

**MICRO-MECHANICS (HOLDINGS) LTD**

**Unaudited Second Quarter Financial Statements Announcement for the period ended 31/12/2016**

**PART I INFORMATION REQUIRED FOR ANNOUNCEMENTS OF FULL YEAR RESULTS**

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

		Group					
		Q2			Half year		
	Note	Oct to Dec 2016 S\$	Oct to Dec 2015 S\$	Change	Jul to Dec 2016 S\$	Jul to Dec 2015 S\$	Change
Revenue	(1)	14,181,744	12,190,197	16.3%	27,540,263	25,793,047	6.8%
Cost of sales	(2)	(6,322,434)	(5,378,725)	17.5%	(12,020,049)	(11,185,509)	7.5%
<b>Gross profit</b>		<b>7,859,310</b>	<b>6,811,472</b>	15.4%	<b>15,520,214</b>	<b>14,607,538</b>	6.2%
Other income	(3)	384,798	14,574	2540.3%	667,665	532,283	25.4%
Distribution costs	(4)	(819,555)	(702,974)	16.6%	(1,555,411)	(1,454,839)	6.9%
Administrative expenses	(5)	(2,294,959)	(1,855,972)	23.7%	(4,236,074)	(3,992,113)	6.1%
Other operating expenses	(6)	(867,783)	(769,051)	12.8%	(1,630,358)	(1,541,159)	5.8%
<b>Profit from operations</b>		<b>4,261,811</b>	<b>3,498,049</b>	21.8%	<b>8,766,036</b>	<b>8,151,710</b>	7.5%
Finance costs		-	-	-	-	-	-
<b>Profit before income tax</b>	(7)	<b>4,261,811</b>	<b>3,498,049</b>	21.8%	<b>8,766,036</b>	<b>8,151,710</b>	7.5%
Income tax expense	(8)	(899,572)	(775,397)	16.0%	(2,023,309)	(1,835,320)	10.2%
<b>Profit after tax</b>		<b>3,362,239</b>	<b>2,722,652</b>	23.5%	<b>6,742,727</b>	<b>6,316,390</b>	6.7%
<b>Non-controlling interests</b>		-	-	-	-	-	-
<b>Profit for the period</b>		<b>3,362,239</b>	<b>2,722,652</b>	23.5%	<b>6,742,727</b>	<b>6,316,390</b>	6.7%
<b>Statement of Comprehensive Income</b>							
Profit for the period		<b>3,362,239</b>	<b>2,722,652</b>	23.5%	<b>6,742,727</b>	<b>6,316,390</b>	6.7%
Other comprehensive income:							
Foreign currency translation differences for foreign operations, net of tax		97,394	199,568	(51.2%)	(37,849)	(1,031,265)	(96.3%)
<b>Total comprehensive income for the period</b>		<b>3,459,633</b>	<b>2,922,220</b>	18.4%	<b>6,704,878</b>	<b>5,285,125</b>	26.9%

Notes:

- (1) Please refer to section 8 of this announcement for an analysis of the Group's revenue.
- (2) Cost of sales increased in line with the increase in sales. Production headcount increased from 291 in 2Q16 to 313 in 2Q17.

(3) Other income consists of:

	Q2			Half year		
	Oct to Dec 2016 S\$	Oct to Dec 2015 S\$	Change	Jul to Dec 2016 S\$	Jul to Dec 2015 S\$	Change
Gain on disposal of property, plant and equipment	55,829	4,651	1100.4%	59,358	99,133	(40.1%)
Interest income	32,639	31,326	4.2%	68,248	68,003	0.4%
Rental income	28,600	27,616	3.6%	57,493	55,966	2.7%
Government grant – Skill Redevelopment and Capability Development Scheme	21,791	18,323	18.9%	35,117	27,673	26.9%
Exchange gain/(loss)	197,049	(84,107)	(334.3%)	387,401	243,742	58.9%
Others	48,890	16,765	191.6%	60,048	37,766	59.0%

