## — 2017 —

# ANNUAL REPORT

MICRO-MECHANICS®

# CORPORATE PROFILE

Micro-Mechanics designs, manufactures and markets high precision parts and tools used in process-critical applications for the wafer-fabrication and assembly processes of the semiconductor industry.

Beginning in 1983 with a small factory in Singapore, the Group has grown steadily to become a publicly-listed corporation with a global presence. Today, Micro-Mechanics serves a worldwide base of customers from five manufacturing facilities located in Singapore, Malaysia, China, the Philippines and the USA, and a direct sales presence in Taiwan and Europe.

The Group's strategy is to relentlessly pursue product and operational improvements while providing fast, effective and local support to its customers worldwide.

In addition to designing and manufacturing a market-leading range of consumable tools and parts used in the assembly and testing of semiconductors, the Group also engages in the contract manufacturing of precision parts and tools used in process-critical applications for the semiconductor wafer-fabrication industry.

Since listing on the Singapore Exchange in June 2003, Micro-Mechanics has received over 20 awards in recognition of its high standards of corporate governance, quality of disclosure, transparency and investor relations.

# MISSION STATEMENT

Our mission is to provide our customers with "*Perfect Parts and Tools, On Time, Every Time*", based on scalable, repeatable and cost-effective manufacturing processes.

# CONTENTS



*The design of the annual report cover is contributed by Ms. Clara Liu of Micro-Mechanics' R&D department*

# CHAIRMAN'S STATEMENT

## Dear stakeholders,

On behalf of our Board of Directors, I am pleased to report that Micro-Mechanics achieved record revenue and net profit for the 12 months ended 30 June 2017 ("FY2017"). This performance was due to our relentless focus on operational improvements and the improving market conditions in the global semiconductor industry since the start of 2017.

In FY2017, the Group's net profit increased 24.2% to S$14.8 million as a result of revenue growing 11.7% to S$57.2 million, better gross profit margin and a tight rein on expenses. The Group remained in a healthy financial position with S$23.4 million in cash and zero bank borrowings as at 30 June 2017.

In the following pages of this Annual Report, our Executive Management has provided a clear and detailed review of the Group's financial and operational performance during FY2017.

Since listing on the Singapore Exchange in 2003, we have consistently rewarded our shareholders for their support of the Group and in September 2015, this was underlined by our declaration of a dividend policy. Subject to approval at the upcoming Annual General Meeting on 30 October 2017, we plan to distribute a final dividend of 4.0 cents per share and a special dividend of 1.0 cent per share on 17 November 2017.

Together with the interim dividend of 3.0 cents per share, this will bring total dividends for FY2017 to 8.0 cents per share compared to 6.0 cents for FY2016. Including these final and special dividends, the Group would have distributed a total of 53.9 cents per share which is equivalent to a return of nearly 300% for shareholders who purchased Micro-Mechanics shares at our Initial Public Offer.

Transparency and good governance makes for accurate, complete and timely information which is the foundation for sound decision making – not just for investors – but for everyone from the board room to the shop floor.

We are therefore encouraged that Micro-Mechanics continues to receive wide recognition for our high standards of corporate governance and quality of disclosure, corporate transparency and communications with investors. To date, the Group has received more than 20 awards for good corporate governance, transparency and investor relations practices.

At the Singapore Corporate Awards (SCA) 2017 on 18 July 2017, the Group won Gold Awards for Best Managed Board and Best Investor Relations in the "less than $300 million market capitalisation" category. These were the fourth and seventh times that the SCA has recognised Micro-Mechanics for our board management and Investor Relations practices respectively.

In the Singapore Governance and Transparency Index (SGTI) released on 2 August 2017, Micro-Mechanics received a score of 92 points to rank 19th out of 606 companies listed on the Singapore Exchange, a significant achievement as the top 20 companies are mainly companies with large capitalisation. In recognition, the Group received a Special Commendation Award for companies in the small capitalisation category at the Singapore Governance and Transparency Forum 2017 on 1 August 2017.

In an increasingly complex world with swiftly changing landscapes, continued good governance and transparent practices require vigilance and unceasing active endeavour. 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.

In our continuous drive towards operational improvements, we shall not lose sight of the need for sustainable growth that creates value for all stakeholders. In the pages that follow, our Executive Management has provided an outline of our key operating strategies.

In closing, I would like to thank my fellow board members for their sound judgement and practical advice. On behalf of the Board, I would like to convey our appreciation to all the Group's employees for their commitment, efforts and invaluable contributions. We also wish to thank our customers, business partners and suppliers for their continued support and patronage of Micro-Mechanics.

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

**Sumitri Menon**
**Independent Non-Executive Chairman**

# EXECUTIVE MANAGEMENT REPORT

## To all our stakeholders,

During the 12 months ended 30 June 2017 ("FY2017"), we continued to see the benefits of focusing relentlessly on our mission of providing our customers in the semiconductor industry with *Perfect Parts and Tools, On Time, Every Time*. Together with our efforts to develop automated, cost-effective and repeatable processes and build a corporate culture that fosters innovative and effective decision making by our people at all levels, the Group reported a 24.2% jump in net profit to S$14.8 million in FY2017.

Indeed, during the last three months of FY2017 ("4Q17"), the Group achieved record quarterly results as net profit jumped 60.9% to S$4.6 million while revenue increased 19.5% to S$15.4 million compared with the same quarter a year ago.

Although it is still early, we believe the Group is also starting to benefit from the difficult decision we made at the beginning of FY2017 to end our efforts to build a separate division at our plant in the USA ("MMUS") geared to making parts for equipment makers in the semiconductor, aerospace, laser and other high-technology industries. After aligning the engineering and investment efforts of MMUS with the Group's core business of manufacturing process-critical parts and tools primarily for the semiconductor industry, our USA plant made steady progress in every quarter of FY2017.

In 4Q17, MMUS registered revenue of S$2.9 million, an increase of 55.8% over the same period a year ago and a profit of S$0.2 million. Although MMUS incurred a full-year loss of S$0.6 million, this included non-cash depreciation expenses of S$1.4 million and engineering expenses of S$1.8 million. Based on this common industry focus, improving operating results and data from the Semiconductor Industry Association showing robust worldwide chip sales during the first six months of 2017, we believe the Group is well positioned to benefit from what might be a prolonged period of industry growth as semiconductors become increasingly used in nearly every aspect of modern life.

For FY2017, the Group's revenue increased 11.7% to S$57.2 million. While growing our top line and the value we create for customers remain key priorities, we have also been working tirelessly to improve our gross profit ("GP") margin by focusing on various strategies, such as *24/7 Machining*, IT automation and department integration to improve efficiency and operational effectiveness. Based on these and other efforts, our GP margin improved to 57.4% in FY2017 from 56.9% in FY2016.

Similarly, we worked diligently throughout the year to keep a tight rein on overhead expenses. Despite escalating cost pressures, our total distribution, administrative and other expenses including other income increased by just 6.8% during the year to S$14.4 million. Indeed, when measured as a percentage of sales, the Group's overhead expenses declined to 25.1% from 26.2% in FY2016.

About five years ago we began to implement *24/7 Machining* and other strategies to improve the quality, cost and efficiency of our operations. At that time, we employed just over 600 people. As we continue to transition to round-the-clock production, we have reduced our manpower requirements especially for hard-to-hire skilled personnel. Although we added 34 people during the year, we ended FY2017 with a total headcount of 465 great people. We intend to continue automating our operations and improving our processes.

As we start FY2018, the Group continues to be in a strong financial position. As at 30 June 2017, our balance sheet had total assets of S$65.6 million, shareholders' equity of S$54.8 million, cash and cash equivalents of S$23.4 million and no bank borrowings.

With China continuing to develop into a major center for global chip manufacturing, we remain focused on building an operation there capable of fast, effective and local support. During FY2017, the Group's sales in China increased 4% to S$14.8 million. At 26% of Group sales, China remains our largest geographical market.

Revenue from Malaysia increased 12% to S$11.9 million in FY2017. With a sales contribution of 21%, it is our second-largest geographical market. Together with the USA (16%), Taiwan (9%), The Philippines (9%) and Singapore (8%), these six countries represent nearly 90%

of the Group's business. As such, with factories in China, Malaysia, The Philippines, Singapore, the USA, and our sales office in Taiwan, the Group is well-positioned to provide fast, effective and local support to our customers in these major market areas.

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

In response to strong semiconductor sales, the World Semiconductor Trade Statistics (WSTS) on 6 June 2017 raised its 2017 sales growth forecast for a second time to 11.5% from 6.5% previously. While this would be a welcome change from the sluggish industry conditions witnessed during 2016, the semiconductor industry is being increasingly driven by price-sensitive consumer applications. As such, we expect continued price and cycle-time pressures from our customers. Together with rising costs and a shortage of skilled workers, the operating environment for the Group is expected to remain challenging.

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

To be successful over the long-term, it is essential for our people at all levels to understand, embrace and act in ways that are consistent with our vision, mission, goals, strategies and core values. We intend to keep learning how to better harness the enormous potential of every person at Micro-Mechanics to make better decisions, be more effective and thereby enhance the value we create for our customers and other stakeholders.

To support this aim, we have been running a training program called *MM University* for several years. Through a series of workshops, our initial goal was to help our people understand the need to have a shared framework for making more informed and aligned decisions.

During the last few years, we have learned that it takes more than workshops to build an effective decision-making framework and culture. The training material also needs to be easy for our people at all levels to understand and reference in their daily work and decision making. To this end, we completed the Group's second textbook during FY2017. This textbook is designed to clearly explain the fundamentals of our repeatable, scalable and cost-effective manufacturing methodology which we refer to as *24/7 Machining*. Ultimately, we want everyone at Micro-Mechanics to have the tools that they can refer to and use every day as they make decisions, take actions and help us build a great company.

## Appreciation

In closing, we would like to express our appreciation to all of our people at Micro-Mechanics for their vision, teamwork and tireless commitment. Indeed, as one of our core values says: *People Make Everything Happen!*

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

**Christopher Reid Borch**
Chief Executive Officer

**Low Ming Wah**
Chief Operating Officer

**Chow Kam Wing**
Chief Financial Officer

# AWARDS AND ACCOLADES



Since becoming a public company in 2003, Micro-Mechanics has received consistent recognition for our efforts to practice sound corporate governance and transparency.

In 2017, we received Gold Awards for Best Managed Board and Best Investor Relations at the Singapore Corporate Awards. The Group was also presented with a Special Commendation Award under the small-cap company category at the Singapore Governance and Transparency Forum 2017 held on 1 August 2017. This was in conjunction with the latest scores and corporate governance rankings of the Singapore Governance & Transparency Index (SGTI) for companies listed on the Singapore Exchange. In the SGTI 2017, Micro-Mechanics achieved a score of 92 points to rank 19th out of 606 companies.

The Group has an Investor Relations policy which can be found in the Corporate Governance section of this Annual Report.

## SINGAPORE CORPORATE AWARDS

| | |
|---|---|
| 2017 | Gold Award – Best Managed Board<br>Gold Award – Best Investor Relations |
| 2016 | Silver Award – Best Managed Board |
| 2015 | Silver Award – Best Managed Board<br>Silver Award – Best Investor Relations |
| 2014 | Silver Award – Best Investor Relations |
| 2013 | Silver Award – Best Investor Relations |
| 2012 | Gold Award – Best Managed Board<br>Silver Award – Best Investor Relations |
| 2011 | Silver Award – Best Investor Relations |
| 2010 | Bronze Award – Best Investor Relations |
| 2008 | Chief Financial Officer of the Year (Sesdaq) |

*(For the category of companies with market capitalization of less than S$300 million)*

## INVESTORS' CHOICE AWARDS – SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

| | |
|---|---|
| 2016 | Singapore Corporate Governance Award (Mid and Small Cap)<br>Most Transparent Company (Information Technology) |
| 2015 | Most Transparent Company (Mainboard Small Caps) |
| 2011 | Most Transparent Company (Mainboard Small Caps) |
| 2010 | Most Transparent Company (Mainboard Small Caps) |
| 2009 | Most Transparent Company (Mainboard Small Caps) |
| 2008 | Most Transparent Company (Mainboard Small Caps) |
| 2006 | Corporate Governance Award (Sesdaq) |
| 2005 | Most Transparent Company (Sesdaq) |

## ASIAMONEY CORPORATE GOVERNANCE POLL

| | |
|---|---|
| 2010 | Best for Shareholders' Rights and Equitable Treatment in Singapore |
| 2009 | Best for Shareholders' Rights and Equitable Treatment in Singapore |

## FORBES

| | |
|---|---|
| 2006 | Asia 200 Best Under A Billion Companies |

# FINANCIAL HIGHLIGHTS

## INCOME STATEMENT SUMMARY

**Financial year-end 30 June**

| (S$ million) | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
|---|---|---|---|---|---|
| Revenue | 39.2 | 43.9 | 52.2 | 51.3 | **57.2** |
| Gross Profit | 19.2 | 22.2 | 28.7 | 29.1 | **33.0** |
| Profit Before Tax | 6.9 | 9.7 | 15.4 | 15.7 | **18.5** |
| Net Profit | 5.1 | 7.7 | 12.0 | 11.9 | **14.8** |
| EPS (cents) | 3.7 | 5.6 | 8.7 | 8.6 | **10.6** |
| Weighted average number of shares in issue | 139,031,881 | 139,031,881 | 139,031,881 | 139,031,881 | **139,031,881** |

## BALANCE SHEET SUMMARY

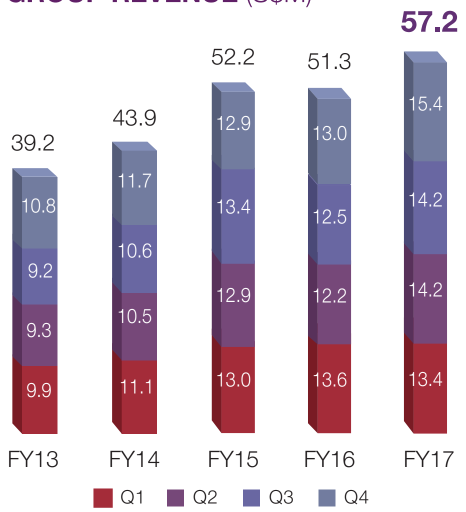
| (S$ million) | As at 30 June 2016 | As at 30 June 2017 |
|---|---|---|
| Total Non-Current Assets | 25.6 | **26.6** |
| Total Current Assets | 33.7 | **39.0** |
| Total Non-Current Liabilities | 1.6 | **1.7** |
| Total Current Liabilities | 7.5 | **9.1** |
| Shareholders' Equity | 50.2 | **54.8** |
| Cash and cash equivalents | 20.1 | **23.4** |
| Trade and other receivables (current) | 10.3 | **11.9** |
| Trade and other payables (current) | 5.9 | **7.8** |
| Short and Long-term Debt | 0.0 | **0.0** |
| NAV per share (cents) | 36.1 | **39.4** |

## KEY FINANCIAL RATIOS

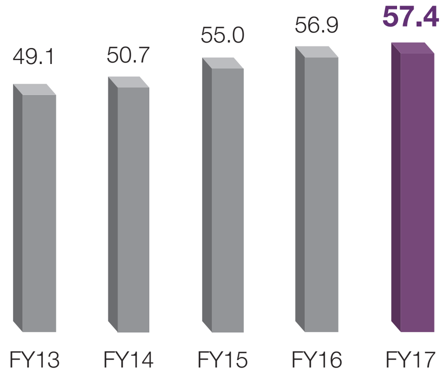
| | FY2016 | FY2017 |
|---|---|---|
| Gross Profit Margin | 56.9% | **57.4%** |
| Net Profit Margin | 23.2% | **25.8%** |
| Return on Equity | 23.7% | **27.0%** |
| Dividend Per Share | 6.0 cents | **8.0 cents** |
| Dividend Payout | 70.2% | **75.3%** |

# FINANCIAL HIGHLIGHTS

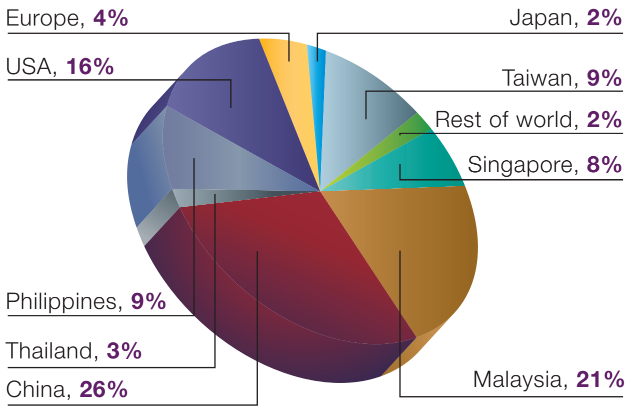
## GROUP REVENUE (S$M)



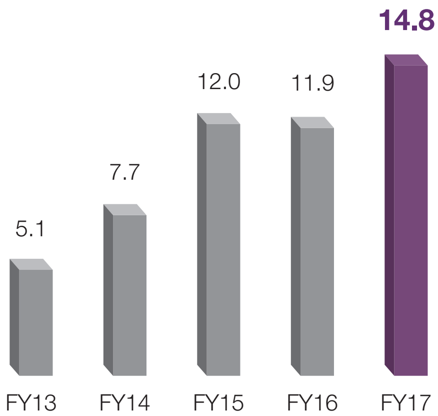

## GROUP GROSS PROFIT MARGIN (%)



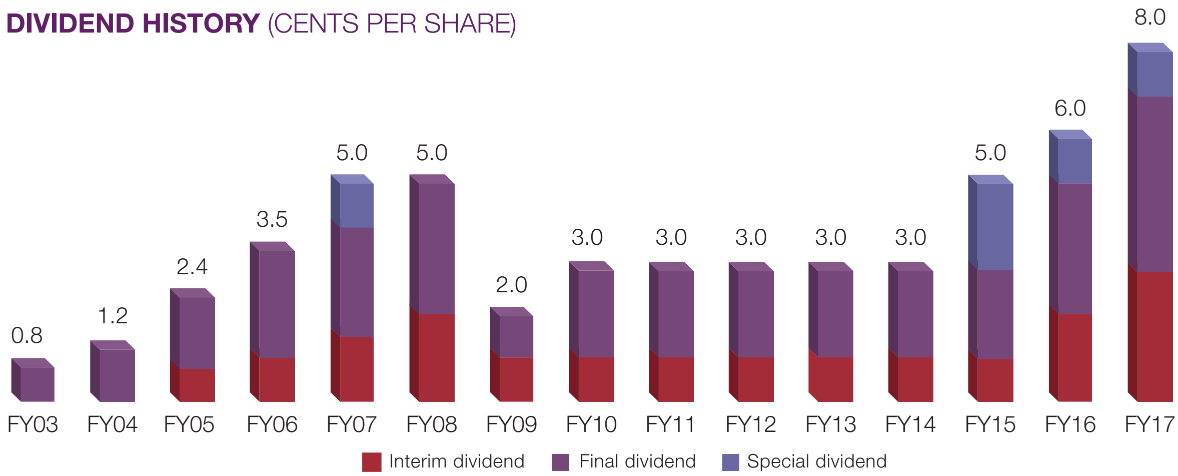

## REVENUE BREAKDOWN BY GEOGRAPHICAL MARKET (FY2017)




## GROUP NET PROFIT (S$M)




## DIVIDEND HISTORY (CENTS PER SHARE)



# BOARD OF DIRECTORS

## Sumitri Mirnalini Menon @ Rabia
Independent Non-Executive Chairman

Ms. Menon is an advocate and solicitor and has been practicing as a lawyer since 1982. She is currently with Menon and Co and was previously a partner with Jansen Menon and Lee. Ms. Menon graduated from the National University of Singapore with a Bachelor of Laws (Honours). She is a Commissioner For Oaths and a Notary Public and member of the Singapore Institute of Directors.

