

MICRO-MECHANICS (HOLDINGS) LTD

Unaudited Second Quarter Financial Statements Announcement for the period ended 31/12/2020

PART I INFORMATION REQUIRED FOR ANNOUNCEMENTS OF FULL YEAR RESULTS

1(a) An income statement and statement of comprehensive income, or 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					
		Q2			Half year		
		Oct to Dec 2020 S\$	Oct to Dec 2019 S\$	Change	Jul to Dec 2020 S\$	Jul to Dec 2019 S\$	Change
Revenue	(1)	18,748,772	16,275,737	15.2%	36,895,183	31,619,235	16.7%
Cost of sales	(2)	(8,642,296)	(7,502,786)	15.2%	(16,849,293)	(14,653,235)	15.0%
Gross profit		10,106,476	8,772,951	15.2%	20,045,890	16,966,000	18.2%
Other income	(3)	337,528	78,688	328.9%	670,276	297,028	125.7%
Distribution costs	(4)	(833,782)	(832,455)	0.2%	(1,641,184)	(1,656,664)	(0.9%)
Administrative expenses	(5)	(2,885,642)	(2,358,921)	22.3%	(5,340,119)	(4,606,237)	15.9%
Other operating expenses	(6)	(1,038,375)	(1,007,026)	3.1%	(2,089,120)	(1,928,887)	8.3%
Profit before tax	(7)	5,686,205	4,653,237	22.2%	11,645,743	9,071,240	28.4%
Tax expense	(8)	(1,231,868)	(1,078,287)	14.2%	(2,540,321)	(2,226,860)	14.1%
Profit after tax		4,454,337	3,574,950	24.6%	9,105,422	6,844,380	33.0%
Non-controlling interests		-	-	-	-	-	-
Profit for the period		4,454,337	3,574,950	24.6%	9,105,422	6,844,380	33.0%
Statement of Comprehensive Income							
Profit for the period		4,454,337	3,574,950	24.6%	9,105,422	6,844,380	33.0%
Other comprehensive income:							
Foreign currency translation differences for foreign operations, net of tax		(422,491)	(464,482)	(9.0%)	(382,488)	(194,912)	96.2%
Total comprehensive income for the period		4,031,846	3,110,468	29.6%	8,722,934	6,649,468	31.2%

Notes:

- (1) Please refer to section 8 of this announcement for an analysis of the Group's revenue.
- (2) Cost of Sales during 2Q21 increased in line with the improve in revenue. The Group's production headcount increased to 372 - during 2Q21 from 357 during 2Q20.

(3) Other income consists of:

	Q2			Half year		
	Oct to Dec 2020 S\$	Oct to Dec 2019 S\$	Change	Jul to Dec 2020 S\$	Jul to Dec 2019 S\$	Change
Gain/(loss) on disposal of property, plant and equipment	7,226	(38,958)	(118.5%)	3,772	(30,877)	(112.2%)
Interest income from banks and others	14,056	56,727	(75.2%)	29,460	134,436	(78.1%)
Rental income	31,059	30,946	0.4%	61,907	62,150	(0.4%)
Government grant – Skill Redevelopment, Wage Credit and Capability Development Scheme	325,749	22,298	1,360.9%	585,548	34,427	1,600.8%
Exchange (loss)/gain	(64,057)	(14,077)	355.0%	(57,119)	42,563	(234.2%)
Others	23,495	21,752	8.0%	46,708	54,329	(14.0%)

(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 2020 S\$	Oct to Dec 2019 S\$	Change	Jul to Dec 2020 S\$	Jul to Dec 2019 S\$	Change
Depreciation of property, plant and equipment	1,433,168	1,408,806	1.7%	2,817,403	2,801,981	0.6%
Depreciation of right-of use assets	288,164	261,545	10.2%	582,661	520,095	12.0%
Inventory written off	41,831	27,307	53.2%	68,753	58,483	17.6%
Interest expense on lease liabilities	21,515	24,784	(13.2%)	46,667	50,050	(6.8%)
Property, plant and equipment written off	10	6	66.7%	28	27	3.7%

(8) The effective tax rate for 2Q21 was 21.7% as compared to 23.1% in 2Q20. Included in the tax expense for 2Q21 and 1H21 was tax provision of 150k and S\$319k respectively made in relation to withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

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

	Note	Group 31 Dec 20 S\$	Group 30 Jun 20 S\$	Company 31 Dec 20 S\$	Company 30 Jun 20 S\$
Non-current assets					
Property, plant and equipment		31,134,316	29,079,591	-	-
Right-of-use assets	(1)	1,390,770	1,980,198	-	-
Subsidiaries		-	-	29,095,544	29,095,544
Trade and other receivables		457,028	1,109,205	-	-
Deferred tax asset		42,800	46,586	-	-
		33,024,914	32,215,580	29,095,544	29,095,544
Current assets					
Inventories		4,820,516	5,397,148	-	-
Trade and other receivables		13,074,290	12,717,631	1,227,557	2,442,304
Cash and cash equivalents		21,073,660	20,814,685	6,430,135	9,599,881
		38,968,466	38,929,464	7,657,692	12,042,185
Total assets					
		71,993,380	71,145,044	36,753,236	41,137,729
Shareholders' equity					
Share capital		14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve	(2)	(202,520)	179,968	-	-
Accumulated profits		42,394,260	43,021,070	21,351,375	25,602,968
		56,974,671	57,983,969	36,134,306	40,385,899
Non-current liabilities					
Deferred tax liabilities		1,533,805	1,440,847	333,448	210,762
Trade and other payables		864,999	835,702	-	-
Lease liabilities	(1)	577,637	900,564	-	-
		2,976,441	3,177,113	333,448	210,762
Current liabilities					
Trade and other payables		9,244,139	7,142,026	281,897	534,747
Lease liabilities	(1)	873,195	1,079,298	-	-
Current tax payable		1,924,934	1,762,638	3,585	6,321
		12,042,268	9,983,962	285,482	541,068
Total liabilities		15,018,709	13,161,075	618,930	751,830
Total equity and liabilities					
		71,993,380	71,145,044	36,753,236	41,137,729