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

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

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

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

	Q2			Half year		
	Oct to Dec 2016 S\$	Oct to Dec 2015 S\$	Change	Jul to Dec 2016 S\$	Jul to Dec 2015 S\$	Change
Trade receivables written off	-	11,505	(100%)	-	11,505	(100%)
Depreciation of property, plant and equipment	1,107,556	1,114,199	(0.6%)	2,185,988	2,260,033	(3.3%)
Inventories written off	19,060	23,180	(17.8%)	47,662	38,125	25.0%
Fixed assets written off	1,432	11	n.m.	5,710	320	1684.4%

n.m. - not meaningful

(8) The effective tax rate for 2Q17 was 21.1% as compared to 22.2% for 2Q16. Included in the tax expense for 1H17 is a provision of S\$211k made in relation to withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

(9) Depreciation expenses in 2Q17 decreased by 0.6% to S\$1.1 million as certain assets have been fully depreciated compared to 2Q16.

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

	Note	Group 31 Dec 16 S\$	Group 30 Jun 16 S\$	Company 31 Dec 16 S\$	Company 30 Jun 16 S\$
<b>Non-current assets</b>					
Property, plant and equipment		26,006,819	25,551,395	-	-
Subsidiaries		-	-	18,364,744	18,364,744
Trade and other receivables		170,964	93,387	1,030,817	961,349
		26,177,783	25,644,782	19,395,561	19,326,093
<b>Current assets</b>					
Inventories		3,149,331	3,279,002	-	-
Trade and other receivables		11,048,535	10,337,194	1,240,803	3,768,101
Cash and cash equivalents		20,988,287	20,075,178	9,576,744	9,595,997
		35,186,153	33,691,374	10,817,547	13,364,098
<b>Total assets</b>		61,363,936	59,336,156	30,213,108	32,690,191
<b>Shareholders' equity</b>					
Share capital		14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve		(4,971,916)	(4,934,067)	-	-
Accumulated profits		41,576,135	40,394,683	15,177,089	17,550,014
		51,387,150	50,243,547	29,960,020	32,332,945
<b>Non-current liabilities</b>					
Deferred tax liabilities		1,398,155	1,307,986	-	-
Other payables		261,043	239,401	-	-
		1,659,198	1,547,387	-	-
<b>Current liabilities</b>					
Trade and other payables		6,654,955	5,948,920	248,803	352,210
Current tax payable		1,662,633	1,596,302	4,285	5,036
		8,317,588	7,545,222	253,088	357,246
Total liabilities		9,976,786	9,092,609	253,088	357,246
<b>Total equity and liabilities</b>		61,363,936	59,336,156	30,213,108	32,690,191

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

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

As at 31 Dec 16		As at 30 June 16	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

**Amount repayable after one year**

As at 31 Dec 16		As at 30 June 16	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

