

MICRO-MECHANICS (HOLDINGS) LTD

Unaudited Full Year Financial Statements Announcement for the period ended 30/09/2019

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.

	Note	Group (First Quarter) 3 months ended		
		30 Sep 19 S\$	30 Sep 18 S\$	Change
Revenue	(1)	15,343,498	16,884,314	(9.1%)
Cost of sales	(2)	(7,150,449)	(6,844,654)	4.5%
Gross profit		8,193,049	10,039,660	(18.4%)
Other income	(3)	218,340	134,509	62.3%
Distribution costs	(4)	(824,209)	(893,848)	(7.8%)
Administrative expenses	(5)	(2,247,316)	(2,441,089)	(7.9%)
Other operating expenses	(6)	(921,861)	(847,309)	8.8%
Profit from operations		4,418,003	5,991,923	(26.3%)
Finance costs		-	-	-
Profit before income tax	(7)	4,418,003	5,991,923	(26.3%)
Income tax expense	(8)	(1,148,573)	(1,485,751)	(22.7%)
Profit after tax		3,269,430	4,506,172	(27.4%)
Non-controlling interests		-	-	-
Profit for the period		3,269,430	4,506,172	(27.4%)
Statement of Comprehensive Income				
Profit for the period		3,269,430	4,506,172	(27.4%)
Other comprehensive income:				
Item that is or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences for foreign operations, net of tax		269,570	(610,380)	(144.2%)
Total comprehensive income for the period		3,539,000	3,895,792	(9.2%)

Notes:

- (1) Please refer to section 8 of this announcement for an analysis of the Group's revenue.
- (2) Despite lower revenue, cost of sales increased due to a difference in sales mix, as well as the increase in staff related costs of S\$76k, depreciation expenses of S\$41k and equipment repairs of S\$78k.

- (3) Other income consists of:

	Group (First Quarter)		
	3 months ended		
	30 Sep 19	30 Sep 18	Change
	S\$	S\$	
Gain/(loss) on disposal of property, plant and equipment	8,081	(9,586)	(184.3%)
Interest income from banks and others	77,709	53,800	44.4%
Rental income	31,204	30,757	1.5%
Government grant – Skill Redevelopment, Wage Credit and Capability Development Scheme	12,129	11,358	6.8%
Exchange gain	56,640	18,675	203.3%
Others	32,577	29,505	10.4%

- (4) Please refer to section 8 of this announcement for an analysis of the Group's distribution expenses.
- (5) Please refer to section 8 of this announcement for an analysis of the Group's administrative expenses.
- (6) Please refer to section 8 of this announcement for an analysis of the Group's other operating expenses.
- (7) Profit before income tax was arrived at after charging the following expenses:

	Group (First Quarter)		
	3 months ended		
	30 Sep 19	30 Sep 18	Change
	S\$	S\$	
Depreciation of property, plant and equipment	1,393,175	1,347,441	3.4%
Depreciation of right-of-use assets	258,550	274,152	(5.7%)
Inventories written off	31,176	21,263	46.6%
Interest expense on lease liabilities	25,266	30,196	(16.3%)
Property, plant and equipment written off	21	806	(97.4%)

The Group's total depreciation expenses increased from approximately S\$1.6 million in 1Q19 to S\$1.7 million in 1Q20, of which S\$41k was in relation to production assets.

- (8) The effective tax rate for 1Q20 was 26.0% as compared to 24.8% for 1Q19. Included in the tax expense for the current quarter was a provision of S\$168k in relation to withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

