

MICRO-MECHANICS (HOLDINGS) LTD

Unaudited Second Quarter Financial Statements Announcement for the period ended 31/12/2015

PART I INFORMATION REQUIRED FOR ANNOUNCEMENTS OF FULL YEAR RESULTS

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

	Note	Group					
		Q2			Half year		
		Oct to Dec 2015 S\$	Oct to Dec 2014 S\$	Change	Jul to Dec 2015 S\$	Jul to Dec 2014 S\$	Change
Revenue	(1)	12,190,197	12,893,988	(5.5%)	25,793,047	25,932,176	(0.5%)
Cost of sales	(2)	(5,378,725)	(5,836,241)	(7.8%)	(11,185,509)	(11,981,375)	(6.6%)
Gross profit		6,811,472	7,057,747	(3.5%)	14,607,538	13,950,801	4.7%
Other income	(3)	14,574	512,874	(97.2%)	532,283	787,494	(32.4%)
Distribution costs		(702,974)	(724,152)	(2.9%)	(1,454,839)	(1,444,237)	0.7%
Administrative expenses	(4)	(1,855,972)	(2,314,815)	(19.8%)	(3,992,113)	(4,553,147)	(12.3%)
Other operating expenses	(5)	(769,051)	(750,988)	2.4%	(1,541,159)	(1,392,714)	10.7%
Profit from operations		3,498,049	3,780,666	(7.5%)	8,151,710	7,348,197	10.9%
Finance costs		-	-	-	-	-	-
Profit before income tax	(6)	3,498,049	3,780,666	(7.5%)	8,151,710	7,348,197	10.9%
Income tax expense	(7)	(775,397)	(1,108,937)	(30.1%)	(1,835,320)	(1,877,845)	(2.3%)
Profit after tax		2,722,652	2,671,729	1.9%	6,316,390	5,470,352	15.5%
Non-controlling interests		-	-	-	-	-	-
Profit for the period		2,722,652	2,671,729	1.9%	6,316,390	5,470,352	15.5%
Statement of Comprehensive Income							
Profit for the period		2,722,652	2,671,729	1.9%	6,316,390	5,470,352	15.5%
Other comprehensive income:							
Foreign currency translation differences for foreign operations, net of tax		199,568	(70,677)	(382.4%)	(1,031,265)	(7,572)	n.m.
Total comprehensive income for the period		2,922,220	2,601,052	12.3%	5,285,125	5,462,780	(3.3%)

n.m.: Not meaningful

Notes:

- (1) Please refer to section 8 of this announcement for an analysis of the Group's revenue.
- (2) Cost of sales decreased in line with the decrease in sales. Production headcount reduced from 298 in 2Q15 to 291 in 2Q16.

- (3) Other income consists of:

	Q2			Half year		
	Oct to Dec 2015 S\$	Oct to Dec 2014 S\$	Change	Jul to Dec 2015 S\$	Jul to Dec 2014 S\$	Change
Gain/(loss) on disposal of property, plant and equipment	4,651	(72,959)	(106.4%)	99,133	(4,605)	(2252.7%)
Gain on disposal of assets held for disposal	-	250,384	(100.0%)	-	250,384	(100.0%)
Interest income from banks and others	31,326	34,033	(8.0%)	68,003	67,308	1.0%
Rental income	27,616	32,317	(14.5%)	55,966	65,241	(14.2%)
Government grant – Skill Redevelopment and Capability Development Scheme	18,323	10,645	72.1%	27,673	19,616	41.1%
Exchange (loss)/gain	(84,107)	221,665	(137.9%)	243,742	318,053	(23.4%)
Others	16,765	36,789	(54.4%)	37,766	71,497	(47.2%)

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

	Q2			Half year		
	Oct to Dec 2015 S\$	Oct to Dec 2014 S\$	Change	Jul to Dec 2015 S\$	Jul to Dec 2014 S\$	Change
Trade receivables written off	11,505	-	n.m.	11,505	1,165	887.6%
Depreciation of property, plant and equipment	1,114,199	1,170,802	(4.8%)	2,260,033	2,343,116	(3.5%)
Inventories written off	23,180	30,619	(24.3%)	38,125	58,841	(35.2%)
Fixed assets written off	11	-	n.m.	320	-	n.m.

