

## MICRO-MECHANICS (HOLDINGS) LTD

### Unaudited Second Quarter Financial Statements Announcement for the period ended 31/12/2019

#### PART I INFORMATION REQUIRED FOR ANNOUNCEMENTS OF FULL YEAR RESULTS

- 1(a) An income statement and statement of comprehensive income, or 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 2019 S\$	Oct to Dec 2018 S\$	Change	Jul to Dec 2019 S\$	Jul to Dec 2018 S\$	Change
Revenue	(1)	16,275,737	15,157,849	7.4%	31,619,235	32,042,163	(1.3%)
Cost of sales	(2)	(7,502,786)	(7,209,830)	4.1%	(14,653,235)	(14,054,484)	4.3%
<b>Gross profit</b>		<b>8,772,951</b>	<b>7,948,019</b>	10.4%	<b>16,966,000</b>	<b>17,987,679</b>	(5.7%)
Other income	(3)	78,688	171,201	(54.0%)	297,028	305,710	(2.8%)
Distribution costs	(4)	(832,455)	(780,130)	6.7%	(1,656,664)	(1,673,978)	(1.0%)
Administrative expenses	(5)	(2,358,921)	(2,387,699)	(1.2%)	(4,606,237)	(4,828,788)	(4.6%)
Other operating expenses	(6)	(1,007,026)	(850,059)	18.5%	(1,928,887)	(1,697,368)	13.6%
<b>Profit before tax</b>	(7)	<b>4,653,237</b>	<b>4,101,332</b>	13.5%	<b>9,071,240</b>	<b>10,093,255</b>	(10.1%)
Tax expense	(8)	(1,078,287)	(976,379)	10.4%	(2,226,860)	(2,462,130)	(9.6%)
<b>Profit after tax</b>		<b>3,574,950</b>	<b>3,124,953</b>	14.4%	<b>6,844,380</b>	<b>7,631,125</b>	(10.3%)
<b>Non-controlling interests</b>		-	-	-	-	-	-
<b>Profit for the period</b>		<b>3,574,950</b>	<b>3,124,953</b>	14.4%	<b>6,844,380</b>	<b>7,631,125</b>	(10.3%)
<b>Statement of Comprehensive Income</b>							
Profit for the period		3,574,950	3,124,953	14.4%	6,844,380	7,631,125	(10.3%)
Other comprehensive income:							
Foreign currency translation differences for foreign operations, net of tax		(464,482)	(62,165)	(647.2%)	(194,912)	(672,545)	71.0%
<b>Total comprehensive income for the period</b>		<b>3,110,468</b>	<b>3,062,788</b>	1.6%	<b>6,649,468</b>	<b>6,958,580</b>	(4.4%)

Notes:

- (1) Please refer to section 8 of this announcement for an analysis of the Group's revenue.
- (2) Cost of Sales during 2Q20 increased S\$0.3 million to S\$7.5 million from S\$7.2 million in 2Q19 due primarily to higher overtime expenses of S\$120k, depreciation expenses of S\$54k and equipment repairs of S\$102k.

- (3) Other income consists of:

	Q2			Half year		
	Oct to Dec 2019 S\$	Oct to Dec 2018 S\$	Change	Jul to Dec 2019 S\$	Jul to Dec 2018 S\$	Change
(Loss)/gain on disposal of property, plant and equipment	(38,958)	34	n.m.	(30,877)	(9,552)	223.3%
Interest income from banks and others	56,727	59,101	(4.0%)	134,436	112,901	19.1%
Rental income	30,946	31,141	(0.6%)	62,150	61,898	0.4%
Government grant – Skill Redevelopment, Wage Credit and Capability Development Scheme	22,298	8,428	164.6%	34,427	19,786	74.0%
Exchange (loss)/gain	(14,077)	47,825	(129.4%)	42,563	66,500	(36.0%)
Others	21,752	24,672	(11.8%)	54,329	54,177	0.3%

