

MICRO-MECHANICS (HOLDINGS) LTD

Unaudited First Quarter Financial Statements Announcement for the period ended 30/09/2015

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 15 S\$	30 Sep 14 S\$	Change
Revenue	(1)	13,602,850	13,038,188	4.3%
Cost of sales	(2)	(5,806,784)	(6,145,134)	(5.5%)
Gross profit		7,796,066	6,893,054	13.1%
Other income	(3)	517,709	274,619	88.5%
Distribution costs	(4)	(751,865)	(720,085)	4.4%
Administrative expenses	(5)	(2,136,141)	(2,238,331)	(4.6%)
Other operating expenses	(6)	(772,108)	(641,726)	20.3%
Profit from operations		4,653,661	3,567,531	30.4%
Finance costs		-	-	-
Profit before income tax	(7)	4,653,660	3,567,531	30.4%
Income tax expense	(8)	(1,059,923)	(768,908)	37.8%
Profit after tax		3,593,738	2,798,623	28.4%
Non-controlling interests		-	-	-
Profit for the period		3,593,738	2,798,623	28.4%
Statement of Comprehensive Income				
Profit for the period		3,593,738	2,798,623	28.4%
Other comprehensive income: Foreign currency translation differences for foreign operations, net of tax		(1,230,833)	63,105	(2050.5%)
Total comprehensive income for the period		2,362,905	2,861,728	(17.4%)

Notes:

- (1) Please refer to section 8 of this announcement for an analysis of the Group's revenue.
- (2) Production headcount reduced to 295 in 1Q16 from 305 in 1Q15. Depreciation expenses decreased by S\$17k and lower costs were incurred for overtime and maintenance for plant and equipment in 1Q16.

(3) Other income consists of:

	Group (First Quarter)		
	3 months ended		
	30 Sep 15	30 Sep 14	Change
	S\$	S\$	
Gain on disposal of property, plant and equipment	94,482	69,034	36.9%
Interest income	36,677	33,275	10.2%
Rental income	28,350	32,924	(13.9%)
Government grant – Wage Credit and Capability Development Scheme	9,350	8,971	4.2%
Exchange gain	327,849	96,388	240.1%
Others	21,001	34,027	(38.3%)

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

(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 taxation includes the following expenses:

	(Group (First Quarter))		
	3 months ended		
	30 Sep 15	30 Sep 14	Change
	S\$	S\$	
Trade receivables written off	-	1,165	(100.0%)
Depreciation of property, plant and equipment	1,145,834	1,172,314	(2.3%)
Inventories written off	14,945	28,222	(47.0%)
Fixed assets written off	309	680	(54.6%)

(8) The effective tax rate for 1Q16 was 22.8% as compared to 21.6% for 1Q15. Included in the tax expense for the current quarter was a provision of S\$127k made in relation to withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

(9) Depreciation expenses in 1Q16 decreased slightly by 2.3% to S\$1.1 million due to disposal of machines.

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 15 S\$	Group 30 Jun 15 S\$	Company 30 Sep 15 S\$	Company 30 Jun 15 S\$
Non-current assets					
Property, plant and equipment		26,267,538	26,645,774	-	-
Subsidiaries		-	-	17,855,816	17,855,816
Trade and other receivables		242,585	273,017	5,242,548	4,696,028
		26,510,123	26,918,791	23,098,364	22,551,844
Current assets					
Inventories		3,480,801	3,504,331	-	-
Trade and other receivables		11,105,428	10,173,370	5,041,637	6,848,896
Cash and cash equivalents		17,949,326	15,161,285	6,065,422	2,411,980
		32,535,555	28,838,986	11,107,059	9,260,876
Total assets		59,045,678	55,757,777	34,205,423	31,812,720
Shareholders' equity					
Share capital		14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve	(1)	(4,590,716)	(3,359,883)	-	-
Accumulated profits		39,056,607	35,462,869	18,121,188	16,639,957
		49,248,822	46,885,917	32,904,119	31,422,888
Non-current liabilities					
Deferred tax liabilities		1,396,484	1,344,479	-	-
		1,396,484	1,344,479	-	-
Current liabilities					
Trade and other payables		6,623,777	6,096,809	1,296,935	385,463
Current tax payable		1,776,595	1,430,572	4,369	4,369
		8,400,372	7,527,381	1,301,304	389,832
Total liabilities		9,796,856	8,871,860	1,301,304	389,832
Total equity and liabilities		59,045,678	55,757,777	34,205,423	31,812,720

Notes:

- (1) The movement in foreign currency translation reserves was mainly due to the depreciation of the Malaysia Ringgit against the Singapore Dollar.