- (7) The effective tax rate for 2Q16 was 22.2% as compared to 29.3% in 2Q15. Included in the tax expense for 1H16 was withholding tax of S\$126k paid in relation to dividends remitted to Singapore from various overseas subsidiaries and a provision made of S\$65k in relation to withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.
- (8) Depreciation expenses in 2Q16 decreased 4.8% to S\$1.1 million as some equipment were fully depreciated in the current quarter as compared to 2Q15.

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

	Note	Group 31 Dec 15 S\$	Group 30 Jun 15 S\$	Company 31 Dec 15 S\$	Company 30 Jun 15 S\$
Non-current assets					
Property, plant and equipment	(1)	25,515,308	26,645,774	-	-
Subsidiaries		-	-	21,282,370	17,855,816
Trade and other receivables		288,808	273,017	1,007,423	4,696,028
		25,804,116	26,918,791	22,289,793	22,551,844
Current assets					
Inventories		3,249,593	3,504,331	-	-
Trade and other receivables		9,948,834	10,173,370	2,292,560	6,848,896
Cash and cash equivalents		16,640,179	15,161,285	8,149,552	2,411,980
		29,838,606	28,838,986	10,442,112	9,260,876
Total assets		55,642,722	55,757,777	32,731,905	31,812,720
Shareholders' equity					
Share capital	(2)	14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve		(4,391,148)	(3,359,883)	-	-
Accumulated profits		37,608,303	35,462,869	17,744,945	16,639,957
		48,000,086	46,885,917	32,527,876	31,422,888
Non-current liabilities					
Deferred tax liabilities		1,328,739	1,344,479	-	-
Other payables		255,213	235,087	-	-
		1,583,952	1,579,566	-	-
Current liabilities					
Trade and other payables		4,543,868	5,861,722	200,139	385,463
Current tax payable		1,514,816	1,430,572	3,890	4,369
		6,058,684	7,292,294	204,029	389,832
Total liabilities		7,642,636	8,871,860	204,029	389,832
Total equity and liabilities		55,642,722	55,757,777	32,731,905	31,812,720

Notes:

- (1) On 4 November 2015, the Group announced an increase in investment in its USA subsidiary from US\$4.5 million to US\$10.5 million through the capitalization of an inter-company loan.
- (2) The movement in foreign currency translation reserves was mainly due to the depreciation of the Malaysia Ringgit and Chinese Renminbi against the Singapore Dollar.

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

Amount repayable in one year or less or on demand

As at 31 Dec 15		As at 30 June 15	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Amount repayable after one year

As at 31 Dec 15		As at 30 June 15	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Details of any collateral

Not applicable

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

	Note	GROUP			
		Q2		Half year	
		Oct to Dec 2015 S\$	Oct to Dec 2014 S\$	Jul to Dec 2015 S\$	Jul to Dec 2014 S\$
Cash flows from operating activities					
Profit before income tax		3,498,049	3,780,666	8,151,710	7,348,197
Adjustments for:					
Depreciation of property, plant and equipment		1,114,199	1,170,802	2,260,033	2,343,116
Fixed assets written off		11	-	320	-
(Gain)/Loss on disposal of property, plant and equipment		(4,651)	72,959	(99,133)	4,605
Gain on disposal of assets held for sale		-	(250,384)	-	(250,384)
Interest income		(31,326)	(34,033)	(68,003)	(67,308)
Operating profit before changes in working capital		4,576,282	4,740,010	10,244,927	9,378,226
Inventories		231,208	(164,930)	254,738	(354,443)
Trade and other receivables		1,112,886	(365,758)	181,755	(1,532,443)
Trade and other payables		(1,945,615)	(372,098)	(1,427,315)	349,749
Cash generated from operations		3,974,761	3,837,224	9,254,105	7,841,089
Income tax paid		(995,735)	(659,439)	(1,573,375)	(852,963)
Net cash from operating activities		2,979,026	3,177,785	7,680,730	6,988,126
Cash flows from investing activities					
Purchase of property, plant and equipment		(372,405)	(835,776)	(1,141,989)	(2,362,434)
Proceeds from disposal of property, plant and equipment		2,938	150,365	203,201	317,865
Proceeds from disposal of assets held for sale		-	317,136	-	317,136
Interest received		28,810	35,538	94,992	84,414
Net cash used in investing activities		(340,657)	(332,737)	(843,796)	(1,643,019)
Cash flows from financing activities					
Deposits pledged		(4,451)	5,369	13,474	5,001
Dividends paid	(1)	(4,170,956)	(2,780,638)	(4,170,956)	(2,780,638)
Net cash used in financing activities		(4,175,407)	(2,775,269)	(4,157,482)	(2,775,637)
Net (decrease)/increase in cash and cash equivalents		(1,537,038)	69,779	2,679,452	2,569,470
Cash and cash equivalents at beginning of period		17,789,079	13,257,448	14,983,111	10,879,132
Effect of exchange rate fluctuations		223,439	(69,815)	(1,187,083)	(191,190)
Cash and cash equivalents at the end of period	(2)	16,475,480	13,257,412	16,475,480	13,257,412

