17,694,454	S\$15,649,498	S\$16,079,175	S\$15,678,731	S\$65,101,858
% growth	(4.6%)	NA	NA	NA	NA	

For the three months ended 30 September 2018 (1Q19), the Group reported revenue of S\$16.9 million. This was a decline of 4.6% from S\$17.7 million in 1Q18, which marked our highest ever quarterly revenue, due mainly to lower sales contribution from the Singapore and Malaysia markets.

On a quarter-on-quarter (qoq) basis, however, Group revenue in 1Q19 increased 7.7% from S\$15.7 million in 4Q18 due mainly to higher sales in the majority of our geographical markets, particularly in China and Malaysia.

### Revenue breakdown by Geographical Market

Country	4Q18		1Q19		1Q18		% change
	S\$ m	%	S\$ m	%	S\$ m	%	
Singapore	0.8	5%	1.0	6%	1.7	10%	(43%)
Malaysia	2.9	18%	3.1	18%	3.5	20%	(11%)
Philippines	1.6	10%	1.7	10%	1.7	9%	1%
Thailand	0.3	2%	0.3	2%	0.3	2%	2%
China	4.2	27%	5.5	33%	5.2	29%	6%
USA	3.3	21%	3.0	18%	2.8	16%	8%
Europe	0.6	4%	0.7	4%	0.6	3%	22%
Japan	0.3	2%	0.3	2%	0.3	2%	(13%)
Taiwan	1.2	8%	1.1	6%	1.2	7%	(10%)
Rest of world	0.4	3%	0.2	1%	0.4	2%	(41%)
	15.6	100%	16.9	100%	17.7	100%	(5%)

The Group recorded sales of S\$5.5 million in China during 1Q19, which were increases of 5.5% year-on-year (yoy) from 1Q18 and 31% qoq from 4Q18. As a result, China contributed 32.6% of Group revenue in 1Q19 and remains as our largest market.

We registered sales of S\$3.1 million in Malaysia during 1Q19, which was a decline of 11.4% yoy from 1Q18 but was an increase of 7.0% qoq from 4Q18. Malaysia was our second largest market in 1Q19 and accounted for 18.1% of Group revenue.

Sales in the USA increased 8.3% to S\$3.0 million in 1Q19 which stood as our third largest market with a contribution of 17.7% to the Group's revenue. Sales in Singapore decreased 42.8% to S\$1.0 million in 1Q19 due to less orders received from customers.

### Capacity Utilisation

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2019	58%	NA	NA	NA	NA
	FY2018	64%	62%	59%	60%	61%

Our average capacity utilisation rate decreased to 58% in 1Q19 compared to 64% in 1Q18, due to the decrease in Group sales as well as our investments for additional production capacity during FY2018.

### ***Gross Profit (GP) Margin***

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2019	59.5%	NA	NA	NA	NA
	FY2018	60.9%	56.1%	55.8%	54.6%	57.0%

The Group's gross profit (GP) decreased by 6.8% to S\$10.0 million in 1Q19 from S\$10.8 million in 1Q18. Our GP margin in 1Q19 eased to 59.5% in 1Q19 from 60.9% in 1Q18 due mainly to an increase in production headcount and higher depreciation expenses for machines purchased during FY2018. On a qoq basis, our GP margin in 1Q19 improved from 54.6% in 4Q18.

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

Admin, Distribution and Other Operating Expenses (net of other income)		1Q	2Q	3Q	4Q	Full Year
	FY2019 % of sales	S\$4,047,737 24.0%	NA	NA	NA	NA
	FY2018 % of sales	S\$4,077,376 23.0%	S\$3,846,420 24.6%	S\$3,735,222 23.2%	S\$3,580,364 22.8%	S\$15,239,382 23.4%

Other income in 1Q19 increased 5.3% to S\$135k from S\$128k in 1Q18. This was due mainly to foreign exchange gain of S\$19k as compared to the foreign exchange loss of S\$2k recorded in 1Q18. In addition to invoicing in various currencies, the Group uses currency hedging to mitigate the effect of currency fluctuations.

We continued to keep a tight rein on our expense structure during 1Q19. Distribution costs increased 8.0% to S\$894k due mainly to higher expenses incurred for sales and business development purposes. Administrative expenses decreased 3.6% to S\$2.4 million from S\$2.5 million due mainly to lower bonus incentive accruals which was partially offset by higher salary and related benefits. Other operating expenses were relatively stable at S\$847k.

In aggregate, our administrative, distribution and other operating expenses (inclusive of other income) in 1Q19 decreased 0.7% to S\$4.0 million from S\$4.1 million in 1Q18. As a percentage of Group sales, these overhead expenses increased to 24.0% in 1Q19 from 23.0% in the same period a year ago.

