

## MICRO-MECHANICS (HOLDINGS) LTD

### Unaudited Second Quarter Financial Statements Announcement for the period ended 31/12/2018

#### 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 2018 S\$	Oct to Dec 2017 S\$	Change	Jul to Dec 2018 S\$	Jul to Dec 2017 S\$	Change
Revenue	(1)	15,157,849	15,649,498	(3.1%)	32,042,163	33,343,952	(3.9%)
Cost of sales	(2)	(7,209,830)	(6,866,011)	5.0%	(14,054,484)	(13,787,084)	1.9%
<b>Gross profit</b>		<b>7,948,019</b>	<b>8,783,487</b>	(9.5%)	<b>17,987,679</b>	<b>19,556,868</b>	(8.0%)
Other income	(3)	171,201	235,062	(27.2%)	305,710	362,847	(15.7%)
Distribution costs	(4)	(780,130)	(831,099)	(6.1%)	(1,673,978)	(1,658,715)	0.9%
Administrative expenses	(5)	(2,387,699)	(2,325,498)	2.7%	(4,828,788)	(4,856,630)	(0.6%)
Other operating expenses	(6)	(850,059)	(924,885)	(8.1%)	(1,697,368)	(1,771,298)	(4.2%)
<b>Profit from operations</b>		<b>4,101,332</b>	<b>4,937,067</b>	(16.9%)	<b>10,093,255</b>	<b>11,633,072</b>	(13.2%)
Finance costs		-	-	-	-	-	-
<b>Profit before income tax</b>	(7)	<b>4,101,332</b>	<b>4,937,067</b>	(16.9%)	<b>10,093,255</b>	<b>11,633,072</b>	(13.2%)
Income tax expense	(8)	(976,379)	(1,033,293)	(5.5%)	(2,462,130)	(2,558,308)	(3.8%)
<b>Profit after tax</b>		<b>3,124,953</b>	<b>3,903,774</b>	(20.0%)	<b>7,631,125</b>	<b>9,074,764</b>	(15.9%)
<b>Non-controlling interests</b>		-	-	-	-	-	-
<b>Profit for the period</b>		<b>3,124,953</b>	<b>3,903,774</b>	(20.0%)	<b>7,631,125</b>	<b>9,074,764</b>	(15.9%)
<b>Statement of Comprehensive Income</b>							
Profit for the period		<b>3,124,953</b>	<b>3,903,774</b>	(20.0%)	<b>7,631,125</b>	<b>9,074,764</b>	(15.9%)
Other comprehensive income:							
Foreign currency translation differences for foreign operations, net of tax		(62,165)	221,423	(128.1%)	(672,545)	280,592	(339.7%)
<b>Total comprehensive income for the period</b>		<b>3,062,788</b>	<b>4,125,197</b>	(25.8%)	<b>6,958,580</b>	<b>9,355,356</b>	(25.6%)

Notes:

- Please refer to section 8 of this announcement for an analysis of the Group's revenue.
- Cost of Sales during 2Q19 increased S\$0.3 million to S\$7.2 million from S\$6.9 million in 2Q18 due primarily to higher depreciation expenses of S\$0.2 million resulting from record capital spending of S\$12.1 million by the Group during FY2018. In addition, the Group's production headcount increased to 353 people in 2Q19 from 334 in 2Q18.

- (3) Other income consists of:

	Q2			Half year		
	Oct to Dec 2018 S\$	Oct to Dec 2017 S\$	Change	Jul to Dec 2018 S\$	Jul to Dec 2017 S\$	Change
Gain/(loss) on disposal of property, plant and equipment	34	118,947	(100.0%)	(9,552)	120,753	(107.9%)
Interest income from banks and others	59,101	42,369	39.5%	112,901	81,747	38.1%
Rental income	31,141	28,821	8.0%	61,898	56,948	8.7%
Government grant – Skill Redevelopment, Wage Credit and Capability Development Scheme	8,428	16,581	(49.2%)	19,786	38,104	(48.1%)
Exchange gain	47,825	-	n.m.	66,500	-	n.m.
Others	24,672	28,344	(13.0%)	54,177	65,295	(17.0%)

n.m. - not meaningful

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

	Q2			Half year		
	Oct to Dec 2018 S\$	Oct to Dec 2017 S\$	Change	Jul to Dec 2018 S\$	Jul to Dec 2017 S\$	Change
Depreciation of property, plant and equipment	1,369,152	1,189,275	15.1%	2,716,593	2,295,960	18.3%
Depreciation of right-of use assets	274,802	274,686	0.0%	548,954	544,384	0.8%
Exchange loss	-	56,704	(100.0%)	-	59,165	(100.0%)
Interest expense on lease liabilities	26,971	17,576	53.5%	57,167	41,668	37.2%
Inventory written off	19,100	25,916	(26.3%)	40,363	59,904	(32.6%)
Property, plant and equipment written off	823	52	1,482.7%	1,629	1,461	11.5%

After capital spending of S\$12.1 million during FY2018, the Group's total depreciation expenses increased in 2Q19 to S\$1.64 million from S\$1.46 million in 2Q18.