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

Amount repayable in one year or less or on demand

As at 30 Sep 15		As at 30 Sep 14	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Amount repayable after one year

As at 30 Sep 15		As at 30 Sep 14	
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 2015 S\$	30 Sep 2014 S\$
Cash flows from operating activities			
Profit before income tax		4,653,661	3,567,531
Adjustments for:			
Depreciation of property, plant and equipment		1,145,834	1,172,314
Fixed assets written off		309	680
Gain on disposal of property, plant and equipment		(94,482)	(69,034)
Interest income		(36,677)	(33,275)
Operating profit before changes in working capital		5,668,645	4,638,216
Inventories		23,530	(189,513)
Trade and other receivables		(931,131)	(1,166,685)
Trade and other payables		518,300	721,847
Cash generated from operations		5,279,344	4,003,865
Income tax paid		(577,640)	(193,524)
Net cash from operating activities		4,701,704	3,810,341
Cash flows from investing activities			
Purchase of property, plant and equipment	(1)	(769,584)	(1,526,658)
Proceeds from disposal of property, plant and equipment		200,263	167,500
Interest received		66,182	48,876
Net cash used in investing activities		(503,139)	(1,310,282)
Cash flows from financing activities			
Deposits pledged		17,925	(368)
Dividends paid		-	-
Net cash from (used in) financing activities		17,925	(368)
Net increase in cash and cash equivalents		4,216,490	2,499,691
Cash and cash equivalents at beginning of period		14,983,111	10,879,132
Effect of exchange rate fluctuations		(1,410,522)	(121,375)
Cash and cash equivalents at the end of period	(2)	17,789,079	13,257,448

Notes:

- (1) Capital expenditures totaled S\$0.8 million were mainly related to the purchase of equipment and machine accessories to enhance productivity and production efficiency at our factories in Singapore, Malaysia and the USA.
- (2) Cash and cash equivalent is derived from:

	Group 30 Sep 15 S\$	Group 30 Sep 14 S\$
Cash and cash equivalent balances	17,949,326	13,460,678
Less: Pledged cash placed with bank	(160,247)	(203,230)
	17,789,079	13,257,448

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

	Share Capital	Foreign Currency Translation Reserve	Accumulated Profits	Total
	S\$	S\$	S\$	S\$
The Group				
As at 1 July 2014	14,782,931	(2,673,143)	29,002,896	41,112,684
Total comprehensive income for the period				
Net profit for the period	-	-	2,798,623	2,798,623
Other comprehensive income				
Foreign currency translation differences, net of tax	-	63,105	-	63,105
Total comprehensive income for the period	-	63,105	2,798,623	2,861,728
As at 30 September 2014	14,782,931	(2,610,038)	31,801,519	43,974,412
As at 1 July 2015	14,782,931	(3,359,883)	35,462,869	46,885,917
Total comprehensive income for the period				
Net profit for the period	-	-	3,593,738	3,593,738
Other comprehensive income				
Foreign currency translation differences, net of tax	-	(1,230,833)	-	(1,230,833)
Total comprehensive income for the period	-	(1,230,833)	3,593,738	2,362,905
As at 30 September 2015	14,782,931	(4,590,716)	39,056,607	49,248,822

	Share Capital	Foreign Currency Translation Reserve	Accumulated Profits	Total
	S\$	S\$	S\$	S\$
The Company				
As at 1 July 2014	14,782,931	-	15,728,174	30,511,105
Total comprehensive income for the period				
Net profit for the period	-	-	(82,241)	(82,241)
Total comprehensive income for the period	-	-	(82,241)	(82,241)
As at 30 September 2014	14,782,931	-	15,645,933	30,428,864
As at 1 July 2015	14,782,931	-	16,639,957	31,422,888
Total comprehensive income for the period				
Net profit for the period	-	-	1,481,231	1,481,231
Total comprehensive income for the period	-	-	1,481,231	1,481,231
As at 30 September 2015	14,782,931	-	18,121,188	32,904,119

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 2015 and 30 September 2014. The Company did not have any treasury shares as at the end of the current financial year and as 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.