### ***Profit before Tax and Net Profit***

Net Profit after tax		1Q	2Q	3Q	4Q	Full Year
	FY2019	S\$4,506,172	NA	NA	NA	NA
	FY2018	S\$5,170,990	S\$3,903,774	S\$4,111,064	S\$3,957,686	S\$17,143,514
% growth	(12.9%)	NA	NA	NA	NA	

As a result of the above factors, the Group's profit before tax decreased 10.5% to S\$6.0 million in 1Q19 from S\$6.7 million in 1Q18.

After deducting income tax of S\$1.5 million (S\$1.5 million in 1Q18), the Group reported a net profit of S\$4.5 million in 1Q19. While this was a decrease of 12.9% yoy from S\$5.2 million in 1Q18, net profit in 1Q19 increased 13.9% qoq from S\$4.0 million in 4Q18. The Group's net profit margin was 26.7% in 1Q19 as compared to 29.2% in 1Q18 and 25.2% in 4Q18.

The effective tax rate for 1Q19 was 24.8% as compared to 22.8% for 1Q18. Tax expense for the quarter included a provision of S\$216k for withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

### ***Balance Sheet***

As at 30 September 2018, the Group remained in a sound financial position with a balance sheet that had total assets of S\$76.5 million, shareholders' equity of S\$64.2 million, cash and cash equivalents of S\$23.9 million and no bank borrowings.

### *Long Term Assets*

As at 30 September 2018, non-current assets decreased to S\$34.7 million from S\$35.7 million as at 30 June 2018.

### *Trade Receivables*

		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
Trade Receivables	FY2019	S\$11,960,650	NA	NA	NA
	≥ 90 days	0.02%			
	Write-off	-			
	FY2018	S\$13,623,255	S\$10,967,376	S\$11,707,701	S\$10,874,870
	≥ 90 days	2.2%	0.0%	0.5%	0.0%
	Write-off	-	-	-	-

Total trade receivables as at 30 September 2018 increased to S\$12.0 million, as compared to S\$10.9 million as at 30 June 2018. Of this, 0.02% was outstanding for 90 days or more (0% at end of 30 June 2018). There was no bad debt expense during 1Q19 and 1Q18.

### *Trade & Other Payables*

As at 30 September 2018, our trade payables totaled S\$721k, of which S\$1k was outstanding for 30 days or more. Non-trade payables totaled S\$1.4 million. Other accrued expenses was S\$3.9 million.

### *Long term liabilities*

As at 30 September 2018, the deferred tax liabilities was S\$1.7 million as compared to S\$1.5 million as at 30 June 2018. The lease liabilities was S\$2.1 million as at 30 September 2018 as compared to S\$1.3 million as at 30 June 2018 due to the renewal of factory lease.

### *Inventory*

As a percentage of annualised sales, our inventory of S\$4.8 million as at 30 September 2018 (S\$4.6 million as at 30 June 2018) was 7.1% (7.0% as at 30 June 2018). Inventory written off in 1Q19 totaled S\$21k, compared to S\$48k in 1Q18.

### *Capital Expenditure*

		1Q	2Q	3Q	4Q	Full Year
Capital Expenditure	FY2019	S\$699,820	NA	NA	NA	NA
	% of sales					
	FY2018	S\$2,154,551	S\$3,832,377	S\$3,362,060	S\$2,771,725	S\$12,120,713
	% of sales					18.6%

We incurred capital expenditure of S\$0.7 million in 1Q19 which was mainly for new machines for our factories in Singapore, Malaysia and China. For FY2019, we expect to incur capital expenditure of approximately S\$6 million.

### *Cash Flow Analysis*

The Group generated net cash from operations of S\$3.9 million in 1Q19 (S\$4.4 million in 1Q18). After deducting net cash used for investing activities of S\$639k and net cash used for financing activities of S\$229k, we ended the quarter with cash of S\$23.7 million which includes S\$0.2 million in pledged deposits.

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

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

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

During 1Q19, Group sales declined 4.6% to S\$16.9 million from the quarterly record of S\$17.7 million achieved in 1Q18. While growing the Group's top line and the value we create for our customers remains a key priority, we have also been working tirelessly to improve our GP margin by focusing on various strategies, such as *24/7 Machining*, IT automation and department integration to improve productivity and operational efficiency. Based on these and other efforts, our GP margin in 1Q19 remained steady at 59.5% compared to 60.9% in the same period a year ago.

We are also continuing to work diligently to keep a tight rein on overhead expenses. Total distribution, administrative and other expenses including other income declined slightly to S\$4.0 million from S\$4.1 million in 1Q18. As a percentage of sales these overhead expenses increased to 24.0% from 23.0% in 1Q18.

As a result, the Group's profit before tax declined 10.5% to S\$6.0 million from S\$6.7 million in the same quarter a year ago. After deducting taxes of S\$1.5 million (S\$1.5 million in 1Q18), the Group reported a net profit of S\$4.5 million in 1Q19 compared with our highest-ever quarterly profit of S\$5.2 million in 1Q18.