**Details of any collateral**

Not applicable

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

		<b>GROUP</b>			
		<b>Q2</b>		<b>Half year</b>	
	Note	<b>Oct to Dec 2016 S\$</b>	<b>Oct to Dec 2015 S\$</b>	<b>Jul to Dec 2016 S\$</b>	<b>Jul to Dec 2015 S\$</b>
<b>Cash flows from operating activities</b>					
Profit before income tax		4,261,811	3,498,049	8,766,036	8,151,710
Adjustments for:					
Depreciation of property, plant and equipment		1,107,556	1,114,199	2,185,988	2,260,033
Fixed assets written off		1,432	11	5,710	320
Gain on disposal of property, plant and equipment		(55,829)	(4,651)	(59,358)	(99,133)
Interest income		(32,639)	(31,326)	(68,248)	(68,003)
<b>Operating profit before changes in working capital</b>		5,282,331	4,576,282	10,830,128	10,244,927
Inventories		156,676	231,208	127,350	254,738
Trade and other receivables		(329,129)	1,112,886	(731,285)	181,755
Trade and other payables		838,689	(1,945,615)	618,054	(1,427,315)
Cash generated from operations		5,948,567	3,974,761	10,844,247	9,254,105
Income tax paid		(1,136,592)	(995,735)	(1,758,794)	(1,573,375)
<b>Net cash from operating activities</b>		4,811,975	2,979,026	9,085,453	7,680,730
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	(1)	(1,319,309)	(372,405)	(2,209,213)	(1,141,989)
Proceeds from disposal of property, plant and equipment		81,070	2,938	84,600	203,201
Interest received		3,409	28,810	67,212	94,992
<b>Net cash used in investing activities</b>		(1,234,830)	(340,657)	(2,057,401)	(843,796)
<b>Cash flows from financing activities</b>					
Deposits pledged		-	(4,451)	-	13,474
Dividends paid		(5,561,275)	(4,170,956)	(5,561,275)	(4,170,956)
<b>Net cash used in financing activities</b>		(5,561,275)	(4,175,407)	(5,561,275)	(4,157,482)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(1,984,130)	(1,537,038)	1,466,777	2,679,452
Cash and cash equivalents at beginning of period		23,485,642	17,789,079	19,907,478	14,983,111
Effect of exchange rate fluctuations		(674,425)	223,439	(547,168)	(1,187,083)
<b>Cash and cash equivalents at the end of period</b>	(2)	20,827,087	16,475,480	20,827,087	16,475,480

Notes:

- (1) The Group purchased approximately S\$1.3 million of equipment for its factories in Singapore, Malaysia and Philippines.

(2) Cash and cash equivalent is derived from:

	<b>Group 31 Dec 16 S\$</b>	<b>Group 31 Dec 15 S\$</b>
Cash and cash equivalent balances	20,988,287	16,640,179
Less: Pledged cash placed with bank	(161,200)	(164,699)
	<b>20,827,087</b>	<b>16,475,480</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 Profits  S\$</b>	<b>Total  S\$</b>
<b>The Group</b>				
As at 1 July 2015	14,782,931	(3,359,883)	35,462,869	46,885,917
<b>Total comprehensive income for the period</b>				
Net profit for the period	-	-	6,316,390	6,316,390
<b>Other comprehensive income</b>				
Foreign currency translation differences, net of tax	-	(1,031,265)	-	(1,031,265)
Total comprehensive income for the period	-	(1,031,265)	6,316,390	5,285,125
<b>Transactions with owners, recorded directly in equity</b>				
Final dividend of 3 cents per share (one-tier tax exempt) in respect of FY2015	-	-	(4,170,956)	(4,170,956)
Total transactions with owners, recorded directly in equity	-	-	(4,170,956)	(4,170,956)
<b>As at 31 December 2015</b>	<b>14,782,931</b>	<b>(4,391,148)</b>	<b>37,608,303</b>	<b>48,000,086</b>
As at 1 July 2016	14,782,931	(4,934,067)	40,394,683	50,243,547
<b>Total comprehensive income for the period</b>				
Net profit for the period	-	-	6,742,727	6,742,727
<b>Other comprehensive income</b>				
Foreign currency translation differences, net of tax	-	(37,849)	-	(37,849)
Total comprehensive income for the period	-	(37,849)	6,742,727	6,704,878
<b>Transactions with owners, recorded directly in equity</b>				
Final dividend of 3 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2016	-	-	(5,561,275)	(5,561,275)
Total transactions with owners, recorded directly in equity	-	-	(5,561,275)	(5,561,275)
<b>As at 31 December 2016</b>	<b>14,782,931</b>	<b>(4,971,916)</b>	<b>41,576,135</b>	<b>51,387,150</b>

