

MICRO-MECHANICS (HOLDINGS) LTD

Unaudited First Quarter Financial Statements Announcement for the period ended 30/09/2014

PART I INFORMATION REQUIRED FOR ANNOUNCEMENTS OF FIRST QUARTER RESULTS

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

	Note	Group (First Quarter) 3 months ended		
		30 Sep 14 S\$	30 Sep 13 S\$	Change
Revenue	(1)	13,038,188	11,082,040	17.7%
Cost of sales	(2)	(6,145,134)	(5,395,549)	13.9%
Gross profit		6,893,054	5,686,491	21.2%
Other income	(3)	274,619	405,519	(32.3%)
Distribution costs	(4)	(780,774)	(811,530)	(3.8%)
Administrative expenses	(5)	(2,177,642)	(1,910,204)	14.0%
Other operating expenses	(6)	(641,726)	(675,972)	(5.1%)
Profit from operations		3,567,531	2,694,304	32.4%
Finance costs		-	-	-
Profit before income tax	(7)	3,567,531	2,694,304	32.4%
Income tax expense	(8)	(768,908)	(534,293)	43.9%
Profit after tax		2,798,623	2,160,011	29.6%
Non-controlling interests		-	-	-
Profit for the period		2,798,623	2,160,011	29.6%
Statement of Comprehensive Income				
Profit for the period		2,798,623	2,160,011	29.6%
Other comprehensive income: Foreign currency translation differences for foreign operations, net of tax		63,105	(452,501)	113.9%
Total comprehensive income for the period		2,861,728	1,707,510	67.6%

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 increased in line with higher sales and an increase in depreciation expenses. Production headcount reduced to 305 in 1Q15 from 315 in 1Q14.

(3) Other income consists of:

	Group (First Quarter)		
	3 months ended		
	30 Sep 14	30 Sep 13	Change
	S\$	S\$	
Gain on disposal of property, plant and equipment	68,354	(82)	n.m.
Gain on disposal of assets held for sale	-	281,218	(100.0%)
Interest income	33,275	35,166	(5.4%)
Rental income	32,924	21,726	51.5%
Government grant –Skills Redevelopment, Wage Credit, Business Continuity and Capability Development Scheme	8,971	4,088	119.4%
Exchange gain	96,388	27,029	256.6%
Others	34,707	36,374	(4.6%)

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

(5) Please refer to section 8 of this announcement for an analysis of the Group's administrative expenses.

(6) Please refer to section 8 of this announcement for an analysis of the Group's other operating expenses.

(7) Profit before taxation includes the following expenses:

	Group (First Quarter)		
	3 months ended		
	30 Sep 14	30 Sep 13	Change
	S\$	S\$	
Trade receivables written off	1,165	7,790	(85.0%)
Depreciation of property, plant and equipment	1,172,314	1,057,793	10.8%
Inventories written off	28,222	20,846	35.4%

(8) The effective tax rate for 1Q15 was 21.6% as compared to 19.8% for 1Q14. Included in the tax expense for the current quarter was a provision of S\$173k made in relation to withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

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

	Note	Group 30 Sep 14 S\$	Group 30 Jun 14 S\$	Company 30 Sep 14 S\$	Company 30 Jun 14 S\$
Non-current assets					
Property, plant and equipment		27,075,145	26,632,893	-	-
Subsidiaries		-	-	17,654,378	17,654,378
Trade and other receivables		-	524,456	4,312,551	4,265,364
		27,075,145	27,157,349	21,966,929	21,919,742
Current assets					
Inventories		3,278,953	3,089,440	-	-
Trade and other receivables		11,226,613	9,552,149	4,332,224	4,769,664
Cash and cash equivalents		13,460,678	11,081,995	4,565,318	4,094,745
Assets held for sale		56,370	55,294	-	-
		28,022,614	23,778,878	8,897,542	8,864,409
Total assets		55,097,759	50,936,227	30,864,471	30,784,151
Shareholders' equity					
Share capital		14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve	(1)	(2,610,038)	(2,673,143)	-	-
Accumulated profits		31,801,519	29,002,896	15,645,933	15,728,174
		43,974,412	41,112,684	30,428,864	30,511,105
Non-current liabilities					
Deferred tax liabilities		1,470,237	1,283,567	-	-
		1,470,237	1,283,567	-	-
Current liabilities					
Trade and other payables		8,193,777	7,296,759	429,083	266,522
Current tax payable		1,459,333	1,243,217	6,524	6,524
		9,653,110	8,539,976	435,607	273,046
Total liabilities		11,123,347	9,823,543	435,607	273,046
Total equity and liabilities		55,097,759	50,936,227	30,864,471	30,784,151