Notes:

- (1) The Company paid a final dividend of 2.0 cents per ordinary share (one-tier tax exempt) and special dividend of 1.0 cent per ordinary share (one-tier tax exempt) on 18 November 2015 in respect of financial year ended 30 June 2015.
- (2) Cash and cash equivalent is derived from:

	Group 31 Dec 15 S\$	Group 30 June 15 S\$
Cash and cash equivalent balances	16,640,179	15,161,285
Less: Pledged cash placed with bank	(164,699)	(178,174)
	16,475,480	14,983,111

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

	Share Capital S\$	Foreign Currency Translation Reserve S\$	Accumulated Profits S\$	Total S\$
The Group				
As at 1 July 2014	14,782,931	(2,673,143)	29,002,896	41,112,684
Total comprehensive income for the period				
Net profit for the period	-	-	5,470,352	5,470,352
Other comprehensive income				
Foreign currency translation differences, net of tax	-	(7,572)	-	(7,572)
Total comprehensive income for the period	-	(7,572)	5,470,352	5,462,780
Transactions with owners, recorded directly in equity				
Final dividend of 2 cents per share (one-tier tax exempt) in respect of FY2014	-	-	(2,780,638)	(2,780,638)
Total transactions with owners, recorded directly in equity	-	-	(2,780,638)	(2,780,638)
As at 31 December 2014	14,782,931	(2,680,715)	31,692,610	43,794,826
As at 1 July 2015	14,782,931	(3,359,883)	35,462,869	46,885,917
Total comprehensive income for the period				
Net profit for the period	-	-	6,316,390	6,316,390
Other comprehensive income				
Foreign currency translation differences, net of tax	-	(1,031,265)	-	(1,031,265)
Total comprehensive income for the period	-	(1,031,265)	6,316,390	5,285,125
Transactions with owners, recorded directly in equity				
Final dividend of 3 cents per share (one-tier tax exempt) in respect of FY2015	-	-	(4,170,956)	(4,170,956)
Total transactions with owners, recorded directly in equity	-	-	(4,170,956)	(4,170,956)
As at 31 December 2015	14,782,931	(4,391,148)	37,608,303	48,000,086

	Share Capital	Foreign Currency Translation Reserve	Accumulated Profits	Total
	S\$	S\$	S\$	S\$
The Company				
As at 1 July 2014	14,782,931	-	15,728,174	30,511,105
Total comprehensive income for the period				
Net profit for the period	-	-	3,675,974	3,675,974
Total comprehensive income for the period	-	-	3,675,974	3,675,974
Transactions with owners, recorded directly in equity				
Final dividend of 2 cents per share (one-tier tax exempt) in respect of FY2014	-	-	(2,780,638)	(2,780,638)
Total transactions with owners, recorded directly in equity	-	-	(2,780,638)	(2,780,638)
As at 31 December 2014	14,782,931	-	16,623,510	31,406,441
As at 1 July 2015	14,782,931	-	16,639,957	31,422,888
Total comprehensive income for the period				
Net profit for the period	-	-	5,275,944	5,275,944
Total comprehensive income for the period	-	-	5,275,944	5,275,944
Transactions with owners, recorded directly in equity				
Final dividend of 3 cents per share (one-tier tax exempt) in respect of FY2015	-	-	(4,170,956)	(4,170,956)
Total transactions with owners, recorded directly in equity	-	-	(4,170,956)	(4,170,956)
As at 31 December 2015	14,782,931	-	17,744,945	32,527,876

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Nil

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

The total number of shares were 139,031,881 ordinary shares as at both 31 December 2015 and 31 December 2014. The Company did not have any treasury shares as at the end of the current financial period or at the end of the immediately preceding year.