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 (First Quarter) 3 months ended	
	30 Sep 2015	30 Sep 2014
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	2.58 cents	2.01 cents
(ii) On a fully diluted basis	2.58 cents	2.01 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 September 2014: 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 15	Group 30 Jun 15	Company 30 Sep 15	Company 30 Jun 15
Net Asset Value per ordinary share (cents)	35.42	33.72	23.67	22.60

The net asset value per ordinary share is calculated based on net assets of S\$49.2 million (30 June 2015: S\$46.9 million) and 139,031,881 (30 June 2015: 139,031,881) shares in issue at the end of the current financial period 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 data from the Semiconductor Industry Association (SIA), worldwide sales of semiconductors in July 2015 and August 2015 decreased 0.9% and 3.0% year-on-year to US\$27.9 billion and US\$27.7 billion respectively. The slower sales reflected a slight softening of demand, combined with normal market cyclicality and currency devaluation in some regional markets. Nevertheless, semiconductor sales in China increased year-on-year during July and August 2015. SIA reported that despite recent market sluggishness, the global industry has posted higher cumulative sales for the first eight months of 2015 in comparison to the corresponding period in 2014 which was a record year for semiconductor revenues.

Group Revenue

		1Q	2Q	3Q	4Q	Full Year
REVENUE	FY2016	S\$13,602,850	NA	NA	NA	NA
	FY2015	S\$13,038,188	S\$12,893,988	S\$13,397,284	S\$12,867,586	S\$52,197,046
	% growth	4.3%	NA	NA	NA	NA

For the three months ended 30 September 2015 (1Q16), the Group's revenue increased 4.3% year-on-year (yoy) to S\$13.6 million which was our highest ever quarterly sales. On a quarter-on-quarter (qoq) basis, Group revenue increased 5.7% from S\$12.9 million in 4Q15. The improved revenue performance was attributed mainly to higher sales of our semiconductor tooling business in 1Q16.

Revenue breakdown by product segment

		1Q	2Q	3Q	4Q	Full Year
SEMICONDUCTOR TOOLING REVENUE	FY2016	S\$11,950,869	NA	NA	NA	NA
	FY2015	S\$11,348,221	S\$11,147,406	S\$11,318,663	S\$10,930,581	S\$44,744,871
	% growth	5.3%	NA	NA	NA	NA

		1Q	2Q	3Q	4Q	Full Year
CMA REVENUE	FY2016	S\$1,651,981	NA	NA	NA	NA
	FY2015	S\$1,689,967	S\$1,746,582	S\$2,078,621	S\$1,937,005	S\$7,452,175
	% growth	(2.2%)	NA	NA	NA	NA

Although the global semiconductor industry experienced slower sales in July and August, the Group's semiconductor tooling segment, which serves customers involved in the assembly and testing of semiconductors, posted record quarterly sales of S\$12.0 million in 1Q16. This represented an increase of 5.3% from revenue of S\$11.3 million in 1Q15 and was driven mainly by continued sales growth in China and Taiwan. On a qoq basis, sales of our semiconductor tooling segment in 1Q16 gained 9.3% from S\$10.9 million in 4Q15.

Our Custom Machining & Assembly (CMA) division, which serves high technology capital equipment manufacturers in the aerospace, medical, laser and wafer fabrication industries, posted stable revenue of S\$1.7 million in 1Q16 compared to 1Q15.

Our semiconductor tooling and CMA segments accounted for approximately 87% and 13% respectively of the Group's revenue in 1Q16.