- (8) The effective tax rate for 2Q19 was 23.8% as compared to 20.9% for 2Q18. Included in the tax expense for the quarter was a provision of S\$161k 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 31 Dec 18 S\$	Group 30 Jun 18 S\$	Group 1 Jul 17* S\$	Company 31 Dec 18 S\$	Company 30 Jun 18 S\$
<b>Non-current assets</b>						
Property, plant and equipment		31,752,824	33,265,855	26,157,348	-	-
Right-of-use asset	(1)	1,765,177	2,279,133	1,872,724	-	-
Subsidiaries		-	-	-	29,095,544	29,095,544
Trade and other receivables		276,727	125,034	439,394	-	-
Deferred tax asset		50,455	56,529	-	-	-
		33,845,183	35,726,551	28,469,466	29,095,544	29,095,544
<b>Current assets</b>						
Inventories		4,719,737	4,578,394	3,669,372	-	-
Trade and other receivables		11,108,230	11,898,398	11,906,718	932,754	2,687,634
Cash and cash equivalents		20,357,434	21,087,382	23,422,290	5,565,998	2,017,182
		36,185,401	37,564,174	38,998,380	6,498,752	4,704,816
<b>Total assets</b>		70,030,584	73,290,725	67,467,846	35,594,296	33,800,360
<b>Shareholders' equity</b>						
Share capital		14,782,931	14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve		230,048	902,593	-	-	-
Accumulated profits		43,908,229	44,619,017	39,988,372	20,111,074	18,472,255
		58,921,208	60,304,541	54,771,303	34,894,005	33,255,186
<b>Non-current liabilities</b>						
Deferred tax liabilities		1,654,112	1,476,961	1,406,658	416,856	192,772
Trade and other payables		227,536	595,729	400,171	-	-
Lease liabilities	(1)	1,847,085	1,289,588	835,582	-	-
		3,728,733	3,362,278	2,642,411	416,856	192,772
<b>Current liabilities</b>						
Trade and other payables		5,822,860	7,077,091	7,810,579	277,919	346,171
Lease liabilities	(1)	23,095	923,845	916,621	-	-
Current tax payable		1,534,688	1,622,970	1,326,932	5,516	6,231
		7,380,643	9,623,906	10,054,132	283,435	352,402
Total liabilities		11,109,376	12,986,184	12,696,543	700,291	545,174
<b>Total equity and liabilities</b>		70,030,584	73,290,725	67,467,846	35,594,296	33,800,360

Notes:

- (1) Right-of-use asset related to leases on various factories occupied by the Group and the accrual of corresponding lease liabilities due to the adoption of new accounting standard SFRS(I) 16 Leases in the last financial year.

\*The Group has adopted the new Singapore Financial Reporting Standards (International) ("SFRS(I)") framework for the financial year ending 30 June 2019 and has applied SFRS(I) 1 with 1 July 2017 as the date of transition, which requires the first SFRS(I) financial statement to comprise of an opening SFRS(I) statement of financial position at the date of transition to SFRS(I)s. (Please refer to page 6 for more details).

**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 18		As at 30 June 18	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

**Amount repayable after one year**

As at 31 Dec 18		As at 30 June 18	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