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

Not applicable.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the auditors.

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

Not applicable.

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

Yes.

5. **If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Not applicable

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

	GROUP			
	Q2		Half year	
	Oct to Dec 2015	Oct to Dec 2014	Jul to Dec 2015	Jul to Dec 2014
Earnings per ordinary share for the year based on net profit after tax and non-controlling interest:-				
(i) Based on weighted average number of ordinary shares in issue	1.96 cents	1.92 cents	4.54 cents	3.93 cents
(ii) On a fully diluted basis	1.96 cents	1.92 cents	4.54 cents	3.93 cents

The calculation is based on the weighted average number of shares in issue during the financial year. The weighted average number of shares outstanding during the year was 139,031,881 (31 December 2014: 139,031,881).

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-**

- (a) current financial period reported on; and
(b) immediately preceding financial year.

	Group 31 Dec 15	Group 30 Jun 15	Company 31 Dec 15	Company 30 Jun 15
Net Asset Value per ordinary share (cents)	34.52	33.72	23.40	22.60

The net asset value per ordinary share is calculated based on net assets of S\$48.0 million (30 June 2015: S\$46.9 million) and 139,031,881 (30 June 2015: 139,031,881) shares in issue at the end of the current financial year reported on/immediately preceding financial year.

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

REVIEW OF PROFIT AND LOSS

Semiconductor Industry Review

Based on data from the Semiconductor Industry Association (SIA), worldwide sales of semiconductors in October 2015 and November 2015 decreased 2.5% and 3.0% year-on-year to US\$29.0 billion and US\$28.9 billion respectively. The SIA said that softening demand and lingering macroeconomic challenges have continued to

limit global semiconductor sales but that the industry may still narrowly surpass total annual sales in 2014. The SIA has endorsed the semiconductor market forecast generated in November 2015 by World Semiconductor Trade Statistics (WSTS) which expects global semiconductor sales to grow 0.2% to US\$336 billion in 2015.

The WSTS is forecasting the worldwide semiconductor market to show moderate improvement over the next two years with growth of 1.4% to US\$341 billion in 2016, and 3.1% to US\$352 billion in 2017.

Group Revenue

		1Q	2Q	3Q	4Q	Full Year
REVENUE	FY2016	S\$13,602,850	S\$12,190,197	NA	NA	NA
	FY2015	S\$13,038,188	S\$12,893,988	S\$13,397,284	S\$12,867,586	S\$52,197,046
	% growth	4.3%	(5.5%)	NA	NA	NA

For the three months ended 31 December 2015 (2Q16), the Group's revenue decreased 5.5% year-on-year (yoy) to S\$12.2 million. On a quarter-on-quarter (qoq) basis, Group revenue declined 10.4% from S\$13.6 million in 1Q16. The revenue contraction in 2Q16 was due to lower sales of the semiconductor tooling and Custom Machining & Assembly (CMA) business which was in line with slower conditions in the technology sector.

For the six months ended 31 December 2015 (1H16), Group revenue was stable at S\$25.8 million as compared to the previous half-year period.

Revenue breakdown by Product Segment

		1Q	2Q	3Q	4Q	Full Year
SEMICONDUCTOR TOOLING REVENUE	FY2016	S\$11,950,869	S\$10,814,156	NA	NA	NA
	FY2015	S\$11,348,221	S\$11,147,406	S\$11,318,663	S\$10,930,581	S\$44,744,871
	% growth	5.3%	(3.0%)	NA	NA	NA

		1Q	2Q	3Q	4Q	Full Year
CMA REVENUE	FY2016	S\$1,651,981	S\$1,376,041	NA	NA	NA
	FY2015	S\$1,689,967	S\$1,746,582	S\$2,078,621	S\$1,937,005	S\$7,452,175
	% growth	(2.2%)	(21.2%)	NA	NA	NA

The Group's semiconductor tooling segment, which serves customers involved in the assembly and testing of semiconductors, posted a 3.0% decrease in sales to S\$10.8 million in 2Q16. On a qoq basis, sales of our semiconductor tooling segment in 2Q16 declined 9.5% from S\$11.9 million in 1Q16 due to seasonality factors and slower conditions in the technology sector.

Our CMA division, which serves high technology capital equipment manufacturers in the aerospace, medical, laser and wafer fabrication industries, reported lower revenue of S\$1.4 million in 2Q16 as compared to S\$1.7 million in 2Q15 mainly due to softness in the semi-conductor equipment market.