Notes:

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

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

Amount repayable in one year or less or on demand

As at 30 Sep 14		As at 30 Sep 13	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Amount repayable after one year

As at 30 Sep 14		As at 30 Sep 13	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Details of any collateral

Not applicable

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

	Note	Group (First Quarter) 3 months ended	
		30 Sep 2014 S\$	30 Sep 2013 S\$
Cash flows from operating activities			
Profit before income tax		3,567,531	2,694,304
Adjustments for:			
Depreciation of property, plant and equipment		1,172,314	1,057,793
Fixed assets written off		680	82
Gain on disposal of property, plant and equipment		(69,034)	-
Gain on disposal of assets held for sale		-	(281,218)
Interest income		(33,275)	(35,166)
Operating profit before changes in working capital		4,638,216	3,435,795
Inventories		(189,513)	(44,069)
Trade and other receivables		(1,166,685)	(627,298)
Trade and other payables		721,847	(202,077)
Cash generated from operations		4,003,865	2,562,351
Income tax paid		(193,524)	(378,422)
Net cash from operating activities		3,810,341	2,183,929
Cash flows from investing activities			
Purchase of property, plant and equipment	(1)	(1,526,658)	(304,149)
Proceeds from disposal of property, plant and equipment		167,500	16,486
Proceeds from disposal of assets held for sale		-	362,988
Interest received		48,876	35,907
Net cash (used in) from investing activities		(1,310,282)	111,232
Cash flows from financing activities			
Deposits pledged		(368)	6,996
Dividends paid		-	-
Net cash (used in) from financing activities		(368)	6,996
Net increase in cash and cash equivalents		2,499,691	2,302,157
Cash and cash equivalents at beginning of period		10,879,132	8,943,935
Effect of exchange rate fluctuations		(121,375)	(216,381)
Cash and cash equivalents at the end of period	(2)	13,257,448	11,029,711

Notes:

- (1) The capital expenditure totaled S\$1.5 million were mainly related to the purchase of equipment and machine accessories to enhance productivity and production efficiency at our factories in Singapore and the USA.

(2) Cash and cash equivalent is derived from:

	Group 30 Sep 14 S\$	Group 30 Sep 13 S\$
Cash and cash equivalent balances	13,460,678	11,230,954
Less: Pledged cash placed with bank	(203,230)	(201,243)
	13,257,448	11,029,711

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 2013	14,782,931	(2,275,994)	25,433,606	37,940,543
Total comprehensive income for the period				
Net profit for the period	-	-	2,160,011	2,160,011
Other comprehensive income				
Foreign currency translation differences, net of tax	-	(452,499)	-	(452,499)
Total comprehensive income for the period	-	(452,499)	2,160,011	1,707,512
As at 30 September 2013	14,782,931	(2,728,493)	27,593,617	39,648,055
As at 1 July 2014	14,782,931	(2,673,143)	29,002,896	41,112,684
Total comprehensive income for the period				
Net profit for the period	-	-	2,798,623	2,798,623
Other comprehensive income				
Foreign currency translation differences, net of tax	-	63,105	-	63,105
Total comprehensive income for the period	-	63,105	2,798,623	2,861,728
As at 30 September 2014	14,782,931	(2,610,038)	31,801,519	43,974,412

	Share Capital S\$	Foreign Currency Translation Reserve S\$	Accumulated Profits S\$	Total S\$
The Company				
As at 1 July 2013	14,782,931	-	11,329,818	26,112,749
Total comprehensive income for the period				
Net profit for the period	-	-	(107,824)	(107,824)
Total comprehensive income for the period	-	-	(107,824)	(107,824)
As at 30 September 2013	14,782,931	-	11,221,994	26,004,925
As at 1 July 2014	14,782,931	-	15,728,174	30,511,105
Total comprehensive income for the period				
Net profit for the period	-	-	(82,241)	(82,241)
Total comprehensive income for the period	-	-	(82,241)	(82,241)
As at 30 September 2014	14,782,931	-	15,645,933	30,428,864

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

Nil.