**Details of any collateral**

Not applicable

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

	Note	GROUP			
		Q2		Half year	
		Oct to Dec 2018 S\$	Oct to Dec 2017 S\$	Jul to Dec 2018 S\$	Jul to Dec 2017 S\$
<b>Cash flows from operating activities</b>					
Profit for the period		3,124,953	3,903,774	7,631,125	9,074,764
Adjustments for:					
Depreciation of property, plant and equipment		1,643,954	1,463,961	3,265,547	2,840,344
Property, plant and equipment written off		823	52	1,629	1,461
(Gain)/loss on disposal of property, plant and equipment		(34)	(118,947)	9,552	(120,753)
Interest income		(59,101)	(42,369)	(112,901)	(81,747)
Interest expenses on lease liabilities		26,971	17,576	57,167	41,668
Tax expenses		976,379	1,033,293	2,462,130	2,558,308
<b>Operating profit before changes in working capital</b>		5,713,945	6,257,340	13,314,249	14,314,045
Inventories		70,116	(424,275)	(210,243)	(617,026)
Trade and other receivables		1,937,626	3,125,513	432,349	(236,759)
Trade and other payables		(273,694)	(150,131)	(1,552,069)	280,141
Cash generated from operations		7,447,993	8,808,447	11,984,286	13,740,401
Income tax paid		(1,692,237)	(1,271,112)	(2,344,778)	(1,848,338)
<b>Net cash from operating activities</b>		5,755,756	7,537,335	9,639,508	11,892,063
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	(1)	(787,034)	(3,832,377)	(1,486,854)	(5,986,928)
Proceeds from disposal of property, plant and equipment		(6)	380,281	1,817	382,089
Interest received		62,120	44,121	120,822	86,192
<b>Net cash used in investing activities</b>		(724,920)	(3,407,975)	(1,364,215)	(5,518,647)
<b>Cash flows from financing activities</b>					
Leases paid		(228,589)	(276,643)	(458,058)	(552,308)
Dividends paid		(8,341,913)	(6,951,594)	(8,341,913)	(6,951,594)
<b>Net cash used in financing activities</b>		(8,570,502)	(7,228,237)	(8,799,971)	(7,503,902)
<b>Net decrease in cash and cash equivalents</b>		(3,539,666)	(3,098,877)	(524,678)	(1,130,486)
Cash and cash equivalents at beginning of period		23,744,887	25,225,479	20,918,381	23,261,940
Effect of exchange rate fluctuations		(12,687)	103,708	(201,169)	98,856
<b>Cash and cash equivalents at the end of period</b>	(2)	20,192,534	22,230,310	20,192,534	22,230,310

Notes:

- (1) During 2Q19, the Group purchased approximately S\$0.8 million of machines and accessories for its factories in Malaysia, Singapore and the USA.

(2) Cash and cash equivalent is derived from:

	<b>Group 31 Dec 18 S\$</b>	<b>Group 31 Dec 17 S\$</b>
Cash and cash equivalent balances	20,357,434	22,394,810
Less: Pledged cash placed with bank	(164,900)	(164,500)
	20,192,534	22,230,310

**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.**

	<b>Share Capital S\$</b>	<b>Foreign Currency Translation Reserve S\$</b>	<b>Accumulated remeasurement on retirement benefits S\$</b>	<b>Accumulated Profits S\$</b>	<b>Total S\$</b>
<b>The Group</b>					
As at 1 July 2017	14,782,931	(5,436,297)		45,424,669	54,771,303
Effect on transition to SFRS(I)s – (Note 1)	-	5,436,297	-	(5,436,297)	-
<b>Balance as at 1 July 2017 (SFRS(I))</b>	14,782,931	-	-	39,988,372	54,771,303
<b>Total comprehensive income for the period:</b>					
Profit for the period	-	-	-	9,074,764	9,074,764
<b>Other comprehensive income:</b>					
Foreign currency translation difference	-	280,592	-	-	280,592
Total comprehensive income for the period	-	280,592	-	9,074,764	9,355,356
<b>Transactions with owners, recorded directly in equity</b>					
Final dividend of 4 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2017	-	-	-	(6,951,594)	(6,951,594)
Total transactions with owners, recorded directly in equity	-	-	-	(6,951,594)	(6,951,594)
<b>As at 31 December 2017</b>	<b>14,782,931</b>	<b>280,592</b>	<b>-</b>	<b>42,111,542</b>	<b>57,175,065</b>
As at 1 July 2018	14,782,931	855,088	47,505	44,619,017	60,304,541
<b>Total comprehensive income for the period:</b>					
Profit for the period	-	-	-	7,631,125	7,631,125
<b>Other comprehensive income:</b>					
Foreign currency translation difference	-	(672,545)	-	-	(672,545)
Total comprehensive income for the period	-	(672,545)	-	7,631,125	6,958,580
<b>Transactions with owners, recorded directly in equity</b>					
Final dividend of 5 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2018	-	-	-	(8,341,913)	(8,341,913)
Total transactions with owners, recorded directly in equity	-	-	-	(8,341,913)	(8,341,913)
<b>As at 31 December 2018</b>	<b>14,782,931</b>	<b>182,543</b>	<b>47,505</b>	<b>43,908,229</b>	<b>58,921,208</b>

Note 1

The Group has adopted SFRS(I) for the financial year ending 30 June 2019 and has applied SFRS(I) 1 with 1 July 2017 as the date of transition for the Group and the Company.

The Group has elected the optional exemption in SFRS(I) 1 to reset its cumulative Foreign Currency Translation Reserve (“FCTR”) for all foreign operations to NIL at the date of transition, and reclassify the cumulative FCTR of approximately S\$5.44 million as at 1 July 2017 as determined in accordance with the previous Financial Reporting Standards (FRS) at that date to retained earnings. After the date of transition, any gain or loss on disposal of any foreign operations will exclude translation differences that arose before the date of transition.