Notes:

- (1) Right-of-use assets and corresponding lease liabilities mainly relate to leases on various factory premises occupied by the Group.
- (2) The movement in foreign currency translation reserve in 1H21 was mainly due to depreciation of the US Dollar against the Singapore Dollar.

Amount repayable in one year or less or on demand

As at 31 Dec 20		As at 30 June 20	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Amount repayable after one year

As at 31 Dec 20		As at 30 June 20	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Details of any collateral

Not applicable

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

	Note	GROUP			
		Q2		Half year	
		Oct to Dec 2020 S\$	Oct to Dec 2019 S\$	Jul to Dec 2020 S\$	Jul to Dec 2019 S\$
Cash flows from operating activities					
Profit for the period		4,454,337	3,574,950	9,105,422	6,844,380
Adjustments for:					
Depreciation of property, plant and equipment		1,721,332	1,670,351	3,400,064	3,322,076
Property, plant and equipment written off		10	6	28	27
Loss/(gain) on disposal of property, plant and equipment		(7,226)	38,958	(3,772)	30,877
Interest income		(14,056)	(56,727)	(29,460)	(134,436)
Interest expenses on lease liabilities		21,515	24,784	46,667	50,050
Tax expenses		1,231,868	1,078,287	2,540,321	2,226,860
Operating profit before changes in working capital		7,407,780	6,330,609	15,059,270	12,339,834
Inventories		455,141	(71,359)	542,984	(293,861)
Trade and other receivables		608,272	(360,443)	285,845	(1,505,110)
Trade and other payables		1,513,157	158,066	2,190,615	(522,129)
Cash generated from operations		9,984,350	6,056,873	18,078,714	10,018,734
Income tax paid		(1,391,902)	(1,246,771)	(2,300,391)	(1,990,483)
Net cash from operating activities		8,592,448	4,810,102	15,778,323	8,028,251
Cash flows from investing activities					
Purchase of property, plant and equipment	(1)	(2,975,450)	(1,490,251)	(5,250,186)	(2,007,776)
Proceeds from disposal of property, plant and equipment		8,280	101,615	12,067	109,697
Interest received		14,659	71,364	26,330	143,640
Net cash used in investing activities		(2,952,511)	(1,317,272)	(5,211,789)	(1,754,439)
Cash flows from financing activities					
Leases paid		(268,828)	(275,441)	(566,870)	(578,378)
Dividends paid		(9,732,232)	(8,341,913)	(9,732,232)	(8,341,913)
Net cash used in financing activities		(10,001,060)	(8,617,354)	(10,299,102)	(8,920,291)
Net (decrease)/increase in cash and cash equivalents		(4,361,123)	(5,124,524)	267,432	(2,646,479)
Cash and cash equivalents at beginning of period		25,326,665	24,179,161	20,651,935	21,717,779
Effect of exchange rate fluctuations		(56,582)	(47,289)	(10,407)	(63,952)
Cash and cash equivalents at the end of period	(2)	20,908,960	19,007,348	20,908,960	19,007,348

Notes:

- (1) During 2Q21, the Group incurred approximately S\$3.0 million of capital expenditure mainly for machines and accessories for its factories in Singapore and in the USA.

(2) Cash and cash equivalent is derived from:

	Group 31 Dec 20 S\$	Group 31 Dec 19 S\$
Cash and cash equivalent balances	21,073,660	19,171,948
Less: Pledged cash placed with bank	(164,700)	(164,600)
	20,908,960	19,007,348