In 1H16, the semiconductor tooling and CMA segments accounted for approximately 88% and 12% respectively of the Group's revenue.

Revenue breakdown by Geographical Market

Country	Group										
	1Q16 S\$	2Q16		2Q15		% change	1H16		1H15		% change
	S\$ m	S\$ m	%	S\$ m	%		S\$ m	%	S\$ m	%	
Singapore	0.8	0.6	5%	0.9	7%	(28.8%)	1.4	5%	1.7	7%	(15.5%)
Malaysia	2.7	2.5	21%	2.7	21%	(6.5%)	5.2	20%	5.7	22%	(9.3%)
Philippines	1.3	1.1	10%	1.1	9%	1.3%	2.4	9%	2.2	9%	7.5%
Thailand	0.3	0.2	2%	0.2	2%	8.9%	0.5	2%	0.8	3%	(39.0%)
China	4.2	3.5	29%	3.4	27%	0.6%	7.7	30%	6.7	26%	14.2%
USA	1.8	1.7	14%	1.8	14%	(4.2%)	3.5	14%	3.7	14%	(2.5%)
Europe	0.6	0.7	4%	0.6	4%	8.3%	1.3	5%	1.1	4%	13.8%
Japan	0.2	0.3	2%	0.3	2%	(6.4%)	0.5	2%	0.5	2%	(10.7%)
Taiwan	1.4	1.2	10%	1.4	11%	(11.2%)	2.6	10%	2.6	10%	2.0%
Rest of world	0.3	0.4	3%	0.5	3%	(26.4%)	0.7	3%	0.9	3%	(23.4%)
Total	13.6	12.2	100%	12.9	100%	(5.5%)	25.8	100%	25.9	100%	(0.5%)

Despite the slowdown in the semiconductor industry, China, our largest semiconductor tooling market, generated steady sales of S\$3.5 million which accounted for 29% of the Group's revenue in 2Q16. However, the sales of semiconductor tools from the Group's other markets were generally lower in 2Q16. While sales in Malaysia increased in volume terms, revenue from this market registered a decrease of 6.5% yoy, a result of a 9% depreciation of the Malaysian Ringgit against the Singapore Dollar.

Sales to customers in the USA, which is mainly a market for our CMA business, was lower at S\$1.7 million, as compared to S\$1.8 million in 2Q15.

Capacity Utilisation

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2016		54%	50%	NA	NA
FY2015		60%	59%	53%	56%	56%

Our average capacity utilisation rate in 2Q16 decreased to 50% from 59% in 2Q15. This was due to continuing operational efficiency improvements at our plants in Asia and lower machine utilisation at our CMA factory in the USA.

Gross Profit (GP) Margin

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2016		57.3%	55.9%	NA	NA
FY2015		52.9%	54.7%	55.1%	57.1%	55.0%

Gross Profit Margin (By Product Segment)			1Q	2Q	3Q	4Q	Full Year
	FY2016	Semiconductor	63.8%	62.1%	NA	NA	NA
		CMA	10.7%	6.7%	NA	NA	NA
FY2015	Semiconductor	59.8%	61.8%	61.6%	63.9%	62.6%	
	CMA	6.3%	9.6%	20.0%	19.1%	14.2%	

Although Group revenue declined by 5.5% in 2Q16, our overall GP margin grew to 55.9% from 54.7% in 2Q15. We attribute this to the implementation of *24/7 Machining* and other strategies that have raised productivity and improved operating efficiency which translated to lower production costs.

The GP margin of our semiconductor tooling business increased to 62.1% in 2Q16 as compared to 61.8% in 2Q15 due to our continued focus on improving operational efficiencies. Our CMA division saw its GP margin soften to 6.7% in 2Q16 from 9.6% in 2Q15 due mainly to the decline in CMA sales.

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

Admin, Distribution and Other Operating Expenses (net of other income)		1Q	2Q	3Q	4Q	Full Year
	FY2016 % of sales	S\$3,142,405 23.1%	S\$3,313,423 27.2%	NA	NA	NA
	FY2015 % of sales	S\$3,325,523 25.5%	S\$3,277,081 25.4%	S\$2,788,393 20.8%	S\$3,907,863 30.4%	S\$13,298,860 25.5%

Other income in 2Q16 decreased 97.2% to S\$14.6k from S\$0.5 million in 2Q15. This was mainly due to foreign exchange loss of S\$84k arising from US dollar forward contracts incurred in 2Q16 as compared to a foreign exchange gain registered of S\$222k and a gain on disposal of assets held for sale of S\$250k in the same quarter a year ago.