	Share Capital	Foreign Currency Translation Reserve	Accumulated Profits	Total
	S\$	S\$	S\$	S\$
<b>The Company</b>				
As at 1 July 2015	14,782,931	-	16,639,957	31,422,888
<b>Total comprehensive income for the period</b>				
Net profit for the period	-	-	5,275,944	5,275,944
Total comprehensive income for the period	-	-	5,275,944	5,275,944
<b>Transactions with owners, recorded directly in equity</b>				
Final dividend of 3 cents per share (one-tier tax exempt) in respect of FY2015	-	-	(4,170,956)	(4,170,956)
Total transactions with owners, recorded directly in equity	-	-	(4,170,956)	(4,170,956)
<b>As at 31 December 2015</b>	<b>14,782,931</b>	<b>-</b>	<b>17,744,945</b>	<b>32,527,876</b>
As at 1 July 2016	14,782,931	-	17,550,014	32,332,945
<b>Total comprehensive income for the period</b>				
Net profit for the period	-	-	3,188,350	3,188,350
Total comprehensive income for the period	-	-	3,188,350	3,188,350
<b>Transactions with owners, recorded directly in equity</b>				
Final dividend of 3 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2016	-	-	(5,561,275)	(5,561,275)
Total transactions with owners, recorded directly in equity	-	-	(5,561,275)	(5,561,275)
<b>As at 31 December 2016</b>	<b>14,782,931</b>	<b>-</b>	<b>15,177,089</b>	<b>29,960,020</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 31 December 2016 and 31 December 2015. 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 Group's auditors.

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

Not applicable.

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

Yes.

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.

Not applicable

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

	GROUP			
	Q2		Half year	
	Oct to Dec 2016	Oct to Dec 2015	Jul to Dec 2016	Jul to Dec 2015
Earnings per ordinary share for the year based on net profit after tax and non-controlling interest:-				
(i) Based on weighted average number of ordinary shares in issue	2.42 cents	1.96 cents	4.85 cents	4.54 cents
(ii) On a fully diluted basis	2.42 cents	1.96 cents	4.85 cents	4.54 cents

The calculation is based on the weighted average number of shares in issue during the financial year. The weighted average number of shares outstanding during the year was 139,031,881 (31 December 2015: 139,031,881).

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

	Group 31 Dec 16	Group 30 Jun 16	Company 31 Dec 16	Company 30 Jun 16
Net Asset Value per ordinary share (cents)	36.96	36.14	21.55	23.26

The net asset value per ordinary share is calculated based on net assets of S\$51.4 million (30 June 2016: S\$50.2 million) and 139,031,881 (30 June 2016: 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*

Based on statistics compiled by the Semiconductor Industry Association (SIA), world-wide chip sales increased 3.0% to US\$146.2 billion in the last five months of 2016. In November 2016, chip sales increased 7.4% year-on-year (yoy), to mark the industry's largest monthly gain since January 2015.



The SIA said the China market continued to stand out with growth of nearly 16% year-on-year (yoy) to lead all regional markets. It added that the global semiconductor market is likely to match the annual sales of 2015 and is well-positioned for a solid start to 2017. The World Semiconductor Trade Statistics (WSTS) has raised its industry forecast and now expects global chip sales to remain stable in 2016 at US\$335 billion. The WSTS sees growth returning in 2017 and 2018 with forecasts of 3% and 2% respectively.

### Group Revenue

REVENUE		1Q	2Q	3Q	4Q	Full Year
	FY2017	S\$13,358,519	S\$14,181,744	NA	NA	NA
	FY2016	S\$13,602,850	S\$12,190,197	S\$12,529,565	S\$12,928,430	S\$51,251,042
% growth	(1.8%)	16.3%	NA	NA	NA	

For the three months ended 31 December 2016 (2Q17), the Group recorded its highest ever quarterly revenue with an increase of 16.3% yoy to S\$14.2 million from S\$12.2 million in 2Q16. This was driven mainly by higher sales in Singapore, Malaysia and the USA. Group revenue in 2Q17 would have been higher if not for the translational impact of the depreciation of the Chinese Renminbi and Philippine Peso by 7% and 4.5% respectively against the Group's reporting currency in Singapore Dollars.

On a quarter-on-quarter (qoq) basis, Group revenue in 2Q17 increased 6.2% from 1Q17 due mainly to higher sales contribution from the USA market.