## Christopher Reid Borch
Founder & Chief Executive Officer

Mr. Borch has over 35 years of engineering, manufacturing and management experience in the semiconductor industry, including 17 years living and working in Asia. Prior to founding Micro-Mechanics in 1983, Mr. Borch held positions with several leading makers of automatic assembly equipment including Kulicke & Soffa, Inc. Mr. Borch earned his undergraduate degree from Furman University and an MBA from The Wharton School at the University of Pennsylvania. A life-long competitive runner, Mr. Borch is a director of the United States Track and Field Federation Foundation, a unit of the national governing body for athletics in the U.S.

## Low Ming Wah
President & Chief Operating Officer

Mr. Low joined Micro-Mechanics in 1989 as the company's first engineer. During his career at Micro-Mechanics, Mr. Low has held key engineering, manufacturing and management positions. Prior to joining Micro-Mechanics, Mr. Low held engineering and design positions with General Electric and Siemens. Mr. Low received his Diploma in Mechanical Engineering from Singapore Polytechnic and an MBA from the University of Hull, UK. He has over 35 years of experience in the semiconductor and precision engineering industry.

Currently, Mr. Low is Council Member and Chairman of the Singapore Precision Engineering & Technology Association (SPETA). Mr. Low is also the member of the SMEC Internationalization Sub-committee under Singapore Business Federation and member for FEC Manufacturing Sub-committee under EDB. He is also a member of Singapore Institute of Directors. In 2012, Mr. Low established a bursary fund with the Singapore Polytechnic Graduate Guild Endowment to support students in need of financial assistance. Mr. Low is also the Distinguished Patron for Loving Heart Multi-Service Centre that serves the residents and needy students. In 2015, Mr. Low established a Study Grant with the Singapore Institute of Technology to be given to deserving and financially disadvantaged full-time undergraduates of the institute. In 2017, Mr. Low established a scholarship with Singapore University of Technology and Design to promote meritocratic access to education and provide opportunities to students with demonstrated financial need.

## Chow Kam Wing
Chief Financial Officer
& Company Secretary

Mr. Chow joined Micro-Mechanics in 1996 and played the key role for the Company's IPO on SGX in 2003 and business expansion in the region. Prior to joining Micro-Mechanics, Mr. Chow has more than 15 years working experience in auditing and accounting in Hong Kong.

Currently, Mr Chow is Committee Member of the Corporate Governance Committee of Institute of Singapore Chartered Accountants (ISCA). He was Audit Committee Member of Singapore Chinese Orchestra (2013- 2017), Committee Member of CFO Committee of ISCA (2008- 2014) and an Advisory Council Member of Singapore CFO Institute under Singapore Accountancy Commission (2015- 2017).

Mr. Chow is a fellow Member of CPA Australia and Member of Institute of Singapore Chartered Accountants and Hong Kong Institute of Certified Public Accountants. He received his MBA from the University of Wales in the United Kingdom.

In February 2008, Mr. Chow was recognized as the Chief Financial Officer of the Year at the Singapore Corporate Awards.

# BOARD OF DIRECTORS

**Girija Pande**
Independent Director

Mr. Girija Pande is Chairman of Apex Avalon Consulting Pte Ltd, a Singapore-based JV company that provides Strategy Consulting services to businesses in Asia Pacific. Avalon Consulting group with 1600 FTE was ranked in the top 10 Consultancies in APAC.

Mr. Pande has over three decades of experiences in senior positions with ANZ Banking Group and Tata Consultancy Services (TCS) Ltd, a global IT company where he spent the last 11 years. In his last role as Chairman of TCS, Mr. Pande grew its APAC business from scratch to over 11,000 associates in 14 countries. He was conferred the best CEO award from Singapore HR Institute. Mr. Pande was also Vice Chairman of TCS' joint-venture with the Chinese Government and instrumental in building the business to over 2,500 associates in six cities in China. Mr. Pande served as Economic Advisor to the Mayor of Guangzhou. He was council member for the Singapore Government's high powered Manpower Council set up by the Infocom Development Authority and served on the Advisory Board of Singapore Management University, the boards of Singapore International Chamber of Commerce, Institute of South Asian Studies and National Council of Social Services and is a Trustee of SINDA. Mr. Pande holds a Bachelor degree in Mechanical Engineering and MBA from the Indian Institute of Management.

**Lai Chin Yee**
Independent Director

Ms. Lai was appointed as our Independent Director on 1 June 2014. She has more than 30 years of experience in areas including auditing, taxation, finance and accounting and is currently the Finance Director of Qian Hu Corporation Limited, a company listed on the Singapore Exchange Securities Trading Limited ("SGX-ST"). Prior to her current job, Ms. Lai was an auditor with international accounting firms from 1987 to 2000. She is also the Lead Independent Director of Ryobi Kiso Holdings Ltd since December 2009 and was the Lead Independent Director of China Sports International Limited from June 2007 to April 2015. Both companies are listed on the SGX-ST.

Ms. Lai was appointed by the Ministry of Finance as a member of the Tax Advisory Committee from September 2004 to September 2006. She also served as a council member of the Council on Corporate Disclosure and Governance from December 2006 to August 2007 and was a member of the CFO Committee of the Institute of Singapore Chartered Accountants from 2009 to 2012.

Ms. Lai graduated with a Bachelor degree in Accountancy from the National University of Singapore. She is a Fellow of the Institute of Singapore Chartered Accountants and a member of the Singapore Institute of Directors. In 2009, Ms. Lai was named the Chief Financial Officer of the Year (for companies listed on the SGX-ST with less than $300 million in market capitalisation) at the Singapore Corporate Awards.

# EXECUTIVE OFFICERS

### SINGAPORE
Micro-Mechanics Pte Ltd
Mr. Neo Say Chow (Manufacturing Manager)

### MALAYSIA
Micro-Mechanics Technology Sdn. Bhd.
Mr. Tan Beng Lim (General Manager)

### PEOPLE'S REPUBLIC OF CHINA
Micro-Mechanics Technology (Suzhou) Co. Ltd.
Mr. Shen Zi Quan (Deputy General Manager)

### THE PHILIPPINES
Micro-Mechanics Technology International, Inc.
Mr. Richie Manuel (Factory Manager)

### THE UNITED STATES
Micro-Mechanics, Inc.
Mr. Colin Wojno (Factory Manager)

# FINANCIAL CONTENTS

# CORPORATE INFORMATION

**Board of Directors**
**Sumitri Mirnalini Menon @ Rabia**
*Independent Non-Executive Chairman*
First appointed: 16 May 2003
(Email: smenon@micro-mechanics.com)
(re-appointed on 28 October 2015)

**Christopher Reid Borch**
*Executive Director*
First appointed: 25 June 1996
(Email: cborch@micro-mechanics.com)
(re-appointed on 27 October 2014)

**Low Ming Wah**
*Executive Director*
First appointed: 25 June 1996
(Email: mwlow@micro-mechanics.com)
(re-appointed on 28 October 2016)

**Chow Kam Wing**
*Executive Director*
First appointed 20 January 2003
(Email: kamchow@micro-mechanics.com)
(re-appointed on 28 October 2015)

**Girija Prasad Pande**
*Independent Director*
First appointed: 10 September 2009
(Email: gpande@micro-mechanics.com)
(re-appointed on 28 October 2016)

**Lai Chin Yee**
*Independent Director*
First appointed: 1 June 2014
(Email: laicy@micro-mechanics.com)
(re-appointed on 27 October 2014)

**Audit Committee**
Lai Chin Yee
*Chairman*
Sumitri Mirnalini Menon @ Rabia
Girija Prasad Pande

**Nominating Committee**
Sumitri Mirnalini Menon @ Rabia
*Chairman*
Girija Prasad Pande
Lai Chin Yee

**Remuneration Committee**
Girija Prasad Pande
*Chairman*
Sumitri Mirnalini Menon @ Rabia
Lai Chin Yee

**Risk Management Committee**
Lai Chin Yee
*Chairman*
Girija Prasad Pande
Sumitri Mirnalini Menon @ Rabia
Low Ming Wah
Chow Kam Wing

**Company Secretary**
Chow Kam Wing
Certified Public Accountant
(Singapore)

**Registered Office**
Company No.: 199604632W
31 Kaki Bukit Place
Eunos Techpark
Singapore 416209
Tel: 65-6746-8800
Fax: 65-6746-7700

**Share Registrar &**
**Share Transfer Office**
M & C Services Private Limited
112 Robinson Road
#05-01
Singapore 068902

**Auditors**
KPMG LLP, Certified Public Accountant
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581
Partner-in-charge: Yeo Lik Khim
(appointed since Financial Year 2017)

**Internal Auditors**
Nexia TS Risk Advisory Pte Ltd
100 Beach Road
#30-00 Shaw Tower
Singapore 189702

**Principal Banker**
DBS Bank Ltd
12 Marina Boulevard
DBS Asia Central
Marina Bay Financial Centre Tower 3
Singapore 018982

**Investor Relations Consultant**
Octant Consulting
7500A Beach Road
#04-329 The Plaza
Singapore 199591
Tel: 65-6296-3583
Email: herman@octant.com.sg/
lisa@octant.com.sg

# CORPORATE GOVERNANCE

The Board of Directors and management of Micro-Mechanics (Holdings) Ltd. (the "**Company**") are committed to a high standard of corporate governance and transparency and to the protection of shareholders' interests. The Company's corporate governance policies and processes are in line with the revised Code of Corporate Governance (the "**Code**") released by the Council on Corporate Disclosure and Governance in May 2012. Explanations will be provided for non-compliance.

This report describes the Company's corporate governance policies and processes for the financial year ended 30 June 2017 ("**FY2017**") with specific reference to specific guidelines in the Code.

**HIGHLIGHTS**
In the latest Singapore Governance and Transparency Index (GTI) 2017 released on 2 August 2017, Micro-Mechanics ranked 19th (27th in 2016) out of 606 companies listed on the Singapore Exchange

**GENERAL**
***Question:*** *(a) Has the Company complied with all the principles and guidelines of the Code? If not, please state the specific deviations and the alternative corporate governance practices adopted by the Company in lieu of the recommendations in the Code.*

*(b) In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines in the Code?*

The Company has complied with most of the principles and guidelines of the Code. Explanations will be provided for non-compliance in this statement.

**BOARD MATTERS**

**The Board's Conduct on Affairs**
**Board, Composition and Guidance**

***Guideline 2.1***
***Question:*** *Does the Company comply with the guideline on the proportion of independent directors on the Board? If not, please state the reasons for the deviation and the remedial action taken by the Company.*

The Board comprises six Directors, three of whom are independent and non-executive directors and three are executive directors. The particulars of the directors are set out on pages 7 and 8. The directors are not related to one another.

***Guideline 2.5***
In view of the scope and nature of the operations of the company and requirements of the business, the Board thinks that the number of Directors on the Board has been appropriate.

***Guideline 1.1***
The Board believes that its primary role is to protect and enhance long-term shareholder value. To this end, it sets the overall strategy for the Company and its subsidiaries (collectively, the "**Group**") and oversees management. To fulfill this objective, the Board takes responsibility for implementing and maintaining sound corporate governance practices for the Group. The Board provides leadership, sets strategic direction, establishes a framework of prudent and effective controls, risk policies and procedures and requires goals from management as well as monitors the achievement of those goals.

# CORPORATE GOVERNANCE

The Board encourages stakeholder engagement by identifying the key stakeholder groups and understanding their perspectives on the company especially sustainability issues. Setting high ethical standards for all levels within the company is the Board's priority.

***Guideline 1.2***
All directors must objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the company.

***Guideline 1.3***
To assist in the execution of its responsibilities, the Board has established the following committees, namely an Audit Committee, a Nominating Committee, a Remuneration Committee and a Risk Management Committee. These committees are chaired by independent and non-executive directors and function within clearly defined terms of reference and operating procedures. The Board and the Committees meet regularly and, if necessary, on an ad hoc basis.

***Guideline 1.4***
To facilitate the ease, frequency and speed of Board meetings, the Company's Articles of Association allow Board members to attend meetings via any electronic or telegraphic methods of simultaneous communication including tele-conference.

***Guideline 1.5***
***Question:*** *What are the types of material transactions which require approval from the Board?*

The Board regularly reviews all matters within its purview including but not limited to business strategies, development plans and the performance of the Group. Reviews are also made of the annual budget, announcements of financial results, annual reports, performance bonus incentives and any acquisition or disposal of material assets. There are comprehensive internal guidelines on matters that require the Board's approval, such as changes in the Company's constitution and structure, material capital commitments, commencing and defending litigation etc. These guidelines were approved by the Board and reviewed annually.

***Guideline 1.6***
***Question:*** *(a) Are new directors given formal training? If not, please explain why.*

*(b) What are the types of information and training provided to (i) new directors and (ii) existing directors to keep them up-to- date?*

The Board recognizes the importance of appropriate orientation training and continuing education for its directors. Newly appointed directors are fully briefed as to the business activities of the Group and its strategic directions. Newly appointed directors receive a formal letter explaining their statutory duties and responsibilities as a director.

The directors are also updated in a timely manner on regulatory changes which have a bearing on the Company and the directors' obligations towards the Company.

With effect from 1 July 2010, all directors are encouraged to obtain at least 8 hours continuing education each financial year by way of seminars, courses, and other programs relating to the discharge of their duties as directors. In addition, independent directors are encouraged to visit one or more of the Group's facilities outside Singapore and attend in-house training programs offered by the Group to its employees in order to more fully understand the Group's business and day-to-day operations.

The Company is prepared to undertake funding for such continuing education. During FY2017, all directors met the continuing education target.

# CORPORATE GOVERNANCE

### Attendances and number of meetings

***Guideline 1.4***
The following table shows the number of meetings held and directors' attendances during the financial year under review:

| | Board | Audit Committee | Remuneration Committee | Nominating Committee | Risk Mgt committee | AGM |
|---|---|---|---|---|---|---|
| **Number of meetings held** | 5 | 5 | 4 | 1 | 4 | 1 |
| **Directors:** | | | | | | |
| | | | **Number of Meetings Attended** | | | |
| Christopher Reid Borch | 5 | NA | NA | NA | NA | 1 |
| Low Ming Wah | 5 | NA | 1* | NA | 4 | 1 |
| Chow Kam Wing | 5 | 5** | 4** | 1** | 4 | 1 |
| Sumitri Mirnalini Menon @ Rabia | 5 | 5 | 4 | 1 | 4 | 1 |
| Girija Prasad Pande | 4 | 5 | 3 | 1 | 3 | 1 |
| Lai Chin Yee | 5 | 5 | 4 | 1 | 4 | 1 |

NA – not applicable as the director is not a member of the Committee
* – attendance by invitation of the Committee
** – attendance as Secretary of the Committee

### Separation of the roles of Chairman and Chief Executive Officer

***Guideline 3.1 and 5.3***
Ms Sumitri Mirnalini Menon @ Rabia is the non-executive chairman of the Board of Directors and Mr. Christopher Borch is the chief executive officer of the Group. The chairman, the CEO and the executive directors are not related to one another.

The major responsibilities of the non-executive chairman are:

– to ensure that Board meetings are held when necessary to enable the Board to perform its duties and facilitate the Company's operations;

– to set Board meeting agendas in consultation with the company secretary and the executive directors;

– to review all Board papers;

– to provide adequate, timely and relevant materials and Board papers to the Board members to help to ensure the quality, quantity and timeliness of the flow of information between management and the Board;

– to ensure the Company practices effective communications with shareholders;

– to assist in ensuring compliance with the Company's guidelines on corporate governance;

– to propose new members to be appointed to the Board with consultation with the NC or seek the resignation of directors.

# CORPORATE GOVERNANCE

As chief executive officer, Mr. Borch has overall responsibility for the management and daily operation of the Group and is supported by the executive directors and executive officers. The separation of the chairman and chief executive officer roles enables Mr. Borch to focus on his executive duties including the Group's strategic planning and operations.

**Board Membership and Performance**

***Guideline 4.1***
The Nominating Committee ("**NC**") has three members, all of whom are independent and non-executive directors. The members are:

Chairman: Sumitri Mirnalini Menon @ Rabia
Member: Girija Pande
Member: Lai Chin Yee

The NC makes recommendations to the Board on all board appointments and re-appointments. The NC aids the Board in obtaining an appropriate mix of relevant knowledge and experience among Board appointees.

***Guideline 2.6***
***Question:*** *(a) What is the Board's policy with regard to diversity in identifying director nominees?*

*(b) Please state whether the current composition of the Board provides diversity on each of the following – skills, experience, gender and knowledge of the Company, and elaborate with numerical data where appropriate.*

*(c) What steps has the Board taken to achieve the balance and diversity necessary to maximize its effectiveness?*

To ensure an independent Board, the Board makes sure that Board members are not related to each other. Half of the Board are independent and non-executive directors including the Chairman of the Board and all Committees are chaired by independent and non-executive directors. The Board does not have a formal Board diversity policy but being mindful that diversity is desirable for its better functioning, the Board comprises a diversity of members in terms of their competency, expertise, background, races, gender and nationalities which the Board believes has led to sounder decision making with different perspectives and insights.

The Board is satisfied with its current composition of six members, three of whom are independent and non-executive directors and three executive directors. The independent directors have diverse backgrounds being a lawyer, a Chief Financial Officer of a listed company and a management consultant who was a former member of the senior management of a reputable global organisation. There are three nationalities and one third of the members are female. For additional information on our members, please refer to pages 7 and 8.

# CORPORATE GOVERNANCE

***Guideline 4.6***
***Question:*** Please describe the board nomination process for the Company in the last financial year for (i) selecting and appointing new directors and (ii) re-electing incumbent directors.

The NC's process for identifying and selecting candidates for the Board (whether in the event of a vacancy or to add to the Board) has been and is as follows. The Board sets selection criteria based on the desired complementary skill set i.e. managerial, technical, financial, legal etc expertise and experience in a similar or related industry. The NC shall have recourse to both internal sources as well as external sources to draw up a list of potential candidates. Internal sources include the Company's own directors and management. External sources include the Company's auditors, its secretarial services providers, its human resource consultants, the Singapore Institute of Directors, the Register of Women Directors and Securities Investors Association of Singapore, etc. Interviews shall be conducted by the NC and short-listed candidates are recommended to the Board for consideration.

Regarding re-electing incumbent directors, the Board will comply with the Company's Articles of Association requiring one-third of our directors to retire and subject themselves to re-election by shareholders at every AGM. After taking into account their contribution and performance, the NC will recommend the Board re-nominate the retired directors for re-appointment at the forthcoming AGM.

Each member of the NC abstains from voting on any resolutions and making any recommendation and/or participating in respect of matters in which he or she is interested.