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

	Share Capital S\$	Foreign Currency Translation Reserve S\$	Accumulated remeasurement on retirement benefits S\$	Accumulated Profits S\$	Total S\$
The Group					
As at 1 July 2019	14,782,931	(67,882)	(19,596)	43,664,534	58,359,987
Total comprehensive income for the period:					
Profit for the period	-	-	-	6,844,380	6,844,380
Other comprehensive income:					
Foreign currency translation difference	-	(194,912)	-	-	(194,912)
Total comprehensive income for the period	-	(194,912)	-	6,844,380	6,649,468
Transactions with owners, recorded directly in equity					
Final dividend of 5 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2019	-	-	-	(8,341,913)	(8,341,913)
Total transactions with owners, recorded directly in equity	-	-	-	(8,341,913)	(8,341,913)
As at 31 Dec 2019	14,782,931	(262,794)	(19,596)	42,167,001	56,667,542
As at 1 July 2020	14,782,931	329,672	(149,704)	43,021,070	57,983,969
Total comprehensive income for the period:					
Profit for the period	-	-	-	9,105,422	9,105,422
Other comprehensive income:					
Foreign currency translation difference	-	(382,488)	-	-	(382,488)
Total comprehensive income for the period	-	(382,488)	-	9,105,422	8,722,934
Transactions with owners, recorded directly in equity					
Final dividend of 5 cents per share and special dividend of 2 cent per share (one-tier tax exempt) in respect of FY2020	-	-	-	(9,732,232)	(9,732,232)
Total transactions with owners, recorded directly in equity	-	-	-	(9,732,232)	(9,732,232)
As at 31 Dec 2020	14,782,931	(52,816)	(149,704)	42,394,260	56,974,671

	Share Capital	Foreign Currency Translation Reserve	Accumulated remeasurement on retirement benefits	Accumulated Profits	Total
The Company					
As at 1 July 2019	14,782,931	-	-	24,928,388	39,711,319
Total comprehensive income for the period:					
Profit for the period	-	-	-	7,917,515	7,917,515
Total comprehensive income for the period	-	-	-	7,917,515	7,917,515
Transactions with owners, recorded directly in equity					
Final dividend of 5 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2019	-	-	-	(8,341,913)	(8,341,913)
Total transactions with owners, recorded directly in equity	-	-	-	(8,341,913)	(8,341,913)
As at 31 Dec 2019	14,782,931	-	-	24,503,990	39,286,921
As at 1 July 2020	14,782,931	-	-	25,602,968	40,385,899
Total comprehensive income for the period:					
Profit for the period	-	-	-	5,480,639	5,480,639
Total comprehensive income for the period	-	-	-	5,480,639	5,480,639
Transactions with owners, recorded directly in equity					
Final dividend of 5 cents per share and special dividend of 2 cent per share (one-tier tax exempt) in respect of FY2020	-	-	-	(9,732,232)	(9,732,232)
Total transactions with owners, recorded directly in equity	-	-	-	(9,732,232)	(9,732,232)
As at 31 Dec 2020	14,782,931	-	-	21,351,375	36,134,306

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 the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, 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. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed 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 2020 and 31 December 2019. The Company did not have any treasury shares as at the end of the current financial period or at the end of the immediately preceding year.

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

Not applicable.

- 1(d)(v) **A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings 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 modifications or emphasis of a matter).**

Not applicable.

- 3A. **Where the latest financial statements are subject to an adverse opinion, qualified opinion or disclaimer of opinion:—**

(a) Updates on the efforts taken to resolve each outstanding audit issue.

The audited financial statements for the year ended 30 June 2020 was not subjected to an adverse opinion, qualified opinion or disclaimer of opinion.

(b) Confirmation from the Board that the impact of all outstanding audit issues on the financial statements have been adequately disclosed.

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 2020	Oct to Dec 2019	Jul to Dec 2020	Jul to Dec 2019
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 on issue	3.20 cents	2.57 cents	6.55 cents	4.92 cents
(ii) On a fully diluted basis	3.20 cents	2.57 cents	6.55 cents	4.92 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 2019: 139,031,881).

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

	Group 31 Dec 20	Group 30 Jun 20	Company 31 Dec 20	Company 30 Jun 20
Net Asset Value per ordinary share (cents)	40.98	41.71	25.99	29.05

The net asset value per ordinary share is calculated based on net assets of S\$57.0 million (30 June 2020: S\$58.0 million) and 139,031,881 (30 June 2020: 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 data from the World Semiconductor Trade Statistics (WSTS), worldwide semiconductor sales for the five months from July to November 2020 amounted to US\$190.7 billion, an increase of about 5.8% from the same period in 2019. The Semiconductor Industry Association (SIA) said that annual sales in 2020 are tracking well ahead of the total from 2019, despite substantial headwinds caused by the COVID-19 pandemic and other macroeconomic factors.

In its Semiconductor Market Forecast released on 1 December 2020, WSTS now expects the world semiconductor market to have increased by 5.1% to US\$433 billion in 2020. This reflects expected growth in all major product categories, except for Optoelectronics and Discrete Semiconductors. For 2021, WSTS is forecasting the global semiconductor market to grow 8.4% to US\$469 billion, driven by double-digit growth of Memory and Optoelectronics with all other product categories also showing positive growth.

Group Revenue

		1Q	2Q	3Q	4Q	Full Year
REVENUE	FY2021	S\$18,146,411	S\$18,748,772	NA	NA	NA
	FY2020	S\$15,343,498	S\$16,275,737	S\$16,216,029	S\$16,372,486	S\$64,207,570
	% growth	18.3%	15.2%	NA	NA	NA

For the three months ended 31 December 2020 (2Q21), the Group's revenue increased by 15.2% to its highest quarterly level of S\$18.7 million from S\$16.3 million in 2Q20, on the back of buoyant growth of the global semiconductor industry.

On a quarter-on-quarter (qoq) basis, Group revenue recorded an increase of 3.3% in 2Q21 from S\$18.1 million in 1Q21. This was due mainly to higher sales to customers in Malaysia and China.