For the six months ended 31 December 2016 (1H17), Group revenue increased 6.8% to S\$27.5 million from S\$25.8 million in the previous half-year period.

### Revenue breakdown by Geographical Market

Country	Group										
	1Q17 S\$	2Q17		2Q16		% change	1H17		1H16		% change
	S\$ m	%	S\$ m	%		S\$ m	%	S\$ m	%		
Singapore	0.9	1.1	8%	0.6	5%	74.3%	2.0	8%	1.4	5%	41.0%
Malaysia	3.0	3.1	21%	2.5	21%	21.5%	6.1	22%	5.2	20%	16.9%
Philippines	1.2	1.2	9%	1.1	10%	5.0%	2.4	9%	2.4	9%	0.6%
Thailand	0.4	0.4	3%	0.2	2%	75.2%	0.8	3%	0.5	2%	69.7%
China	3.5	3.6	25%	3.5	29%	3.8%	7.1	26%	7.7	30%	(7.0%)
USA	1.7	2.2	16%	1.7	14%	27.5%	3.9	14%	3.5	14%	10.9%
Europe	0.6	0.6	4%	0.7	4%	(6.1%)	1.2	4%	1.3	5%	(10.1%)
Japan	0.3	0.3	2%	0.3	2%	37.9%	0.6	2%	0.5	2%	28.9%
Taiwan	1.3	1.2	9%	1.2	10%	0.5%	2.5	9%	2.6	10%	(3.0%)
Rest of world	0.4	0.5	3%	0.4	3%	22.7%	0.9	3%	0.7	3%	21.4%
<b>Total</b>	<b>13.3</b>	<b>14.2</b>	<b>100%</b>	<b>12.2</b>	<b>100%</b>	<b>16.3%</b>	<b>27.5</b>	<b>100%</b>	<b>25.8</b>	<b>100%</b>	<b>6.8%</b>

In 2Q17, the Group witnessed improved yoy sales in all its geographical markets with the exception of Europe. While sales in China increased marginally by 3.8% to S\$3.6 million, this was due mainly to the 7% depreciation of the Chinese Renminbi against the Singapore Dollar. Nonetheless, China remained as our largest geographical market with a 25% contribution to Group revenue in 2Q17. Malaysia, which is our second largest market, registered a sales increase of 21.5% to S\$3.1 million in 2Q17 to account for 21% of Group revenue.

Sales in Singapore increased 74.3% to S\$1.1 million while sales to customers in the USA grew 27.5% to S\$2.2 million following the Group's strategic decision to focus on manufacturing parts and tools for process-critical applications for the semiconductor industry.

### Capacity Utilisation

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2017	56%	56%	NA	NA	NA
	FY2016	54%	50%	55%	56%	54%

Our average capacity utilisation rate increased to 56% in 2Q17 from 50% in 2Q16, in tandem with the increase in Group sales.

### Gross Profit (GP) Margin

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2017	57.3%	55.4%	NA	NA	NA
	FY2016	57.3%	55.9%	57.1%	57.0%	56.9%

The Group's gross profit (GP) increased 15.4% to S\$7.9 million in 2Q17 which was in line with the 16.3% revenue increase during the quarter. The Group's GP margin in 2Q17 held steady at 55.4%, comparable to 55.9% in the same period a year ago.

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

Admin, Distribution and Other Operating Expenses (net of other income)		1Q	2Q	3Q	4Q	Full Year
	FY2017	S\$3,156,679	S\$3,597,499	NA	NA	NA
	% of sales	23.6%	25.4%			
FY2016	S\$3,142,405	S\$3,313,423	S\$3,496,148	S\$3,493,269	S\$13,445,246	
% of sales	23.1%	27.2%	27.9%	27.0%	26.2%	

Other income in 2Q17 increased to S\$385k as compared to S\$15k in 2Q16 due mainly to a net gain from the disposal of various machines and higher exchange gain registered.