***Guideline 5.1***
***Question:*** *(a) What was the process upon which the Board reached the conclusion on its performance for the financial year?*

*(b) Has the Board met its performance objectives?*

The NC is charged with carrying out an annual Board appraisal. Briefly, the process followed is for each Board member (executive and non-executive) to complete an evaluation form within a stipulated period. The completed form is returned by each member to the chairman of the NC who compiles a consolidated report after discussion with the NC members.

The NC's report and any recommendation are then tabled for discussion by the whole Board. The Board takes this evaluation process seriously. The evaluation form and process have been designed to obtain constructive feedback and initiate dialogue among Board members with a view to enhancing shareholder value, the effectiveness of the Board as a whole and the discharge of each Member's duties. The evaluation tracks and reviews quantitative as well as qualitative indicators to measure the Board's performance. Objective quantitative indicators include standard ones such as the performance of the Company's share price measured against the STI and its peers, dividend rates and capital efficiency indicators such as ROI etc. Qualitative governance indicators regarded cover the composition of the Board, its independence, processes, functioning, advisory and oversight functions, risk and crisis management protocols, compliance record and protocols, the discharge of its duties towards shareholders and the sufficiency and effectiveness of its committees. The contribution of each director to the effectiveness of the Board is tracked via their attendance at Board and Committee meetings.

# CORPORATE GOVERNANCE

***Guideline 4.2***
The NC's written terms of reference, which describe its major responsibilities, are:

- to make recommendations to the Board on the re-nomination of retiring directors standing for re-election at the Company's Annual General Meeting ("**AGM**"), having regard to the directors' contribution and performance;
- to determine annually whether or not an independent director is independent;
- to determine whether a director is able to and has been adequately carrying out his/her duties as a director of the Company;
- to ensure that disclosure of key information relating to directors is in the annual reports as required by the Code; and
- to decide how the Board's performance may periodically be evaluated against objective criteria.
- to review the board's succession plan, in particular, the roles of Chairman and CEO
- to develop a process for the evaluation of the Board's performance as a whole, that of its committees and if and when appropriate, its individual members.

***Guideline 4.4***
***Question:*** *(a) What is the maximum number of listed company board representations that the Company has prescribed for its directors? What are the reasons for this number?*

*(b) If a maximum number has not been determined, what are the reasons?*

*(c) What are the specific considerations in deciding on the capacity of directors?*

The NC also investigated each director's other board appointments and found their directorship in other companies had no relationship or conflict of interests to the Company. It is part of the NC's duties to review and ascertain whether any director who has multiple Board representations is able to and has been effectively carrying out his duties as a director in accordance with its internal guidelines in this regard and to ensure these guidelines remain relevant. All directors are required to formally declare their other Board representations.

On 1 May 2010, the Board resolved to limit each director to holding not more than FOUR directorships in listed companies including the Company. At the end of the financial year end it was confirmed that this restriction was complied with by all directors.

**Policy on the independence of independent directors**

The Company is committed to have a strong independent element on the Board and has adopted a policy and established a process to obtain and maintain the requisite degree of independent representation for good and sound governance. As prescribed by the policy, the process:

- Establishes the methodology the Board shall use to assess the independence of each independent director bearing in mind the definition of independence in the Code;

# CORPORATE GOVERNANCE

– Identifies the information that shall be collected from each independent director to make the assessment of independence; and

– Fixes the elements of disclosure to shareholders with regard to the assessment to be made, including the disclosure of any relationships and associations that may be perceived to affect the independence or objectivity of an independent director.

The process requires the NC to make a formal assessment and report to the Board their findings as to whether the independent directors are independent of management and independent in character and judgment and whether there are any business or other relationships that could materially affect or interfere with the exercise of objective, unfettered or independent judgment by the independent directors or the independent directors' ability to fulfill their mandate and duties. The Board's rigorous review of the process is an important element in this process as the NC itself comprises only independent directors. The key features of the process are briefly set out below.

On an annual basis, the NC shall require each independent director to complete, confirm and sign a Declaration of Independence, the content and form of which has been approved. Each declaration shall be reviewed by the other members of the NC. This forms the basis of the assessment. All relevant facts and circumstances shall be considered in making the assessment. Generally (but without limiting the scope of the factors which may be taken into account), in accordance with best practices, independence is, prima facie, established if the criteria set out below are met.

***Guideline 2.3***
A director is independent if he or she:

(a) is not employed by the Company or any of its related corporations for the current or any of the past three financial years;

(b) does not have close family ties to an executive director of the Company or any of its related corporations;

(c) does not have an immediate family member who is, or has been in any of the past three financial years, employed by the Company or any of its related corporations as a senior executive officer whose remuneration is determined by the RC;

(d) does not accept any compensation from the Company or any of its subsidiaries other than compensation for board service for the current or immediate past financial year;

(e) does not have an immediate family member who is accepting any compensation from the Company or any of its subsidiaries other than compensation for board service for the current or immediate past financial year;

(f) is not a substantial shareholder of or a partner in (with 10% or more stake), or an executive officer of, or a director of any for-profit business organization to which the Company or any of its subsidiaries made, or from which the Company or any of its subsidiaries received, significant payments (in excess of an aggregate of S$200,000 per annum) in the current or immediate past financial year;

(g) does not have an immediate family member who is a substantial shareholder of or a partner in (with 5% or more stake), or an executive officer of, or a director of any for-profit business organization to which the Company or any of its subsidiaries made, or from which the Company or any of its subsidiaries received, significant payments (in excess of an aggregate of S$200,000 per annum) in the current or immediate past financial year;

# CORPORATE GOVERNANCE

(h) has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the independent director's ability to act in the best interests of the Company; and

(i) does not have a relationship which would interfere, or be reasonably perceived to interfere with, the exercise of independent judgment in carrying out the functions of an independent director of the Company.

Independent directors are obliged to update the Board with any new information in relation to interests or relationships relevant to independence. The Board shall re-assess independence as and when any new interests or relationships are disclosed or come to light, as well as annually.

Following this process, the NC shall report to the Board, drawing to its attention in particular any failure to meet any of the above criteria and to any other relevant circumstances and the NC shall make recommendations. However, it is the Board's duty and prerogative to determine the sufficiency or otherwise of independence and to determine its composition. In accordance with best practices and the Code, the Board shall provide a justification if an appointee fails to meet any of the criteria above but the Board still considers the appointee an independent director.

The Board shall make the following disclosure to shareholders in the Company's annual report with regard to the matter of independent directors:

– The status of each of its members, that is whether each is an independent or non-independent director (and any change in status that occurred during the year) and their period of office.

– The justification for designating any member an independent director who fails to meet all of the criteria stated above or whose status requires an explanation for any reason.

– The policy and criteria mentioned above.

Independent and non-independent directors standing for re-election will be so identified in the Notice of Annual General Meeting. If the Board's assessment of a director's independence changes, that change will be disclosed immediately through an announcement on the Singapore Exchange website and the Company's website.

***Guideline 2.3***

***Question:*** *(a)* *Is there any director who is deemed to be independent by the Board, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him not to be independent? If so, please identify the director and specify the nature of such relationship.*

*(b)* *What are the Board's reasons for considering him independent? Please provide a detailed explanation.*

All of our independent director are deemed to be independent according the Code and the policy mentioned above.

Ms Sumitri Mirnalini Menon@Rabia, Mr. Girija Pande and Miss Lai Chin Yee have satisfied the criteria stipulated in the above policy and the Board is of the view they are in fact independent and non-executive directors. For key information relating to the directors, please refer to the particulars of the directors as set out on pages 7 and 8. The dates of first appointment and last re-appointment of each director are provided in the Corporate Information section on page 10.

# CORPORATE GOVERNANCE

***Guideline 2.7 and 2.8***
The roles of independent and non-executive directors are to constructively challenge the Management's proposed strategies and also review their performance in line with agreed goals. Chairman of the Board, Audit Committee (AC), Nominating Committee (NC), Remuneration Committee (RC) and Risk Management Committee are independent and non-executive directors to ensure its independence and objectivity. Members of AC, NC and RC are all independent and non-executive directors. Management and Executive Directors are invited for meetings only on a need basis.

***Guideline 4.7***
The Company's Articles of Association require one-third of our directors to retire and subject themselves to re-election by shareholders at every AGM. At the forthcoming AGM, Mr Christopher Reid Borch and Ms Lai Chin Yee will retire by rotation. Mr Borch and Ms Lai will be standing for re-election. After taking into account their contribution and performance the NC has recommended to the Board that Mr Borch and Ms Lai be re-nominated for re-appointment at the forthcoming AGM.

Each member of the NC abstains from voting on any resolutions and making any recommendation and/or participating in respect of matters in which he or she is interested.

***Guideline 2.4***
***Question:*** *Has any independent director served on the Board for more than nine years from the date of his first appointment? If so, please identify the director and set out the Board's reasons for considering him independent.*

The Board notes that Ms Sumitri Mirnalini Menon @ Rabia shall be serving as independent director for the fourteenth year. After careful deliberation, the Board (excluding Ms Sumitri Mirnalini Menon @ Rabia) is of the view that her length of service has not compromised her director's objectivity and her commitment and ability to discharge her duty as an independent director.

Ms Sumitri Mirnalini Menon @ Rabia has fulfilled all the criteria stipulated in Guideline 2.3 for an independent director. The Board also judged her independent in character and judgment and noted factors demonstrating continued independence such as expressions of frank, divergent and independent views at meetings, the complete absence of any other circumstances that might compromise independence and the absence of any evidence of a lack thereof. The Board is confident that Ms Sumitri Mirnalini Menon @ Rabia has the ability to continue exercising strong independent judgment in the discharge of her duties and has requested that she continue for the ensuing year. Ms Sumitri Mirnalini Menon @ Rabia has acceded to the Board's request.

## ACCESS TO INFORMATION

***Guideline 6.1***
***Question:*** *What types of information does the Company provide to independent directors to enable them to understand its business, the business and financial environment as well as the risks faced by the Company? How frequently is the information provided?*

The management supplies financial, marketing, human resource and asset management reports and financial highlights to the Board monthly. The Board receives quarterly financial reports with budget variance analysis. The Directors have separate, unfettered and direct access to the management team, the company secretary, the internal auditor and the external auditors and may also the Company's lawyers at all times.

# CORPORATE GOVERNANCE

Every quarter, there will be Board and Committee meetings at which the independent directors will meet with the management and are briefed and updated on the Company's business and finances and the business environment in which the Company operates and reviews and approves transactions according to set Internal Guidelines and the Listing Rules. The risk Management Committee holds quarterly meeting on matters relating risk governance. Full attendance at all meetings is encouraged.

***Guideline 6.2***
The Board and the Committees are furnished with complete, adequate and reliable board/committee papers and information in a timely manner prior to any meeting so as to facilitate directors in the proper and effective discharge of their duties. Detailed Board papers are prepared for each meeting of the Board and are normally circulated one week in advance of each meeting. The Board papers include sufficient information from management on financial, business and corporate issues to enable the directors to properly consider these matters before the Board at meetings. A budget variance report is also submitted to the Board every quarter. According to the Board evaluation, the Board members are satisfied with the arrangement and support from the company secretary.

***Guideline 6.3***
The company secretary attends and minutes all Board meetings. He assists with proper procedure and compliance with the Companies Act, the Company's Memorandum and Articles of Association and other applicable rules and regulations. The directors have full access to the company secretary with regard to any corporate issues.

***Guideline 6.4***
The appointment or the removal of the company secretary is subject to the approval of the Board.

**REMUNERATION MATTERS**

**Procedures for Developing Remuneration Policies**
**Level and Mix of Remuneration**

***Guideline 7.1***
The Remuneration Committee ("**RC**") has three members, all of whom are independent and non-executive directors.

The members are:

| | | |
|---|---|---|
| Chairman | : | Girija Pande |
| Member | : | Sumitri Mirnalini Menon @ Rabia |
| Member | : | Lai Chin Yee |

***Guideline 7.2***
The RC's written terms of reference which describe its major responsibilities, are:

– to make recommendations to the Board on the framework for remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind for the Board and key executives and to determine specific remuneration packages for each executive director;

# CORPORATE GOVERNANCE

– to review all benefits and long-term incentive schemes (including share schemes), whether directors should be eligible for benefits under long-term incentive schemes and compensation/remuneration packages for the Board and key executives;

– to review service contracts of the executive directors; and

– to review remuneration packages of employees who are related to any director or substantial shareholders.

**Principle 8 and 9**

***Guideline 9.6 and 8.4***

***Question:*** *(a) Please describe how the remuneration received by executive directors and key management personnel has been determined by the performance criteria.*

*(b) What were the performance conditions used to determine their entitlement under the short-term and long-term incentive schemes?*

*(c) Were all of these performance conditions met? If not, what were the reasons?*

The Company adopts a remuneration package for employees including executive directors, which is made up of fixed and variable components. The fixed component is the basic salary and the variable components are the Performance Bonus Incentive ("**PBI**") scheme, special bonus and the schemes mentioned below being the Sales Incentive scheme and the Performance Shares Plan.

For employees, the PBI is linked to the performance of the relevant subsidiary and its achievement of established targets approved by the Remuneration Committee such as profitability, sales turnover, assets management, human resource management, quality, customer services and delivery time etc. For executive directors, the PBI is linked to the performance of the Group and the achievement of the same established targets as the employees. The overall PBI is capped at 15% of profit before taxation and PBI. The Company also has a Sales Incentive scheme for its sales and marketing teams structured on pre-defined targets. Executive directors are not entitled to the Sales Incentive. During the financial year, most of the performance targets were met but there is still room for improvement on cycle time and quality in some subsidiaries.

Having reviewed and considered the variable components of the remuneration of the Executive Directors and the key management personnel, the RC is of the view that there is no necessity to institute contractual provisions to allow the Company to reclaim incentive components of their remuneration paid in prior years in the exceptional circumstances of a misstatement of financial results or of misconduct resulting in financial loss. The structure of the PBI though a meaningful incentive to performance is such that it is unlikely to be an incentive to short term thinking and the executive Directors and most of the key management personnel, being persons who have been in the service of the Company for considerable lengths of time, have contributed substantially to the growth of the Company since its IPO. Moreover, since its IPO in 2003, the Company has not been required to make any material prior year adjustments or to correct any misstatement of any aspects of its financial results.

# CORPORATE GOVERNANCE

***Guideline 9.5 and 8.2***
The Performance Shares Plan ("**Plan**") was approved by Shareholders on 30 October 2008. The main objectives of the Plan are as follows:

– to increase the Company's flexibility and effectiveness in its continuing efforts to reward, retain and motivate employees towards sustained superior work performance;

– to incentivize employees to excel in their performance and encourage greater dedication and loyalty to the Group;

– to supplement and enhance the remuneration packages of employees;

The life of the Plan is 10 years from the date approved by the shareholders and the Plan is administered by the Remuneration Committee. The total performance shares is not more than 5% of total issued share capital. All employees and directors are eligible for the Plan. The performance share is an integral part of the PBI as mentioned above. Payment of PBI to the employees and directors is either in form of cash or shares under the Plan.

During the year, no ordinary shares were issued to the employees or directors. The Remuneration Committee did not propose any performance share for FY2017.

As at 30 June 17, there were 57 employees, 3 executive directors and 2 independent non-executive directors holding company shares.

***Guideline 9.1***
Service contracts with the CEO, COO and CFO who are also executive directors are renewable every two years and the notice period in each of the service contracts is three months. There are no onerous clauses or 'golden handshake' provisions in connection with termination. There are no termination, retirement and post- employment benefits that are granted to the executive directors, the CEO and the key management personnel. These service contracts are subject to the review and approval of the Remuneration Committee. An over-riding principle of our remuneration policy is that no director is involved in deciding his own remuneration.

**Disclosure of Remuneration**
The Board supports and is keenly aware of the need for transparency. However, after deliberation and debate, the Board is of the view that full disclosure of the specific remuneration of each executive director, the CEO and the key management personnel is not in the best interests of the Company and therefore shareholders. Inter alia, the Board took into account the very sensitive nature of the matter, the relative size of our Company, the competitive business environment we operate in and the irrevocable negative impact such disclosure would have on the Company.

# CORPORATE GOVERNANCE

***Guideline 9.2***

***Question:*** *Has the Company disclosed each director's and the CEO's remuneration as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance- related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?*

The breakdown of the level and mix of remuneration of each Director and the key executives in FY2017 is as follows:

**Remuneration of Directors**

| Remuneration band & name of Director | Director's fee | Salary | Bonus | Allowances/ Benefits | Total |
|---|---|---|---|---|---|
| S$750,000 to S$1,000,000 | | | | | |
| Christopher R. Borch | 5% | 43% | 52% | 0% | 100% |
| Low Ming Wah | 5% | 42% | 51% | 2% | 100% |
| Chow Kam Wing | 5% | 42% | 51% | 2% | 100% |

| Remuneration band & name of Director | Director's fee | Salary | Bonus | Allowances/ Benefits | Total |
|---|---|---|---|---|---|
| Sumitri Mirnalini Menon @ Rabia | 66,000 | – | – | – | 66,000 |
| Girija Prasad Pande | 46,000 | – | – | – | 46,000 |
| Lai Chin Yee | 58,000 | – | – | – | 58,000 |

***Guideline 8.3***

The independent and non-executive directors receive directors' fees in line with the level of contribution, time spent, efforts and responsibilities of each independent and non-executive director. The calculation of director's fees for independent and non-executive directors is as follows:

– the base director's fee + 15% for each Committee Chairperson;

– the base director's fee + 30% for Audit Committee Chairperson;

– the base director's fee + 50% for Board Chairperson.

The compensation to non-executive directors have been in line with market by benchmarking with the peer listed companies of similar size and market capitalization.

The director's fees are subject to shareholders' approval at the Annual General Meeting.

# CORPORATE GOVERNANCE

***Guideline 9.3***
***Question:*** *Has the Company disclosed each key management personnel's remuneration, in bands of S$250,000 or in more detail, as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?*

**Remuneration of key management personnel**

| Remuneration band & name of key management personnel | Director's fee | Salary | Bonus | Allowances/ Benefits | Total |
|---|---|---|---|---|---|
| Below S$250,000 | | | | | |
| Colin Wojno | – | 88% | 7% | 5% | 100% |
| Tan Beng Lim | – | 51% | 35% | 14% | 100% |
| Richie Cajili Manuel | – | 61% | 36% | 3% | 100% |
| Shen Zi Quan | – | 56% | 37% | 7% | 100% |
| Neo Say Chow# | – | 58% | 23% | 19% | 100% |

# Manufacturing Manager appointed on 1 July 2016

***Question:*** *Please disclose the aggregate remuneration paid to the top five key management personnel (who are not directors or the CEO).*

The aggregate remuneration paid to the top 5 key management personnel is S$689,089.

***Guideline 9.4***
***Question:*** *Is there any employee who is an immediate family member of a director or the CEO, and whose remuneration exceeds S$50,000 during the year? If so, please identify the employee and specify the relationship with the relevant director or the CEO.*

There was no family member of the substantial shareholders, a director or the CEO in the financial year under review, working in the company and its subsidiaries earning more than S$50,000 a year.

**ACCOUNTABILITY AND AUDIT**

**Accountability**

**Principle 10**
The Board is accountable to the shareholders while the management is accountable to the Board. The Board is mindful of its obligation to provide timely, reliable and fair disclosure of material information in compliance with the SGX-ST Listing Manual and present the financial results quarterly, half yearly and yearly to the public. The management announced the quarterly and the half yearly financial results within 30 days from the relevant financial period. The CEO and CFO certify all such financial results.