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 2019 S\$	Oct to Dec 2018 S\$	Change	Jul to Dec 2019 S\$	Jul to Dec 2018 S\$	Change
Depreciation of property, plant and equipment	1,408,806	1,369,152	2.9%	2,801,981	2,716,593	3.1%
Depreciation of right-of use assets	261,545	274,802	(4.8%)	520,095	548,954	(5.3%)
Inventory written off	27,307	19,100	43.0%	58,483	40,363	44.9%
Interest expense on lease liabilities	24,784	26,971	(8.1%)	50,050	57,167	(12.4%)
Property, plant and equipment written off	6	823	(99.3%)	27	1,629	(98.3%)

After capital spending of S\$2.0 million in 1H20, the Group's total depreciation expenses increased to S\$1.7 million in 2Q20 from S\$1.6 million in 2Q19.

- (8) The effective tax rate for 2Q20 was 23.1% as compared to 23.8% for 2Q19. Included in the tax expense for 1H20 was a provision of S\$301k made in relation to withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

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

	Note	Group 31 Dec 19 S\$	Group 30 Jun 19 S\$	Company 31 Dec 19 S\$	Company 30 Jun 19 S\$
<b>Non-current assets</b>					
Property, plant and equipment		29,819,242	30,811,334	-	-
Right-of-use assets	(1)	1,624,338	1,815,233	-	-
Subsidiaries		-	-	29,095,544	29,095,544
Trade and other receivables		716,061	428,008	-	-
Deferred tax asset		43,627	48,409	-	-
		32,203,268	33,102,984	29,095,544	29,095,544
<b>Current assets</b>					
Inventories		4,789,877	4,514,659	-	-
Trade and other receivables		11,523,315	10,380,307	1,533,171	2,596,880
Cash and cash equivalents		19,171,948	21,881,179	9,307,594	8,743,944
		35,485,140	36,776,145	10,840,765	11,340,834
<b>Total assets</b>					
		67,688,408	69,879,129	39,936,309	40,436,378
<b>Shareholders' equity</b>					
Share capital		14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve	(2)	(282,390)	(87,478)	-	-
Accumulated profits		42,167,001	43,664,534	24,503,990	24,928,388
		56,667,542	58,359,987	39,286,921	39,711,319
<b>Non-current liabilities</b>					
Deferred tax liabilities		1,527,023	1,434,464	353,053	213,960
Trade and other payables		361,350	643,777	-	-
Lease liabilities	(1)	858,051	967,621	-	-
		2,746,424	3,045,862	353,053	213,960
<b>Current liabilities</b>					
Trade and other payables		6,190,890	6,436,347	290,819	502,740
Lease liabilities	(1)	757,669	847,230	-	-
Current tax payable		1,325,883	1,189,703	5,516	8,359
		8,274,442	8,473,280	296,335	511,099
Total liabilities		11,020,866	11,519,142	649,388	725,059
<b>Total equity and liabilities</b>					
		67,688,408	69,879,129	39,936,309	40,436,378

Notes:

- (1) Right-of-use assets related and corresponding lease liabilities mainly relate to leases on various factory premises occupied by the Group.
- (2) The movement in foreign currency translation reserve in 1H20 was mainly due to depreciation of the US Dollar and Chinese Renminbi against Singapore Dollar.

**Amount repayable in one year or less or on demand**

As at 31 Dec 19		As at 30 June 19	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

**Amount repayable after one year**

As at 31 Dec 19		As at 30 June 19	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