	Share Capital	Foreign Currency Translation Reserve	Accumulated remeasurement on retirement benefits	Accumulated Profits	Total
<b>The Company</b>					
As at 1 July 2017	14,782,931	-	-	17,961,838	32,744,769
<b>Total comprehensive income for the period:</b>					
Profit for the period	-	-	-	5,219,113	5,219,113
Total comprehensive income for the period	-	-	-	5,219,113	5,219,113
Transactions with owners, recorded directly in equity					
Final dividend of 4 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2017	-	-	-	(6,951,594)	(6,951,594)
Total transactions with owners, recorded directly in equity	-	-	-	(6,951,594)	(6,951,594)
<b>As at 31 December 2017</b>	<b>14,782,931</b>	<b>-</b>	<b>-</b>	<b>16,229,357</b>	<b>31,012,288</b>
As at 1 July 2018	14,782,931	-	-	18,472,255	33,255,186
<b>Total comprehensive income for the period:</b>					
Profit for the period	-	-	-	9,980,732	9,980,732
Total comprehensive income for the period	-	-	-	9,980,732	9,980,732
Transactions with owners, recorded directly in equity					
Final dividend of 5 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2018	-	-	-	(8,341,913)	(8,341,913)
Total transactions with owners, recorded directly in equity	-	-	-	(8,341,913)	(8,341,913)
<b>As at 31 December 2018</b>	<b>14,782,931</b>	<b>-</b>	<b>-</b>	<b>20,111,074</b>	<b>34,894,005</b>

**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 2018 and 31 December 2017. 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 Group's 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.**

Except as disclosed in paragraph 5, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as compared to the most recent audited financial statements for the financial year ended 30 June 2018.

**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.**

The Group has adopted SFRS(I) for the financial year ending 30 June 2019 and has applied SFRS(I) 1 with 1 July 2017 as the date of transition for the Group and the Company.

The Group has elected the optional exemption in SFRS(I) 1 to reset its cumulative Foreign Currency Translation Reserve ("FCTR") for all foreign operations to NIL at the date of transition, and reclassify the cumulative FCTR of approximately S\$5.44 million as at 1 July 2017 as determined in accordance with the previous Financial Reporting Standards (FRS) at that date to retained earnings. After the date of transition, any gain or loss on disposal of any foreign operations will exclude translation differences that arose before the date of transition.

**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 2018	Oct to Dec 2017	Jul to Dec 2018	Jul to Dec 2017
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	2.25 cents	2.81 cents	5.49 cents	6.53 cents
(ii) On a fully diluted basis	2.25 cents	2.81 cents	5.49 cents	6.53 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 2017: 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.**

	<b>Group 31 Dec 18</b>	<b>Group 30 Jun 18</b>	<b>Company 31 Dec 18</b>	<b>Company 30 Jun 18</b>
Net Asset Value per ordinary share (cents)	42.38	43.37	25.10	23.92

The net asset value per ordinary share is calculated based on net assets of S\$58.9 million (30 June 2018: S\$60.3 million) and 139,031,881 (30 June 2018: 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*

After rising 20.4% during the first six months of 2018, the global semiconductor industry witnessed a moderation in sales growth during the second half of the year. Based on the available statistics compiled by the Semiconductor Industry Association (SIA), worldwide semiconductor sales from July to November 2018 grew about 12.8% to US\$205.9 billion compared to the same five month period in 2017.

In its latest forecast on 27 November 2018, the World Semiconductor Trade Statistics (WSTS) said it expects the global semiconductor market to grow 15.9% to a record US\$478 billion in 2018. For 2019, WSTS forecasts global chip sales will rise at a more moderate pace of 2.6% to US\$490 billion.

### *Group Revenue*

		<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>Full Year</b>
<b>REVENUE</b>	<b>FY2019</b>	<b>S\$16,884,314</b>	<b>S\$15,157,849</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
	<b>FY2018</b>	<b>S\$17,694,454</b>	<b>S\$15,649,498</b>	<b>S\$16,079,175</b>	<b>S\$15,678,731</b>	<b>S\$65,101,858</b>
	<b>% growth</b>	<b>(4.6%)</b>	<b>(3.1%)</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

For the three months ended 31 December 2018 (2Q19), the Group's revenue decreased a marginal 3.1% year-on-year (yoy) to approximately S\$15.2 million from S\$15.6 million in 2Q18. The increased in sales from the Philippines, USA and Taiwan were offset by lower sales contributions from China, Singapore and Rest of the world markets. Group revenue in 2Q19 would have been higher if not for the translational impact arising from the depreciation of the Chinese Yuan and Philippine Peso by 3.5% and 2.6% respectively, against the Group's reporting currency in Singapore Dollars.

On a quarter-on-quarter (qoq) basis, Group revenue in 2Q19 decreased 10.2% from S\$16.9 million in 1Q19. This was due mainly to lower sales to customers in China, Singapore and Europe, which was in line with the seasonal slower and lower demand in the technology sector towards the end of the calendar year.