We continued to keep a close watch on our expense structure. Distribution expenses decreased 2.9% to S\$703k from S\$724k in 2Q15. Administrative expenses also decreased 19.8% to S\$1.9 million from S\$2.3 million in 2Q15, mainly due to lower accrual of bonuses and as there were no expenses incurred in respect of our Thailand factory which ceased operations in October 2014. Other operating expenses were stable at S\$0.8 million in 2Q16 as compared to the year-ago period.

Our total administrative, distribution and other operating expenses (net of other income) was relatively steady at S\$3.3 million in 2Q16, as compared to 2Q15. As a percentage of sales, these overhead expenses decreased to 25.0% in 1H16 from 25.5% in 1H15.

Profit before Tax and Net Profit

Net Profit after tax		1Q	2Q	3Q	4Q	Full Year
	FY2016	S\$3,593,738	S\$2,722,652	NA	NA	NA
	FY2015	S\$2,798,623	S\$2,671,729	S\$3,721,016	S\$2,829,881	S\$12,021,249
% growth	28.4%	1.9%	NA	NA	NA	

As a result of the decrease in revenue in 2Q16, the Group's profit before tax declined 7.5% to S\$3.5 million in 2Q16 from S\$3.8 million in 2Q15.

The Group incurred lower taxation of S\$775k in 2Q16 (S\$1.1 million in 2Q15) as our effective tax rate decreased to 22.2% (29.3% in 2Q15). This was due mainly to a reduction in withholding taxes related to dividends remitted to the Company from our overseas subsidiaries. After deducting tax, the Group reported a stable net profit of S\$2.7 million in 2Q16. As a result, the Group's net profit margin was higher at 22.3% in 2Q16 as compared to 20.7% in 2Q15.

For 1H16, Group net profit increased by 15.5% to S\$6.3 million from S\$5.5 million in 1H15. As Group revenue was relatively constant at approximately S\$26 million in 1H16, net profit margin improved to 24.5% from 21.1% in 1H15. Correspondingly, earnings per share in 1H16 improved to 4.54 cents from 3.93 cents in 1H15.

Dividend

The Board of Directors has declared the payment of an interim dividend of 2 cents per share (one-tier tax exempt) amounting to approximately S\$2.8 million, to be paid on 25 February 2016 to the shareholders on record as at 11 February 2016.

Balance Sheet

As at 31 December 2015, the Group remained in a sound financial position with a balance sheet that had total assets of S\$55.6 million, shareholders' equity of S\$48.0 million, cash and cash equivalents of S\$16.6 million and no bank borrowings.

Long Term Assets

Non-current assets stood at S\$25.8 million as at 31 December 2015 as compared to S\$26.9 million as at 30 June 2015.

Trade Receivables

		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
Trade Receivables	FY2016	S\$9,906,118	S\$9,013,953	NA	NA
	≥ 90 days	0.2%	0.8%	NA	NA
	Write-off	-	0.1%	NA	NA
	FY2015	S\$8,906,352	S\$8,899,026	S\$9,779,247	S\$9,241,280
	≥ 90 days	0.7%	0.3%	0.1%	0.3%
	Write-off	0.01%	0.01%	0.01%	0.01%

Total trade receivables as at 31 December 2015 decreased to S\$9.0 million as compared to S\$9.2 million at the end of FY2015. Of this, 0.8% was outstanding for 90 days or more (0.3% at end of 30 June 2015). Bad debts written off during 1H16 was S\$11.5k or 0.1% of trade receivables (0.01% during FY2015).

Trade & Other Payables

As at 31 December 2015, our trade payables totaled S\$0.8 million, of which S\$117k was outstanding for 30 days or more. Non-trade payables totaled S\$0.5 million. Other accrued expenses stood at S\$3.2 million.

Deferred Tax Liabilities

Deferred tax liabilities as at 31 December 2015 amounted to S\$1.3 million, unchanged from 30 June 2015.