For the six months ended 31 December 2020 (1H21), the Group's revenue increased by 16.7% to hit a half-yearly record of S\$36.9 million as compared to S\$31.6 million in 1H20. This was driven by higher sales registered in all our geographical markets with the exception of the Philippines and Taiwan.

Revenue breakdown by Geographical Market

Country	Group										
	1Q21 S\$	2Q21		2Q20		% change	1H21		1H20		% change
	S\$ m	%	S\$ m	%		S\$ m	%	S\$ m	%		
Singapore	1.9	1.7	9%	1.8	11%	(5%)	3.6	10%	2.6	8%	39%
Malaysia	2.8	3.1	16%	2.6	16%	19%	5.8	16%	5.1	16%	13%
Philippines	1.5	1.6	8%	1.5	9%	8%	3.1	8%	3.1	10%	(1%)
Thailand	0.3	0.5	3%	0.2	1%	109%	0.8	2%	0.5	2%	54%
China	5.4	5.8	31%	4.6	28%	28%	11.3	31%	9.2	29%	22%
USA	3.7	3.8	21%	3.2	20%	18%	7.5	20%	6.2	20%	21%
Europe	0.6	0.6	3%	0.4	3%	44%	1.2	3%	1.1	3%	10%
Japan	0.3	0.3	2%	0.3	2%	7%	0.6	2%	0.6	2%	4%
Taiwan	1.3	1.1	6%	1.5	9%	(25%)	2.5	7%	2.8	9%	(11%)
Rest of world	0.3	0.2	1%	0.2	1%	14%	0.5	1%	0.4	1%	42%
Total	18.1	18.7	100%	16.3	100%	15%	36.9	100%	31.6	100%	17%

The Group registered sales growth in a majority of our geographical markets during 2Q21, particularly in China, the USA and Malaysia.

Sales from China, our largest geographical market, increased by 28% to S\$5.8 million in 2Q21 and contributed 31% of the Group's revenue.

The USA, which is our second largest market, increased by 18% to S\$3.8 million in 2Q21 and accounted for 21% of Group revenue. Our third largest market, Malaysia, recorded sales growth of 19% to S\$3.1 million in 2Q21 and contributed 16% of the Group's revenue.

Sales to customers in Singapore eased 5% to S\$1.7 million, while sales to the Taiwan market decreased 25% to S\$1.1 million in 2Q21 as certain of our customers saw a reduction in their production capacity in 2Q21.

Capacity Utilisation

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2021	59%	57%	NA	NA	NA
	FY2020	59%	61%	52%	56%	56%

Our average capacity utilisation rate decreased to 57% in 2Q21 from 61% in 2Q20. This was due mainly to the installation of additional machines at our Singapore factory which resulted in an increase in the Group's overall production capacity.

Gross Profit (GP) Margin

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2021	54.8%	53.9%	NA	NA	NA
	FY2020	53.4%	53.9%	52.0%	54.5%	53.4%

The Group's gross profit (GP) increased 15.2% to S\$10.1 million in 2Q21 as compared to S\$8.8 million in 2Q20. Our GP margin of 53.9% in 2Q21 was unchanged from 2Q20.

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
	FY2021	S\$3,979,876	S\$4,420,271	NA	NA	NA
	% of sales	21.9%	23.6%			
FY2020	S\$3,775,046	S\$4,119,714	S\$3,386,070	S\$3,948,997	S\$15,229,827	
% of sales	24.6%	25.3%	20.9%	24.1%	23.7%	

Other income in 2Q21 increased to S\$338k from S\$79k in 2Q20. This was due mainly to government grants of S\$318k given to our Singapore subsidiary pursuant to a Singapore Government initiative to support businesses during the COVID-19 pandemic.

We continued to maintain tight control over our expense structure during 2Q21. Our distribution expenses in 2Q21 remained stable at S\$834k. Administrative expenses increased 20.4% to S\$2.8 million in 2Q21 from S\$2.4 million in 2Q20 due mainly to annual salary increments and higher bonus payments to employees.

Other operating expenses increased 3.1% yoy to S\$1.0 million. This was due mainly to higher overtime expenses incurred at our USA plant, as well as engineering expenses incurred to support the development of new parts and processes.

In aggregate, our administrative, distribution and other operating expenses (inclusive of other income) increased 6.2% to S\$4.4 million in 2Q21 from S\$4.1 million in 2Q20. As a percentage of Group revenue, however, these overhead expenses decreased to 23.3% as compared to 25.3% in the same period a year ago.

Profit before Tax and Net Profit

		1Q	2Q	3Q	4Q	Full Year
Net Profit after tax	FY2021	S\$4,651,085	S\$4,454,337	NA	NA	NA
	FY2020	S\$3,269,430	S\$3,574,950	S\$3,868,641	S\$3,937,022	S\$14,650,043
	% growth	42.3%	24.6%	NA	NA	NA

As a result of the above, the Group's profit before tax increased by 23.2% to S\$5.7 million in 2Q21 from S\$4.7 million in 2Q20. After deducting tax expense of S\$1.2 million (S\$1.1 million in 2Q20), the Group reported a net profit of S\$4.5 million in 2Q21, an increase of 24.6% from S\$3.6 million in 2Q20. Net profit margin in 2Q21 was 23.8% as compared to 22.0% in 2Q20 and 25.6% in 1Q21.