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

The total number of shares were 139,031,881 ordinary shares as at both 30 September 2014 and 30 September 2013. The Company did not have any treasury shares as at the end of the current financial year and as at the end of the immediately preceding year.

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

Not applicable.

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

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

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

Not applicable.

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

Yes.

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

Not applicable.

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

	Group (First Quarter) 3 months ended	
	30 Sep 2014	30 Sep 2013
Earnings per ordinary share for the year based on net profit after tax and non-controlling interest:-		
(i) Based on weighted average number of ordinary shares in issue	2.01 cents	1.55 cents
(ii) On a fully diluted basis	2.01 cents	1.55 cents

The calculation is based on the weighted average number of shares in issue during the financial year. The weighted average number of shares outstanding during the year was 139,031,881 (30 September 2013: 139,031,881).

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

	Group 30 Sep 14	Group 30 Jun 14	Company 30 Sep 14	Company 30 Jun 14
Net Asset Value per ordinary share (cents)	31.63	29.57	21.89	21.95

The net asset value per ordinary share is calculated based on net assets of S\$44.0 million (30 June 2014: S\$41.1 million) and 139,031,881 (30 June 2014: 139,031,881) shares in issue at the end of the current financial period reported on/immediately preceding financial year.

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**
(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

REVIEW OF PROFIT AND LOSS

Semiconductor industry review

Based on data from the Semiconductor Industry Association (SIA), worldwide sales of semiconductors in July and August 2014 totalled US\$56.5 billion, an increase of 9.7% year-on-year (yoy) compared to the corresponding period in 2013. The SIA said demand has been strong across nearly all semiconductor product categories and believes the global semiconductor market remains on track for a record year in 2014.

Group Revenue

		1Q	2Q	3Q	4Q	Full Year
REVENUE	FY2015	S\$13,038,118	NA	NA	NA	NA
	FY2014	S\$11,082,040	S\$10,481,430	S\$10,631,782	S\$11,661,411	S\$43,856,663
	% growth	17.7%	NA	NA	NA	NA

For the three months ended 30 September 2014 (1Q15), the Group achieved its highest ever quarterly revenue of S\$13.0 million, an increase of 17.7% from S\$11.1 million in 1Q14. On a quarter-on-quarter (qoq) basis, Group revenue increased 11.8% from S\$11.7 million in 4Q14. The improved revenue performance was attributed mainly to strong sales growth of our semiconductor tooling business.

Revenue breakdown by product segment

		1Q	2Q	3Q	4Q	Full Year
SEMICONDUCTOR TOOLING REVENUE	FY2015	S\$11,348,221	NA	NA	NA	NA
	FY2014	S\$9,433,908	S\$8,672,648	S\$8,662,680	S\$9,949,642	S\$36,718,878
	% growth	20.3%	NA	NA	NA	NA

		1Q	2Q	3Q	4Q	Full Year
CMA REVENUE	FY2015	S\$1,689,967	NA	NA	NA	NA
	FY2014	S\$1,648,132	S\$1,808,782	S\$1,969,102	S\$1,711,769	S\$7,137,785
	% growth	2.5%	NA	NA	NA	NA

The Group's semiconductor tooling segment, which serves customers involved in the assembly and testing of semiconductors, posted strong growth of 20.3% to reach record quarterly sales of S\$11.3 million in 1Q15, compared to S\$9.4 million in 1Q14. This was driven mainly by higher sales in China and Malaysia. On a qoq basis, sales of our semiconductor tooling segment in 1Q15 gained 14.1% from S\$9.9 million in 4Q14.

Our Custom Machining & Assembly (CMA) division, which serves high technology capital equipment manufacturers in the aerospace, medical, laser and wafer fabrication industries, posted higher revenue of S\$1.7 million in 1Q15, compared to S\$1.6 million in 1Q14.

Our semiconductor tooling and CMA segments accounted for approximately 87% and 13% respectively of the Group's revenue in 1Q15.