Inventory

As a percentage of annualised sales, our inventory of S\$3.2 million as at 31 December 2015 (S\$3.5 million at end-FY2015) was 6.3% (6.7% at end of FY2015). Inventory written off during 1H16 totaled S\$38k, as compared to S\$59k in 1H15.

Capital Expenditure

		1Q	2Q	3Q	4Q	Full Year
Capital Expenditure	FY2016	S\$769,584	S\$372,405	NA	NA	NA
	% of sales					
	FY2015	S\$1,526,658	S\$835,776	S\$758,556	S\$1,795,361	S\$4,916,351
	% of sales					9.4%

Our capital expenditure totaled S\$0.4 million in 2Q16. This was mainly related to the purchase of equipment for our plant in China, and machine accessories for all our other factories to enhance productivity and operational efficiency.

Our planned capital expenditure for FY2016 is expected to amount to approximately S\$6.6 million, which is to be utilised for the purchase of additional machine and equipment to further enhance automation and operational efficiency. For 1H16, our capital expenditure amounted to S\$1.1 million.

Cash Flow Analysis

The Group generated net cash from operations of S\$3.0 million in 2Q16 (S\$3.2 million in 2Q15). Net cash used for investing activities amounted to S\$0.4 million was mainly in relation to capital expenditure. After paying S\$4.2 million as a final dividend for FY2015, we closed the period with cash and cash equivalents of S\$16.6 million, including S\$165k in pledged deposits.

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

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

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

Financial Performance

The Group's revenue declined 5.5% to S\$12.2 million during 2Q16 due to slower conditions in the technology sector during the latter half of 2015. However, the time, effort and investments that we have put into developing *24/7 Machining* and other strategies to improve our operational efficiency have helped to offset the impact of lower revenue which resulted in an improvement in the Group's GP margin to 55.9% from 54.7% in the same period a year ago. In addition, by keeping a tight rein on spending and hiring, our total distribution, administrative and other overhead expenses (including other income) held steady at S\$3.3 million. After deducting tax expense of S\$775k, the Group's net profit increased 1.9% to S\$2.72 million in 2Q16 from S\$2.67 million in the same period a year ago.

Our semiconductor tooling division continued to perform well in 2Q16. Although the division's sales slowed by 3% to S\$10.8 million from S\$11.1 million in the same quarter a year ago, its GP margin increased to 62.1% from 61.8% in 2Q15 despite pricing pressures typical of the semiconductor industry.

For 2Q16, our subsidiary in the USA ("MMUS"), which we recently designated as a *Corporate Center for Machining Excellence*, reported a loss of S\$537k which included non-cash depreciation expenses of S\$343k and engineering and development expenses totalling S\$390k. The loss is a concern and our team at MMUS continues to work diligently to grow our CMA sales and improve the subsidiary's bottom-line contribution to the Group.

At the same time, developing ground-breaking engineering and manufacturing processes such as *24/7 Machining* is an important business strategy. Located in the Silicon Valley within minutes of many of the world's leading tech companies, this is an ideal role for MMUS and a good strategic complement to our existing material and fine-machining development activities carried out at our headquarters in Singapore. The Group competes in industries characterized by rapid technological advances and our ability to remain relevant and grow depends on being able to develop innovative and cost-effective solutions that meet the increasingly complex and stringent demands of our customers.

With no bank borrowings to service and our tight control over inventory and receivables, net cash generated from operating activities in 2Q16 totaled S\$3.0 million, down slightly from S\$3.2 million in the same quarter a year ago. After capital spending of S\$0.4 million and dividends paid of S\$4.2 million, we ended the period in a strong financial position with S\$16.6 million in cash, no bank borrowings and trade payables of S\$0.8 million (of which S\$117k was outstanding for 30 days or more).

Market, Industry and Competitive Conditions

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

Based on data from the SIA, worldwide sales of semiconductors during the first six months of 2015 increased about 5%. From July however, industry sales have turned down and for the second-half of the year through to November, semiconductor sales have declined about 2% compared with the same 5-month period a year ago. Although the WSTS had earlier forecast global semiconductor sales to reach US\$347 billion this year (up 3.4% from 2014), we believe the final sales figure for 2015 will be flat due to the recent slowdown in demand conditions. In addition, as the industry becomes increasingly driven by demand for consumer electronics, we will continue to see pressure on selling prices and delivery leadtimes from our customers. Together with rising costs and a shortage of skilled workers, the operating environment for the Group will continue to be challenging.