The effective tax rate for 2Q21 was 21.7% as compared to 23.1% for 2Q20. Tax expense for the quarter included a provision of S\$150k for withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

For 1H21, the Group's half-year net profit increased 33.0% to a record S\$9.1 million from S\$6.8 million in 1H20. Net profit margin grew to 24.7% in 1H21 as compared to 21.6% in 1H20.

Correspondingly, the Group's earnings per share was 6.55 cents in 1H21 as compared to 4.92 cents in 1H20.

Dividend

The Board of Directors has declared the payment of an interim dividend of 6 cents per share (one-tier tax exempt) amounting to approximately S\$8.3 million in respect of 1H21, compared to 5 cents per share for the same period a year ago.

The interim dividend will be paid on 25 February 2021 to the shareholders of the Company on record as at 16 February 2021.

Balance Sheet

The Group remains in a sound financial position. As at 31 December 2020, it had total assets of S\$72.0 million, shareholders' equity of S\$57.0 million, cash and cash equivalents of S\$21.1 million and no bank borrowings.

Long Term Assets

As at 31 December 2020, non-current assets increased to S\$33.0 million from S\$32.2 million as at 30 June 2020 due mainly to additional machines purchased during 1H21.

Trade Receivables

		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
Trade Receivables	FY2021	S\$12,102,795	S\$12,044,570	NA	NA
	≥ 90 days	0.09%	0.03%	NA	NA
	Write-off	-	-	NA	NA
	FY2020	S\$10,275,281	S\$10,407,200	S\$11,222,282	S\$11,839,561
	≥ 90 days	0.29%	0.01%	0.08%	0.00%
	Write-off	-	-	-	-

The Group had total trade receivables of S\$12.0 million as at 31 December 2020, compared to S\$11.8 million as at 30 June 2020. Of this, 0.03% was outstanding for 90 days or more (0% at end of 30 June 2020). There was no bad debt written off during 1H21 and 1H20.

Trade & Other Payables

As at 31 December 2020, our trade payables totaled S\$0.9 million, of which S\$2k was outstanding for 30 days or more. Non-trade payables totaled S\$3.6 million. Other accrued expenses stood at S\$4.7 million.

Long term liabilities

As at 31 December 2020, the deferred tax liabilities was S\$1.5 million as compared to S\$1.4 million as at 30 June 2020.

Inventory

As a percentage of annualised sales, our inventory level of S\$4.8 million as at 31 December 2020 (S\$5.4 million as at 30 June 2020) was 6.5% (8.4% as at 30 June 2020). Inventory written off was S\$42k in 2Q21 (S\$27k in 2Q20).

Capital Expenditure

		1Q	2Q	3Q	4Q	Full Year
Capital Expenditure	FY2021	S\$2,274,736	S\$2,975,450	NA	NA	NA
	% of sales					
	FY2020	S\$517,525	S\$1,490,251	S\$717,106	S\$980,771	S\$3,705,653
	% of sales					5.8%

The Group incurred capital expenditure amounted to S\$5.3 million in 1H21 which was mainly for the purchase of new machines and accessories for our factories in Singapore and the USA. We have since revised upward our total expected capital expenditure to be incurred in FY2021 to approximately S\$7.0 million from the range of \$4 million to \$5 million as previously announced.

Cash Flow Analysis

The Group generated net cash from operations of S\$8.6 million in 2Q21 (S\$4.8 million in 2Q20). Net cash used for investing activities amounted to S\$3.0 million, which was mainly related to capital expenditure incurred. After paying S\$9.7 million as final and special dividends in respect of FY2020, we closed the period with cash and cash equivalents of S\$21.1 million (S\$19.0 million in 2Q20) 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.

Compliance with SGX's new COVID-19 disclosure requirements

With reference to the *Regulator's Column: What SGX expects of issuers' disclosures during COVID-19* issued by the SGX on 22 April 2020, the Group confirms that it has made diligent efforts to help investors make an independent assessment of the Group's prospects and how the Group's operating and financial conditions have been impacted and may change as the result of COVID-19. As such, our aim is to disclose material information that reflects our current state of affairs as well as provide an overview of the strategy and other steps the Group is taking to address the effects of COVID-19.

Impact of COVID-19 on the Group's Factories

On 29 January 2020, we announced that our factory in Suzhou, China ("MMSU"), would be temporarily closed under a directive by the local government to help limit the spread of COVID-19 infections. After being closed for about three weeks, we gradually restored production and since the beginning of May 2020, MMSU has been running at normal operating and staffing levels.

On 19 March 2020, we also announced the Group would be complying with directives from the governments of Malaysia and the United States aimed at slowing the spread of COVID-19 by restricting business and social activity. Although our plant in Penang ("MMP") operated for a period during 2H20 at a reduced staffing level of 25%, MMP was able to operate normally during 1H21. On 13 January 2021, the government of Malaysia reimplemented a *Movement Control Order* ("MCO") that lasted for two weeks up to 26 January 2021 in Penang. During this period, only 30% of our management personnel may work from the office. Owing to our lean management structure and an IT infrastructure that allows our people to work remotely, we do not expect the MCO to have a significant impact on MMP's operations.