In aggregate, our administrative, distribution and other operating expenses (inclusive of other income) in 2Q17 increased to S\$3.6 million from S\$3.3 million in 2Q16. As a percentage of Group sales, however, these overhead expenses decreased to 25.4% in 2Q17 from 27.2% in the same period a year ago.

### Profit before Tax and Net Profit

Net Profit after tax		1Q	2Q	3Q	4Q	Full Year
	FY2017	S\$3,380,488	S\$3,362,239	NA	NA	NA
	FY2016	S\$3,593,738	S\$2,722,652	S\$2,736,006	S\$2,831,013	S\$11,883,409
% growth	(5.9%)	23.5%	NA	NA	NA	

As a result of the above factors, the Group recorded a 21.8% increase in profit before tax to S\$4.3 million in 2Q17 from S\$3.5 million in 2Q16. After deducting income tax of S\$0.9 million (S\$0.8 million in 2Q16), the Group reported a 23.5% increase in net profit to S\$3.4 million in 2Q17 from S\$2.7 million in 2Q16. Net profit margin in 2Q17 was 23.7% as compared to 22.3% in 2Q16 and 25.3% in 1Q17.

The effective tax rate for 2Q17 was 21.1% as compared to 22.2% for 2Q16. Tax expense for the quarter included a provision of S\$100k for withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

For 1H17, Group net profit increased 6.7% to S\$6.7 million from S\$6.3 million in 1H16. Net profit margin remained steady at 24.5% in 1H17 compared to 24.5% in 1H16. Correspondingly, the Group's earnings per share grew to 4.85 cents in 1H17 from 4.54 cents in 1H16.

### *Dividend*

The Board of Directors has declared the payment of an interim dividend of 3 cents per share (one-tier tax exempt) amounting to approximately S\$4.2 million, to be paid on 27 February 2017 to the shareholders on record as at 15 February 2017.

### *Balance Sheet*

As at 31 December 2016, the Group remained in a sound financial position with a balance sheet that had total assets of S\$61.4 million, shareholders' equity of S\$51.4 million, cash and cash equivalents of S\$21.0 million and no bank borrowings.

### *Long Term Assets*

The Group's non-current assets stood at S\$26.2 million as at 31 December 2016 as compared to S\$25.6 million as at 30 June 2016.

### *Trade Receivables*

		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
Trade Receivables	FY2017	S\$9,298,863	S\$10,247,177	NA	NA
	≥ 90 days	0.8%	0.2%	NA	NA
	Write-off	-	-	NA	NA
	FY2016	S\$9,906,118	S\$9,013,953	S\$8,731,332	S\$9,418,624
	≥ 90 days	0.2%	0.8%	1.3%	0.1%
	Write-off	-	0.1%	0.1%	0.1%

Total trade receivables as at 31 December 2016 increased to S\$10.2 million, as compared to S\$9.4 million as at 30 June 2016, in tandem with the Group's higher sales in 2Q17. Of this, 0.2% was outstanding for 90 days or more (0.1% at end of 30 June 2016). There was no trade receivable written off during 2Q17.

### *Trade & Other Payables*

As at 31 December 2016, our trade payables totaled S\$1.2 million, of which S\$279k was outstanding for 30 days or more. Non-trade payables totaled S\$1.4 million. Other accrued expenses stood at S\$4.1 million.

### *Deferred Tax Liabilities*

As at 31 December 2016, the deferred tax liabilities was S\$1.4 million as compared to S\$1.3 million as at 30 June 2016.

### *Inventory*

As a percentage of annualised sales, our inventory of S\$3.1 million as at 31 December 2016 (S\$3.3 million as at 30 June 2016) was 5.7% (6.4% as at 30 June 2016). Inventory written off in 2Q17 totaled S\$19k (S\$23k in 2Q16).