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

	Note	Group 30 Sep 19 S\$	Group 30 Jun 19 S\$	Company 30 Sep 19 S\$	Company 30 Jun 19 S\$
Non-current assets					
Property, plant and equipment		30,190,432	30,811,334	-	-
Right-of-use assets	(1)	1,577,412	1,815,233	-	-
Subsidiaries		-	-	29,095,544	29,095,544
Trade and other receivables		642,637	428,008	-	-
Deferred tax asset		48,262	48,409	-	-
		32,458,743	33,102,984	29,095,544	29,095,544
Current assets					
Inventories		4,779,771	4,514,659	-	-
Trade and other receivables		11,378,149	10,380,307	2,078,537	2,596,880
Cash and cash equivalents		24,344,111	21,881,179	13,698,414	8,743,944
		40,502,031	36,776,145	15,776,951	11,340,834
Total assets		72,960,774	69,879,129	44,872,495	40,436,378
Shareholders' equity					
Share capital		14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve	(2)	182,092	(87,478)	-	-
Accumulated profits		46,933,964	43,664,534	29,200,037	24,928,388
		61,898,987	58,359,987	43,982,968	39,711,319
Non-current liabilities					
Deferred tax liabilities		1,456,247	1,434,464	268,038	213,960
Trade and other payables		351,975	643,777	-	-
Lease liabilities	(1)	746,455	967,621	-	-
		2,554,677	3,045,862	268,038	213,960
Current liabilities					
Trade and other payables		6,119,115	6,436,347	613,130	502,740
Lease liabilities	(1)	812,613	847,230	-	-
Current tax payable		1,575,382	1,189,703	8,359	8,359
		8,507,110	8,473,280	621,489	511,099
Total liabilities		11,061,787	11,519,142	889,527	725,059
Total equity and liabilities		72,960,774	69,879,129	44,872,495	40,436,378

Notes:

- (1) Right-of-use assets and the corresponding lease liabilities related mainly to leases of various factories occupied by the Group.
- (2) The movement in foreign currency translation reserves in 1Q20 was mainly due to the appreciation of the Malaysia Ringgit and US Dollar 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 19		As at 30 Sep 18	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Amount repayable after one year

As at 30 Sep 19		As at 30 Sep 18	
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 2019 S\$	30 Sep 2018 S\$
Cash flows from operating activities			
Profit for the period		3,269,430	4,506,172
Adjustments for:			
Depreciation of property, plant and equipment		1,651,725	1,621,593
Property, plant and equipment written off		21	806
(Gain)/loss on disposal of property, plant and equipment		(8,081)	9,586
Interest income		(77,709)	(53,800)
Interest expense on lease liabilities		25,266	30,196
Tax expense		1,148,573	1,485,751
Operating profit before changes in working capital		6,009,225	7,600,304
Inventories		(222,502)	(280,359)
Trade and other receivables		(1,144,667)	(1,505,277)
Trade and other payables		(680,195)	(1,278,375)
Cash generated from operations		3,961,861	4,536,293
Income tax paid		(743,712)	(652,541)
Net cash from operating activities		3,218,149	3,883,752
Cash flows from investing activities			
Purchase of property, plant and equipment	(1)	(517,525)	(699,820)
Proceeds from disposal of property, plant and equipment		8,082	1,823
Interest received		72,276	58,702
Net cash used in investing activities		(437,167)	(639,295)
Cash flows from financing activities			
Lease paid		(302,937)	(229,469)
Net cash used in financing activities		(302,937)	(229,469)
Net increase in cash and cash equivalents		2,478,045	3,014,988
Cash and cash equivalents at beginning of period		21,717,779	20,918,381
Effect of exchange rate fluctuations		(16,663)	(188,482)
Cash and cash equivalents at the end of period	(2)	24,179,161	23,744,887

Notes:

(1) The Group purchased approximately S\$0.5 million of equipment for its factories in China and Singapore in 1Q20.

(2) Cash and cash equivalent is derived from:

	Group 30 Sep 19	Group 30 Sep 18
	S\$	S\$
Cash and cash equivalent balances	24,344,111	23,909,987
Less: Pledged cash placed with bank	(164,950)	(165,100)
	24,179,161	23,744,887

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 remeasure- ment on retirement benefits	Accumulated Profits	Total
	S\$	S\$	S\$	S\$	S\$
The Group					
As at 1 July 2018	14,782,931	855,088	47,505	44,619,017	60,304,541
Total comprehensive income for the period:					
Profit for the period	-	-	-	4,506,172	4,506,172
Other comprehensive income:					
Foreign currency translation difference	-	(610,380)	-	-	(610,380)
Total comprehensive income for the period	-	(610,380)	-	4,506,172	3,895,792
As at 30 September 2018	14,782,931	244,708	47,505	49,125,189	64,200,333
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	-	-	-	3,269,430	3,269,430
Other comprehensive income:					
Foreign currency translation differences, net of tax	-	269,570	-	-	269,570
Total comprehensive income for the period	-	269,570	-	3,269,430	3,539,000
As at 30 September 2019	14,782,931	201,688	(19,596)	46,933,964	61,898,987