In presenting the financial results, the Board has sought to provide a balanced and reader friendly assessment of the Company's performance and position.

# CORPORATE GOVERNANCE

To continually ensure the accountability of management to the Board, the management provides all members of the Board with a useful and balanced summary of the Company's performance and financial position such as Profit & Loss Accounts, Balance Sheets and other management reports on a monthly basis.

## Audit Committee

***Guideline 12.1***
The Audit Committee ("**AC**") comprises three members, all of whom are independent and non-executive Directors.

Chairman : Lai Chin Yee
Member : Sumitri Mirnalini Menon @ Rabia
Member : Girija Pande

All the members have had many years of experience in senior positions in financial, legal and/or commercial sectors. They have sufficient financial expertise and experience to discharge the AC's functions. The Chair, who is a Chartered Accountant of Singapore, has been Finance Director of a listed company and Audit Committee Chair in other listed companies in Singapore.

The AC's written terms of reference which describe its major responsibilities are:

– to review with the external and internal auditors the audit plan and the results of the external auditor's examination and evaluation of the Group's system of internal controls;

– to review (i) the quarterly, half yearly and yearly announcement of financial results, and (ii) the consolidated financial statements, balance sheets and statements of profit & loss accounts, and the external auditor's reports on those financial statements, before submission to the Board for approval;

– to review and discuss with external and internal auditors any suspected fraud or irregularities, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on the Company's operating results and/or financial position;

– to make recommendations to the Board on the appointment, re-appointment and removal of the external and internal auditors, and approve the remuneration and terms of engagement of the external and internal auditors;

– to review the independence of the external auditors annually including the nature and extent of non-audit services provided by the external auditors;

– to review interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual;

– to review the adequacy and effectiveness of the internal control framework and risk management processes including financial, operational, compliance and information technology controls and help ensure adequate measures are in place;

– to review the compliance with the Code of Best Practice on Security Transactions;

# CORPORATE GOVERNANCE

– to undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual;

– to review the scope of the work of the internal auditor and to review with the internal auditor the audit plan and the results of the internal auditor's examination and evaluation of the Group's system of internal controls

– to review the corporate governance processes.

***Guideline 12.5***
In the financial year under review, the AC met with the external auditor without the presence of executive directors and senior management. All AC meetings were run without the presence of executive directors and senior management unless invited by the AC to attend for any particular reason.

***Guideline 12.6***
***Question:*** *Please provide a breakdown of the fees paid in total to the external auditors for audit and non-audit services for the financial year*

The AC has reviewed the non-audit services performed by the external auditors and is satisfied that the provision of such services has not affected the independence of the external auditors. The AC has recommended their re-appointment at the forthcoming AGM. The aggregate amount of fees paid to the external auditors for the year is S$160k and the non-audit services fee is S$18k.

Some of the subsidiaries in the Group are being audited by external auditors other than those of the Company. The AC is satisfied that there are sound internal controls applied in these subsidiaries and the scope of audit performed by these other external auditors is adequate. Furthermore, the external auditor of the Company visited these subsidiaries and did review their accounts.

***Guideline 12.8***
It is the Company's practice for our external auditor to present the AC with their audit plan and with updates relating to any change of accounting standards impacting on the financial statements before an audit commences. It is also the responsibility of the CFO to update the Board on any changes in accounting standards which may have an impact on the financial statements. During the financial year in review, the changes in accounting standards did not have any significant impact on the Company's financial statements.

The AC reviewed the key audit matters (KAMs) of FY2017 and concurred with the auditors.

***Guideline 12.9***
It is the company's practice not to recruit any former/current partner or director of the company's existing internal or external auditing firm acting as Board member or any Committee member.

**Whistle Blowing Policy**

***Guideline 12.7***
The Board has formulated a written and comprehensive Whistle Blowing policy which has been disseminated throughout the Group and is an integral part of the Company Handbook. The Board believes that this policy will, inter alia, act as a deterrent to malpractice and wrongdoing, encourage openness, promote transparency and underpin the risk management systems of the Group.

# CORPORATE GOVERNANCE

The Whistle Blowing Officers are the members of the Board. Any Whistle Blowing Officer to whom a concern has been raised is obliged to make a report to the Audit Committee of the substance of the concern without breaching employee confidentiality. The AC is obliged to review all reports received and take or approve appropriate action.

The policy requires that the Whistle Blowing Officer shall consider any concern raised seriously even if they made anonymously.

The policy covers all and any improprieties and wrongdoings:

– affecting the financial position of the company;

– relating to the honesty and integrity of the company's dealings;

– relating to the honesty and integrity of any employee or director in the course of his or her employment or dealing with or on behalf of the company.

A whistle blower can choose to raise a concern by any means convenient including sending a letter or email or by telephone to any Whistle Blowing officer directly. Within 10 working days, the Whistle Blowing officer is obliged to acknowledge receipt of the information and provide an explanation as to how the matter is being handled if the report is not anonymous. The concern is appropriately and expeditiously dealt with and could be referred to the police, our external auditor or an independent investigator depending on the nature of the disclosure and the outcome of preliminary investigations.

All concerns raised must be referred to the AC in a timely manner.

**INTERNAL CONTROLS AND INTERNAL AUDIT**

***Guideline 13.1, 13.2 and 13.5***
We maintain a sound internal control and internal audit system to ensure the integrity and reliability of our financial information, as well as to safeguard shareholder value and the Group's assets. The system is strengthened and reinforced by the Group's internal auditor who carries out regular internal audits to ensure compliance with stipulated internal controls, applicable laws and regulations.

The internal audit function has been outsourced to a reputable auditing firm which was appointed by the Audit Committee. The AC reviews the audit plan yearly with the internal auditor and the effectiveness of the internal audit function.

***Guideline 13.4 and 13.3***
***Question:*** *does the Company have an internal audit function?*

Since August 2011, Nexia TS Risk Advisory Pte Ltd has been the internal auditor of the Group. The internal auditor reports directly to the AC. The internal auditor meets with the AC half yearly to present the internal audit reports. The AC approves the internal audit schedule and plan and reviews the activities of the internal auditor on a regular basis. Outsourcing the internal audit function enhances continuity, objectivity and independence and thus good corporate governance.

# CORPORATE GOVERNANCE

The recruitment, selection and appointment of the internal auditor was made by the AC after reviewing suitable candidates identified by internal and external parties including the external auditor, company secretary and others. The internal auditor is independent and is not associated with or related to the substantial shareholders, directors or the CEO and the CFO.

The internal audit in-charge is a qualified accountant with many years of internal audit experience. The internal audit has been carried out in accordance with the IIA standards.

**RISK MANAGEMENT**

The Company has put in place internal controls necessary to identify and manage significant business risks. The Company's internal audit function provides an independent resource and perspective to the AC by highlighting any areas of concern discovered during the course of performing such internal audit process.

Management regularly reviews the Company's business and operational activities to identify areas of financial, operational, compliance and information technology risk as well as measures to control these risks. These include detailed financial and management reporting and detailed operational manuals and reports. Targets are set to measure and monitor the performance of operations periodically, such as growth, profit margins, inventory efficiency, accounts receivable management, personnel attendance, cycle time and housekeeping.

The Company's assets and our employees are insured under a comprehensive insurance program which is reviewed annually. These also include product liability insurance and directors and officers liability insurance.

In June 2016, our Singapore plant operations was successfully certified as conforming to the Business Continuity Management System standard ISO22301:2012; it was audited in June 2017 and successfully renewed.

Financial risk management is discussed in Note 18 to the financial statements set out on page 72.

**Risk Management Committee**

Risk Management Committee was formed on 28 August 14 to strengthen the Group's risk management processes and framework. It comprises three independent directors and two executive directors:

| | | |
|---|---|---|
| Chairman | : | Lai Chin Yee |
| Member | : | Sumitri Mirnalini Menon @ Rabia |
| Member | : | Girija Pande |
| Member | : | Low Ming Wah |
| Member | : | Chow Kam Wing |

The Committee is guided by the terms of reference to assist the Board as follows:

- determine the Group's level of risk tolerance and risk policies
- ensure the management maintains a sound system of risk management
- recommend and review the implementation of risk management framework
- review the processes and procedures for ensuring that all material risks are properly identified and that appropriate systems of monitoring and control are in place

# CORPORATE GOVERNANCE

– review the Group's risk profiles regularly

– review breaches of risk appetite and tolerances

The Committee will take reference of ISO 31000 Risk Management Standards and Committee of Sponsoring of the Treadway Commission (COSO) Model for assessing the effectiveness of its risk management system and ISO27000 for its IT governance.

At the management level, an Enterprise Risk Management Working Committee is formed comprising key management personnel for the development and implementation of enterprise risk management system. It will report regularly to Risk Management Committee.

***Guideline 11.1 and 11.3***
The Risk Management Committee reports to the Board quarterly. The Board determines and reviews the Company's levels of risk tolerance and risk policies and oversees the risk management and internal control systems.

***Guideline 11.3 and Listing Rule 1207 (10)***
***Question:*** *(a) In relation to the major risks faced by the Company, including financial, operational, compliance, information technology and sustainability, please state the bases for the Board's view on the adequacy and effectiveness of the Company's internal controls and risk management systems.*

*(b) In respect of the past 12 months, has the Board received assurance from the CEO and the CFO as well as the internal auditor that: (i) the financial records have been properly maintained and the financial statements give true and fair view of the Company's operations and finances; and (ii) the Company's risk management and internal control systems are effective? If not, how does the Board assure itself of points (i) and (ii) above?*

The Board's opinion is, with the concurrence of the AC, that there are adequate internal controls in place to address material financial, operational and compliance risks during the financial year and up to the date of this report after considering the following:

– work done and reports by the internal and external auditors given during the year;

– quarterly report by Risk Management Committee

– the lack of any concern raised by a whistle blower;

– certification as conforming to the Business Continuity Management System standard ISO22301:2012;

– assurance obtained from the CEO and CFO as well as internal auditor (a) that the financial records have been properly maintained and the financial statements give true and fair view of the company's operations and finances and (b) regarding the effectiveness of the company's risk management and internal control systems. The audited report was signed by the CEO and CFO. Similar assurance was obtained from subsidiary and finance heads.

# CORPORATE GOVERNANCE

**Areas of concern**
The Board would report on the following risk which became apparent or was brought to its attention.

Earthquake Damage in California – California is an earthquake prone area. The Group's factory in the USA is situated in Morgan Hill, California. The Board has ascertained that insurance deductibles on any policy obtainable to cover damage as a consequence is very high such as, in the Board's view, to make coverage ineffective. Furthermore, the greater damage is likely to be caused by flooding in the event of a large earthquake, and this consequence is not insurable at all in this region. After due consideration, the management has decided not to insure against earthquake damage. The management has taken and shall continue to take steps to minimize potential damages and loss by employee education training programs and by proper bracing and anchoring of the contents in the plant. As at 30 June 2017, our USA operations recorded annual revenue of S$9.5 million and had total assets of S$10.2 million.

## SHAREHOLDER RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

## CONDUCT OF SHAREHOLDER MEETINGS

**Principle 15**
**Investor Relations Practices and Guidelines**

The main objectives of the Company's Investor Relations (IR) are to:

- maintain an open and active dialogue with existing and potential shareholders.
- ensure all investors have equal and adequate access to clear, comprehensive, and relevant information on a timely basis.

***Guideline 15.2***
The Company's primary communication platforms are its annual report, announcements posted on the SGXNET and Company website, and Annual General Meeting. The Company augments its communications with regular analyst/ media briefings, one-on-one meetings and conference calls when required.
The Company announces its financial results via SGXNET and strives to provide material information beyond the mandatory regulatory requirements of the SGX-ST Listing Manual. Where there is inadvertent disclosure made to a select group, we will make the same disclosure publicly to all others as promptly as possible.

***Guideline 15.4***
***Question:*** *(a) Does the Company regularly communicate with shareholders and attend to their questions? How often does the Company meet with institutional and retail investors?*

*(b) Is this done by a dedicated investor relations team (or equivalent)? If not, who performs this role?*

*(c) How does the Company keep shareholders informed of corporate developments, apart from SGXNET announcements and the annual report?*

Regular media and analyst briefings are organized to enable a better appreciation of the Group's performance and developments. The Company invites the media and analysts for briefings after the release of the first half and full year financial results.

# CORPORATE GOVERNANCE

Our website www.micro-mechanics.com is updated in a timely manner with the Group's latest announcements. In addition, shareholders can also view our latest financial highlights, financial reports, company presentations, investor factsheet, research reports, annual reports, stock quote and Frequently Asked Questions (FAQs) under the Investor Relations section. Anyone may subscribe to the Company's announcements by registering for "email alerts" via our website.

***Guideline 15.3 and 14.1***

To enhance and encourage communication with investors, the Company provides an email address for investors at investor@micro-mechanics.com and contact details of our Investor Relations Consultants. We have a practice of posting FAQs on our website to provide shareholders and the public with more information about the Company and its business. Announcement via SGXnet will be made to inform the shareholders and the public if there are any changes in the Company or its business which would be likely to materially affect the price or value of the Company's shares.

The CEO is Head of the IR team and oversees the IR strategy. He is supported by the CFO and external IR consultants engaged by the Company to reinforce its communications and interactions with investors and analysts. IR contact information is publicly disclosed in our annual reports, announcements, news releases and website.

The Company conducts its IR on the following principles:

– The IR team will aim to respond to investor/analyst enquiries within three working days;

– The IR team is accessible to requests for one-on-one meetings and conference calls with investors and analysts;

– Information deemed to be price-sensitive is disseminated without delay via announcements and/or press releases on SGXNET;

– Discuss only publicly-available and publicly known information during dialogues with investors and analysts, principally following announcements of financial results;

– Maintain a blackout period prior to the planned release of financial statements during which no meetings and presentations will be held with analysts or investors. The blackout period is two weeks for quarterly financial results and one month for the half yearly/full-year financial results;

– Endeavour to provide comprehensive information in financial results announcements to help shareholders and potential investors make informed decisions;

– Announce the date of release of quarterly financial reports at least a week in advance;

– Allocate sufficient time to address queries of shareholders outside the formal business of the AGM.

# CORPORATE GOVERNANCE

**Encouraging Greater Shareholder Participation**

***Guideline 14.2***
Annual reports and notices of AGMs are sent to all shareholders 21 days before AGM. Such notices are also published in the local newspapers and announced via SGXNET. Shareholders are encouraged to attend the Company's AGMs. To enhance shareholders' participation, the Company holds its AGM at central locations within walking distance from MRT stations.

During the AGM, it is our practice that the Chairman will read out the rules, including voting procedures that govern the AGM so that the shareholders can participate in and vote effectively.

***Guideline 16.3***
At AGMs, the CEO and CFO will conduct a presentation on the Company's developments, financial results, outlook and strategy to provide shareholders with updates on the Company's progress. Shareholders also have the opportunity to share with and communicate their views to the Board. The Chairpersons of the Audit, Nominating, Remuneration Committees and Risk Management Committee as well as the external auditors are requested to be present and available to address any queries by shareholders.

***Guideline 16.5 and 16.2***
All resolutions tabled at the AGM are voted by Poll, and counted and validated by an independent scrutineer. The Board takes note that there should be a separate resolution at general meetings on each substantially separate issue and will provide reasons and material implications where resolutions are interlinked.

***Guideline 16.4 and 16.5***
The Company publishes the results of the voting on each resolution tabled and posts the minutes of the AGM recording the shareholders' questions and answers via SGXNET. The minutes of the AGM include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting and responses from the Board and Management.

***Guideline 15.5***
**Dividend policy**
Effective from FY2016, the Company's dividend policy is to declare 40% or more of the net profit according to the audited report.

**SECURITIES TRADING CODE**
The Company has adopted an internal compliance code which is applicable to all officers in relation to dealings in the Company's securities. Its officers are not allowed to deal in the Company's shares during the stipulated black-out periods (i.e. the period commencing two weeks before the announcement of the Company's financial statements for quarterly results and one month before half year or full year financial results, and ending on the date of announcement of such results) or if they are in possession of unpublished material price-sensitive information pertaining to the Group.

All directors and all employees of the Group have been instructed to observe the internal compliance code and all applicable insider trading laws at all times even when dealing in securities within permitted trading periods. In this regard, all directors and employees are requested to sign a Declaration of Compliance with the internal compliance code annually and submit the same to the company secretary who in turn tables the duly signed declarations to the Audit Committee for inspection.

# CORPORATE GOVERNANCE

**INTERESTED PERSON TRANSACTIONS**

The Company has adopted a policy in respect of any transactions with interested persons and requires that all such transactions be at arm's length and reviewed by the Audit Committee quarterly.

On 27 February 2015, the Group announced that its wholly-owned subsidiary Micro-Mechanics Inc (MMUS) has entered into a lease agreement with Sarcadia LLC, a controlling shareholder and a family trust set up by Mr. Christopher Reid Borch, the CEO of the Company, (Pursuant to the Lease, Sarcadia LLC will lease the premises to MMUS for a period of 3 years with effect from 1 May 2015. The estimate rental fees payable for the duration of the lease is US$1,044,000). For the financial year ended 30 June 2017, the Group has paid US$350,000 being rental to Sarcadia LLC.

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.

**DIRECTORSHIPS**

***Guideline 4.4***

The following lists the present and past directorships of our Directors in listed companies other than directorships held in our Company.

| Name | Present Directorships | Past Directorships (preceding 3 years) |
|---|---|---|
| Christopher Borch | NIL | NIL |
| Low Ming Wah | NIL | NIL |
| Chow Kam Wing | NIL | NIL |
| Sumitri Mirnalini Menon @ Rabia | NIL | NIL |
| Girija Pande | Ascendas Property Fund Trustee Pte. Ltd. | NIL |
| Lai Chin Yee | Qian Hu Corporation Limited<br>Ryobi Kiso Holdings Limited | China Sports International Limited |

# DIRECTORS' STATEMENT

Year ended 30 June 2017

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 30 June 2017.

In our opinion:

(a) the financial statements set out on pages 43 to 81 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2017 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

**DIRECTORS**

The directors in office at the date of this statement are as follows:

Christopher Reid Borch
Low Ming Wah
Chow Kam Wing
Sumitri Mirnalini Menon @ Rabia
Girija Prasad Pande
Lai Chin Yee

**DIRECTORS' INTERESTS**

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the Act), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures and share options in the Company are as follows:

| Name of director in which interests are held | At beginning of the year | At end of the year | At 21 July 2017 |
|---|---|---|---|
| **Ordinary shares** | | | |
| Christopher Reid Borch | 73,310,169 | 73,335,169 | 73,085,169 |
| Low Ming Wah | 7,127,001 | 7,127,001 | 7,127,001 |
| Chow Kam Wing | 2,812,000 | 2,812,000 | 2,812,000 |
| Sumitri Mirnalini Menon @ Rabia | 300,000 | 300,000 | 300,000 |
| Girija Prasad Pande | 200,000 | 200,000 | 200,000 |

By virtue of Section 7 of the Act, Christopher Reid Borch is deemed to have an interest in all the wholly-owned subsidiaries of the Company at the beginning and at the end of the financial year.