Corporate Mission and Key Operating Strategies

Despite the challenging operating environment, we understand what is required for the Group to sustain its growth over the long term. We are continuing to focus on our customers and the value we bring to their businesses. Whether we design and manufacture a tool for a delicate semiconductor assembly process or machine a critical part

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

As we pursue this mission and the value it represents to our customers, we plan to continue to deploy resources towards the development of automated processes. At the beginning of FY2012, we employed about 601 people around the world. By focusing on our core competencies and developing ground-breaking processes such as *24/7Machining* to improve the quality, velocity and productivity of our operations, we have gradually reduced our headcount by over 28% to 431 people at the end of 2Q16.

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

More recently, in light of several high profile corporate scandals, we have begun to work even more purposefully to safeguard and strengthen the Group's corporate culture. Although it is not listed on a register of our company's assets, we view our culture – *the way we think, act and work together* – as an asset of immense value. During 2Q16, we launched a workshop titled *Resolve to Respect* and during 3Q16, we will roll out another course titled *Building a 'Perfect' Culture*. Through these workshops, we want to ensure that our people understand the Group's core values and are working to make decisions and take actions that are consistent with our values, the laws and regulations of each country within which the Group operates, and the long-term interests of our customers, employees, suppliers, community and shareholders.

Transparency and Governance

Since listing in 2003, the Group has received recognition 18 times for our good corporate governance, transparency and investor relations practices. This includes an award received during 2Q16 from the Securities Investors Association (Singapore) (SIAS) for “Most Transparent Company” in the Mainboard Small Caps category. Transparency within an organisation - accurate, complete and timely information - is the foundation for sound decision making. We intend to continue working to build a strong corporate culture based on transparency, clear metrics of performance, stakeholder accountability and an unwavering commitment to good governance.

Appreciation and Stakeholder Value

Since our listing, we have had a consistent practice of rewarding shareholders for their continuous support of Micro-Mechanics. After taking into account excellent feedback from our shareholders, we adopted and announced on 2 September 2015 a formal dividend policy and at the Company's Annual General Meeting in October 2015, the Board noted a specific suggestion to consider that research analysts typically exclude special dividends in their yield calculations. Although the use of a special dividend has its place and may be an element in future dividend recommendations, for the half year ended 31 December 2015, the Board is pleased to declare an interim dividend of 2 cents per ordinary share (one-tier tax exempt) to be paid on 25 February 2016 as compared to an interim dividend of 1 cent per ordinary share and a special dividend of 1 cent per ordinary share declared for the half year ended 31 December 2014.

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

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

The Board of Directors has declared the payment of an interim dividend of 2 cents per ordinary share (one tier tax-exempt) amounting to approximately S\$2.8 million.

(b) Corresponding Period of the Immediately Preceding Financial Year

An interim dividend of 1.0 cent per ordinary share (one tier tax-exempt) and special dividend of 1.0 cent per ordinary share (one-tier tax exempt) was paid on 17 February 2015 in respect of FY2015.

(c) Date payable

The dividend payment will be made on 25 February 2016.

(d) Books closure date

Notice is hereby given that the Share Transfer Books and Register of Members of Micro-Mechanics (Holdings) Ltd. (the “Company”) will be closed on 12 February 2016 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 11 February 2016 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 11 February 2016 will be entitled to the proposed dividend.

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

Not applicable

13. Interested Persons Transactions

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

For the financial period ended 31 December 2015, the Group has made rental payment of US\$168,000 (31 December 2014: Nil) to Sarcadia LLC, a controlling shareholder of the Company and a family company set up by Mr. Christopher Reid Borch, the CEO of the Company.

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

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

To the best of the Board of Directors’ knowledge, nothing has come to their attention which may render the financial results of the Group and of the Company for the financial period ended 31 December 2015 to be false or misleading in any material aspect.

15. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).

The Company hereby confirms that it has procured undertakings from all its directors and executive officers under Rule 720(1) of the Listing Manual.

PART II ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

- 16. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.**

Not applicable

- 17. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.**

Not applicable

- 18. A breakdown of sales.**

Not applicable

- 19. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.**

Not applicable

- 20. Report of Persons Occupying Managerial Positions who are related to a Director, Chief Executive Officer or Substantial Shareholder**

Not applicable

BY ORDER OF THE BOARD

CHOW KAM WING
Company Secretary
28 January 2016