In the United States, our plant ("MMUS") also operated for a period during 2H20 at about 60% of normal working hours. By the beginning of FY2021, about 92% of our workforce in the USA was back to full working hours and by the end of 1Q21, MMUS was back to its normal staffing level except for a handful of employees who were required to quarantine at home for about two weeks at various times during 1H21 following either a positive COVID-19 test by the employee or a member of the employee's household.

When our plant in China closed in early February 2020, our team in the Singapore plant ("MMS") took immediate steps to implement employee and visitor health-screening, limit travel and activate other preparations that we had put in place about a year earlier when MMS successfully completed ISO 22301:2012 for *Business Continuity Management*. Except for work-from-home and other measures designed to improve personnel safety, our team in Singapore has also done a remarkable job keeping everyone safe and supporting our customers.

On 17 March 2020, the government in the Philippines announced various quarantine requirements which resulted in major disruptions in the supply chain to our plant in the Philippines ("MMPH"). When various quarantine measures were lifted in June 2020, we were able to bring the staffing level at MMPH back to about 80% of normal. Except for about two weeks in August 2020 when MMPH was required to reduce operating and staffing levels to about 50% due to a resurgence of COVID-19 infections, and several employees who had to quarantine at home for various periods during the quarter, MMPH was able to operate at almost normal conditions during 1H21.

In summary, the Group has worked diligently to establish new procedures, implement safety procedures and fully comply with the COVID-19 orders and guidelines of the governments in jurisdictions where we have operations. Although it has been an incredibly challenging period for the Group, we are very proud of our people for the way they have so willingly and quickly adapted to the many changes we needed to make, behaved in a caring and responsible manner that has helped to keep everyone safe, and worked hard to keep all of our plants running so that we could support our customers.

One of our biggest concerns regarding COVID-19 is the possibility of a positive test by one or more of our people which might lead to the shutdown of a work area and/or the entire factory in order to undertake a full disinfection. Although we are working to mitigate this risk by following recommended safety protocols including masking, social distancing, cleaning, hand washing and eliminating all but essential employee or visitor traffic, the Group is highly wary of the possibility of a COVID-19 related quarantine or factory shutdown as we move forward.

Strategic, Operating and Financial Review

In spite of all of the challenges and concerns during this unprecedented period, the Group recorded a commendable performance in 2Q21. The Group's quarterly revenue increased to a record level of S\$18.7 million, up 15.2% from S\$16.3 million in 2Q20. Our profit before tax rose 22.2% to S\$5.7 million from S\$4.7 million in the same period a year ago. After deducting taxes of S\$1.2 million, Group profit after tax for 2Q21 increased 24.6% to S\$4.5 million from S\$3.6 million in 2Q20. On a half-yearly basis, Group revenue increased 16.7% to a record S\$36.9 million while profit after tax rose 33.0% to a record S\$9.1 million.

Although dealing with the repercussions of a global pandemic is something new for the Group, we have always been mindful of the need to build an organization that is decentralized, flexible and resilient. Whether it is the adverse impact of a market downturn, introduction of disruptive technology, political unrest or a host of other unforeseen events, we need to have goals, structures and processes in place that make it easier for the Group to adjust to changes in circumstances and ensure business continuity. To this end, we intend to continue focusing on a handful of key initiatives which include:

- *Maintaining a Healthy Gross Profit Margin* – Having a strong and unwavering focus on customers and the value we bring to their business is a key objective. This means working diligently to understand and meet the requirements of our customers by delivering *Perfect Parts and Tools, On-Time, Every Time*. As the semiconductor industry develops new equipment and processes for manufacturing chips with device geometries below 10 nano-meters, our customers will increasingly require parts and tools manufactured using improved materials and processes that eliminate defects and variability. In the future, we think there may only be a handful of suppliers capable of meeting these stringent requirements and our goal is to become a leading *Next Generation Supplier*. We believe that our strong customer focus, rigorous process for making investments and the great work by our people should enable the Group to maintain a healthy GP margin. Indeed, our GP margin in 2Q21 held steady at 53.9%, unchanged from 2Q20. For 1H21, our GP margin increased to 54.3% from 53.7% during 1H20. We plan to continue working to strengthen this key measure of our focus on the customer, competitive strength and the value our work creates.
- *Controlling Overhead Expenses* – Maintaining a tight rein on expenses and developing improved processes in order to keep a lean overhead structure is of critical importance. During 2Q21 our total distribution, administrative and other expenses, including other income rose 6.2% to S\$4.4 million from S\$4.1 million in 2Q20. However, when measured as a percentage of sales, our overhead costs in 2Q21 declined to 23.6% from 25.3% in 2Q20. Indeed, for 1H21 our overhead costs as a percentage of sales declined to 22.8% from 25.0% during 1H20.

At the end of 2Q21, the Group employed 523 great people, an increase of 2.8% from 509 people at the end of 2Q20. As the Group grows, we plan to continue working to improve efficiency, add personnel carefully and use technology to leverage the know-how and skills of our people.