For the six months ended 31 December 2018 (1H19), Group revenue decreased 3.9% to S\$32.0 million from S\$33.3 million in the previous half-year period. This was due mainly to lower sales registered in Singapore and Malaysia.

### Revenue breakdown by Geographical Market

Country	Group										
	1Q19 S\$	2Q19		2Q18		% change	1H19		1H18		% change
	S\$ m	%	S\$ m	%		S\$ m	%	S\$ m	%		
Singapore	1.0	0.9	6%	1.3	9%	(36%)	1.9	6%	3.1	9%	(40%)
Malaysia	3.1	3.0	20%	2.9	19%	2%	6.0	19%	6.4	19%	(5%)
Philippines	1.7	1.8	12%	1.6	10%	17%	3.5	11%	3.3	10%	9%
Thailand	0.3	0.3	2%	0.3	2%	3%	0.6	2%	0.6	2%	2%
China	5.5	3.8	25%	4.1	26%	(7%)	9.3	29%	9.3	28%	0%
USA	3.0	3.2	21%	3.0	19%	8%	6.2	19%	5.7	17%	8%
Europe	0.7	0.6	4%	0.6	4%	(9%)	1.3	4%	1.2	4%	5%
Japan	0.3	0.3	2%	0.3	2%	(23%)	0.5	2%	0.6	2%	(18%)
Taiwan	1.1	1.1	7%	1.0	6%	13%	2.2	7%	2.2	7%	0%
Rest of world	0.2	0.2	1%	0.5	3%	(53%)	0.5	1%	0.9	2%	(48%)
<b>Total</b>	16.9	15.2	100%	15.6	100%	(3%)	32.0	100%	33.3	100%	(4%)

During 2Q19, the Group's sales increased in the Philippines, USA, Malaysia and Taiwan. However, it registered a sales reduction in Singapore, China, Europe and Rest of the world. While sales from China decreased by 7% to S\$3.8 million in 2Q19, it remained as the largest geographical market which constituted 25% of Group revenue.

Sales in the USA increased 8% to S\$3.2 million in 2Q19 and was our second largest market, accounting for 21% of Group revenue. Our third largest market of Malaysia registered a marginal 2% sales increase to S\$3.0 million in 2Q19 and contributed 20% to Group revenue. Sales in the Philippines increased 17% to S\$1.8 million while sales to customers in Taiwan grew 13% to S\$1.1 million. The Singapore market saw sales dipped 36% to S\$0.9 million mainly due to lower orders received from customers.

### Capacity Utilisation

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2019	58%	59%	NA	NA	NA
FY2018	64%	62%	59%	60%	61%	

Our average capacity utilisation rate decreased to 59% in 2Q19 from 62% in 2Q18 in tandem with the decrease in Group sales and our investments for additional production capacity during FY2018.

### Gross Profit (GP) Margin

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2019	59.5%	52.4%	NA	NA	NA
FY2018	60.9%	56.1%	55.8%	54.6%	57.0%	

The Group's gross profit (GP) decreased 9.5% to S\$7.9 million in 2Q19 as compared to S\$8.8 million in 2Q18. Our GP margin decreased to 52.4% in 2Q19 as compared to 56.1% in 2Q18 mainly due to the increase in production headcount and higher depreciation expenses for machines purchased during FY2018.

### 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
	FY2019	S\$4,047,737	S\$3,846,687	NA	NA	NA
% of sales	24.0%	25.4%				
FY2018	S\$4,077,376	S\$3,846,420	S\$3,735,222	S\$3,580,364	S\$15,239,382	
% of sales	23.0%	24.6%	23.2%	22.8%	23.4%	

Other income in 2Q19 fell to S\$171k from S\$235k in 2Q18. This was mainly due to the absence of the gain on disposal of property, plant and equipment amounting to S\$119k recorded in 2Q18, which was partially offset by an exchange gain of S\$48k in 2Q19. In addition to invoicing its sales transactions in various local currencies, the Group enters into currency hedging arrangements to mitigate the possible effects of currency fluctuations.

We continued to maintain tight control over our expense structure during 2Q19. Our distribution costs decreased 6.1% to S\$780k due mainly to lower sales incentive and bonus which was in tandem with the decrease in Group sales. Administrative expenses increased 2.7% to S\$2.4 million in 2Q19 from S\$2.3 million in 2Q18. Other operating expenses decreased 8.1% to S\$850k due mainly to the absence of an exchange loss incurred in 2Q18. The Group made an exchange gain in 2Q19 which was recorded as other income.

In aggregate, our administrative, distribution and other operating expenses (inclusive of other income) in 2Q19 remained stable at S\$3.8 million. As a percentage of Group sales, these overhead expenses increased marginally to 25.4% in 2Q19 from 24.6% in the same period a year ago.