Revenue breakdown by Geographical Market

Country	1Q15		1Q14		% change
	S\$ m	%	S\$ m	%	
Singapore	0.8	6%	0.9	8%	(4.9%)
Malaysia	3.0	24%	2.4	22%	27.4%
Philippines	1.1	9%	1.0	9%	7.2%
Thailand	0.6	4%	0.6	5%	(0.3%)
China	3.3	25%	2.6	24%	23.3%
USA	1.8	14%	1.5	13%	22.8%
Europe	0.5	4%	0.7	6%	(16.4%)
Japan	0.3	2%	0.2	2%	23.1%
Taiwan	1.2	9%	0.9	8%	31.3%
Rest of world	0.4	3%	0.3	3%	25.6%
	13.0	100%	11.1	100%	17.7%

Both Malaysia and China, which are the Group's largest markets for semiconductor tools, recorded double-digit revenue growth in 1Q15. Our sales in Malaysia increased 27.4% to S\$3.0 million while sales to customers in China gained 23.3% to S\$3.3 million. Together, these two markets accounted for 49% of Group revenue in 1Q15.

The Group also saw strong sales of our semiconductor tools in Taiwan, which registered an increase of 31.3% to S\$1.2 million in 1Q15. Despite the closure of our factory in Thailand in 4Q14, sales to this market remained steady at S\$0.6 million in 1Q15 as we are continuing to serve our customers there through a local agent/distributor.

Sales to customers in the USA, which is mainly a market for our CMA business, improved 22.8% to S\$1.8 million in 1Q15, from S\$1.5 million in 1Q14.

Capacity Utilisation

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2015	60%	NA	NA	NA	NA
FY2014	54%	56%	53%	59%	55%	

The average capacity utilisation rate of the Group's factories increased to 60% in 1Q15 from 55% in FY2014. This was in tandem with higher Group sales.

Gross Profit (GP) Margin

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2015	52.9%	NA	NA	NA	NA
FY2014	51.3%	50.4%	50.4%	50.4%	50.7%	50.7%

Gross Profit Margin (By Product Segment)			1Q	2Q	3Q	4Q	Full Year
	FY2015	Semiconductor	59.8%	NA	NA	NA	NA
	CMA	6.3%	NA	NA	NA	NA	NA
FY2014	Semiconductor	56.9%	55.4%	55.3%	56.5%	56.0%	
	CMA	19.3%	26.3%	29.1%	17.0%	23.2%	

The Group's gross profit (GP) in 1Q15 increased 21.2% to S\$6.9 million, from S\$5.7 million in 1Q14. GP margin of our semiconductor tooling business expanded to 59.8% in 1Q15 compared to 56.9% in 1Q14 due to higher capacity utilisation and our continual focus on improving operational efficiencies.

GP margin of our CMA division in 1Q15 was lower at 6.3%, compared to 19.3% in 1Q14, due mainly to a shift in product mix and higher depreciation expenses at our CMA factory in the USA.

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
	FY2015 % of sales	S\$3,325,523 25.5%	NA	NA	NA	NA
FY2014 % of sales	S\$2,992,187 27.0%	S\$3,254,196	S\$3,160,953	S\$3,083,640	S\$12,490,976	

Other income in 1Q15 decreased 32.3% to S\$275k as compared to S\$406k in 1Q14 which included a gain of S\$281k from the disposal of assets held for sale.

We continued to keep a tight rein on our expense structure during 1Q15. Our distribution costs decreased to S\$781k (S\$812k in 1Q14). Administrative expenses, however, increased 14% to S\$2.2 million (S\$1.9 million in 1Q14) and included expenses of S\$135k relating to the closure of our factory in Thailand. Other operating expenses were stable at S\$642k (S\$676k in 1Q14).

In aggregate, our administrative, distribution and other operating expenses (inclusive of other income) in 1Q15 increased 11.1% to S\$3.3 million from S\$3.0 million in 1Q14. Nonetheless, these overhead expenses have declined to 25.5% as a percentage of Group sales, from 27.0% a year ago.

Profit before Tax and Net Profit

Net Profit after tax		1Q	2Q	3Q	4Q	Full Year
	FY2015	S\$2,798,623	NA	NA	NA	NA
FY2014	S\$2,160,011	S\$1,361,567	S\$1,795,372	S\$2,423,296	S\$7,740,246	
% growth	29.6%	NA	NA	NA	NA	NA

As a result of higher revenue and GP margin in 1Q15, the Group posted a 32.4% increase in profit before tax to S\$3.6 million, from S\$2.7 million in 1Q14.