	Share Capital	Foreign Currency Translation Reserve	Accumulated Profits	Total
The Company				
As at 1 July 2018	14,782,931	-	18,472,255	33,255,186
Total comprehensive income for the period:				
Profit for the period	-	-	2,245,411	2,245,411
Total comprehensive income for the period	-	-	2,245,411	2,245,411
As at 30 September 2018	14,782,931	-	20,717,666	35,500,597
As at 1 July 2019	14,782,931	-	24,928,388	39,711,319
Total comprehensive income for the period				
Net profit for the period	-	-	4,271,649	4,271,649
Total comprehensive income for the period	-	-	4,271,649	4,271,649
As at 30 September 2019	14,782,931	-	29,200,037	43,982,968

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 2019 and 30 June 2018. The Company did not have any treasury shares as at the end of the current financial period or at the end of FY2019.

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 2019	30 Sep 2018
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	2.35 cents	3.24 cents
(ii) On a fully diluted basis	2.35 cents	3.24 cents

The calculation is based on the weighted average number of shares in issue during the financial period. The weighted average number of shares outstanding at at 30 September 2019 was 139,031,881 (30 September 2018: 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 19	Group 30 Jun 19	Company 30 Sep 19	Company 30 Jun 19
Net Asset Value per ordinary share (cents)	44.52	41.98	31.64	28.56

The net asset value per ordinary share is calculated based on net assets of S\$61.9 million (30 June 2019: S\$58.4 million) and 139,031,881 (30 June 2019: 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), worldwide semiconductor sales in July and August 2019 fell 15.7% to US\$67.6 billion compared to the same two month period in 2018. The SIA said that while chip sales are still well behind the totals reached in 2018, month-on-month sales have increased in two consecutive months for the first time in nearly a year. On a month-on-month basis, global chip sales showed modest increases of 1.7% in July and 2.5% in August 2019.

On 27 August 2019, the World Semiconductor Trade Statistics (WSTS) revised down its Semiconductor Market Spring Forecast. WSTS now predicts global semiconductor sales to contract 13.3% to US\$406.6 billion in 2019 as sales are expected to decrease across all geographical regions.

For Year 2020, WSTS is forecasting growth in all regions to lift the overall chip market by 4.8% to US\$426.1 billion. It expects optoelectronics to lead with a sales increase of 8.2% while all other product categories are forecasted to show low-to-mid single digit growth compared to 2019.

Group Revenue

		1Q	2Q	3Q	4Q	Full Year
REVENUE	FY2020	S\$15,343,498	NA	NA	NA	NA
	FY2019	S\$16,884,314	S\$15,157,849	S\$14,358,199	S\$13,930,584	S\$60,330,946
	% growth	(9.1%)	NA	NA	NA	NA

For the three months ended 30 September 2019 (1Q20), Group revenue decreased 9.1% year-on-year (yoy) to S\$15.3 million from S\$16.9 million in 1Q19. This was mainly due to lower sales contributions from the Malaysia and China markets as a result of the slowdown in the global semiconductor industry vis-a-vis the same quarter a year-ago.

On a quarter-on-quarter (qoq) basis, however, Group revenue increased 10.1% in 1Q20 from S\$13.9 million in 4Q19. Most of our geographical markets showed higher sales in 1Q20 as compared to 4Q19, particularly in China and the Philippines.

Revenue breakdown by Geographical Market

Country	4Q19		1Q20		1Q19		% change
	S\$ m	%	S\$ m	%	S\$ m	%	
Singapore	0.7	5%	0.8	6%	1.0	6%	(14%)
Malaysia	2.6	19%	2.6	17%	3.1	18%	(16%)
Philippines	1.3	9%	1.7	11%	1.7	10%	(1%)
Thailand	0.3	2%	0.3	2%	0.3	2%	2%
China	4.0	29%	4.7	30%	5.5	33%	(16%)
USA	2.9	21%	3.0	19%	3.0	18%	(1%)
Europe	0.6	4%	0.6	4%	0.7	4%	(9%)
Japan	0.2	2%	0.3	2%	0.3	2%	3%
Taiwan	1.1	8%	1.2	8%	1.1	6%	12%
Rest of world	0.2	1%	0.1	1%	0.2	1%	(37%)
	13.9	100%	15.3	100%	16.9	100%	(9%)

The Group witnessed a yoy decline in sales across the majority of our geographical markets during 1Q20 due to the impact of the current cyclical downturn in the global semiconductor industry.