Revenue breakdown by Geographical Market

Country	1Q16		1Q15		% change
	S\$ m	%	S\$ m	%	
Singapore	0.8	6%	0.8	6%	(1.3%)
Malaysia	2.7	20%	3.0	24%	(11.9%)
Philippines	1.3	9%	1.1	9%	13.9%
Thailand	0.3	2%	0.6	4%	(57.9%)
China	4.2	31%	3.3	25%	28.6%
USA	1.8	13%	1.8	14%	(0.9%)
Europe	0.6	5%	0.5	4%	19.8%
Japan	0.2	2%	0.3	2%	(14.6%)
Taiwan	1.4	10%	1.2	9%	17.5%
Rest of world	0.3	2%	0.4	3%	(19.9%)
	13.6	100%	13.0	100%	4.3%

The Group achieved improved sales performances in our semiconductor tooling markets in China, Taiwan and Philippines during 1Q16. Sales in China rose 28.6% to S\$4.2 million to remain as the Group's largest geographical market with a revenue contribution of 31%. Sales to customers in Taiwan increased 17.5% to S\$1.4 million while sales in Philippines gained 13.9% to S\$1.3 million.

Sales to our second largest market for semiconductor tools in Malaysia however eased 11.9% to S\$2.7 million and accounted for 20% of our total sales in 1Q16. Revenue derived from the Thailand market was reduced to S\$0.3 million from S\$0.6 million previously due to the closure of our manufacturing plant there in October 2014.

Sales to customers in the USA, which is mainly a market for our CMA business, remained constant at S\$1.8 million in 1Q16.

Capacity Utilisation

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2016	54%	NA	NA	NA	NA
	FY2015	60%	59%	53%	56%	56%

While the Group generated higher sales in 1Q16, our average capacity utilisation rate decreased to 54% in 1Q16 from 60% in 1Q15. This was due mainly to higher efficiency of our production operations resulting from our ongoing efforts to implement 24/7 *Machining* principles at our worldwide factories.

Gross Profit (GP) Margin

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2016	57.3%	NA	NA	NA	NA
	FY2015	52.9%	54.7%	55.1%	57.1%	55.0%

Gross Profit Margin (By Product Segment)			1Q	2Q	3Q	4Q	Full Year
	FY2016	Semiconductor	63.8%	NA	NA	NA	NA
		CMA	10.7%	NA	NA	NA	NA
	FY2015	Semiconductor	59.8%	61.8%	61.6%	63.9%	62.6%
	CMA	6.3%	9.6%	20.0%	19.1%	14.2%	

While the Group's revenue increased by 4.3% in 1Q16, our overall gross profit (GP) grew at a faster pace of 13.1% from S\$6.9 million in 1Q15 to S\$7.8 million. This was due to improved productivity and operating efficiency arising from a decrease in our production headcount, lower depreciation expenses and reduced costs for overtime and maintenance of equipment. As a result, our overall GP margin increased from 52.9% in 1Q15 to 57.3% in 1Q16.

GP margin of our semiconductor tooling business expanded to 63.8% in 1Q16 as compared to 59.8% in 1Q15 due to our continual focus on improving operational efficiencies. Our CMA division also showed higher GP margin of 10.7% in 1Q16 as compared to 6.3% in 1Q15 due mainly to a shift in product mix.

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
	FY2016 % of sales	S\$3,142,405 23.1%	NA	NA	NA	NA
FY2015 % of sales	S\$3,325,523 25.5%	S\$3,277,081 25.4%	S\$2,788,393 20.8%	S\$3,907,863 30.4%	S\$13,298,860 25.5%	

Other income in 1Q16 increased 88.5% to S\$518k as compared to S\$275k in 1Q15 due mainly to foreign exchange gain arising from the appreciation of the US dollar, and gain from disposal of machines.

We continued to keep a tight rein on our expense structure during 1Q16. Our distribution costs increased by 4.4% to S\$752k mainly due to higher sales-related expenses. However, administrative expenses decreased by 4.6% to S\$2.1 million. Other operating expenses increased by 20.3% to S\$772k mainly due to the transfer of various personnel to new engineering roles at our USA subsidiary, as well as annual salary adjustments.

In aggregate, our administrative, distribution and other operating expenses (inclusive of other income) in 1Q16 decreased 5.5% to S\$3.1 million from S\$3.3 million in 1Q15. As a percentage of Group sales, these overhead expenses have declined to 23.1% in 1Q16 from 25.5% in the same period a year ago.