#### ***Profit before Tax and Net Profit***

		1Q	2Q	3Q	4Q	Full Year
Net Profit after tax	FY2019	S\$4,506,172	S\$3,124,950	NA	NA	NA
	FY2018	S\$5,170,990	S\$3,903,774	S\$4,111,064	S\$3,957,686	S\$17,143,514
	% growth	(12.9%)	(20.0%)	NA	NA	NA

As a result of the above, the Group's profit before tax decreased 16.9% to S\$4.1 million in 2Q19 from S\$4.9 million in 2Q18. After deducting income tax of S\$1.0 million (S\$1.0 million in 2Q18), the Group reported a net profit of S\$3.1 million in 2Q19, a decrease of 20.0% from S\$3.9 million in 2Q18. Net profit margin in 2Q19 was 20.6% as compared to 24.9% in 2Q18 and 26.7% in 1Q19.

The effective tax rate for 2Q19 was 23.8% as compared to 20.9% for 2Q18. Tax expense for the quarter included a provision of S\$161k for withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

For 1H19, the Group's net profit decreased 15.9% to S\$7.6 million from S\$9.1 million in 1H18. Net profit margin contracted to 23.8% in 1H19 as compared to 27.2% in 1H18. Correspondingly, the Group's earnings per share decreased to 5.49 cents in 1H19 from 6.53 cents in 1H18.

#### ***Dividend***

The Board of Directors has declared the payment of an interim dividend of 4 cents per share (one-tier tax exempt) amounting to approximately S\$5.6 million, to be paid on 18 February 2019, to the shareholders on record as at 7 February 2019.

#### ***Balance Sheet***

The Group remains in a sound financial position. As at 31 December 2018, we had a balance sheet with total assets of S\$70.0 million, shareholders' equity of S\$58.9 million, cash and cash equivalents of S\$20.4 million and no bank borrowings.

#### ***Long Term Assets***

As at 31 December 2018, non-current assets decreased to S\$33.8 million from S\$35.7 million as at 30 June 2018.

#### ***Trade Receivables***

		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
Trade Receivables	FY2019	S\$11,960,650	S\$10,134,701	NA	NA
	≥ 90 days	0.02%	0.02%	NA	NA
	Write-off	-	-	NA	NA
	FY2018	S\$13,623,255	S\$10,967,376	S\$11,707,701	S\$10,874,870
	≥ 90 days	2.2%	0.0%	0.5%	0.0%
	Write-off	-	-	-	-

Total trade receivables as at 31 December 2018 was S\$10.1 million, as compared to S\$10.9 million as at 30 June 2018. Of this, 0.02% was outstanding for 90 days or more (0% at end of 30 June 2018). There was no bad debt expense during 1H19 and 1H18.

#### ***Trade & Other Payables***

As at 31 December 2018, our trade payables totaled S\$0.7 million, of which S\$3k was outstanding for 30 days or more. Non-trade payables totaled S\$1.4 million. Other accrued expenses stood at S\$3.7 million.

#### ***Long term liabilities***

As at 31 December 2018, deferred tax liabilities was S\$1.7 million as compared to S\$1.5 million as at 30 June 2018. The lease liabilities was S\$1.8 million as at 31 December 2018 as compared to S\$1.3 million as at 30 June 2018 due to the renewal of factory lease.

#### ***Inventory***

As a percentage of annualised sales, our inventory of S\$4.7 million as at 31 December 2018 (S\$4.6 million as at 30 June 2018) was 7.4% (7.0% as at 30 June 2018). Inventory written off in 2Q19 totaled S\$19k (S\$26k in 2Q18).

#### ***Capital Expenditure***

Capital Expenditure		1Q	2Q	3Q	4Q	Full Year
	FY2019 % of sales	S\$699,820	S\$787,034	NA	NA	NA
FY2018 % of sales	S\$2,154,551	S\$3,832,377	S\$3,362,060	S\$2,771,725	S\$12,120,713	18.6%

Our capital expenditure in 2Q19 was S\$0.8 million which was mainly incurred for the purchase of new machines and accessories for our factories in Malaysia, Singapore and the USA. This brought our capital investments for 1H19 to S\$1.5 million. For FY2019, we foresee lower spending on equipment and have reduced our capital expenditure budget to S\$5.0 million from our previous estimate of S\$6.0 million.

#### ***Cash Flow Analysis***

The Group generated net cash from operations of S\$5.8 million in 2Q19 (S\$7.5 million in 2Q18). Net cash used for investing activities amounted to S\$0.7 million, which was mainly related to capital expenditure. After paying S\$8.3 million as final and special dividends in respect of FY2018, we closed the period with a cash balance of S\$20.4 million including S\$0.2 million in pledged deposits.