While our sales derived from customers in China during 1Q20 decreased 16% yoy to S\$4.7 million, it was an increase of 15% qoq from S\$4.0 million in 4Q19. China continued to be our largest market with a contribution of 30% to Group revenue in 1Q20.

Sales in the USA market held steady at S\$3.0 million in 1Q20. It remained as the Group's second largest market with revenue contribution of 19%.

The Malaysia market registered lower sales of S\$2.6 million in 1Q20, a decrease of 16% from S\$3.1 million in 1Q19. Malaysia was our third largest market in 1Q20 and accounted for 17% of Group revenue.

The Group registered sales of S\$1.7 million from the Philippines in 1Q20. This was unchanged compared to 1Q19 and an increase of 32% qoq from S\$1.3 million in 4Q19.

Capacity Utilisation

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2020		59%	NA	NA	NA
FY2019		58%	59%	55%	58%	57%

Our average capacity utilisation rate increased marginally from 58% in 1Q19 to 59% in 1Q20. This was mainly due to higher utilisation of machines at our USA factory.

Gross Profit (GP) Margin

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2020		53.4%	NA	NA	NA
FY2019		59.5%	52.4%	49.3%	52.4%	53.7%

The Group's gross profit decreased by 18.4% yoy to S\$8.2 million in 1Q20. The Group's gross profit margin in 1Q20 decreased to 53.4% compared to 59.5% in 1Q19. This margin reduction was attributable mainly to the impact from the semiconductor industry's downturn, sales mix and higher personnel, depreciation and maintenance costs. On a qoq basis, our gross profit margin in 1Q20 edged up from 52.4% in 4Q19.

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
	FY2020 % of sales	S\$3,775,046 24.6%	NA	NA	NA	NA
	FY2019 % of sales	S\$4,047,737 24.0%	S\$3,846,687 25.4%	S\$3,672,648 25.6%	S\$3,731,793 26.8%	S\$15,298,865 25.4%

The Group registered a 62.3% increase in other income to S\$218k in 1Q20 from S\$135k in 1Q19. This was due mainly to gain on disposal of machines, as well as a higher foreign exchange gain of S\$57k in 1Q20 as compared to S\$19k in 1Q19.

We continued to keep a close watch on our expense structure. Our distribution costs and administrative expenses incurred decreased by 7.8% to S\$824k and 7.9% to S\$2.2 million respectively. Other operating expenses in 1Q20 increased 8.8% to S\$922k due mainly to higher personnel and research and development expenses.

In aggregate, the Group's administrative, distribution and other operating expenses (net of other income) decreased by 6.7% to S\$3.8 million in 1Q20 from S\$4.0 million in 1Q19. As a percentage of sales, these overhead expenses rose slightly to 24.6% in 1Q20 from 24.0% in 1Q19.

Profit before Tax and Net Profit

Net Profit after tax		1Q	2Q	3Q	4Q	Full Year
	FY2020	S\$3,269,430	NA	NA	NA	NA
	FY2019	S\$4,506,172	S\$3,124,950	S\$2,612,338	S\$2,705,245	S\$12,948,705
% growth	(27.4%)	NA	NA	NA	NA	NA

As a result of the above, the Group's profit before tax decreased 26.3% to S\$4.4 million in 1Q20 from S\$6.0 million in 1Q19.

After deducting income tax expenses of S\$1.1 million in 1Q20 (S\$1.5 million in 1Q19), the Group reported a net profit of S\$3.3 million in 1Q20. While this was a decrease of 27.4% yoy from S\$4.5 million in 1Q19, net profit in 1Q20 increased 20.9% qoq from S\$2.7 million in 4Q19. Net profit margin in 1Q20 was 21.3% as compared to 26.7% in 1Q19 and 19.4% in 4Q19.

For 1Q20, the Group's effective tax rate was 26.0% compared to 24.8% in 1Q19. The tax expenses included a provision of S\$168k for withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

Correspondingly, the Group's earnings per share declined to 2.35 cents in 1Q20 from 3.24 cents in 1Q19.