- *Automating Our Operations* – Because a single defect can cause disastrous consequences in the precision manufacturing process of semiconductors, our customers need the parts and tools used in critical processes to be flawless. To achieve this, our goal is to automate our operations around processes that are repeatable, scalable and cost-effective. This automation also extends to digitalizing our workflows for efficiency, mobility and the ability to work remotely for both personnel safety and work-life balance.

Owing to a lack of business visibility caused by the COVID-19 pandemic, we adjusted the timing of some of our capital expenditure during the last nine months. After spending just S\$1.0 million during 4Q20, we decided to accelerate our plans for several key investments. This resulted in total capital expenditure of S\$5.3 million in 1H21 which includes a S\$2.0 million investment for an initiative at MMUS to develop a new machining technology. We believe this technology will be essential for making the next-generation of parts for wafer-processing equipment that are designed to fabricate chips with geometries measuring well below 10 nano-meters. As a result of this investment and an increasingly positive outlook for the semiconductor industry, we have increased our capex budget for FY2021 to about S\$7.0 million (our previously announced budget was S\$4.0 million to S\$5.0 million).

- *Growing Without Debt and Rewarding Our Shareholders* - Building a great manufacturing business without debt helps to foster a culture of resourcefulness, discipline and careful decision making. In addition, we would like to attract shareholders who share our approach to long-term investing. Hence, one of the Group's key goals is to continue growing without taking on debt while building a track record for consistently rewarding shareholders. During 1H21, we generated S\$15.8 million in net cash from operating activities (S\$8.0 million in 1H20). After net investing activities of S\$5.2 million and a dividend payment of S\$9.7

million, the Group ended the quarter in a strong financial position with S\$21.1 million in cash (including S\$0.2 million held as security deposits) and no bank borrowings.

Since our listing we have also maintained a consistent practice of rewarding shareholders for their continuous support of Micro-Mechanics. During 2Q21, the Group distributed a final dividend of 5 cents and a special dividend of 2 cents per ordinary share in respect to FY2020. For FY2021, the Board has approved an interim dividend of 6 cents per ordinary share (5 cents for 1H20) payable to shareholders on 25 February 2021. In addition to reflecting our confidence in the Group's long-term prospects, we hope our commitment to shareholder returns is especially helpful to our shareholders during this difficult and unprecedented period.

Including the interim dividend for FY2021, we will have distributed total dividends of 91.9 cents per share since 2003. Based on dividends alone, this translates into a return of nearly 500% for shareholders who bought Micro-Mechanics shares at our Initial Public Offer.

In many ways, it seems only like yesterday that we rang the gong at the Singapore Exchange to celebrate our Initial Public Offering ("IPO") and start the trading of Micro-Mechanics shares. Based on our IPO price of S\$0.23 a share and 107,488,712 fully-paid ordinary shares after our debut and the closing price of our shares on 28 January 2021, the market capitalization of the Group has increased about twenty times to roughly S\$500 million from just over S\$25 million in 2003.

Following the Group's IPO, our founder and Executive Director, Christopher Borch, together with his wife and four children, controlled 63.14% of Micro-Mechanics. Since that time, Mr. Borch has reduced his ownership of the Group to 49.978% mainly through gifts to various charitable organizations. During 2Q21, we announced a gift by Mr. Borch of 2,850,000 shares to *The Borch Foundation*, a 401c3 tax-exempt charitable corporation registered in the USA which was established by Mr. Borch and his wife in 2007. In the years ahead, the Borchs hope their philanthropic efforts will help to make a positive impact in areas of critical importance such as education, the environment and underserved communities.

As of 31 December 2020, the Group had 139,031,881 fully-paid ordinary shares. Based on information available to the Group as of 3 September 2020, the percentage of shareholding held in the hands of the public was approximately 39.81%. The Group does not have any treasury shares.

- *Working to Ensure Leadership Continuity* - The Board and our Executive Directors are also working to ensure leadership continuity. On 14 June 2019, we welcomed Kenny Kwan as Independent Director and Chairman of the Remuneration Committee. Mr. Kwan is currently a partner at Baker & McKenzie and qualified to practice law in Singapore, England and the USA (New York). We intend to continue working to refresh and strengthen our Board in accordance with regulatory guidelines and our own efforts to practice sound corporate governance.

In August 2018, Mr. Borch's oldest son, Kyle, joined the Group's operation in the USA after completing a Bachelor of Science in Physics and a double Master of Science in Mechanical Engineering and Engineering Management. Kyle currently leads an eleven-person technical team responsible for tools, fixtures and other critical engineering support functions. A few years ago, we also began an engineering internship program and other initiatives at several of our plants. These efforts are designed to help develop the technical and leadership team the Group will need in the years ahead to ensure continuity. Although COVID-19 related travel restrictions hampered some of our plans during 1H21, this inability to travel has been a good reminder of the need for a strong and independent team of people.

- *Excelling in Transparency and Governance* – Since going public in 2003, we have worked diligently to understand and put into practice the fundamentals of transparency and good corporate governance. 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. During 2Q21, *The Edge*, an independent investor publication, recognized Micro-Mechanics as *The Most Profitable Company* on the Singapore Exchange for companies with a market capitalization of less than S\$1 billion in the industrial and services category. Indeed, since our listing in 2003, the Group has received recognition 31 times for our good corporate governance, transparency and investor relations. In addition, in the Singapore Governance and Transparency Index (SGTI) released on 4 August 2020, Micro-Mechanics improved its ranking to 13th out of 577 companies (17th out of 578 companies in 2019) listed on the Singapore Exchange. The top 20 companies in the SGTI are mainly large capitalisation companies.