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

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

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

#### **Strategic, Operating and Financial Review**

During 1H19, Group revenue decreased 3.9% to S\$32.0 million from a record of S\$33.3 million during 1H18 as a result of moderating market conditions in the global semiconductor industry. The Group's profit before tax in 1H19 declined 13.2% to S\$10.1 million, from a record of S\$11.6 million in the same period a year ago, due to the combined impact of lower sales and an increase in production costs. For 2Q19, Group revenue fell 3.1% to S\$15.2 million from S\$15.6 million in the same quarter a year ago while profit before tax decreased 16.9% to S\$4.1 million from S\$4.9 million in 2Q18.

While growing the Group's top line and the value we create for our customers remains a key priority, we have also been working tirelessly to enhance our manufacturing processes, productivity and cost structure by focusing

on various strategies, such as *24/7Machining*, IT automation and department integration. Hence, in spite of slowing market conditions in 1H19 as well as ongoing selling price and cost pressures, our GP margin in 1H19 was relatively firm at 56.1% in 1H19 compared with 58.7% in 1H18 when the Group registered record sales. On a quarterly basis, our GP margin for 2Q19 was 52.4% compared to 56.1% in 2Q18 due mainly to an increase in production headcount and higher depreciation expenses for machines purchased during FY2018.

We are also continuing to work diligently to keep a tight rein on overhead expenses. Despite ongoing cost pressures, the Group's total distribution, administrative and other expenses including other income held steady at S\$3.8 million in 2Q19 and S\$7.9 million for 1H19. As a result, our total overhead expenses as a percentage of sales increased slightly to 25.4% in 2Q19 (24.6% in 2Q18) and 24.6% in 1H19 (23.8% in 1H18).

After deducting taxes of S\$1.0 million (S\$1.0 million in 2Q18), the Group reported a net profit of S\$3.1 million in 2Q19, a decrease of 20.0% from S\$3.9 million in the same quarter a year ago due mainly to lower revenue and softer GP margin.

At the end of 1H19, the Group employed 497 great people, an increase from 482 at the end of 1H18. As the Group grows, we plan to continue automating our operations, streamlining our processes and using technology to leverage the know-how and skills of our people.

With no bank borrowings to service and a careful watch over inventory and receivables, net cash generated from operating activities in 2Q19 totaled S\$5.8 million (S\$7.5 million for 2Q18). After net investing activities of S\$0.8 million (S\$3.4 million for 2Q18), which was primarily for new equipment, and a dividend payment of S\$8.3 million (S\$7.0 million for 2Q18), the Group ended the quarter in a strong financial position with S\$20.4 million in cash (including S\$0.2 million held as security deposits) and no bank borrowings.

#### **Market, Industry and Competitive Conditions**

Based on the available statistics compiled by the Semiconductor Industry Association (SIA), worldwide semiconductor sales from July to November 2018 grew about 12.8% to US\$205.9 billion compared to the same five month period in 2017. As we move into 2019, the industry has slowed considerably. In its latest forecast on 27 November 2018, the World Semiconductor Trade Statistics (WSTS) said it expects the global semiconductor market in 2019 to grow 2.6% to US\$490 billion.

The anticipated slowdown in the semiconductor industry is magnified in the supporting market for Wafer Fabrication Equipment ("WFE"). In its latest forecast published in December 2018, Semiconductor Equipment and Materials International ("SEMI") said WFE purchases fell 13% during the second half of 2018. It now expects total WFE spending in 2019 to drop 8%, which is a sharp reversal of its previous forecast for 7% growth. SEMI said plunging memory prices and a sudden shift in companies' strategies in response to trade tensions have been driving rapid drops in capital expenditures.

Against this backdrop of slowing industry conditions and, hence demand for the tools and parts we manufacture for semiconductor assembly and wafer fabrication, the Group performed reasonably well in 1H19. Because cyclical conditions are typical for the semiconductor industry, particularly for wafer fabrication equipment, we prefer to focus on the industry's long-term trends and try not to get side-tracked by short-term variations. We continue to believe the semiconductor industry is poised for a prolonged period of solid growth as chips are becoming increasingly embedded in nearly every aspect of modern life, from today's smart phones to tomorrow's driverless cars. Hence, the key to the Group's success lies in our continuing ability to seize long-term opportunities and correctly identify the initiatives and investments that bring value to our customers.

During FY2018, we invested a record S\$10.6 million on new equipment to expand the productivity of our worldwide operations. Because the time to specify, order and qualify new equipment can easily stretch beyond a year, it can also be difficult to align our investments in new equipment to short-term industry conditions. For example, our profit before tax in 1H19 included S\$0.4 million in additional depreciation expenses compared to the same period a year ago.

During 1H19, we had capital spending of S\$1.5 million which was mainly for new equipment compared with S\$6.0 million in 1H18. For all of FY2019, we expect a lower capital expenditure of about S\$5.0 million which will focus on increasing automation and upgrading our existing machines to further raise the productivity of our operations.