### *Capital Expenditure*

		1Q	2Q	3Q	4Q	Full Year
Capital Expenditure	FY2017	S\$889,904	S\$1,319,309	NA	NA	NA
	% of sales					
	FY2016	S\$769,584	S\$372,405	S\$1,782,395	S\$1,171,437	S\$4,095,821
	% of sales					8.0%

During 2Q17, our capital expenditure which totaled S\$1.3 million was mainly in relation to new machines purchased for our Singapore, Malaysia and Phillipines factories. For 1H17, our capital expenditure amounted to S\$2.2 million. We expect to incur about S\$6 million of capital expenditure for FY2017.

## **Cash Flow Analysis**

The Group generated net cash from operations of S\$4.8 million in 2Q17 (S\$3.0 million in 2Q16). Net cash used for investing activities amounted to S\$1.2 million, which was mainly related to capital expenditure. After paying S\$5.6 million as a final dividend for FY2016, we closed the period with a cash balance of S\$21.0 million including S\$0.2 million in pledged deposits.

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

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

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

### **Strategic, Operating and Financial Review**

At the release of our full-year results for FY2016, we announced a major shift in the Group's strategy. Instead of working to build a separate business division at our plant in the USA to serve multiple industry segments, we decided to focus the engineering, development and investment efforts of the Group's five factories on serving the semiconductor industry. We believe this industry specific focus and dedication to developing and manufacturing parts and tools used in process-critical applications for semiconductor wafer-fabrication and assembly is the right strategy for the Group.

Although it has only been six months, we are beginning to realize the benefits of this realignment and sharper focus. During 1H17, Group revenue increased 6.8% to reach a record of S\$27.5 million from S\$25.8 million during 1H16. Group profit before tax in 1H17 also hit a record of S\$8.8 million, an increase of 7.5% from S\$8.2 million in the same period a year ago. On a quarterly basis, Group revenue in 2Q17 increased 16.3% to a record S\$14.2 million while profit before tax increased 21.8% to a record S\$4.3 million from S\$3.5 million in 2Q16.

While growing the Group's top line and the value we create for our customers remains a key priority, we have also been working tirelessly to enhance our manufacturing processes, productivity and cost structure by focusing on various strategies, such as *24/7 Machining*, IT automation and department integration. In spite of ongoing cost and selling-price pressures, our GP margin in 2Q17 held steady at 55.4%, comparable to 55.9% in 2Q16.

We are also continuing to work diligently to keep a tight rein on overhead expenses. Despite ongoing cost pressures, we managed to keep the total increase in distribution, administrative and other expenses including other income during 2Q17 to just S\$0.3 million. As a result, our total overhead expenses of S\$3.6 million, when measured as a percentage of sales, declined to 25.4% from 27.2% of sales during the same quarter a year ago. Over the long term, our goal is to bring overhead expenses down to roughly 20% of sales.

After deducting taxes of S\$0.9 million (S\$0.78 million in 2Q16), the Group reported a net profit of S\$3.4 million in 2Q17, an increase of 23.5% from S\$2.72 million in the same quarter a year ago.

As a by-product of our many improvement initiatives, we have gradually seen our manpower requirement decline about 25% from a headcount of 601 four years ago to 431 people at the end of FY2016. Although we hired 24 people during 1H17 to bring our total workforce to 455, these personnel additions 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 building improved processes. We also want to keep learning how to better harness the potential that every person at Micro-Mechanics has to learn, grow and enhance the value we create for our customers and other stakeholders.

With no bank borrowings to service and a careful watch over inventory and receivables, net cash generated from operating activities in 2Q17 totaled S\$4.8 million (S\$3.0 million for 2Q16). After net investing activities of S\$1.2 million primarily for new equipment and dividends paid of S\$5.6 million, the Group ended the quarter in a strong financial position with S\$21.0 million in cash (including S\$0.2 million held as security deposits) and no bank borrowings.