Balance Sheet

The Group remains in a sound financial position. As at 30 September 2019, we had a balance sheet with total assets of S\$73.0 million, shareholders' equity of S\$61.9 million, cash and cash equivalents of S\$24.3 million and no bank borrowings.

Long Term Assets

As at 30 September 2019, non-current assets decreased to S\$32.5 million as compared to S\$33.1 million as at 30 June 2019 due mainly to depreciation charges during the quarter under review.

Trade Receivables

		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
Trade Receivables	FY2020	S\$10,275,281	NA	NA	NA
	≥ 90 days	0.29%			
	Write-off	-			
	FY2019	S\$11,960,650	S\$10,134,701	S\$9,420,244	S\$9,455,277
	≥ 90 days	0.02%	0.02%	0.18%	0.0%
	Write-off	-	-	-	-

Total trade receivables as at 30 September 2019 increased to S\$10.3 million from S\$9.5 million as at 30 June 2019, of which S\$30k was outstanding for 90 days or more (zero at end of 30 June 2019). There was no bad debt expense during 1Q20 and 1Q19.

Trade & Other Payables

As at 30 September 2019, our trade payables totaled S\$841k with S\$8k outstanding for 30 days or more. Non-trade payables totaled S\$1.3 million. Other accrued expenses stood at S\$4.0 million.

Long term liabilities

As at 30 September 2019, the deferred tax liabilities was S\$1.5 million as compared to S\$1.4 million as at 30 June 2019.

Inventory

The Group continuously manages its inventory to avoid over-stocking and minimise write-offs. As a percentage of annualised sales, our inventory of S\$4.8 million as at 30 September 2019 (S\$4.5 million at end of FY2019) was 7.8% (7.5% at end of FY2019). Inventory written off in 1Q20 totaled S\$31k, as compared to S\$21k in 1Q19.

Capital Expenditure

		1Q	2Q	3Q	4Q	Full Year
Capital Expenditure	FY2020	S\$517,525	NA	NA	NA	NA
	% of sales					
	FY2019	S\$699,820	S\$787,034	S\$899,084	S\$1,032,207	S\$3,418,145
	% of sales					5.7%

The Group had capital expenditure of S\$0.5 million in 1Q20 which was mainly for the purchase of new machines for our factories in China and Singapore. For FY2020, we expect to incur capital expenditure of between S\$6 million to S\$7 million.

Cash Flow Analysis

The Group generated net cash from operations of S\$3.2 million in 1Q20 (S\$3.9 million in 1Q19). After deducting net cash used for investing activities of S\$437k and net cash used for financing activities of S\$303k, we ended the quarter with cash and cash equivalents of S\$24.3 million, which includes S\$0.2 million in pledged deposits.

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

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

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

Amid slower industry conditions, Group sales in 1Q20 declined 9.1% to S\$15.3 million from S\$16.9 million in 1Q19. While growing the Group's top line and the value we create for our customers remains a key priority, we have also maintained a consistent focus on our GP margin as we believe this is a key indication of our competitive strength and the value we bring to customers. Through various operational strategies such as set-up time reduction, higher automation and smart-factory initiatives, we managed to keep our GP margin at 53.4% in 1Q20 which is above our threshold margin of 50% and unchanged from 53.7% for our full year of FY2019. Going forward, we intend to continue working to enhance the efficiency of our operations and focus on parts and tools that offer opportunities for attractive profit margins.

We are also continuing to work diligently to keep a tight rein on overhead expenses. Total distribution, administrative and other expenses including other income declined 6.7% to S\$3.8 million from S\$4.0 million in 1Q19. As a percentage of sales these overhead expenses remained steady at 24.6% (24.0% in 1Q19). After deducting taxes of S\$1.1 million (S\$1.5 million in 1Q19), the Group reported a net profit of S\$3.3 million in the quarter, a decrease of 27.4% from S\$4.5 million in 1Q19. However, our net profit in 1Q20 was up 20.9% qoq from S\$2.7 million in 4Q19.

At the end of 1Q20, the Group employed 497 great people worldwide compared with 498 a year ago and 490 at the end of FY2019. As the Group grows, we plan to continue automating our operations, streamlining our processes and using technology to leverage the know-how and skills of our people.