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company or of related corporations at the beginning of the financial year or at the end of the financial year.

Neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

# DIRECTORS' STATEMENT

Year ended 30 June 2017

## SHARE OPTIONS

During the financial year, there were:

(a) no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries; and

(b) no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries.

As at the end of the financial year, there were no unissued shares of the Company or its subsidiaries under option.

## AUDIT COMMITTEE

The members of the Audit Committee during the year and at the date of this statement are as follows:

- Lai Chin Yee (Chairman), Independent director
- Sumitri Mirnalini Menon @ Rabia, Independent director
- Girija Prasad Pande, Independent director

The Audit Committee performs the functions specified by section 201B of the Companies Act, the Listing Manual of the Singapore Exchange and the Code of Corporate Governance.

The Audit Committee has held five meetings during the year. In performing these functions, the Audit Committee reviewed the scope of work of the Company's external auditors, and their evaluation of the Company's system of internal accounting controls.

The Audit Committee also reviewed the following:

- the scope and results of the work of the internal auditor;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption;
- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual);
- the assistance provided by the Company's officers to the external auditors and the independence of the external auditors; and
- corporate governance processes.

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

# DIRECTORS' STATEMENT
Year ended 30 June 2017

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

In appointing our auditors for the Company, subsidiaries and significant associates, we have complied with Rules 712, 715 and 716 of the SGX Listing Manual.

**AUDITORS**
The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

**Christopher Reid Borch**
*Director*

**Chow Kam Wing**
*Director*

28 August 2017

# INDEPENDENT AUDITORS' REPORT

Members of the Company
Micro-Mechanics (Holdings) Ltd.

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of Micro-Mechanics (Holdings) Ltd. (the Company) and its subsidiaries (the Group), which comprise the statements of financial position of the Group and the Company as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 43 to 81.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2017, and the financial performance, changes in equity and cash flows of the Group for the year ended on that date.

### Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITORS' REPORT

Members of the Company
Micro-Mechanics (Holdings) Ltd.

| **Valuation of Property, Plant and Equipment (PPE)<br>(Refer to Note 4 to the financial statements)** | |
|---|---|
| *The key audit matter* | *How the matter was addressed in our audit* |
| The Group has PPE with a net book value of \$26.2 million.<br><br>During the financial year, the CGU from the United States, Micro-Mechanics Inc. (MMUS) continued to incur losses. Management found this represents an impairment indicator on the PPE within this CGU. Accordingly, the Group performed an impairment assessment on MMUS's PPE.<br><br>Management assessed for impairment by estimating the recoverable amount of the PPE based on the fair value less costs to sell, determined by independent external valuer and management's best estimates. The impairment assessment exercise and the estimation of the recoverable amount is highly subjective and involves significant management's judgement. | Our procedures in relation to management's impairment assessment of PPE included, among others:<br><br>• Reviewed management's assessment of existence of impairment indicators, which among others, include observable indicators that the assets value has declined, any adverse economic effect on the CGU and evidence of obsolescence.<br><br>• Obtained an understanding of the work of the valuer, by reviewing the valuation report prepared by the external valuer to determine the appropriateness of the nature, scope and objectives of the work performed.<br><br>• Assessed the reasonableness of the excess of PPE's fair values over the carrying amount by comparing to the percentages of PPE disposal gains over carrying amount in which MMUS was able to achieve historically.<br><br>• Reviewed the disclosures included in the financial statements against the requirements of the accounting standards.<br><br>We found management's process of identification of impairment indicators to be appropriate and the estimates used to determine recoverable amounts to be balanced. |

# INDEPENDENT AUDITORS' REPORT

Members of the Company
Micro-Mechanics (Holdings) Ltd.

<table>
<tr><th colspan="2">Valuation of trade receivables<br>(Refer to Note 7 to the financial statements)</th></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group has a policy to provide allowance for trade receivables on specific individual balances and on its receivables portfolio collectively.<br><br>Determining the amount of allowance of impairment requires management's judgement.<br><br>In view of the uncertain economic conditions and volatile business environment, there is a risk that the allowance of doubtful debts recognised may be insufficient.</td><td>Our procedures in relation to the valuation of trade receivables included, among others:<br><br>• Assessed the suitability of the Group's policy for the allowance of doubtful debts by comparing to historical trend of bad debts.<br><br>• Discussed with management on the recoverability of past due debts to assess the sufficiency of allowance for trade receivables through specific and collective provisions with reference to historical payment behaviour of the customers and historical trend of bad debts.<br><br>• Checked adequacy of the disclosures in the financial statements against the requirements of accounting standards.<br><br>We found management's assessment of the recoverability of trade receivables, which premised on historical payment behaviours of the customers to be reasonable and the disclosures to be appropriate.</td></tr>
<tr><th colspan="2">Valuation of the Company's investment in Micro-Mechanics Inc. (MMUS) and inter-company balances owing by MMUS (Refer to Note 5 and Note 7 to the financial statements respectively)</th></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Company has investment in MMUS stated at cost less accumulated impairment losses amounting to $9.1 million and inter-company balances owing by MMUS amounting to $1.0 million. Due to ongoing loss making position of MMUS, there is indicator of possible impairment.<br><br>The valuation of the investments and inter-company balances requires the Company to estimate the future recoverable amount. Judgement is required to assess management assumptions used in computing the recoverable amount. There is a risk of impairment should the carrying amounts of investments and inter-company balances exceed the recoverable amount.</td><td>Our procedures in relation to the valuation of investment in subsidiaries and inter-company balances owing by MMUS included, among others:<br><br>• Evaluated management's computation and assumptions used in determining the recoverable amount MMUS, which was determined based on fair value less cost to sell of MMUS's PPE plus expected realisable value of MMUS's net current assets (excluding inter-company balances).<br><br>• Assessed the reasonableness of the valuation performed on MMUS's PPE (as described in the first Key Audit Matter above).<br><br>• Checked that management's estimation of the expected realisable value of MMUS's net current assets are reasonable by considering the nature and liquidity of these assets and liabilities.<br><br>We found the estimates used in determining the recoverable amount to be balanced.</td></tr>
</table>

# INDEPENDENT AUDITORS' REPORT

Members of the Company
Micro-Mechanics (Holdings) Ltd.

**Other Information**

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report except for:

- Shareholders' Statistics

(the Report) which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

**Responsibilities of management and directors for the financial statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

**Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# INDEPENDENT AUDITORS' REPORT

Members of the Company
Micro-Mechanics (Holdings) Ltd.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

# INDEPENDENT AUDITORS' REPORT

Members of the Company
Micro-Mechanics (Holdings) Ltd.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Yeo Lik Khim.

KPMG LLP

**KPMG LLP**
*Public Accountants and*
*Chartered Accountants*

**Singapore**
28 August 2017

# STATEMENTS OF FINANCIAL POSITION

As at 30 June 2017

| | Note | Group 2017 $ | Group 2016 $ | Company 2017 $ | Company 2016 $ |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Property, plant and equipment | 4 | 26,157,348 | 25,551,395 | – | – |
| Subsidiaries | 5 | – | – | 18,364,744 | 18,364,744 |
| Trade and other receivables | 7 | 439,394 | 93,387 | 982,318 | 961,349 |
| **Non-current assets** | | 26,596,742 | 25,644,782 | 19,347,062 | 19,326,093 |
| Inventories | 6 | 3,669,372 | 3,279,002 | – | – |
| Trade and other receivables | 7 | 11,906,718 | 10,337,194 | 2,191,764 | 3,768,101 |
| Cash and cash equivalents | 8 | 23,422,290 | 20,075,178 | 11,554,207 | 9,595,997 |
| **Current assets** | | 38,998,380 | 33,691,374 | 13,745,971 | 13,364,098 |
| **Total assets** | | 65,595,122 | 59,336,156 | 33,093,033 | 32,690,191 |
| **Shareholders' equity** | | | | | |
| Share capital | 9 | 14,782,931 | 14,782,931 | 14,782,931 | 14,782,931 |
| Reserves | 10 | 39,988,372 | 35,460,616 | 17,961,839 | 17,550,014 |
| **Total equity** | | 54,771,303 | 50,243,547 | 32,744,770 | 32,332,945 |
| **Liabilities** | | | | | |
| Deferred tax liabilities | 11 | 1,406,658 | 1,307,986 | – | – |
| Trade and other payables | 12 | 279,650 | 239,401 | – | – |
| **Non-current liabilities** | | 1,686,308 | 1,547,387 | – | – |
| Trade and other payables | 12 | 7,810,579 | 5,948,920 | 343,311 | 352,210 |
| Current tax payable | | 1,326,932 | 1,596,302 | 4,952 | 5,036 |
| **Current liabilities** | | 9,137,511 | 7,545,222 | 348,263 | 357,246 |
| **Total liabilities** | | 10,823,819 | 9,092,609 | 348,263 | 357,246 |
| **Total equity and liabilities** | | 65,595,122 | 59,336,156 | 33,093,033 | 32,690,191 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June 2017

| | Note | 2017<br>$ | 2016<br>$ |
|---|---|---|---|
| Revenue | 13 | 57,229,665 | 51,251,042 |
| Cost of sales | | (24,361,714) | (22,113,514) |
| **Gross profit** | | 32,867,951 | 29,137,528 |
| Other income | | 724,740 | 687,096 |
| Distribution costs | | (3,150,117) | (2,923,191) |
| Administrative expenses | | (8,591,240) | (8,004,154) |
| Other operating expenses | | (3,348,497) | (3,204,997) |
| **Profit before tax** | 14 | 18,502,837 | 15,692,282 |
| Tax expense | 15 | (3,740,620) | (3,808,873) |
| **Profit for the year** | | 14,762,217 | 11,883,409 |
| **Attributable to:** | | | |
| Owners of the Company | | 14,762,217 | 11,883,409 |
| Non-controlling interests | | – | – |
| **Profit for the year** | | 14,762,217 | 11,883,409 |
| **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 | | (502,230) | (1,574,184) |
| **Total comprehensive income for the year** | | 14,259,987 | 10,309,225 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | 14,259,987 | 10,309,225 |
| Non-controlling interests | | – | – |
| **Total comprehensive income for the year** | | 14,259,987 | 10,309,225 |
| **Earnings per share (in cents) – basic and diluted** | 16 | 10.62 | 8.55 |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2017

| | Share capital $ | Foreign currency translation reserve $ | Accumulated profits $ | Total $ |
|---|---|---|---|---|
| At 1 July 2015 | 14,782,931 | (3,359,883) | 35,462,869 | 46,885,917 |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | – | – | 11,883,409 | 11,883,409 |
| **Other comprehensive income** | | | | |
| Foreign currency translation differences | – | (1,574,184) | – | (1,574,184) |
| Total other comprehensive income | – | (1,574,184) | – | (1,574,184) |
| Total comprehensive income for the year | – | (1,574,184) | 11,883,409 | 10,309,225 |
| **Transactions with owners of the Company, recognised directly in equity** | | | | |
| Interim dividend of 2.0 cents per share (tax-exempt) in respect of 2016 | – | – | (2,780,638) | (2,780,638) |
| Final dividend of 3.0 cents per share (tax-exempt) in respect of 2015 | – | – | (4,170,957) | (4,170,957) |
| **Total transactions with owners of the Company** | – | – | (6,951,595) | (6,951,595) |
| At 30 June 2016 | 14,782,931 | (4,934,067) | 40,394,683 | 50,243,547 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2017

| | Share capital<br>$ | Foreign currency translation reserve<br>$ | Accumulated profits<br>$ | Total<br>$ |
|---|---|---|---|---|
| At 1 July 2016 | 14,782,931 | (4,934,067) | 40,394,683 | 50,243,547 |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | – | – | 14,762,217 | 14,762,217 |
| **Other comprehensive income** | | | | |
| Foreign currency translation differences | – | (502,230) | – | (502,230) |
| Total other comprehensive income | – | (502,230) | – | (502,230) |
| Total comprehensive income for the year | – | (502,230) | 14,762,217 | 14,259,987 |
| **Transactions with owners of the Company, recognised directly in equity** | | | | |
| Interim dividend of 3.0 cents per share (tax-exempt) in respect of 2017 | – | – | (4,170,956) | (4,170,956) |
| Final dividend of 4.0 cents per share (tax-exempt) in respect of 2016 | – | – | (5,561,275) | (5,561,275) |
| **Total transactions with owners of the Company** | – | – | (9,732,231) | (9,732,231) |
| At 30 June 2017 | 14,782,931 | (5,436,297) | 45,424,669 | 54,771,303 |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2017

| | Note | 2017<br>$ | 2016<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 14,762,217 | 11,883,409 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 4,337,877 | 4,422,894 |
| Property, plant and equipment written off | | 5,735 | 319,536 |
| Gain on disposal of property, plant and equipment | | (61,877) | (126,134) |
| Interest income | | (130,269) | (146,269) |
| Tax expense | | 3,740,620 | 3,808,873 |
| | | 22,654,303 | 20,162,309 |
| Changes in working capital: | | | |
| Inventories | | (430,762) | 115,658 |
| Trade and other receivables | | (2,077,984) | (353,556) |
| Trade and other payables | | 1,836,266 | (417,004) |
| Cash generated from operations | | 21,981,823 | 19,507,407 |
| Income tax paid | | (3,886,695) | (3,195,374) |
| **Net cash from operating activities** | | 18,095,128 | 16,312,033 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (5,094,291) | (4,095,821) |
| Proceeds from disposal of property, plant and equipment | | 111,177 | 219,413 |
| Interest received | | 127,501 | 175,585 |
| **Net cash used in investing activities** | | (4,855,613) | (3,700,823) |
| **Cash flows from financing activity** | | | |
| Dividends paid | | (9,732,231) | (6,951,595) |
| **Net cash used in financing activity** | | (9,732,231) | (6,951,595) |
| **Net increase in cash and cash equivalents** | | 3,507,284 | 5,659,615 |
| Cash and cash equivalents at 1 July | | 19,907,478 | 14,983,111 |
| Effect of exchange rate fluctuations | | (152,822) | (735,248) |
| **Cash and cash equivalents at 30 June** | 8 | 23,261,940 | 19,907,478 |

The accompanying notes form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 28 August 2017.

## 1 DOMICILE AND ACTIVITIES

Micro-Mechanics (Holdings) Ltd. (the Company) is incorporated in Singapore. The address of the Company's registered office is 31 Kaki Bukit Place, Eunos Techpark, Singapore 416209.

The financial statements of the Group as at and for the year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The Group is primarily involved in the manufacturing of precision tools and components.

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (FRS).

### 2.2 Basis of measurement

The financial statements are prepared on the historical cost basis, except for certain financial instruments which are stated at fair value.

### 2.3 Functional and presentation currency

The financial statements are presented in Singapore dollars which is the Company's functional currency.

### 2.4 Use of estimates and judgements

The preparation of financial statements in conformity with FRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the application of the Group's accounting policies, management is of the opinion that there is no instance of application of critical judgement which is expected to have a significant effect on the amounts recognised in the financial statements, apart from those involving estimates described below.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 4 – estimation of useful lives of property, plant and equipment
- Note 4 – valuation of property, plant and equipment
- Note 5 – valuation of investments in subsidiaries
- Note 6 – valuation of inventories
- Note 7 – valuation of trade receivables

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial statements and have been applied consistently by Group entities.

### 3.1 Basis of consolidation

***Subsidiaries***

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less accumulated impairment losses.

***Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 3.2 Foreign currency

***Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the financial year are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the financial year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the financial year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

**3 SIGNIFICANT ACCOUNTING POLICIES** (continued)

**3.2 Foreign currency** (continued)

***Foreign operations***

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the end of the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the closing rate. For acquisitions prior to 1 January 2005, the exchange rates at the date of acquisition were used.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item which is considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented as equity in the foreign currency translation reserve.

**3.3 Property, plant and equipment**

***Recognition and measurement***

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within income/other expenses in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

**3 SIGNIFICANT ACCOUNTING POLICIES** (continued)

**3.3 Property, plant and equipment** (continued)

***Subsequent costs***

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

***Depreciation***

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years are as follows:

| | |
|---|---|
| Leasehold properties | 50 years |
| Plant and equipment | 5 to 10 years |
| Furniture, fittings and office equipment | 5 years |
| Motor vehicles | 5 years |

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready to use, or in respect of assets under construction, from the date that the asset is completed and ready for use. Property, plant and equipment under construction are not depreciated.

Fully depreciated assets are retained in the financial statements until they are no longer in use. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

**3.4 Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**3.5 Financial instruments**

***Non-derivative financial assets***

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

**3 SIGNIFICANT ACCOUNTING POLICIES** (continued)

**3.5 Financial instruments** (continued)

***Non-derivative financial assets*** (continued)

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the loans and receivables category.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables, excluding advances to suppliers, prepayments and forward exchange contracts.

Cash and cash equivalents comprise cash balances and bank deposits.

***Non-derivative financial liabilities***

The Group's financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise trade and other payables excluding advances from customers and foreign exchange contracts.

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

**3 SIGNIFICANT ACCOUNTING POLICIES** (continued)

**3.5 Financial instruments** (continued)

***Share capital***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

***Derivative financial instruments***

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below:

*Non-trading derivatives*

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

**3.6 Impairment**

***Non-derivative financial assets***

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise or indications that a debtor or issuer will enter bankruptcy.

*Loans and receivables*

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance for account against loans and receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Impairment (continued)

***Non-financial assets***

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 3.7 Employee benefits

***(i) Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

***(ii) Defined benefit plans***

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.7 Employee benefits (continued)

#### *(ii) Defined benefit plans* (continued)

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA from a recognised rating agency that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid. In countries where there is no deep market in such bonds, the market yields on the government bonds shall be used.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefits expense in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

#### *(iii) Unconsumed leave*

Employees' entitlement for unconsumed leave is recognised as a liability.

#### *(iv) Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.8 Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

**3 SIGNIFICANT ACCOUNTING POLICIES** (continued)

**3.9 Revenue**

Revenue from the manufacture and sale of precision tools and components is recognised when persuasive evidence exists, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The timing of the transfers of risks and rewards varies depending on the individual terms of the contract sale. Revenue excludes goods and services tax or other sales taxes and is stated after deduction of any trade discounts.

**3.10 Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

**3.11 Finance income and finance costs**

Finance income comprises interest income on funds invested, dividend income, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

**3.12 Dividend income**

Dividend income is recognised in profit or loss on the date that the Company’s right to receive payment is established.

**3.13 Government grants**

An unconditional government grant related to computer software and equipment is recognised initially as deferred income at fair value. The grant is then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grant that compensates the Group for expenses incurred is recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

**3.14 Earnings per share**

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

**3.15 Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Group’s Executive Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

**3 SIGNIFICANT ACCOUNTING POLICIES** (continued)

**3.15 Segment reporting** (continued)

Segment results that are reported to the Executive Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

**3.16 New standards and interpretations not yet adopted**

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2016, and have not been applied in preparing these financial statements.

Except as otherwise indicated below, those new standards, amendments to standards, and interpretations are not expected to have a significant effect on the financial statements of the Group. The Group does not plan to adopt these standards early.