To affirm our commitment to transparency and good disclosure, our Board decided unanimously in February 2020 to continue with quarterly reporting of the Group's financial results. Although it entails more work and

is now an optional SGX requirement, we think quarterly reporting is the right decision especially after the fast-moving events that we witnessed during the last few quarters. 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.

- *Seizing Opportunities for Long-term Success and Sustainability* - While the demand for the high precision parts and tools that we supply to the semiconductor industry was robust in 1H21, there is plenty to worry about as we move into 3Q21. Rapidly changing markets, the shut-down of vast sections of the global economy caused by the COVID-19 pandemic, political and social turmoil in various parts of the world and the possibility that production at any of our plants may be suspended due to quarantine or other pandemic-related restrictions, make it difficult to accurately predict business conditions in the short-term.

However, against this challenging macroeconomic backdrop, the semiconductor industry has been remarkably resilient. Although the results for all of 2020 have not yet been published, WSTS expects the global chip industry to have grown 5.1% in 2020 to US\$433 billion and to grow another 8.4% this year to US\$469 billion. Indeed, we believe the semiconductor industry may be entering a *Supercycle* of multi-year growth powered by skyrocketing demand for computers and the need for enormous data centers to support remote work and learning, video streaming, online conferencing and a host of other internet-based platforms from social media to banking, health and even fitness. At the same time the demand for the chips that go into 5G phones and the cellular networks needed to support faster data-transfer, is also contributing to surging demand for semiconductors. Together with a proliferation of applications for chips in everything from today's refrigerators and musical instruments to tomorrow's driverless cars, many chip makers are currently swamped with orders. As a result, we foresee that the yearly growth rate of the semiconductor industry could possibly accelerate to double digits. This would translate into a massive industry of over US\$1 trillion in annual chip sales in as little as seven years.

Hence, the answer to the Group's success lies in our continuing ability to manage through short-term difficulties and seize opportunities that come into view to make investments, design key initiatives and grow a team of great people that will help us to meet the evolving needs of our customers for *Perfect Parts and Tools, On Time, Every Time* based on scalable, repeatable and cost-effective processes.

To this end, we plan to place an even greater emphasis on several of our existing operational methodologies which have proven to be hugely beneficial to the Group over the years. These include:

- *8S Housekeeping* is an industrial management system in which improvement work is divided into eight different types of related activities, each beginning with the letter "S". Originally based on Toyota Motor Company's *5S* program, we see *8S Housekeeping* as an indispensable strategy for improving workplace organization, efficiency, safety and sustainability while helping to build a culture of strong employee engagement and continuous improvement.
- *24/7 Machining* is an engineering methodology that we developed about ten years ago. It is based on six fundamental principles to address the inherent limitations of Computerized Numerical Control (CNC) technology and has made "lights-out" machining possible.
- *Key Progress Initiatives ("KPIs")* is a planning and management tool that we use to help set priorities and performance expectations for our people by clearly defining key problems, goals, required outcomes and accountabilities.

As we move into 3Q21, we would like to express our appreciation to all our people at Micro-Mechanics for their vision, teamwork and tireless commitment. During this COVID-19 period we are especially appreciative of the care and consideration our people have shown for their colleagues and others by being willing to mask, distance, wash, clean and do all of the other things that help to keep everyone healthy and safe. Indeed, it is during times such as these where our saying has never rung more true: *People Make Everything Happen!*

11. If a decision regarding dividend has been made:-

(a) Whether an interim (final) ordinary dividend has been declared (recommended)

The Board of Directors has declared the payment of an interim dividend of 6 cents per ordinary share (one tier tax-exempt) amounting to approximately S\$8.3 million in respect of FY2021.

(b) (i) Amount per share in cents
(ii) Previous corresponding period in cents

- (i) An interim dividend of 6 cents per ordinary share (one tier tax-exempt) was declared in respect of FY2021.
- (ii) An interim dividend of 5 cents per ordinary share (one tier tax-exempt) was paid on 28 February 2020 in respect of FY2020.

(c) Whether the dividend is before tax, net of tax or tax-exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived. (If the dividend is not taxable in the hands of shareholders, this must be stated.)

The declared dividend is one tier tax-exempt and it is not taxable in the hands of shareholders.

(d) The date dividend is payable

The dividend payment will be made on 25 February 2021.

(e) The date on which Registrable Transfers received by the company (up to 5.00 pm) will be registered before entitlements to the dividend are determined.

Notice is hereby given that the Share Transfer Books and Register of Members of Micro-Mechanics (Holdings) Ltd. (the "Company") will be closed 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 16 February 2021 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 16 February 2021 will be entitled to the proposed dividend payable on 25 February 2021.

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 half year ended 31 December 2020, the Group has made rental payment of US\$198,000 (31 December 2019: US\$192,000) and solar-generated electrical services payment of US\$63,100 (31 December 2019: US\$89,434) 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 2020 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 January 2021