**Details of any collateral**

Not applicable

**1(c) A statement of cash flow (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 2019 S\$	Oct to Dec 2018 S\$	Jul to Dec 2019 S\$	Jul to Dec 2018 S\$
<b>Cash flows from operating activities</b>					
Profit for the period		3,574,950	3,124,953	6,844,380	7,631,125
Adjustments for:					
Depreciation of property, plant and equipment		1,670,351	1,643,954	3,322,076	3,265,547
Property, plant and equipment written off		6	823	27	1,629
Loss/(gain) on disposal of property, plant and equipment		38,958	(34)	30,877	9,552
Interest income		(56,727)	(59,101)	(134,436)	(112,901)
Interest expenses on lease liabilities		24,784	26,971	50,050	57,167
Tax expenses		1,078,287	976,379	2,226,860	2,462,130
<b>Operating profit before changes in working capital</b>		6,330,609	5,713,945	12,339,834	13,314,249
Inventories		(71,359)	70,116	(293,861)	(210,243)
Trade and other receivables		(360,443)	1,937,626	(1,505,110)	432,349
Trade and other payables		158,066	(273,694)	(522,129)	(1,552,069)
Cash generated from operations		6,056,873	7,447,993	10,018,734	11,984,286
Income tax paid		(1,246,771)	(1,692,237)	(1,990,483)	(2,344,778)
<b>Net cash from operating activities</b>		4,810,102	5,755,756	8,028,251	9,639,508
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	(1)	(1,490,251)	(787,034)	(2,007,776)	(1,486,854)
Proceeds from disposal of property, plant and equipment		101,615	(6)	109,697	1,817
Interest received		71,364	62,120	143,640	120,822
<b>Net cash used in investing activities</b>		(1,317,272)	(724,920)	(1,754,439)	(1,364,215)
<b>Cash flows from financing activities</b>					
Leases paid		(275,441)	(228,589)	(578,378)	(458,058)
Dividends paid		(8,341,913)	(8,341,913)	(8,341,913)	(8,341,913)
<b>Net cash used in financing activities</b>		(8,617,354)	(8,570,502)	(8,920,291)	(8,799,971)
<b>Net decrease in cash and cash equivalents</b>		(5,124,524)	(3,539,666)	(2,646,479)	(524,678)
Cash and cash equivalents at beginning of period		24,179,161	23,744,887	21,717,779	20,918,381
Effect of exchange rate fluctuations		(47,289)	(12,687)	(63,952)	(201,169)
<b>Cash and cash equivalents at the end of period</b>	(2)	19,007,348	20,192,534	19,007,348	20,192,534

Notes:

- (1) During 2Q20, the Group purchased approximately S\$1.5 million of machines and accessories for its factories in Singapore, Malaysia, the Philippines and China.

(2) Cash and cash equivalent is derived from:

	<b>Group 31 Dec 19 S\$</b>	<b>Group 31 Dec 18 S\$</b>
Cash and cash equivalent balances	19,171,948	20,357,434
Less: Pledged cash placed with bank	(164,600)	(164,900)
	19,007,348	20,192,534

**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 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 Dec 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>
As at 1 July 2019	14,782,931	(67,882)	(19,596)	43,664,534	58,359,987
<b>Total comprehensive income for the period:</b>					
Profit for the period	-	-	-	6,844,380	6,844,380
<b>Other comprehensive income:</b>					
Foreign currency translation difference	-	(194,912)	-	-	(194,912)
Total comprehensive income for the period	-	(194,912)	-	6,844,380	6,649,468
<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 FY2019	-	-	-	(8,341,913)	(8,341,913)
Total transactions with owners, recorded directly in equity	-	-	-	(8,341,913)	(8,341,913)
<b>As at 31 Dec 2019</b>	<b>14,782,931</b>	<b>(262,794)</b>	<b>(19,596)</b>	<b>42,167,001</b>	<b>56,667,542</b>

	Share Capital	Foreign Currency Translation Reserve	Accumulated remeasurement on retirement benefits	Accumulated Profits	Total
<b>The Company</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 Dec 2018</b>	<b>14,782,931</b>	<b>-</b>	<b>-</b>	<b>20,111,074</b>	<b>34,894,005</b>
As at 1 July 2019	14,782,931	-	-	24,928,388	39,711,319
<b>Total comprehensive income for the period:</b>					
Profit for the period	-	-	-	7,917,515	7,917,515
Total comprehensive income for the period	-	-	-	7,917,515	7,917,515
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 FY2019	-	-	-	(8,341,913)	(8,341,913)
Total transactions with owners, recorded directly in equity	-	-	-	(8,341,913)	(8,341,913)
<b>As at 31 Dec 2019</b>	<b>14,782,931</b>	<b>-</b>	<b>-</b>	<b>24,503,990</b>	<b>39,286,921</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 the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, 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. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed 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 2019 and 31 December 2018. 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, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable.