***Applicable to financial statements for financial year ending 30 June 2019***

- FRS 115 *Revenue from Contracts with Customers*

  FRS 115 *Revenue from Contracts with Customers* will replace FRS 18 *Revenue*, FRS 11 *Construction Contracts* and related interpretations. FRS 115 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

  When effective, FRS 115 replaces existing revenue recognition guidance, including FRS 18 *Revenue*, FRS 11 *Construction Contracts*, INT FRS 113 *Customer Loyalty Programmes*, INT FRS 115 *Agreements for the Construction of Real Estate*, INT FRS 118 *Transfers of Assets from Customers* and INT FRS 31 *Revenue – Barter Transactions Involving Advertising Services*.

  FRS 115 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. FRS 115 offers a range of transition options including full retrospective adoption where an entity can choose to apply the standard to its historical transactions and retrospectively adjust each comparative period presented in the Group's 2019 financial statements. When applying the full retrospective method, an entity may also elect to use a series of practical expedients to ease transition.

  The standard establishes the principle for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Group expects to be entitled to in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed (e.g. service revenue and contract modifications) and improved guidance for multi-element arrangements.

  The Group has completed an initial assessment of the potential impact of the adoption of this standard on its consolidated financial statements. Based on its initial assessment, the Group does not expect the changes to have any material impact on the financial statements of the Group.

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

**3 SIGNIFICANT ACCOUNTING POLICIES** (continued)

**3.16 New standards and interpretations not yet adopted** (continued)

***Applicable to financial statements for financial year ending 30 June 2019*** (continued)

- FRS 109 *Financial Instruments*

  FRS 109 *Financial Instruments* replaces most of the existing guidance in FRS 39 *Financial Instruments: Recognition and Measurement*. It includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from FRS 39.

  FRS 109 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is generally required, except for hedge accounting. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Restatement of comparative information is not mandatory. If comparative information is not restated, the cumulative effect is recorded in the Group's and Company's opening equity as at 1 July 2018.

  The Group has completed an initial assessment of the potential impact of the adoption of this standard on its consolidated financial statements. Based on its initial assessment, the Group does not expect the changes to have any material impact on the financial statements of the Group.

*Convergence with International Financial Reporting Standards (IFRS)*

The Accounting Standards Council (ASC) announced on 29 May 2014, that Singapore-incorporated companies listed on the Singapore Exchange (SGX) will apply a new financial reporting framework identical to the International Financial Reporting Standards (referred to as SG-IFRS in these financial statements) for the financial year ending 31 December 2018 onwards.

The Group has performed a preliminary assessment of the impact of SG-IFRS 1 *First-time adoption of International Financial Reporting Standards* for the transition to the new reporting framework. Based on the Group's preliminary assessment, the Group expects that the impact on adoption of SG-IFRS 15 *Revenue from Contracts with Customers* and SG-IFRS 9 *Financial Instruments* will be similar to adopting FRS 115 and FRS 109 as described in this Note.

Other than arising from the adoption of new and revised standards, the Group does not expect to change its existing accounting policies on adoption of the new framework.

The Group will perform detailed analysis of certain available policy choices, transitional optional exemptions and transitional mandatory exceptions under SG-IFRS 1 and the preliminary assessment may be subject to changes arising from the detailed analyses.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

**3 SIGNIFICANT ACCOUNTING POLICIES** (continued)

**3.16 New standards and interpretations not yet adopted** (continued)

***Applicable to financial statements for financial year ending 30 June 2020***

- FRS 116 *Leases*

  FRS 116 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use (ROU) assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

  FRS 116 substantially carries forward the lessor accounting requirements in FRS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the FRS 17 operating lease and finance lease accounting models respectively. However, FRS 116 requires more extensive disclosures to be provided by a lessor.

  When effective, FRS 116 replaces existing lease accounting guidance, including FRS 17, INT FRS 104 *Determining whether an Arrangement contains a Lease*, INT FRS 15 *Operating Leases – Incentives*, and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

  FRS 116 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if FRS 115 is also applied.

  The Group has performed a preliminary high-level assessment of the new standard on its existing operating lease arrangements as a lessee. Based on the preliminary assessment, the Group expects these operating leases to be recognised as ROU assets with corresponding lease liabilities under the new standard. The operating lease commitments on an undiscounted basis amount to approximately 3.8% of the consolidated total assets and 22.8% of consolidated total liabilities. Assuming no additional new operating leases in future years until the effective date, the Group expects the amount of ROU asset and lease liability to be lower due to discounting and as the lease terms run down.

  The Group plans to adopt the standard when it becomes effective in financial year ending 30 June 2020. The Group will perform a detailed analysis of the standard, including the transition options and practical expedients.

  The Group expects that the impact on adoption of FRS 116 *Leases* to be similar to adopting SG-FRS 116, after the transition to SG-IFRS in 2019 as described above.

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

## 4 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold properties $ | Plant and equipment $ | Assets under construction $ | Furniture, fittings and office equipment $ | Motor vehicles $ | Total $ |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **Cost** | | | | | | |
| At 1 July 2015 | 12,679,297 | 40,887,518 | 305,512 | 6,697,003 | 751,183 | 61,320,513 |
| Additions | 72,752 | 3,069,241 | 797,415 | 156,413 | – | 4,095,821 |
| Disposals/Write-off | – | (1,256,757) | (306,262) | (148,448) | (50,793) | (1,762,260) |
| Translation differences on consolidation | (223,615) | (1,020,336) | 750 | (201,372) | (10,441) | (1,455,014) |
| Reclassification | – | 797,415 | (797,415) | – | – | – |
| At 30 June 2016 | 12,528,434 | 42,477,081 | – | 6,503,596 | 689,949 | 62,199,060 |
| At 1 July 2016 | 12,528,434 | 42,477,081 | – | 6,503,596 | 689,949 | 62,199,060 |
| Additions | 42,953 | 4,373,649 | 374,943 | 291,615 | 11,131 | 5,094,291 |
| Disposals/Write-off | – | (987,686) | – | (123,886) | (59,541) | (1,171,113) |
| Translation differences on consolidation | (136,265) | (321,638) | (2,523) | (104,820) | (2,828) | (568,074) |
| Reclassification | – | 146,104 | (146,104) | – | – | – |
| At 30 June 2017 | 12,435,122 | 45,687,510 | 226,316 | 6,566,505 | 638,711 | 65,554,164 |
| **Accumulated depreciation and impairment loss** | | | | | | |
| At 1 July 2015 | 5,436,772 | 23,531,856 | – | 5,525,543 | 180,568 | 34,674,739 |
| Charge for the year | 448,684 | 3,419,706 | – | 432,255 | 122,249 | 4,422,894 |
| Disposals/Write-off | – | (1,150,548) | – | (148,105) | (50,792) | (1,349,445) |
| Translation differences on consolidation | (107,843) | (804,076) | – | (178,159) | (10,445) | (1,100,523) |
| At 30 June 2016 | 5,777,613 | 24,996,938 | – | 5,631,534 | 241,580 | 36,647,665 |
| At 1 July 2016 | 5,777,613 | 24,996,938 | – | 5,631,534 | 241,580 | 36,647,665 |
| Charge for the year | 373,902 | 3,484,862 | – | 361,241 | 117,872 | 4,337,877 |
| Disposals/Write-off | – | (933,181) | – | (123,357) | (59,540) | (1,116,078) |
| Translation differences on consolidation | (59,479) | (317,320) | – | (92,522) | (3,327) | (472,648) |
| At 30 June 2017 | 6,092,036 | 27,231,299 | – | 5,776,896 | 296,585 | 39,396,816 |
| **Carrying amounts** | | | | | | |
| At 1 July 2015 | 7,242,525 | 17,355,662 | 305,512 | 1,171,460 | 570,615 | 26,645,774 |
| At 30 June 2016 | 6,750,821 | 17,480,143 | – | 872,062 | 448,369 | 25,551,395 |
| At 30 June 2017 | 6,343,086 | 18,456,211 | 226,316 | 789,609 | 342,126 | 26,157,348 |

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

## 4 PROPERTY, PLANT AND EQUIPMENT (continued)

**Estimation of useful lives of property, plant and equipment**

The Group reviews the useful lives of property, plant and equipment at each reporting date in accordance with the accounting policy in note 3.3. The estimation of the useful lives involves significant judgement. The net book value of property, plant and equipment at 30 June 2017 was $26,157,348 (2016: $25,551,395) and the annual depreciation charge for the year ended 30 June 2017 was $4,337,877 (2016: $4,422,894). If the actual useful lives of the property, plant and equipment were longer or shorter than the management's estimate by one year on average, the Group's annual depreciation charge would reduce by $497,167 (2016: $503,533) or increase by $663,542 (2016: $673,891) respectively.

**Estimation of valuation of property, plant and equipment**

The Group carried out a review of the recoverable amounts of its property, plant and equipment in view of the continuing losses in one of the subsidiaries. The recoverable amount of the assets was estimated based on its fair value less costs to sell.

In 2017, based on the assessment, there were no further recognition or reversal of impairment loss (2016: Nil).

## 5 SUBSIDIARIES

The investments in subsidiaries in the Company's statement of financial position are stated at cost less accumulated impairment losses. Details of the subsidiaries are as follows:

| Name of subsidiary | Principal activities | Place of incorporation and business | Percentage of equity held by the Group | | Cost | |
|---|---|---|---|---|---|---|
| | | | 2017 | 2016 | 2017 | 2016 |
| | | | % | % | $ | $ |
| Micro-Mechanics Pte Ltd[1] | Manufacturing of precision tools | Singapore | 100 | 100 | 5,463,500 | 5,463,500 |
| Micro-Mechanics Technology Sdn Bhd[2] | Manufacturing of precision tools | Malaysia | 100 | 100 | 856,875 | 856,875 |
| Micro-Mechanics Technology International, Inc.[2] | Manufacturing of precision tools | The Philippines | 100 | 100 | 347,200 | 347,200 |
| Micro-Mechanics Technology (Suzhou) Co. Ltd[2] | Manufacturing of precision tools | People's Republic of China | 100 | 100 | 2,544,407 | 2,544,407 |
| Micro-Mechanics Inc.[3] | Manufacturing of precision components & modules & sale of precision tools | United States of America | 100 | 100 | 15,585,173 | 15,585,173 |
| | | | | | 24,797,155 | 24,797,155 |

[1] Audited by KPMG LLP, Singapore.
[2] Audited by other member firms of KPMG International.
[3] Audited by Fiondella, Milone & LaSaracina LLP.

In 2016, the Company increased its investment in Micro-Mechanics Inc., (MMUS) from $8,048,654 to $15,585,173 by way of capitalising balances owing by MMUS of $7,536,519 to the Company.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

**5 SUBSIDIARIES** (continued)

**Valuation of investments in subsidiaries**

| | 2017 $ | 2016 $ |
|---|---|---|
| Investments in subsidiaries, at cost | 24,797,155 | 24,797,155 |
| Impairment losses | (6,432,411) | (6,432,411) |
| | 18,364,744 | 18,364,744 |

The valuation of the investments in subsidiaries requires the Group to estimate the recoverable amount of the investments in subsidiaries. A considerable amount of judgement and management estimation is required in assessing the recoverable amount.

During the year, the Company carried out a review of the recoverable amount of its investment in MMUS, in view of its ongoing loss-making position. The recoverable amount was determined based on estimated realisable value of the net assets of MMUS. As a result of the review, no impairment loss (2016: impairment loss of $2,917,627) was recognised in profit or loss during the year. In prior year, impairment allowance recognised in 2015 amounting to $3,514,784 (see Note 7) was reclassified from trade and other receivables to investment in subsidiaries, in view of the capitalisation of balances owing by MMUS to the Company in that year.

**6 INVENTORIES**

| | Group | |
|---|---|---|
| | 2017 $ | 2016 $ |
| Raw materials | 1,337,133 | 1,150,470 |
| Work-in-progress | 1,098,093 | 858,077 |
| Finished goods | 1,234,146 | 1,270,455 |
| | 3,669,372 | 3,279,002 |

In 2017, raw materials and changes in finished goods and work-in-progress recognised in cost of sales amounted to $24,361,714 (2016: $22,113,514).

**Valuation of inventories**

The valuation of inventory at the lower of cost and net realisable value requires the Group to review inventories for their saleability and for indicators of obsolescence. This requires management to make estimates based on future market demand and their past experiences with similar inventories. In addition, judgements and estimates regarding future selling prices, level of demand and indicators of obsolescence must be made and used in connection with evaluating whether such write-downs are necessary and the amounts of such write-downs.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 7 TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| Trade receivables | 11,013,276 | 9,418,624 | – | – |
| Other receivables | 131,063 | 188,740 | 1,542 | 154 |
| Deposits | 338,372 | 281,891 | 500 | 500 |
| Amount owing by subsidiaries (non-trade) | – | – | 3,150,588 | 4,715,243 |
| Loans and receivables | 11,482,711 | 9,889,255 | 3,152,630 | 4,715,897 |
| Advances to suppliers | 443,356 | 134,808 | – | – |
| Prepayments | 325,260 | 384,438 | 20,452 | 13,553 |
| Forward exchange contracts | 94,785 | 22,080 | 1,000 | – |
| Trade and other receivables | 12,346,112 | 10,430,581 | 3,174,082 | 4,729,450 |
| Non-current | 439,394 | 93,387 | 982,318 | 961,349 |
| Current | 11,906,718 | 10,337,194 | 2,191,764 | 3,768,101 |
| | 12,346,112 | 10,430,581 | 3,174,082 | 4,729,450 |

The Group's non-current trade and other receivables of $439,394 (2016: $93,387) was due to advance payment made to suppliers to purchase plant and equipment.

The Company's non-current balances include the non-trade amount due from subsidiary amounting to $982,318 (2016: $961,349) which bears interest at 1.40% to 2.20% (2016: 1.19% to 1.45%) per annum and is not expected to be repaid within the next 12 months. This amount due from subsidiary was discounted using the implicit interest rate based on effective interest rate of 4.25% (2016: 5.50%) per annum.

**Valuation of trade receivables**

The policy for impairment assessment of trade receivables of the Group is based on evaluation of aging analysis of trade receivables and estimation of the collectability of trade receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, an allowance for doubtful receivables may be required.

The maximum exposure to credit risk for loans and receivables at the reporting date by type of customer is:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| Distributors | 237,593 | 545,325 | – | – |
| Direct customers | 10,775,683 | 8,873,299 | – | – |
| Subsidiaries | – | – | 3,150,588 | 4,715,243 |
| Others | 469,435 | 470,631 | 2,042 | 654 |
| | 11,482,711 | 9,889,255 | 3,152,630 | 4,715,897 |

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

## 7 TRADE AND OTHER RECEIVABLES (continued)

**Valuation of trade receivables** (continued)

The maximum exposure to credit risk for loans and receivables at the reporting date by geographical location is:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| Singapore | 1,157,955 | 682,105 | 2,042 | 2,000,654 |
| Malaysia | 2,410,370 | 2,592,102 | – | – |
| Philippines | 901,673 | 757,472 | 2,168,270 | 1,753,894 |
| Thailand | 204,757 | 248,743 | – | – |
| USA | 1,323,270 | 918,897 | 982,318 | 961,349 |
| Europe | 201,181 | 334,928 | – | – |
| China | 4,065,751 | 3,175,569 | – | – |
| Japan | 169,408 | 196,070 | – | – |
| Taiwan | 792,991 | 793,577 | – | – |
| Others | 255,355 | 189,792 | – | – |
| | 11,482,711 | 9,889,255 | 3,152,630 | 4,715,897 |

The aging of loans and receivables – current (excluding deposits) at the reporting date is:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| Current | 8,167,895 | 6,915,131 | 1,712,385 | 1,521,129 |
| Past due 1 – 30 days | 2,364,720 | 2,274,391 | – | – |
| Past due 31 – 60 days | 576,936 | 379,681 | – | 2,000,000 |
| Past due 61 – 90 days | 34,788 | 38,161 | 1,439,745 | 1,194,268 |
| | 11,144,339 | 9,607,364 | 3,152,130 | 4,715,397 |

In 2016, non-trade amount owing from a subsidiary amounting to $7,536,519 was capitalised into investment in that subsidiary. The Group believed that no further impairment allowance was necessary in respect of remaining non-trade amount owing from a subsidiary.

***Impairment***

The movement in the allowance for impairment in respect of loans and receivables – non-current (excluding deposits) during the year was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| At 1 July | – | – | – | 3,514,784 |
| Reclassification of impairment to investment in subsidiary | – | – | – | (3,514,784) |
| At 30 June | – | – | – | – |

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

## 8 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| Cash at banks and on hand | 10,198,754 | 6,468,842 | 2,454,207 | 995,997 |
| Fixed deposits | 13,223,536 | 13,606,336 | 9,100,000 | 8,600,000 |
| | 23,422,290 | 20,075,178 | 11,554,207 | 9,595,997 |
| Deposits pledged | (160,350) | (167,700) | – | – |
| Cash and cash equivalents in the statement of cash flows | 23,261,940 | 19,907,478 | 11,554,207 | 9,595,997 |

The deposits pledged are for the banker's guarantees issued on behalf of subsidiary in Malaysia.

## 9 SHARE CAPITAL

| | Group and Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | No. of shares | $ | No. of shares | $ |
| **Fully paid ordinary shares, with no par value** | | | | |
| At 1 July and 30 June | 139,031,881 | 14,782,931 | 139,031,881 | 14,782,931 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary share rank equally with regard to the Company's residual assets.

**Capital management**
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders.

The Group defines capital as share capital and accumulated profit.

The Group aims to obtain an optimal capital structure by balancing capital efficiency and financial flexibility. The Group manages the capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets.

There were no changes in the Group's approach in capital management during the year.