Profit before Tax and Net Profit

Net Profit after tax		1Q	2Q	3Q	4Q	Full Year
	FY2016	S\$3,593,738	NA	NA	NA	NA
FY2015	S\$2,798,623	S\$2,671,729	S\$3,721,016	S\$2,829,881	S\$12,021,249	
% growth	28.4%	NA	NA	NA	NA	NA

As a result of higher revenue, improved GP margin and a careful watch over spending, the Group's profit before tax increased 30.4% to S\$4.7 million in 1Q16 from S\$3.6 million in 1Q15.

After deducting taxation of S\$1.1 million (S\$769k in 1Q15), the Group reported net profit of S\$3.6 million in 1Q16, an increase of 28.4% from S\$2.8 million in 1Q15. As net profit grew at a faster pace than revenue, the Group's net profit margin improved to 26.4% in 1Q16, from 21.5% in 1Q15. Correspondingly, the Group's earnings per share in 1Q16 improved to 2.58 cents from 2.01 cents in 1Q15.

The effective tax rate in 1Q16 was higher at 22.8% compared to 21.6% in 1Q15, due mainly to the accrual of withholding tax of S\$127k for the remittance of dividends from various overseas subsidiaries to Singapore.

Balance Sheet

As at 30 September 2015, the Group remained in a sound financial position with a balance sheet that had total assets of S\$59.0 million, shareholders' equity of S\$49.2 million, cash and cash equivalents of S\$17.9 million and no bank borrowings.

Long Term Assets

Non-current assets stood at S\$26.5 million as at 30 September 2015 as compared to S\$26.9 million as at 30 June 2015.

Trade Receivables

Trade Receivables		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
	FY2016	S\$9,906,118	NA	NA	NA
≥ 90 days Write-off	0.2% -	NA	NA	NA	NA
FY2015	S\$8,906,352	S\$8,899,026	S\$9,779,247	S\$9,241,280	
≥ 90 days Write-off	0.7% 0.01%	0.3% 0.01%	0.1% 0.01%	0.3% 0.01%	

In tandem with higher sales in 1Q16, our total trade receivables as at 30 September 2015 increased to S\$9.9 million, compared to S\$8.9 million a year ago and S\$9.2 million as at 30 June 2015. Of the amount outstanding at the end of 1Q16, 0.2% was outstanding for 90 days or more (0.3% at end of 30 June 2015). There were no bad debt expenses in 1Q16 as compared to a write-off of S\$1.2k or 0.01% of trade receivables in 1Q15.

Trade Payables and Other Payables

As at 30 September 2015, our trade payables totaled S\$0.7 million, of which S\$49k was outstanding for 30 days or more. Our non-trade payables totaled S\$1.0 million. Of this, S\$147k was outstanding for more than 30 days. Other accrued expenses totaled S\$4.9 million.

Deferred Tax Liabilities

Deferred tax liabilities as at 30 September 2015 amounted to S\$1.4 million compared to S\$1.3 million as at 30 June 2015.

Inventory

As a percentage of annualised sales, our inventory of S\$3.5 million at the end of 1Q16 (S\$3.5 million at end of FY2015) was 6.4% (6.7% at end of FY2015). Inventory written off in 1Q16 totalled S\$14.9k, compared to S\$28k in 1Q15.

Capital Expenditure

		1Q	2Q	3Q	4Q	Full Year
Capital Expenditure	FY2016	S\$769,584	NA	NA	NA	NA
	% of sales					
	FY2015	S\$1,526,658	S\$835,776	S\$758,556	S\$1,795,361	S\$4,916,351
	% of sales					9.4%

During 1Q16, our capital expenditure totaled S\$0.8 million which was mainly related to the purchase of equipment and machine accessories to enhance productivity and production efficiency at our factories in Singapore, Malaysia and the USA.

Our planned capital expenditure for FY2016 is expected to amount to approximately S\$6.6 million, which is to be used for the purchase of additional machines and equipment to further enhance automation and operational efficiency.