**1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings 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 modifications or emphasis of a matter).**

Not applicable.

**3A. Where the latest financial statements are subject to an adverse opinion, qualified opinion or disclaimer of opinion:—**

**(a) Updates on the efforts taken to resolve each outstanding audit issue.**

The audited financial statements for the year ended 30 June 2019 was not subjected to an adverse opinion, qualified opinion or disclaimer of opinion.

**(b) Confirmation from the Board that the impact of all outstanding audit issues on the financial statements have been adequately disclosed.**

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 2019	Oct to Dec 2018	Jul to Dec 2019	Jul to Dec 2018
Earnings per ordinary share for the year based on net profit after tax and non-controlling interest:-				
(i) Based on weighted average number of ordinary shares on issue	2.57 cents	2.25 cents	4.92 cents	5.49 cents
(ii) On a fully diluted basis	2.57 cents	2.25 cents	4.92 cents	5.49 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 2018: 139,031,881).



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

	<b>Group 31 Dec 19</b>	<b>Group 30 Jun 19</b>	<b>Company 31 Dec 19</b>	<b>Company 30 Jun 19</b>
Net Asset Value per ordinary share (cents)	40.76	41.98	28.26	28.56

The net asset value per ordinary share is calculated based on net assets of S\$56.7 million (30 June 2019: S\$58.4 million) and 139,031,881 (30 June 2019: 139,031,881) shares in issue at the end of the current financial year reported on/immediately preceding financial year.

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

## REVIEW OF PROFIT AND LOSS

### *Semiconductor Industry Review*

Based on data from the World Semiconductor Trade Statistics (WSTS), worldwide semiconductor sales for the 5 months from July to November 2019 amounted to US\$178.7 billion, a decrease of 12.1% from the same period in 2018.

In its Semiconductor Market Forecast Fall 2019 released on 3 December 2019, WSTS expects the world semiconductor market to decrease by 12.8% to US\$409 billion in 2019. This reflects the expected sales declines in almost all the major product categories and in all geographical regions.

The Semiconductor Industry Association said that while global semiconductor sales in 2019 continued to lag behind the total for 2018, there are indications of a modest rebound projected for 2020. For Year 2020, WSTS is forecasting that chip sales growth in all regions will lift the global market by 5.9% to US\$433.0 billion.

### *Group Revenue*

		<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>Full Year</b>
<b>REVENUE</b>	<b>FY2020</b>	<b>S\$15,343,498</b>	<b>S\$16,275,737</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
	<b>FY2019</b>	<b>S\$16,884,314</b>	<b>S\$15,157,849</b>	<b>S\$14,358,199</b>	<b>S\$13,930,584</b>	<b>S\$60,330,946</b>
	<b>% growth</b>	<b>(9.1%)</b>	<b>7.4%</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

For the three months ended 31 December 2019 (2Q20), the Group's revenue increased by 7.4% to S\$16.3 million from S\$15.2 million in 2Q19. This was the first time our quarterly revenue registered year-on-year (yoy) growth since 4Q18 which reflects the improving stability of the global semiconductor industry from the cyclical downturn that began during the second half of calendar year 2018.

The Group witnessed increased sales in China, Singapore, Japan and Taiwan in 2Q20 which offset lower sales contributions from the Philippines, Malaysia and Europe markets. Group revenue in 2Q20 would have been higher if not for the translational impact arising from the depreciation of the Chinese Yuan and US dollar by 2.8% and 1.2% respectively against the Group's reporting currency in Singapore Dollars.

On a quarter-on-quarter (qoq) basis, Group revenue in 2Q20 increased by 6.1% from S\$15.3 million in 1Q20. This was due mainly to higher sales to customers in Singapore, the USA and Taiwan.

For the six months ended 31 December 2019 (1H20), Group revenue eased marginally by 1.3% to S\$31.6 million from S\$32.0 million in the previous half-year period. This was mainly due to lower sales in Malaysia, the Philippines and Europe.