### **Market, Industry and Competitive Conditions**

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

According to the latest available statistics compiled by the SIA, world-wide chip sales during the five-month period from July through November 2016 increased about 3%. The WSTS expects this growth trend to continue into the New Year and is forecasting a 3% increase in world-wide sales during 2017 after a sluggish 2016. In this slow-growth environment, and with the chip industry increasingly driven by the demand for consumer electronics, we expect to see continued price and delivery pressures from our customers. Together with rising costs and a shortage of skilled workers, the operating environment for the Group is likely to remain challenging.

### **Key Operating Strategies**

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

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

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

During the last few years, we have learned that it takes more than a series of workshops to build an effective decision-making framework and culture. Additionally, the training material needs to be easy for our people at all levels to understand and reference in their daily work and decision making. To this end, we recently completed the Group's first textbook. During FY2017, we plan to customize the textbook to the specific progress initiatives of each of our five subsidiaries and to the role each person plays. We are also in the process of developing several additional workbooks to clearly explain our fundamental strategies. Ultimately, we want everyone at Micro-Mechanics to have the tools they can refer to and use every day as they make decisions, take actions and help us build a great company.

### **Transparency and Governance**

Since listing in 2003, the Group has received recognition 21 times for our good corporate governance, transparency and investor relations practices. This includes two awards received during 1H17 from the Securities Investors Association (Singapore) (SIAS) for our efforts to practice good governance and transparency and an award at the 2016 Singapore Corporate Awards (SCA) for our board-management practices. We are very grateful to both SIAS and SCA for recognizing our efforts and for encouraging us to pursue the highest level of transparency and corporate governance.

During 1H17, the Group was once again ranked among the top companies on the Singapore Exchange for our efforts to practice good governance and transparency. Based on a comprehensive scoring system administered by Business Times and the Singapore Institute of Directors, the Group scored 85 points and ranked 27<sup>th</sup> out of 631 companies listed on the Singapore Exchange.

Transparency within an organisation - accurate, complete and timely information - is the foundation for sound decision making. 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**

At Micro-Mechanics, we are fond of saying that *People Make Everything Happen*. This core value is central to the way we operate and our policies, compensation and everyday practices are designed to recognise the indispensable role our people play in the Group's long-term success. To this end, the Group's results for 1H17 include about S\$1.2 million in incentive pay for our people under the Group's Performance Bonus Incentive (PBI) plan.

Since our listing, we have had a consistent practice of rewarding shareholders for their continuous support of Micro-Mechanics. The Board is pleased to declare an interim dividend of 3 cents per ordinary share (one-tier tax exempt) for the half year ended 31 December 2016, which is to be paid on 27 February 2017. At this time last year, the Board declared an interim dividend of 2 cents per ordinary share. Including this interim dividend for 1H17, we have distributed a total of 48.9 cents per share to our shareholders since 2003. Based on dividends alone, this translates into a return of more than 265% for our shareholders who bought Micro-Mechanics shares at our Initial Public Offer.

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

## **11. Dividend**

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

Any dividend declared for the current financial period reported on?

The Board of Directors has declared the payment of an interim dividend of 3 cents per ordinary share (one tier tax-exempt) amounting to approximately S\$4.2 million.

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

An interim dividend of 2.0 cents per ordinary share (one tier tax-exempt) was paid on 25 February 2016 in respect of FY2016.

### **(c) Date payable**

The dividend payment will be made on 27 February 2017.

### **(d) Books closure date**

Notice is hereby given that the Share Transfer Books and Register of Members of Micro-Mechanics (Holdings) Ltd. (the "Company") will be closed on 16 February 2017 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 15 February 2017 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 15 February 2017 will be entitled to the proposed dividend.

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

Not applicable

## **13. Interested Persons Transactions**

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

For the financial period ended 31 December 2016, the Group has made rental payment of US\$174,000 (31 December 2015: US\$168,000) to Sarcadia LLC, a controlling shareholder of the Company and a family company set up by Mr. Christopher Reid Borch, the CEO of the Company.

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

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

To the best of the Board of Directors' knowledge, nothing has come to their attention which may render the financial results of the Group and of the Company for the financial period ended 31 December 2016 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  
06 February 2017