With no bank borrowings to service and a careful watch over inventory and receivables, net cash generated from operating activities in 1Q20 totaled S\$3.2 million (S\$3.9 million for 1Q19). After using net cash for investing activities of S\$0.4 million (S\$0.6 million in 1Q19) which was primarily for new equipment, the Group ended our first quarter in a strong financial position with S\$24.3 million in cash (S\$21.9 million at the end of FY2019) (including S\$165k held as security deposits) and no bank borrowings.

Market, Industry and Competitive Conditions

According to statistics compiled by WSTS, world-wide chip sales during the first eight months of 2019 declined 14.6%. As a result, WSTS now expects world-wide chip sales to contract 13.3% during 2019 to US\$406.6 billion.

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

Because the time to specify, order and qualify new equipment can easily stretch beyond a year, it can be difficult to align our investments in new equipment to short-term industry conditions. After investing S\$12.1 million during FY2018, we reduced our spending to S\$3.4 million in FY2019 which brought our two-year outlay to about S\$15.5 million. During 1Q20, we spent \$0.5 million (\$0.7 million in 1Q19) on new machines for our factories in China and Singapore. For FY2020, we have a capital expenditure budget of between S\$6 million to S\$7 million.

Key Operating Strategies

While short-term business planning and forecasting remains difficult and clouded by a host of political and economic uncertainties, we understand what is required for the Group to sustain its growth over the long term. We will maintain our focus on our customers and the value we bring to their businesses. Whether we design and manufacture a tool for a delicate semiconductor assembly process or machine a part used in a critical wafer-processing application, our mission is to deliver *Perfect Parts and Tools, On Time, Every Time* based on repeatable, scalable and cost-effective processes.

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

create for our customers and other stakeholders. To support this aim, we have an ongoing training program called *MM University* to help our people understand the need to have a shared framework for making more informed and aligned decisions.

We also view fast, effective and local support as a key requirement by the Group's customers. During the quarter, we continued to strengthen the capabilities of our five plants which are strategically located in our main geographical markets. Indeed, about 90% of the Group's revenue comes from customers in Singapore, Malaysia, the Philippines, China and the USA, where we have manufacturing facilities, and Taiwan, where we have a direct sales presence.

Transparency and Governance

At the 20th Investors' Choice Awards 2019 on 26 September 2019, the Group won the *Shareholder Communications Excellence Award, Small Cap*. The Group also received the *Singapore Corporate Governance Award, Small Cap – Runner Up*. Including these awards, the Group has received recognition 31 times for our good corporate governance, transparency and investor relations practices since our listing in 2003.

In addition to these awards, in the Singapore Governance and Transparency Index (SGTI) released on 7 August 2019, Micro-Mechanics received a score of 101 points which improved our ranking to 17th out of 578 companies (excluding Reits and Business Trusts) listed on the Singapore Exchange. The top 25 companies in the SGTI are mainly large capitalisation companies.

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

Appreciation and Stakeholder Value

Since our listing we have also maintained a consistent practice of rewarding shareholders for their continuous support of Micro-Mechanics. Subject to shareholder approval at the upcoming Annual General Meeting on 30 October 2019, the Group will be paying a total dividend of 10 cents per ordinary share for FY2019, unchanged from FY2018 despite slower business conditions caused by the downturn in the semiconductor industry. Indeed, the total dividends of 73.9 cents per share paid since 2003 would translate into a return of nearly 400% for shareholders who bought Micro-Mechanics shares at our Initial Public Offer.

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

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

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

Nil

(b) Corresponding Period of the Immediately Preceding Financial Year

Nil

(c) Date payable

Nil

(d) Books closure date

Nil

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

Not applicable

13. Interested Persons Transactions

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

For the quarter ended 30 September 2019, the Group has made rental payment of US\$96,000 (30 September 2018: US\$93,000) and electrical services payment of US\$45,897 (30 September 2018: Nil) to Sarcadia LLC, a controlling shareholder of the Company and a family company set up by Mr. Christopher Reid Borch, the CEO of the Company.

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

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

To the best of the Board of Directors' knowledge, nothing has come to their attention which may render the financial results of the Group and of the Company for the financial period ended 30 September 2019 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
30 October 2019