After deducting taxation of S\$769k (S\$534k in 1Q14), the Group reported its highest ever quarterly net profit of S\$2.8 million in 1Q15. This was an increase of 29.6% from S\$2.2 million in 1Q14. As the Group's net profit grew at a faster pace than its sales, our net profit margin improved to 21.5% in 1Q15, from 19.5% in 1Q14. The effective tax rate in 1Q15 was higher at 21.6% compared to 19.8% in 1Q14, due to S\$173k of withholding tax accrued for dividends to be remitted back to Singapore from various overseas subsidiaries.

Correspondingly, the Group's earnings per share in 1Q15 improved to 2.01 cents from 1.55 cents in 1Q14.

Balance Sheet

As at 30 September 2014, the Group remained in a sound financial position with a balance sheet that had total assets of S\$55.1 million, shareholders' equity of S\$44.0 million, cash and cash equivalents of S\$13.5 million and no bank borrowings.

Trade Receivables

		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
Trade Receivables	FY2015	S\$8,906,352	NA	NA	NA
	≥ 90 days	0.7%	NA	NA	NA
	Write-off	0.01%	NA	NA	NA
	FY2014	S\$7,497,467	S\$7,093,099	S\$7,284,756	S\$8,039,911
	≥ 90 days	0.2%	0.0%	0.2%	0.2%
	Write-off	0.1%	0.1%	0.1%	0.1%

In tandem with the Group's higher sales in 1Q15, our total trade receivables as at 30 September 2014 increased to S\$8.9 million, compared to S\$7.5 million a year ago. Of the amount outstanding at the end of 1Q15, 0.7% was outstanding for 90 days or more (0.2% at end of 30 June 2014). Trade receivables written off in 1Q15 was S\$1.2k or 0.01% of trade receivables.

Trade Payables

As at 30 September 2014, our trade payables totaled S\$1.1 million, of which S\$170k was outstanding for 30 days or more. Our non-trade payables totaled S\$3.4 million. Of this, S\$2.3 million was outstanding for more than 30 days, including an interest free credit term of S\$1.9 million up to July 2015 granted by a machine vendor.

Inventory

As a percentage of annualised sales, our inventory of S\$3.3 million at the end of 1Q15 (S\$3.1 million at end of FY2014) was 6.3% (7.0% at end of FY2014). Inventory written off in 1Q15 totaled S\$28k, compared to S\$21k in 1Q14.

Capital Expenditure

		1Q	2Q	3Q	4Q	Full Year
Capital Expenditure	FY2015	S\$1,526,658	NA	NA	NA	NA
	% of sales					
	FY2014	S\$304,149	S\$1,084,232	S\$3,672,077	S\$1,504,740	S\$6,565,198
	% of sales					15.0%

During 1Q15, our capital expenditure totaled S\$1.5 million which was mainly related to the purchase of equipment and machine accessories to enhance productivity and production efficiency at our factories in Singapore and the USA.

Our planned capital expenditure for FY2015 is expected to amount to approximately S\$6.8 million, which is to be used for the purchase of additional machines and equipment to further enhance automation and operational efficiency.

Cash Flow Analysis

The Group generated net cash from operations of S\$3.8 million in 1Q15 (S\$2.2 million in 1Q14). Net cash used for investing activities amounted to S\$1.3 million, mainly in relation to our capital expenditure. We closed the period with cash and cash equivalents of S\$13.5 million including S\$203k 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

Micro-Mechanics achieved its highest ever quarterly revenue and net profit in 1Q15 as the Group continued to benefit from the focus, effort and investments that we have put into improving operating efficiency. During 1Q15, Group revenue increased 17.7% to S\$13.0 million while GP increased 21.2% to S\$6.9 million. As a result, the Group's GP margin for the quarter rose to 52.9% from 51.3% in the same period a year ago.