The Group and its subsidiaries are not subject to externally imposed capital requirements.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 9 SHARE CAPITAL (continued)

**Dividends**

The following dividends were declared and paid by the Group and the Company:

**For the year ended 30 June**

| | Group and Company 2017 $ | Group and Company 2016 $ |
|---|---|---|
| Final tax-exempt dividend paid of 4.0 cents (2016: 3.0 cents) per share in respect of previous financial year | 5,561,275 | 4,170,957 |
| Interim tax-exempt dividend paid of 3.0 cents (2016: 2.0 cents) per share in respect of current financial year | 4,170,956 | 2,780,638 |
| | 9,732,231 | 6,951,595 |

After the respective reporting dates, the following dividends were proposed by the directors. The dividends have not been provided for, and there are no income tax consequences.

| | Group and Company 2017 $ | Group and Company 2016 $ |
|---|---|---|
| Final proposed tax-exempt dividend of 5.0 cents (2016: 4.0 cents) per share | 6,951,594 | 5,561,275 |

## 10 RESERVES

| | Group 2017 $ | Group 2016 $ | Company 2017 $ | Company 2016 $ |
|---|---|---|---|---|
| Accumulated profits | 45,424,669 | 40,394,683 | 17,961,839 | 17,550,014 |
| Foreign currency translation reserve | (5,436,297) | (4,934,067) | – | – |
| | 39,988,372 | 35,460,616 | 17,961,839 | 17,550,014 |

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 11 DEFERRED TAX LIABILITIES

Movement in deferred tax assets and liabilities (prior to offsetting of balances) during the year is as follows:

| | At 1 July 2015 $ | Recognised in profit or loss (note 15) $ | Exchange differences $ | At 30 June 2016 $ | Recognised in profit or loss (note 15) $ | Exchange differences $ | At 30 June 2017 $ |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **Deferred tax liabilities** | | | | | | | |
| Property, plant and equipment | 1,483,602 | (39,522) | (30,911) | 1,413,169 | 132,908 | (20,118) | 1,525,959 |
| **Deferred tax assets** | | | | | | | |
| Others | (139,123) | 25,646 | 8,294 | (105,183) | (17,520) | 3,402 | (119,301) |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority. The amounts determined after appropriate offsetting are included in the statement of financial position as follows:

| | Group | |
|---|---|---|
| | 2017 $ | 2016 $ |
| Net deferred tax liabilities | 1,406,658 | 1,307,986 |

## 12 TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| Trade payables | 1,441,677 | 875,810 | – | – |
| Other payables | 1,565,013 | 1,232,539 | 26,248 | 25,360 |
| Accrued expenses | 4,978,884 | 3,990,018 | 317,063 | 326,850 |
| Advances from customers | 103,481 | 89,954 | – | – |
| Forward exchange contracts | 1,174 | – | – | – |
| | 8,090,229 | 6,188,321 | 343,311 | 352,210 |
| Non-current | 279,650 | 239,401 | – | – |
| Current | 7,810,579 | 5,948,920 | 343,311 | 352,210 |
| | 8,090,229 | 6,188,321 | 343,311 | 352,210 |

The Group's non-current trade and other payables of $279,650 (2016: $239,401) was due to retirement fund for employees.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 12 TRADE AND OTHER PAYABLES (continued)

The following is the expected contractual undiscounted cash outflows of trade and other payables:

| | Carrying amount $ | Contractual cash flows $ | Within 1 year $ |
|---|---|---|---|
| **Group** | | | |
| **2017** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and other payables* | 7,705,924 | (7,705,924) | (7,705,924) |
| **Derivative financial instruments** | | | |
| • Forward exchange contracts – asset (net) | 93,611 | | |
| – Gross payments | | (9,792,614) | (9,792,614) |
| – Gross receipts | | 9,886,225 | 9,886,225 |
| | | 93,611 | 93,611 |
| **2016** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and other payables* | (5,858,966) | (5,858,966) | (5,858,966) |
| **Derivative financial instruments** | | | |
| • Forward exchange contracts – assets | 22,080 | | |
| – Gross payments | | (2,440,299) | (2,440,299) |
| – Gross receipts | | 2,462,379 | 2,462,379 |
| | | 22,080 | 22,080 |

* Excluding advances from customers, forward exchanges contracts and retirement fund for employees.

| | Carrying amount $ | Contractual cash flows $ | Within 1 year $ |
|---|---|---|---|
| **Company** | | | |
| **2017** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and other payables | 343,311 | (343,311) | (343,311) |
| **2016** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and other payables | 352,210 | (352,210) | (352,210) |

The maturity analyses show the undiscounted cash flows of the Group's and the Company's financial liabilities on the basis of their earliest possible contractual maturity.

It is not expected that the cash flows included in the maturity analyses could occur significantly earlier, or at significantly different amounts.

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

## 13 REVENUE
Revenue of the Group represents the value of goods invoiced to third parties.

## 14 PROFIT BEFORE INCOME TAX
The following items have been included in arriving at profit before income tax:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Other income: | | |
| – Exchange gain (net) | 173,511 | – |
| – Interest income | 130,269 | 146,269 |
| – Gain on disposal of property, plant and equipment | 61,877 | 126,134 |
| – Government grants – Skills Redevelopment and Capability Development Scheme | 125,478 | 225,109 |
| – Others | 233,605 | 189,584 |
| | 724,740 | 687,096 |
| Staff costs: | | |
| – Wages and salaries | 18,071,950 | 15,617,417 |
| – Contribution to defined contribution plans | 1,637,601 | 1,458,753 |
| – Increase in liability for unconsumed leave | 115,541 | 4,166 |
| | 19,825,092 | 17,080,336 |
| Audit fees: | | |
| – auditors of the Company | 113,650 | 113,650 |
| – other member firms of the auditors of the Company | 46,715 | 40,154 |
| – other auditors | 63,558 | 58,375 |
| Non-audit fees: | | |
| – auditors of the Company | 15,600 | 19,100 |
| – other member firms of the auditors of the Company | 3,176 | 2,893 |
| – other auditors | 12,536 | 11,123 |
| Depreciation of property, plant and equipment | 4,337,877 | 4,422,894 |
| Directors' remuneration: | | |
| – directors of the Company | 2,717,785 | 1,941,030 |
| – other directors | 297,134 | 264,213 |
| Exchange loss (net) | – | 107,636 |
| Trade receivables written off | – | 11,213 |
| Inventories written off | 101,892 | 75,909 |
| Operating lease expenses | 1,264,242 | 1,252,428 |
| Property, plant and equipment written off | 5,735 | 319,536 |

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 15 TAX EXPENSE

| | Group 2017 $ | Group 2016 $ |
|---|---|---|
| **Tax charge** | | |
| Current year | 3,759,944 | 3,913,954 |
| Overprovision in prior years | (134,712) | (91,205) |
| | 3,625,232 | 3,822,749 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | 113,444 | (37,420) |
| Under provision in prior years | 1,944 | 23,544 |
| | 115,388 | (13,876) |
| Total tax expenses | 3,740,620 | 3,808,873 |
| ***Reconciliation of effective tax rate*** | | |
| Profit before tax | 18,502,837 | 15,692,282 |
| Income tax calculated using the statutory tax rate of 17% | 3,145,482 | 2,667,688 |
| Non-deductible expenses | 219,612 | 356,843 |
| Income not subjected to tax | (84,918) | (30,983) |
| Deferred tax assets not recognised | 134,339 | 281,561 |
| Effect of wear and tear allowances utilised | – | (134,731) |
| Effect of tax incentives granted | (521,286) | (171,087) |
| Effect of tax rate in foreign jurisdictions | 529,072 | 513,581 |
| Effect of change in tax rate on opening deferred tax | – | (15,472) |
| Withholding tax paid in foreign jurisdictions | 450,968 | 412,348 |
| Over provision in prior years | (132,768) | (67,661) |
| Others | 119 | (3,214) |
| | 3,740,620 | 3,808,873 |

During the year, Micro-Mechanics Inc. had a loss before tax of US$437,229 (2016: US$1,222,488). The tax losses are subject to agreement with the tax authorities and compliance with tax regulations in the jurisdiction in which the subsidiary operate. Cumulative deferred tax assets with respect to taxable losses of US$9,099,339 (2016: US$8,662,110) have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

## 16 EARNINGS PER SHARE
The calculation of the basic earnings per share is based on:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Net profit for the year | 14,762,217 | 11,883,409 |
| Number of shares outstanding during the year | 139,031,881 | 139,031,881 |

There is no difference between the basic earnings per ordinary share and the diluted earnings per ordinary share as there are no potentially dilutive ordinary shares at the end of either financial year.

## 17 RELATED PARTIES
### Key management personnel compensation
Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group. The directors and the facility heads of the Company and the subsidiaries are considered as key management personnel of the Group.

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Short-term benefits of key management personnel | 3,326,116 | 2,604,901 |
| Post employment benefits | 84,589 | 93,349 |

## 18 FINANCIAL RISK MANAGEMENT
The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing the risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these financial statements.

### Risk management framework
The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

**18 FINANCIAL RISK MANAGEMENT** (continued)

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

***Trade and other receivables***

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. At the reporting date, there is no significant concentration of credit risk except for the non-trade amount due from subsidiary of $3,150,588 (2016: $4,715,243).

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Credit evaluations are performed on all customers requiring credit over a certain amount. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, whether they are wholesale, retail or end-user customer, aging profile, maturity and existence of previous financial difficulties. The Group does not require collateral in respect of financial assets.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group maintains the following line of credit:

– $2,000,000 overdraft facility that is unsecured. Interest would be payable at 1.25% above the DBS Bank Prime rate.

At the reporting date, the Group has no outstanding payable on the line of credit.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's exposure to foreign currency risk relates primarily to its US dollar, Japanese yen and Philippines peso denominated financial assets and liabilities. The Group is also exposed to the foreign currencies of the countries in which the subsidiaries operate. The Group endeavours to minimise such exposures as far as possible by matching assets and liabilities of the same currency although there is no formal hedging policy. As at 30 June 2017, the Group had outstanding foreign exchange contracts with notional amounts of approximately $9,886,225 (2016: $2,462,379) to manage exposure to foreign currency fluctuation.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 18 FINANCIAL RISK MANAGEMENT (continued)

**Market risk** (continued)

The Group's and Company's exposure to foreign currency risks in the Singapore dollar equivalents are as follows:

| | US dollar<br>$ | Japanese yen<br>$ | Philippines peso<br>$ |
|---|---|---|---|
| **Group** | | | |
| **2017** | | | |
| Trade and other receivables | 9,864,695 | 169,408 | 2,380,831 |
| Cash and cash equivalents | 1,677,503 | 40,453 | 235,591 |
| Trade and other payables | (726,311) | (208,107) | (708,484) |
| | 10,815,887 | 1,754 | 1,907,938 |
| **2016** | | | |
| Trade and other receivables | 9,810,536 | 196,070 | 1,753,893 |
| Cash and cash equivalents | 1,654,653 | 7,598 | – |
| Trade and other payables | (706,641) | (226,445) | – |
| | 10,758,548 | (22,777) | 1,753,893 |

| | US dollar<br>$ | Philippines peso<br>$ |
|---|---|---|
| **Company** | | |
| **2017** | | |
| Trade and other receivables | 982,318 | 2,168,269 |
| Cash and cash equivalents | 9,693 | – |
| Trade and other payables | (17,648) | – |
| | 974,363 | 2,168,269 |
| **2016** | | |
| Trade and other receivables | 961,349 | 1,753,893 |
| Cash and cash equivalents | 618,024 | – |
| Trade and other payables | (17,648) | – |
| | 1,561,725 | 1,753,893 |

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

## 18 FINANCIAL RISK MANAGEMENT (continued)
**Market risk** (continued)

***Sensitivity analysis***

A 10% strengthening of Singapore dollar against the following currencies at the reporting date would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| US dollar | (1,081,589) | (1,075,855) |
| Japanese yen | (175) | 2,278 |
| Philippines peso | (190,794) | (175,389) |

| | Company | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| US dollar | (97,436) | (156,173) |
| Philippines peso | (216,827) | (175,389) |

A 10% weakening of Singapore dollar against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

***Interest rate risk***

*Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, in respect of the fixed rate instruments a change in interest rates at the reporting date would not affect profit or loss.

*Cash flow sensitivity analysis for variable rate instruments*

The Group does not have any variable rate instruments as at the reporting date.

The Company's exposure to changes in interest rates relates primarily to its interest-earning financial assets. A 100 basis point increase/decrease in the interest rates on the Company's interest-earning financial assets would result in an approximate $9,823 (2016: $9,613) change in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 18 FINANCIAL RISK MANAGEMENT (continued)

**Market risk** (continued)

***Interest rate risk*** (continued)

*Cash flow sensitivity analysis for variable rate instruments* (continued)

In respect of interest-earning financial assets of the Company, the following table indicates their effective interest rates at reporting date and the periods in which they reprice or mature:

| | Effective interest rate % | Total $ | Less than 1 year $ | 1 to 5 years $ |
|---|---|---|---|---|
| **2017** | | | | |
| **Financial assets** | | | | |
| Amount owing by subsidiaries (non-trade) | 1.40% to 2.20% | 982,318 | – | 982,318 |
| **2016** | | | | |
| **Financial assets** | | | | |
| Amount owing by subsidiaries (non-trade) | 1.19% to 1.45% | 961,349 | – | 961,349 |

***Accounting classifications and fair values***

*Fair value versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | Note | Loans and receivables $ | Designated at fair value $ | Other financial liabilities $ | Total carrying amount $ | Fair value $ |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2017** | | | | | | |
| Trade and other receivables* | 7 | 11,482,711 | – | – | 11,482,711 | |
| Forward exchange contracts – assets | 7 | – | 94,785 | – | 94,785 | 94,785 |
| Cash and cash equivalents | 8 | 23,422,290 | – | – | 23,422,290 | |
| | | 34,905,001 | 94,785 | – | 34,999,786 | |
| Trade and other payables** | 12 | – | – | (7,705,924) | (7,705,924) | |
| Forward exchange contracts – liability | 12 | – | (1,174) | – | (1,174) | (1,174) |
| | | – | (1,174) | (7,705,924) | (7,707,098) | |
| **2016** | | | | | | |
| Trade and other receivables* | 7 | 9,889,255 | – | – | 9,889,255 | |
| Forward exchange contracts | 7 | – | 22,080 | – | 22,080 | 22,080 |
| Cash and cash equivalents | 8 | 20,075,178 | – | – | 20,075,178 | |
| | | 29,964,433 | 22,080 | – | 29,986,513 | |
| Trade and other payables** | 12 | – | – | (5,858,966) | (5,858,966) | |
| | | – | – | (5,858,966) | (5,858,966) | |

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 18 FINANCIAL RISK MANAGEMENT (continued)

**Market risk** (continued)

***Accounting classifications and fair values*** (continued)

*Fair value versus carrying amounts* (continued)

| | Note | Loans and receivables $ | Designated at fair value $ | Other financial liabilities $ | Total carrying amount $ | Fair value $ |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **2017** | | | | | | |
| Trade and other receivables* | 7 | 3,152,630 | – | – | 3,152,630 | 3,152,630 |
| Forward exchange contracts – assets | 7 | – | 1,000 | – | 1,000 | 1,000 |
| Cash and cash equivalents | 8 | 11,554,207 | – | – | 11,554,207 | |
| | | 14,706,837 | 1,000 | – | 14,707,837 | |
| Trade and other payables** | 12 | – | – | (343,311) | (343,311) | |
| | | – | – | (343,311) | (343,311) | |
| **2016** | | | | | | |
| Trade and other receivables* | 7 | 4,715,897 | – | – | 4,715,897 | 4,715,897 |
| Cash and cash equivalents | 8 | 9,595,997 | – | – | 9,595,997 | |
| | | 14,311,894 | – | – | 14,311,894 | |
| Trade and other payables** | 12 | – | – | (352,210) | (352,210) | |
| | | – | – | (352,210) | (352,210) | |

* Excluding advances to suppliers, prepayments and forward exchange contracts.

** Excluding advances from customers, forward exchange contracts and retirement fund for employees.

***Interest rates used for determining fair value***

The interest rates used to discount estimated cash flows, when applicable, are based on the LIBOR plus 100 basis points:

| | Company 2017 | Company 2016 |
|---|---|---|
| Trade and other receivables | 4.25% | 5.50% |

*Fair value hierarchy*

The table below analyses fair value measurements for financial assets and financial liabilities, the levels of fair value hierarchy based on the inputs to valuation techniques. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 18 FINANCIAL RISK MANAGEMENT (continued)

**Market risk** (continued)

***Interest rates used for determining fair value*** (continued)

*Fair value hierarchy* (continued)

| | Level 2<br>$ | Total<br>$ |
|---|---|---|
| **Group** | | |
| **2017** | | |
| Forward exchange contracts – asset | 94,785 | 94,785 |
| Forward exchange contracts – liability | (1,174) | (1,174) |
| **2016** | | |
| Forward exchange contracts – asset | 22,080 | 22,080 |
| **Company** | | |
| **2017** | | |
| Trade and other receivables – non-current | 982,318 | 982,318 |
| Forward exchange contracts – asset | 1,000 | 1,000 |
| **2016** | | |
| Trade and other receivables – non-current | 961,349 | 961,349 |

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|---|---|---|---|
| Forward exchange contracts | *Market comparison technique:* The fair values are based on financial institutions quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments. | Not applicable | Not applicable |
| Trade and other receivables | *Discounted cash flows:* The fair values are based on discounted estimated cash flows using LIBOR plus 100 basis points interest rates. | Not applicable | Not applicable |

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 19 COMMITMENTS

Apart from the obligations set out elsewhere, the Group had the following commitments as at reporting date:

| | Group 2017 $ | Group 2016 $ |
|---|---|---|
| Capital commitments: | | |
| – contracted but not provided for | 6,802,993 | 694,451 |
| – authorised but not contracted for | 697,996 | 425,950 |
| | 7,500,989 | 1,120,401 |
| Non-cancellable operating lease commitments: | | |
| – payable within one year | 1,246,232 | 1,143,703 |
| – payable after one year but within five years | 1,221,030 | 370,683 |
| | 2,467,262 | 1,514,386 |

## 20 SEGMENT REPORTING

The Group has five reportable segments, as discussed below, which are the Group's strategic business units. The strategic business units are managed separately because they require different marketing strategies. For each of the strategic business units, the Group's Executive Directors review internal management reports regularly. The following describes the operations in each of the Group's reportable segments:

- Singapore: Includes manufacturing and distributing of precision tools
- Malaysia: Includes manufacturing and distributing of precision tools
- The Philippines: Includes manufacturing and distributing of precision tools
- USA: Includes manufacturing of precision components and modules and distributing of precision tools
- China: Includes manufacturing and distributing of precision tools

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's Executive Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments.