Cash Flow Analysis

The Group generated net cash from operations of S\$4.7 million in 1Q16 (S\$3.8 million in 1Q15). Net cash used for investing activities amounted to S\$0.5 million, mainly in relation to capital expenditure. We closed the period with cash and cash equivalents of S\$17.9 million including S\$160k in pledged deposits.

CMA Division Update and Review

At the end of FY2014, we recorded an impairment charge of S\$191k against the assets of our subsidiary in the USA which houses our CMA operation ("MMUS"). At the end of FY2015, we also recorded an impairment allowance of S\$3.5 million on monies owed by MMUS to the Company. Although this second impairment was an internal provision and did not have an impact on the Group's bottom line, MMUS will continue to be subject to impairment testing until its financial performance improves. In 1Q16, MMUS incurred a loss of S\$475k including non-cash depreciation expenses of S\$343k.

We initiated the *24/7 Machining* strategy at our CMA division in order to expand and diversify the Group's base beyond its niche in the semiconductor industry. Our goal was to meet the stringent demands of our CMA customers for flawless quality, fast delivery and cost-effective pricing by developing an innovative approach for round-the-clock machining. Our view was that capitalising on our management and engineering strengths to develop this initiative organically would be a less risky approach to grow the CMA business than through any potential acquisition. We now believe that our development and deployment of *24/7 Machining* is unique.

In July 2012, after two years of research, design and planning, we commissioned a three-machine pilot line at MMUS that cost about S\$4.5 million. Two years later, we added a second line of machines at a cost of about S\$5 million. This has allowed our team in the USA to transition more than 250 parts for our customers in the semiconductor, aerospace, medical and laser industries to the new *24/7Machining* line. Along the way, MMUS has obsoleted more than 25 legacy CNC machines and reduced its dependence on skilled, costly and hard-to-hire shop floor personnel by about 50%.

While developing *24/7Machining* for our CMA customers has been more costly and time-consuming than originally anticipated, several of our technical breakthroughs have greatly benefited the other factories in our semiconductor tooling division. Indeed, by applying the fundamentals of *24/7Machining* and implementing other initiatives to improve the quality, velocity and productivity of our operations, we have gradually reduced the Group's headcount by over 27% to 438 from more than 600 people at the beginning of FY2012. At the same time, Group profit before tax during the last three years has increased by more than 250% to S\$15.4 million from S\$5.8 million in FY2012.

Research and development can be difficult and the performance of MMUS is a cause for concern and is being closely monitored. However, in today's world, the willingness to take measured risks and develop innovative products and processes is essential for any long-term success. Together with peripheral equipment, facility improvements, computers, software and other assets, we have invested about S\$12 million in our plant in the USA. By the end of 2Q16, we plan to complete the last major phase of our *24/7Machining* development with an additional investment of S\$0.8 million. Our team in the USA is working diligently to complete this last major development and to enhance the contribution that MMUS makes to the Group's overall performance.

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.

Financial Performance

Micro-Mechanics achieved its highest ever quarterly revenue in 1Q16 as the Group continued to benefit from our focus, effort and investments to improve operating efficiency and the value we bring to our customers. During 1Q16, Group revenue increased 4.3% to S\$13.6 million while GP increased 13.1% to S\$7.8 million. As a result, the Group's GP margin for the quarter rose to 57.3% from 52.9% in the same period a year ago.

Our semiconductor tooling division performed well during 1Q16 despite slower worldwide sales of semiconductors in July and August 2015. Sales for the division increased 5.3% to S\$12.0 million while its GP margin jumped to 63.8% from 59.8% in the same quarter a year ago.

For 1Q16, our subsidiary in the USA, which houses the Group's CMA division, reported a loss of S\$475k including non-cash depreciation expenses of S\$343k. As mentioned, we expect to complete the last major phase of our plans to build a state-of-the-art *24/7Machining* facility during 2Q16. This shall put us in a position to offer a compelling solution to our CMA customers which will validate the time-consuming, costly and difficult development work done. We are looking forward to shifting our energies to working with customers to engineer more new parts and to growing the CMA division's top line. For a more detailed discussion on our CMA division, please refer to the heading "CMA Division Update and Review" in Section 8 above.