Our semiconductor tooling division performed well during 1Q15. Sales for the division increased 20.3% to S\$11.3 million while its GP margin jumped to 59.8% from 56.9% in the same quarter a year ago. While sales for our CMA division increased 2.5% to S\$1.7 million, this modest increase could not offset the additional depreciation expenses of over S\$93k for new equipment commissioned during 1Q15. Together with higher material costs of about S\$97k caused by product mix changes, GP for the quarter declined by S\$212k to S\$107k. After deducting total depreciation expenses of S\$295k, our subsidiary in the USA incurred a loss of S\$400k in 1Q15. Although we have made good engineering and development progress and have transitioned about 50% of our CMA division's manufacturing to *24/7 Machining*, the loss is a concern. We are working diligently to retire old equipment, expedite the transition to *24/7 Machining* and improve the division's bottom line.

During 1Q15, we continued our practice of watching our expenses and spending carefully. While total overhead (distribution, administrative and other expenses including other income) increased to S\$3.3 million from S\$3.0 million in 1Q14, these expenses as a percentage of total sales declined to 25.5% from 27% in the same quarter a year ago. As a result, the Group's net profit increased 29.6% to a quarterly record of S\$2.8 million from S\$2.2 million in 1Q14.

With no bank borrowings to service and a careful watch over inventory and receivables, net cash generated from operating activities in 1Q15 totaled S\$3.8 million. After capital spending of S\$1.5 million, our cash position increased by approximately S\$2.5 million. At the end of September 2014, the Group was in a strong financial position with S\$13.5 million in cash (including S\$203k held as security deposits) and no bank borrowings.

Market, Industry and Competitive Conditions

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

After recording growth of 11.1% for the first six months of 2014, worldwide sales of semiconductors during July and August grew by nearly 10%. Although the SIA believes that 2014 will be a record year for the semiconductor industry, this growth is being tempered by rising cost challenges in the industry. As the chip industry becomes increasingly driven by the demand for consumer electronics, we have seen increased price and delivery pressures from our customers. Together with rising costs and a shortage of skilled workers, further exacerbated by a host of companies relocating to Asia from higher-cost locations, the operating environment for the Group will continue to be challenging.

Key Operating Strategies

Despite the difficult operating environment, we understand what is required for the Group to sustain its growth over the long term. We are continuing to focus on our customers and the value we bring to their businesses. Whether we design and manufacture a tool for a delicate semiconductor assembly process or machine a critical part for a leading maker of aerospace, laser or medical equipment, our mission is to deliver *Perfect Parts and Tools, On Time, Every Time* based on repeatable, scalable and cost-effective processes.

As we pursue this mission and the value it represents to our customers, we plan to continue to deploy resources towards the development of automated processes. At the beginning of FY2012, we employed about 601 people around the world. By focusing on our core competencies and implementing initiatives, such as *24/7 Machining*, to improve the quality, velocity and productivity of our operations, we have gradually reduced our headcount by over 25% to 443 people at the end of 1Q15.

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 implement such a learning culture amongst our people, we began a carefully structured in-house

training program two years ago which we call *MMUniversity*. During the quarter, we completed the development of a two new training modules: *The Fundamentals of Value-Driven Decision Making* and *sSMART for Life*. The purpose of both these courses is to give our people, at all levels, a common framework for making more informed and aligned decisions based on our mission and an understanding of value.

Transparency and Governance

On 15 July 2014, we received the Silver Award for *Best Investor Relations* by the judging panel of the Singapore Corporate Awards (SCA) 2014. This was the fifth successive year we have been recognised by the SCA for our investor relations practices. During 1Q15, Micro-Mechanics was also ranked 22nd out of 644 companies listed on the Singapore Exchange in the latest Governance and Transparency Index (GTI) published in Singapore's *Business Times* newspaper on 25 July 2014. The Group scored 81 points; only 24 companies, comprising mainly large capitalisation companies, achieved a GTI score of 80 points or more.

Transparency within an organisation - accurate, complete and timely information - is the foundation for sound decision making. We intend to continue working to build a strong corporate culture based on transparency and clear metrics of performance.

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

11. Dividend

(a) Current Financial Period Reported On

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

(b) Corresponding Period of the Immediately Preceding Financial Year

Nil

(c) Date payable

Nil

(d) Books closure date

Nil

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

Not applicable

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

13. 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

14. 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

15. A breakdown of sales.

Not applicable

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

Not applicable

17. Interested Persons Transactions

There are no interested party transactions for the financial period ended 30 September 2014.

18. Confirmation Pursuant to Rule 705(5) of 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 first quarter ended 30 September 2014 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

CHOW KAM WING
Company Secretary
25 October 2014