At the end of 1Q19, the Group employed 498 great people worldwide, an addition of 27 people from a year ago. As the Group grows, we plan to continue automating our operations, streamlining our processes and using technology to leverage the know-how and skills of our people.

With no bank borrowings to service and a careful watch over inventory and receivables, net cash generated from operating activities in 1Q19 totaled S\$3.9 million (S\$4.4 million for 1Q18). After using net cash for investing activities of S\$0.6 million (S\$2.1 million in 1Q18) which was primarily for new equipment, the Group ended our first quarter in a strong financial position with S\$23.9 million in cash (including S\$165k held as security deposits) and no bank borrowings.

**Market, Industry and Competitive Conditions**

According to statistics compiled by the SIA, world-wide chip sales increased 21.6% during 2017. Although the chip industry's strong growth has continued into 2018 with worldwide sales up 19.7% in the first eight months, the WSTS now expects growth to moderate to about 15.7% for the whole of 2018. This implies a slower industry growth rate of about 9% for the last four months of 2018.

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. As such cyclicity is typical for the semiconductor industry, we prefer to focus on the industry's long term trends and try not to get side-tracked 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 on new equipment to expand the productivity of our worldwide operations. 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 in new equipment to short-term industry conditions. For example, our net profit in 1Q19, which fell S\$0.7 million to S\$4.5 million, included S\$0.2 million in additional depreciation expenses compared to the same quarter a year ago.

During 1Q19, we spent S\$0.7 million mainly for new equipment compared with S\$2.2 million in 1Q18. For all of FY2019, we expect a lower capital expenditure of about S\$6.0 million which will focus on raising the productivity of our operations through automation and upgrading of our existing machines.

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, during 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 have begun deriving maiden revenue from these initiatives during 1Q19, we believe that this pattern of longer and more costly development cycles will become the norm as the chip industry moves below 10 nano device geometry 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.

### **Key Operating Strategies**

While short-term business planning and forecasting remains difficult and 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 will maintain our focus on our customers and the value we bring to their businesses. Whether we design and manufacture a tool for a delicate semiconductor assembly process or machine a part used in a critical wafer-processing application, our mission is to deliver *Perfect Parts and Tools, On Time, Every Time* based on repeatable, scalable and cost-effective processes.

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

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

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

### **Transparency and Governance**

On 18 July 2018, our CEO, Christopher Borch, received the *Best CEO Award* at the Singapore Corporate Awards (SCA) 2018 for the category of companies with a market capitalization up to S\$300 million. At the 19th Investors' Choice Awards 2018 on 25 September 2018, the Group was also conferred the Shareholder Communications Excellence Award (Small Cap) 2018 and Singapore Corporate Governance Award (Small Cap) 2018 by Securities Investors Association Singapore. Including these awards, the Group has received recognition 29 times for our good corporate governance and transparency practices since our listing in 2003.

In addition to these awards, in the Singapore Governance and Transparency Index (SGTI) released on 7 August 2018, Micro-Mechanics received a score of 97 points to rank 23rd out of 589 companies (excluding 43 Reits and Business Trusts) listed on the Singapore Exchange. The top 25 companies in the SGTI are mainly large capitalisation companies.

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

### **Appreciation and Stakeholder Value**

Since our listing we have also maintained a consistent practice of rewarding shareholders for their continuous support of Micro-Mechanics. Subject to approval at the upcoming Annual General Meeting on 29 October 2018, we plan to distribute a final dividend of 5 cents and a special dividend of 1 cent per ordinary share. Together with an interim dividend of 4 cents per ordinary share (one-tier tax exempt), this will bring the total dividend payment for FY2018 to 10 cents per ordinary share compared with 8 cents per ordinary share for FY2017.

Including the proposed final dividend and special dividend, we will have distributed a total of 63.9 cents per share to our shareholders since 2003. Based on dividends alone, this translates into a return of about 347% for our shareholders who bought Micro-Mechanics shares at our Initial Public Offer.

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

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

**11. Dividend**

**(a) Current Financial Period Reported On**

Any dividend declared for the current financial period reported on?

Nil

**(b) Corresponding Period of the Immediately Preceding Financial Year**

Nil.

**(c) Date payable**

Nil

**(d) Books closure date**

Nil

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

Not applicable

**13. Interested Persons Transactions**

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

For the quarter ended 30 September 2018, the Group has made rental payment of US\$93,000 (30 September 2017: US\$90,000) to Sarcadia LLC, a controlling shareholder of the Company and a family company set up by Mr. Christopher Reid Borch, the CEO of the Company.

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

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

To the best of the Board of Directors' knowledge, nothing has come to their attention which may render the financial results of the Group and of the Company for the financial period ended 30 September 2018 to be false or misleading in any material aspect.

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

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

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

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

Not applicable

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

Not applicable

- 18. A breakdown of sales.**

Not Applicable

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

Not Applicable

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

Not Applicable

**BY ORDER OF THE BOARD**

**CHOW KAM WING**  
**Company Secretary**  
29 October 2018