### Revenue breakdown by Geographical Market

Country	Group										
	1Q20 S\$	2Q20		2Q19		% change	1H20		1H19		% change
	S\$ m	%	S\$ m	%		S\$ m	%	S\$ m	%		
Singapore	0.8	1.8	11%	0.9	6%	104%	2.6	8%	1.9	6%	41%
Malaysia	2.6	2.6	16%	3.0	20%	(14%)	5.1	16%	6.0	19%	(15%)
Philippines	1.7	1.5	9%	1.8	12%	(21%)	3.1	10%	3.5	11%	(12%)
Thailand	0.3	0.2	1%	0.3	2%	(16%)	0.5	2%	0.6	2%	(7%)
China	4.7	4.6	28%	3.8	25%	20%	9.2	29%	9.3	29%	(1%)
USA	3.0	3.2	20%	3.2	21%	1%	6.2	20%	6.2	19%	0%
Europe	0.6	0.4	3%	0.6	4%	(28%)	1.1	3%	1.3	4%	(17%)
Japan	0.3	0.3	2%	0.3	2%	17%	0.6	2%	0.5	2%	10%
Taiwan	1.2	1.5	9%	1.1	7%	37%	2.8	9%	2.2	7%	25%
Rest of world	0.1	0.2	1%	0.2	1%	(4%)	0.4	1%	0.5	1%	(21%)
<b>Total</b>	15.3	16.3	100%	15.2	100%	7%	31.6	100%	32.0	100%	(1%)

During 2Q20, the Group registered robust sales growth in Singapore, China and Taiwan which was partially offset by the decline in sales from Malaysia, the Philippines, Thailand and Europe.

Sales in China increased 20% to S\$4.6 million in 2Q20 and it remained as our largest geographical market with a contribution of 28% to Group revenue. The Singapore market saw sales increased by 104% to S\$1.8 million while sales to customers in Taiwan grew 37% to S\$1.5 million.

Sales to the USA held steady at S\$3.2 million in 2Q20. It remained as our second largest market and accounted for 20% of Group revenue. Our third largest market of Malaysia registered a 14% sales reduction to S\$2.6 million in 2Q20 which contributed 16% of Group revenue.

### Capacity Utilisation

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2020	59%	61%	NA	NA	NA
	FY2019	58%	59%	55%	58%	57%

Our average capacity utilisation rate increased to 61% in 2Q20 from 59% in 2Q19 which was in tandem with the increase in Group revenue and higher utilisation of machines at our USA factory.

### Gross Profit (GP) Margin

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2020	53.4%	53.9%	NA	NA	NA
	FY2019	59.5%	52.4%	49.3%	52.4%	53.7%

The Group's gross profit (GP) increased 10.4% to S\$8.8 million in 2Q20 as compared to S\$7.9 million in 2Q19. Our GP margin improved to 53.9% in 2Q20 as compared to 52.4% in 2Q19.

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

Admin, Distribution and Other Operating Expenses (net of other income)		1Q	2Q	3Q	4Q	Full Year
	FY2020	S\$3,775,046	S\$4,119,714	NA	NA	NA
	% of sales	24.6%	25.3%			
FY2019	S\$4,047,737	S\$3,846,687	S\$3,672,648	S\$3,731,793	S\$15,298,865	
% of sales	24.0%	25.4%	25.6%	26.8%	25.4%	

Other income in 2Q20 fell to S\$79k from S\$171k in 2Q19. This was due mainly to a foreign exchange loss of S\$14k as compared to a gain of S\$48k recorded in 2Q19, and the loss on disposal of machines of S\$39k. In

addition to invoicing in various local currencies, the Group engages in currency hedging to mitigate the possible effects of currency fluctuations.

We continued to maintain tight control over our expense structure during 2Q20. Our distribution costs increased 6.7% to S\$832k mainly due to additional headcount and higher sales incentive in tandem with the increase in Group revenue. Administrative expenses decreased 1.2% to S\$2.4 million in 2Q20 from S\$2.4 million in 2Q19. The increase in other operating expenses 18.5% to S\$1.0 million was mainly due to additional headcount and engineering expenses incurred to support the development of new parts and processes.