At the same time, we are always working to develop new materials and processes based on the long-term needs of our customers for greater precision, repeatability, cleanliness and reliability. We expect these requirements to intensify as the semiconductor industry adopts processing methods for 10 nanometer and below device

geometries. Our engineers in Asia and the USA are working on a number of key initiatives that involve lengthy, difficult and costly development work. Although this pattern of more stringent and difficult requirements is challenging, we believe these conditions play well to our technical, financial and managerial strengths and our focus on building stakeholder value that is sustainable.

### **Key Operating Strategies**

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

At Micro-Mechanics, we are fond of saying that *People Make Everything Happen*. Dealing with relentless cost pressures, adapting to rapid change and implementing new initiatives to improve key outcomes requires an effective culture. We define this as *the way our people make decisions and work together*. To be successful over the long-term, it is essential for our people at all levels to understand, embrace and act in a way that synchronizes with our vision, mission, goals, strategies and core values. We intend to 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 an ongoing training program called *MM University* to help our people understand the need to have a shared framework for making more informed and aligned decisions. It began with a series of workshops on *Customer Value, Business Planning, 24/7Machining*, and *The Fundamentals of Value-Driven Decision Making*. During 2H19, we will launch a new training program we call *8S*. Based on eight words beginning with the letter “s” such as *safety, standardization, synchronization and sustainability*, our goal is to provide our people with a shared methodology for making the kinds of decisions that drive continuous improvement, reduce waste, enhance workplace safety and promote environmental and corporate sustainability.

During the last few years, we have learned that it takes more than a series of workshops to build an effective decision-making framework and culture. The training material 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 are working to compile a series of textbooks designed to clearly explain the fundamentals of how we are working to run the company.

### **Transparency and Governance**

On 18 July 2018, our CEO, Christopher Borch, received the *Best CEO Award* at the Singapore Corporate Awards (SCA) 2018 for the category of companies with a market capitalization up to S\$300 million. At the 19th Investors' Choice Awards 2018 on 25 September 2018, the Group was also conferred the Shareholder Communications Excellence Award (Small Cap) 2018 and Singapore Corporate Governance Award (Small Cap) 2018 by Securities Investors Association Singapore. Including these awards, the Group has received recognition 29 times for our good corporate governance, transparency and investor relations practices since our listing in 2003.

In addition to these awards, in the Singapore Governance and Transparency Index (SGTI) released on 7 August 2018, Micro-Mechanics received a score of 97 points to rank 23rd out of 589 companies (excluding 43 Reits and Business Trusts) listed on the Singapore Exchange. The top 25 companies in the SGTI are mainly large capitalisation companies.

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

### **Appreciation and Stakeholder Value**

Since our listing we have also maintained a consistent practice of rewarding shareholders for their continuous support of Micro-Mechanics. At our Annual General Meeting held on 29 October 2018, shareholders approved a final dividend for FY2018 of 5 cents and a special dividend of 1 cent per ordinary share. Together with an interim dividend of 4 cents per ordinary share (one-tier tax exempt), this raised the total dividend payment for FY2018 to 10 cents per ordinary share compared with 8 cents per ordinary share for FY2017.

Based on the Group's steady performance during 1H19, the Board of Directors has also approved an interim dividend of 4 cents per ordinary share (one-tier tax exempt) payable on 18 February 2019 to the shareholders on record as at 7 February 2019.

Including this interim dividend for 1H19, we will have distributed a total of 67.9 cents per share to our shareholders since 2003. Based on dividends alone, this translates into a return of 367% for our shareholders who bought Micro-Mechanics shares at our Initial Public Offer.

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

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

## **11. Dividend**

### **(a) Current Financial Period Reported On**

Any dividend declared for the current financial period reported on?

The Board of Directors has declared the payment of an interim dividend of 4 cents per ordinary share (one tier tax-exempt) amounting to approximately S\$5.6 million.

### **(b) Corresponding Period of the Immediately Preceding Financial Year**

An interim dividend of 4 cents per ordinary share (one tier tax-exempt) was paid on 13 February 2018 in respect of FY2018.

### **(c) Date payable**

The dividend payment will be made on 18 February 2019.

### **(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 8 February 2019 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 February 2019 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 February 2018 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.

On 22 October 2018, the Group announced that its wholly-owned subsidiary Micro-Mechanics Inc (MMUS) has entered into an agreement relating to the payment of electrical services provided to its factory in the USA with Sarcadia LLC, a controlling shareholder of the Company and a family company set up by Mr. Christopher Reid Borch, the CEO of the Company.

For the half year ended 31 December 2018, the Group has made rental payment of US\$186,000 (31 December 2017: US\$180,000) and electrical services payment of US\$26,307 (31 December 2017: Nil) 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.

**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 2018 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  
26 January 2019