Inter-segment pricing is determined on mutually agreed terms.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2017

## 20 SEGMENT REPORTING (continued)

### Operating Segments

| 2017 | Singapore $ | Malaysia $ | The Philippines $ | USA $ | China $ | Elimination $ | Consolidated $ |
|---|---|---|---|---|---|---|---|
| Total revenue from external customers | 15,615,344 | 12,589,352 | 5,385,006 | 9,494,141 | 14,145,822 | – | 57,229,665 |
| Inter-segment revenue | 6,266,911 | 1,198,573 | 569,427 | 190 | 1,544 | (8,036,645) | – |
| Total revenue | 21,882,255 | 13,787,925 | 5,954,433 | 9,494,331 | 14,147,366 | (8,036,645) | 57,229,665 |
| Segment results | 7,000,814 | 6,484,760 | 2,274,665 | (609,006) | 4,261,120 | (366,082) | 19,046,271 |
| Unallocated expenses | | | | | | | (543,434) |
| Profit from operations | | | | | | | 18,502,837 |
| Tax expense | | | | | | | (3,740,620) |
| Net profit for the year | | | | | | | 14,762,217 |
| Segment assets | 24,051,148 | 13,093,636 | 3,472,063 | 10,069,319 | 10,588,843 | (7,257,588) | 54,017,421 |
| Unallocated assets: | | | | | | | |
| Others | | | | | | | 11,577,701 |
| Total assets | | | | | | | 65,595,122 |
| Segment liabilities | 3,343,553 | 1,015,688 | 3,154,394 | 8,141,292 | 1,961,652 | (9,776,350) | 7,840,229 |
| Unallocated liabilities: | | | | | | | |
| Tax | | | | | | | 2,733,590 |
| Others | | | | | | | 250,000 |
| Total liabilities | | | | | | | 10,823,819 |
| Other segment information | | | | | | | |
| Capital expenditure | 2,070,002 | 1,335,329 | 462,680 | 275,691 | 950,589 | – | 5,094,291 |
| Depreciation | 1,359,548 | 652,256 | 443,029 | 1,388,535 | 494,509 | – | 4,337,877 |
| Non-current assets | 11,670,204 | 4,908,915 | 1,752,262 | 7,154,904 | 2,741,962 | (1,631,505) | 26,596,742 |

### Major customers

Revenues of major customers (contributing more than 10% of total revenue from external customers of each segment) of the reportable segments are as follows:

| | Singapore $ | Malaysia $ | The Philippines $ | USA $ | China $ | Total $ |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Revenue | – | 2,130,014 | 2,771,159 | 8,315,396 | 2,260,970 | 15,477,539 |
| Number of customers | – | 1 | 3 | 4 | 1 | 9 |

# NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2017

## 20 SEGMENT REPORTING (continued)
### Major customers (continued)

| 2016 | Singapore $ | Malaysia $ | The Philippines $ | USA $ | China $ | Elimination $ | Consolidated $ |
|---|---|---|---|---|---|---|---|
| Total revenue from external customers | 13,422,511 | 11,296,057 | 4,752,731 | 7,996,850 | 13,782,893 | – | 51,251,042 |
| Inter-segment revenue | 5,455,914 | 1,271,080 | 452,934 | 4,960 | – | (7,184,888) | – |
| Total revenue | 18,878,425 | 12,567,137 | 5,205,665 | 8,001,810 | 13,782,893 | (7,184,888) | 51,251,042 |
| Segment results | 6,187,255 | 5,655,954 | 1,970,272 | (1,690,860) | 4,360,914 | 2,786,200 | 19,629,735 |
| Unallocated expenses | | | | | | | (3,577,453) |
| Profit from operations | | | | | | | 15,692,282 |
| Income tax expense | | | | | | | (3,808,873) |
| Net profit for the year | | | | | | | 11,883,409 |
| Segment assets | 21,904,771 | 11,502,665 | 3,143,513 | 10,113,881 | 9,880,391 | (6,819,269) | 49,725,952 |
| Unallocated assets: | | | | | | | |
| Others | | | | | | | 9,610,204 |
| Total assets | | | | | | | 59,336,156 |
| Segment liabilities | 4,334,222 | 799,205 | 2,800,234 | 6,666,704 | 1,600,560 | (10,615,079) | 5,585,846 |
| Unallocated liabilities: | | | | | | | |
| Tax | | | | | | | 2,904,288 |
| Others | | | | | | | 602,475 |
| Total liabilities | | | | | | | 9,092,609 |
| Other segment information | | | | | | | |
| Capital expenditure | 705,356 | 632,089 | 857,854 | 889,450 | 1,011,072 | – | 4,095,821 |
| Depreciation | 1,274,117 | 717,732 | 448,339 | 1,362,637 | 620,069 | – | 4,422,894 |
| Non-current assets | 9,406,222 | 4,307,165 | 1,814,309 | 7,860,739 | 2,263,587 | (7,240) | 25,644,782 |

### Major customers
Revenues of major customers (contributing more than 10% of total revenue from external customers of each segment) of the reportable segments are as follows:

| | Singapore $ | Malaysia $ | The Philippines $ | USA $ | China $ | Total $ |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Revenue | – | 2,987,276 | 2,755,796 | 5,616,893 | 2,560,994 | 13,920,959 |
| Number of customers | – | 2 | 4 | 4 | 1 | 11 |

# SHAREHOLDERS' STATISTICS

As at 31 August 2017

## SHARE CAPITAL

| | | |
|---|---|---|
| Number of Shares | : | 139,031,881 |
| Class of Shares | : | Fully paid ordinary shares |
| Voting Rights | : | On a poll – 1 vote for each ordinary share held |

Based on the information available to the Company as at 31 August 2017, the percentage of shareholding held in the hands of the public is approximately 39.08% which is more than 10% of the issued ordinary shares of the Company. Therefore Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited has been complied with.

## SUBSTANTIAL SHAREHOLDERS AS AT 31 AUGUST 2017

| | Name | Shareholdings beneficially held by the substantial shareholder | | Other shareholdings in which the substantial shareholder is deemed to have an interest | |
|---|---|---|---|---|---|
| | | No. of Shares | % | No. of Shares | % |
| 1 | Christopher Reid Borch | 35,224,913* | 25.34% | 37,860,256** | 27.23% |
| 2 | Sarcadia LLC | 37,760,256 | 27.16% | – | – |
| 3 | Low Ming Wah*** | 7,126,001 | 5.13% | 1,000 | 0.00% |
| 4 | Frederic Louis Borch**** | 859,500 | 0.62% | 37,760,256 | 27.16% |
| 5 | Andrea W. Borch**** | – | – | 37,760,256 | 27.16% |
| 6 | Kyle Christopher Borch**** | 25,000 | 0.02% | 37,760,256 | 27.16% |
| 7 | Tyler Campbell Borch**** | 25,000 | 0.02% | 37,760,256 | 27.16% |
| 8 | Cameron Louis Borch**** | 25,000 | 0.02% | 37,760,256 | 27.16% |
| 9 | Allison Ruth Borch**** | 25,000 | 0.02% | 37,760,256 | 27.16% |

* *Include 2,500,000 shares held in the name of Christopher R. Borch's nominee, Phillip Securities Pte Ltd.*

** *Deemed to be interested in 37,760,256 shares held by Sarcadia LLC and 100,000 shares held by his children.*

*** *Deemed to be interested in 1,000 shares held by spouse.*

**** *Deemed to be interested in 37,760,256 shares held by Sarcadia LLC.*

# SHAREHOLDERS' STATISTICS

As at 31 August 2017

## ANALYSIS OF SHAREHOLDERS BY RANGE AS AT 31 AUGUST 2017

| Size of Shareholdings | No. of Shareholders | % of Shareholders | No. of Shares | % of Issued share capital |
|---|---|---|---|---|
| 1 – 99 | 14 | 1.40 | 523 | 0.00 |
| 100 – 1,000 | 207 | 20.66 | 166,752 | 0.12 |
| 1,001 – 10,000 | 427 | 42.61 | 2,159,816 | 1.55 |
| 10,001 – 1,000,000 | 338 | 33.73 | 25,831,221 | 18.58 |
| 1,000,001 and above | 16 | 1.60 | 110,873,569 | 79.75 |
| Total | 1,002 | 100.00 | 139,031,881 | 100.00 |

## TWENTY LARGEST SHAREHOLDERS AS AT 31 AUGUST 2017

| | Name | No. of Shares | % of Issued share capital |
|---|---|---|---|
| 1 | Sarcardia LLC | 37,760,256 | 27.16 |
| 2 | Christopher Reid Borch | 32,724,913 | 23.54 |
| 3 | Citibank Nominees Singapore Pte Ltd | 7,825,050 | 5.63 |
| 4 | Low Ming Wah | 7,126,001 | 5.13 |
| 5 | Raffles Nominees (Pte) Ltd | 3,401,100 | 2.45 |
| 6 | Phillip Securities Pte Ltd | 3,056,200 | 2.20 |
| 7 | OCBC Securities Private Ltd | 2,923,549 | 2.10 |
| 8 | Chow Kam Wing | 2,811,000 | 2.02 |
| 9 | DBS Nominees Pte Ltd | 2,773,500 | 1.99 |
| 10 | Lam Yen Yong | 2,191,000 | 1.57 |
| 11 | Tan Eng Yam @ Tan Eng Ann | 2,059,100 | 1.48 |
| 12 | UOB Kay Hian Pte Ltd | 1,478,200 | 1.06 |
| 13 | Tan Eng Yam Holdings Pte Ltd | 1,461,200 | 1.05 |
| 14 | Tan Boon Khak Holdings Pte Ltd | 1,230,500 | 0.89 |
| 15 | Yeo Seng Chong | 1,050,500 | 0.76 |
| 16 | Karl Zurfluh | 1,001,500 | 0.72 |
| 17 | Lim Yong Wah | 995,500 | 0.71 |
| 18 | Yeap Lam Yang | 960,000 | 0.69 |
| 19 | Chen Wei Ching | 860,000 | 0.62 |
| 20 | Frederic Louis Borch | 859,500 | 0.62 |
| | Total | 114,548,569 | 82.39 |

# NOTICE OF TWENTY-FIRST ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty-First Annual General Meeting of the Company will be held at Central Public Library, Level 5, Possibility Room, 100 Victoria Street, Singapore 188064 on Monday, 30 October 2017 at 2.00 p.m. to transact the following business:–

**Ordinary Business**

1 To receive and adopt the Directors' Statement and Audited Financial Statements for the financial year ended 30 June 2017 and the Auditors' Report thereon. **[Resolution 1]**

2 To declare a final dividend of four cents per ordinary share tax exempt (one-tier) and a special dividend of one cent per ordinary share tax exempt (one-tier) for the financial year ended 30 June 2017. **[Resolution 2]**

3 To re-elect Mr Christopher Reid Borch, who retires by rotation pursuant to Article 91 of the Company's Constitution, as Director of the Company. **[Resolution 3]**
**[See Explanatory Note (a)]**

4 To re-elect Ms Lai Chin Yee, who retires by rotation pursuant to Article 91 of the Company's Constitution, as Director of the Company. **[Resolution 4]**
**[See Explanatory Note (a)]**

5 To approve the payment of Directors' Fees of S$290,000 for the financial year ended 30 June 2017 (2016: S$290,000) **[Resolution 5]**

6 To re-appoint KPMG LLP as Auditors of the Company and to authorise the Directors to fix their remuneration. **[Resolution 6]**

7 To transact any other business that may be transacted at an Annual General Meeting.

**Special Business**

To consider and, if thought fit, to pass the following as Ordinary Resolutions, with or without modifications:–

8 **Authority to allot and issue shares in the capital of the Company**

That pursuant to Section 161 of the Companies Act, Chapter 50 (Act), the Constitution and the listing rules of the Singapore Exchange Securities Trading Limited (SGX-ST), authority be and is hereby given to the directors of the Company to:–

(a) (i) allot and issue shares in the capital of the Company (***Shares***) (whether by way of rights, bonus or otherwise); and/or

(ii) make or grant offers, agreements, or options (collectively, ***Instruments***) that might or would require Shares to be issued, including but not limited to the creation and issue of warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

# NOTICE OF TWENTY-FIRST ANNUAL GENERAL MEETING

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instruments made or granted by the Directors while this Resolution was in force,

provided that:

(1) the aggregate number of Shares to be issued pursuant to this Resolution (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time of the passing of this Resolution (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares issued other than on a pro-rata basis to existing shareholders (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 10% of the Company's total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) (as calculated in accordance with sub-paragraph (2) below); and

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) shall be calculated based on the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time of the passing of this Resolution, after adjusting for:–

    (a) new Shares arising from the conversion or exercise of convertible securities;

    (b) new Shares arising from the exercise of share options or vesting of share awards outstanding or subsisting at the time this Resolution is passed, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the SGX-ST Listing Manual; and

    (c) any subsequent bonus issue, consolidation or subdivision of Shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the requirements imposed by the SGX-ST from time to time and the provisions of the listing rules of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company; and

(4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier.

**[See Explanatory Note (b)]** **[Resolution 7]**

# NOTICE OF TWENTY-FIRST ANNUAL GENERAL MEETING

9 **Authority to allot and issue shares under Micro-Mechanics Performance Share Plan**

The Directors of the Company be and are hereby authorised to offer and grant awards (the ***Awards***) in accordance with the provisions of the Micro-Mechanics Performance Share Plan and to deliver existing Shares, including treasury shares, and to allot and issue from time to time such number of Shares in the capital of the Company as may be required to be allotted and issued pursuant to the vesting of Awards under the Micro-Mechanics Performance Share Plan, provided that the aggregate number of new Shares to be allotted and issued pursuant to the Micro-Mechanics Performance Share Plan shall not exceed five per cent of the total number of issued Shares in the capital of the Company (excluding treasury shares and subsidiary holdings, if any) from time to time.
**[See Explanatory Note (c)]** **[Resolution 8]**

By Order of the Board

Chow Kam Wing
Company Secretary
29 September 2017
Singapore

**Explanatory Notes:**

(a) For ordinary resolutions 3 and 4 under items 3 and 4 above, detailed information on the two Directors can be found under "Board of Directors", "Corporate Information" and "Corporate Governance" in the Company's Annual Report FY2017. Save as disclosed in those sections, there are no relationships including immediate family relationships between each of the said Directors and the other Directors, the Company or its 10% shareholders, except for Mr Christopher Reid Borch who has an interest in Sarcadia LLC which holds 27.16% of the Company's issued share capital.

Ms Lai Chin Yee, if re-elected as Director of the Company, will remain as the Chairman of the Audit Committee and Risk Management Committee and a member of the Remuneration Committee and Nominating Committee and will be considered as an independent director.

(b) The ordinary resolution 7 set out in item 8 above, if passed, will empower the Directors from the date of this Annual General Meeting until the date of the next Annual General Meeting to issue Shares, make or grant instruments convertible into Shares and to issue Shares pursuant to such instruments up to an aggregate number not exceeding 50% of the total number of issued Shares excluding treasury shares and subsidiary holdings, if any, in the capital of the Company, with a sub-limit of 10% for issues other than on a pro- rata basis.

(c) The ordinary resolution 8 under item 9 above, if passed, will empower the Directors of the Company to allot and issue Shares in the capital of the Company pursuant to the vesting of Awards under the Micro-Mechanics Performance Share Plan, provided that the aggregate number of Shares to be issued under the Micro-Mechanics Performance Share Plan of the Company does not exceed 5% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company, at any time.

# NOTICE OF TWENTY-FIRST ANNUAL GENERAL MEETING

**Notes:**

1 (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the Annual General Meeting. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

(b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the Annual General Meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

"Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Cap 50.

2 A proxy need not be a member of the Company.

3 The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 31 Kaki Bukit Place, Eunos Techpark, Singapore 416209 not less than 48 hours before the time appointed for holding the Annual General Meeting.

**Personal data privacy**

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing and administration by the Company (or its agents or service providers) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

**NOTICE OF BOOKS CLOSURE AND DIVIDENDS PAYMENT DATE**

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of Micro-Mechanics (Holdings) Ltd. (the "Company") will be closed on 8 November 2017 for the preparation of dividend warrants.

Duly completed registrable transfers received by the Company's Share Registrar, M & C Services Private Limited, 112 Robinson Road, #05-01, Singapore 068902 up to 5.00 p.m. on 7 November 2017 will be registered to determine shareholders' entitlements to the said dividend.

Members whose Securities Accounts with the Central Depository (Pte) Limited are credited with shares at 5.00 p.m. on 7 November 2017 will be entitled to the proposed dividend.

The proposed dividend, if approved by the members at the Twenty-First Annual General Meeting to be held on 30 October 2017, will be paid on 17 November 2017.

**MICRO-MECHANICS (HOLDINGS) LTD.**
(Incorporated in the Republic of Singapore)
(Company Registration No: 199604632W)

**IMPORTANT**
1. Relevant intermediaries as defined in Section 181 of the Companies Act, Cap. 50 may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. For CPF/SRS investors who have used their CPF/SRS monies to buy shares in Micro-Mechanics (Holdings) Ltd., this proxy form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors should contact their respective Agent Banks if they have any queries regarding their appointment as proxies.
3. By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the notice of Annual General Meeting dated 29 September 2017.

## PROXY FORM

I/We ______________________________ NRIC/Passport/Co. Registration No. ______________

of ______________________________________________

being a member/members of **MICRO-MECHANICS (HOLDINGS) LTD.** hereby appoint

| Name | Address | NRIC/Passport No. | Number of Shares Represented |
|---|---|---|---|
| | | | |

and/or (delete as appropriate)

| Name | Address | NRIC/Passport No. | Number of Shares Represented |
|---|---|---|---|
| | | | |

as my/our proxy/proxies to attend, speak and vote for me/us on my/our behalf at the Annual General Meeting ("AGM") of the Company to be held at Central Public Library, Level 5, Possibility Room, 100 Victoria Street, Singapore 188064 on **Monday, 30 October 2017 at 2.00 p.m.** and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the AGM and at any adjournment thereof.

| No. | Resolutions Relating To: | No. of Votes For* | No. of Votes Against* |
|---|---|---|---|
| **ORDINARY BUSINESS** | | | |
| 1 | Directors' Statement and Audited Financial Statements for the financial year ended 30 June 2017 | | |
| 2 | Payment of final and special dividends | | |
| 3 | Re-election of Mr Christopher Reid Borch as director | | |
| 4 | Re-election of Ms Lai Chin Yee as director | | |
| 5 | Approval of directors' fees | | |
| 6 | Re-appointment of KPMG LLP as auditors | | |
| **SPECIAL BUSINESS** | | | |
| 7 | Authority to allot and issue new shares | | |
| 8 | Authority to allot and issue shares under Micro-Mechanics Performance Share Plan | | |

* Voting will be conducted by poll. If you wish to exercise all your votes "For" or "Against" the relevant Resolution, please indicate with an "X" in the relevant box provided. Alternatively, if you wish to exercise your votes both "For" and "Against" the relevant Resolution, please insert the relevant number of Shares in the boxes provided.

Dated this ________ day of ______________ 2017

| Total Number of Shares held | |
|---|---|
| (a) CDP Register | |
| (b) Register of Members | |

______________________________
Signature(s) of Member(s) or
Common Seal of Corporate Member

**IMPORTANT**
PLEASE READ NOTES OVERLEAF

**Notes:**

1. A member should insert the total number of shares held by him. If the member has shares entered against his name in the Depository Register (maintained by The Central Depository (Pte) Limited), he should insert that number of shares. If the member has shares registered in his name in the Register of Members (maintained by or on behalf of the Company), he should insert that number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members, he should insert the aggregate number of shares entered against his name in the Depository Register and registered in his name in the Register of Members. If the number of shares is not inserted, this form of proxy will be deemed to relate to all the shares held by the member.

2. (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the meeting. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

   (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

   "Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Cap. 50.

3. A proxy need not be a member of the Company.

(1) Fold along this line

Affix
Postage
Stamp

**Micro-Mechanics (Holdings) Ltd.**
No. 31 Kaki Bukit Place
Eunos Techpark
Singapore 416209

Attn: Company Secretary

(2) Fold along this line

4. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 31 Kaki Bukit Place, Eunos Techpark, Singapore 416209 not less than 48 hours before the time appointed for holding the AGM.

5. The instrument appointing a proxy shall be signed by the appointor or his attorney. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid. In the case of a corporation, the instrument appointing a proxy shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.

6. Any corporation which is a member of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at the meeting.

7. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company shall be entitled to reject any instrument of proxy if the member, being the appointor, is not shown to have any shares entered against his name in the Depository Register as at 72 hours before the time of the AGM, as certified by The Central Depository (Pte) Limited to the Company.

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# CORPORATE DIRECTORY

## SUBSIDIARIES

### SINGAPORE

**Micro-Mechanics Pte Ltd**
No. 31 Kaki Bukit Place
Eunos Techpark
Singapore 416209
Tel: 65-6746-8800
Fax: 65-6746-7700
Mmsingapore@micro-mechanics.com

### MALAYSIA

**Micro-Mechanics Technology Sdn. Bhd.**
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Fax: 604-643-4628
Mmmalaysia@micro-mechanics.com

### PHILIPPINES

**Micro-Mechanics Technology International Inc.**
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### CHINA

**Suzhou Factory**
**Micro-Mechanics Technology (Suzhou) Co., Ltd**
8A Suchun Industrial Square
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Tel: 86-512-8716-8800
Fax: 86-512-8716-7700
Mmsuzhou@micro-mechanics.com

### USA

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465 Woodview Drive
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### TAIWAN

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