During 1Q16, we continued our practice of watching our expenses and spending carefully. Total overhead costs (distribution, administrative and other expenses including other income) fell to S\$3.1 million from S\$3.3 million in 1Q15. These expenses as a percentage of total sales declined to 23.1% from 25.5% in the same quarter a year ago. As a result, the Group's net profit increased 28.4% to S\$3.6 million from S\$2.8 million in 1Q15.

With no bank borrowings to service and a careful watch over inventory and receivables, net cash generated from operating activities in 1Q16 totaled S\$4.7 million. After deducting capital expenditure of S\$0.8 million, the Group ended the quarter in a strong financial position with S\$17.9 million in cash (including S\$160k held as security deposits) and no bank borrowings.

Market, Industry and Competitive Conditions

On a short-term basis, business forecasting and planning remains difficult. Visibility is clouded by a host of political and economic uncertainties while continued unrest in various parts of the world make markets unpredictable, volatile and cost-competitive.

After recording growth of 3.9% for the first six months of 2015, worldwide sales of semiconductors during July and August fell around 2% year-on-year based on data from the SIA. Although the World Semiconductor Trade Statistics (WSTS) had earlier forecast global chip sales growth to reach US\$347 billion this year (up 3.4% from 2014), we believe the 2015 sales outlook for the worldwide semiconductor industry may be revised to reflect slowing demand. In addition, as the chip industry becomes increasingly driven by demand for consumer electronics, we continue to see pressure on selling prices and delivery leadtimes from our customers. Together with rising costs and a shortage of skilled workers, the operating environment for the Group will continue to be challenging.

Key Operating Strategies

Despite the difficult operating environment, 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 critical part for a leading maker of aerospace, laser or medical equipment, our mission is to deliver *Perfect Parts and Tools, On Time, Every Time* based on repeatable, scalable and cost-effective processes.

As we pursue this mission and the value it represents to our customers, we plan to continue to deploy resources towards the development of automated processes. At the beginning of FY2012, we employed about 601 people around the world. By focusing on our core competencies and implementing initiatives, such as *24/7 Machining*, to improve the quality, velocity and productivity of our operations, we have gradually reduced our headcount by over 27% to 438 people at the end of 1Q16.

Whether it is dealing with cost pressures, implementing complex engineering initiatives or developing a better approach to business planning, we need to foster an environment of continuous learning, innovation and improvement. To help build such a culture amongst our people, we began a carefully structured in-house training program several years ago which we call *MMUniversity*. With a series of workshops on *Customer Value, Business Planning, 24/7 Machining*, and *The Fundamentals of Value-Driven Decision Making*, our goal is to help our people develop their potential and provide everyone with a common framework for making more informed and aligned decisions based on our mission and an understanding of value.

In light of several high profile corporate scandals, we recently completed a new workshop titled *Resolve to Respect*. This workshop helped our people to understand that respect for different views and perspectives within the organisation contribute to the foundation required for collaboration, teamwork and problem solving. Through this workshop, our people also learned the importance of respecting and complying with the laws and regulations of each country within which the Group operates.

Transparency and Governance

Since listing in 2003, the Group has received recognition 18 times for our good corporate governance, transparency and investor relations practices. This includes an award for “Most Transparent Company” in the Mainboard Small Caps category which was conferred to the Group by the Securities Investors Association (Singapore) (SIAS) on 16 October 2015. In the latest Governance and Transparency Index (GTI) 2015 released on 19 August 2015, Micro-Mechanics ranked 18th out of 639 companies listed on the Singapore Exchange. The Company scored 87 points; only 21 companies, comprising mainly large capitalisation companies, achieved a GTI score of 85 points or more.

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.

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

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?
Nil

(b) Corresponding Period of the Immediately Preceding Financial Year

Nil

(c) Date payable

Nil

(d) Books closure date

Nil

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

Not applicable

13. Interested Persons Transactions

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

For the financial period ended 30 September 2015, the Group has made rental payment of US\$84,000 (30 September 2014: Nil) to Sarcadia LLC, a controlling shareholder of the Company and a family trust 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 2015 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
28 October 2015