In aggregate, our administrative, distribution and other operating expenses (inclusive of other income) increased to S\$4.1 million in 2Q20. As a percentage of Group revenue, these overhead expenses remained stable at 25.3% in 2Q20 as compared to 25.4% in the same period a year ago.

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

		1Q	2Q	3Q	4Q	Full Year
Net Profit after tax	FY2020	S\$3,269,430	S\$3,574,950	NA	NA	NA
	FY2019	S\$4,506,172	S\$3,124,953	S\$2,612,338	S\$2,705,245	S\$12,948,705
	% growth	(27.4%)	14.4%	NA	NA	NA

As a result of the above, the Group's profit before tax increased by 13.5% to S\$4.7 million in 2Q20 from S\$4.1 million in 2Q19. After deducting tax expense of S\$1.1 million (S\$1.0 million in 2Q19), the Group reported a net profit of S\$3.6 million in 2Q20, an increase of 14.4% from S\$3.1 million in 2Q19. Net profit margin in 2Q20 was 22.0% as compared to 20.6% in 2Q19 and 21.3% in 1Q20.

The effective tax rate for 2Q20 was 23.1% as compared to 23.8% for 2Q19. Tax expense for the quarter included a provision of S\$133k for withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

For 1H20, the Group's net profit decreased 10.3% to S\$6.8 million from S\$7.6 million in 1H19 due to the lower profit reported for 1Q20. Net profit margin contracted to 21.6% in 1H20 from 23.8% in 1H19. Correspondingly, the Group recorded earnings per share of 4.92 cents in 1H20 as compared to 5.49 cents in 1H19.

***Dividend***

The Board of Directors has declared the payment of a higher interim dividend of 5 cents per share (one-tier tax exempt) amounting to approximately S\$7.0 million in respect of 1H20, as compared to 4 cents per share (one-tier tax exempt) paid for the same period a year ago. The interim dividend will be paid on 28 February 2020 to the shareholders on record as at 19 February 2020.

***Balance Sheet***

The Group remains in a sound financial position. As at 31 December 2019, we had a balance sheet with total assets of S\$67.7 million, shareholders' equity of S\$56.7 million, cash and cash equivalents of S\$19.2 million and no bank borrowings.

***Long Term Assets***

As at 31 December 2019, non-current assets decreased to S\$32.2 million from S\$33.1 million as at 30 June 2019 due mainly to depreciation charges during the period under review.

***Trade Receivables***

		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
Trade Receivables	FY2020	S\$10,275,281	S\$10,407,200	NA	NA
	≥ 90 days	0.29%	0.01%	NA	NA
	Write-off	-	-	NA	NA
	FY2019	S\$11,960,650	S\$10,134,701	S\$9,420,244	S\$9,455,277
	≥ 90 days	0.02%	0.02%	0.18%	0.0%
	Write-off	-	-	-	-

Total trade receivables as at 31 December 2019 was S\$10.4 million, as compared to S\$9.5 million as at 30 June 2019. Of this, 0.01% was outstanding for 90 days or more (0% at end of 30 June 2019). There was no bad debt written off during 1H20 and 1H19.

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

As at 31 December 2019, our trade payables totaled S\$0.8 million, of which S\$4k was outstanding for 30 days or more. Non-trade payables totaled S\$1.5 million. Other accrued expenses stood at S\$3.9 million.

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

As at 31 December 2019, the deferred tax liabilities was S\$1.5 million as compared to S\$1.4 million as at 30 June 2019.

#### ***Inventory***

As a percentage of annualised sales, our inventory of S\$4.8 million as at 31 December 2019 (S\$4.5 million as at 30 June 2019) was 7.6% (7.5% as at 30 June 2019). Inventory written off in 2Q20 totaled S\$27k (S\$19k in 2Q19).

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

		1Q	2Q	3Q	4Q	Full Year
<b>Capital Expenditure</b>	<b>FY2020</b>	<b>S\$517,525</b>	<b>S\$1,490,251</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
	<b>% of sales</b>					
	<b>FY2019</b>	<b>S\$699,820</b>	<b>S\$787,034</b>	<b>S\$899,084</b>	<b>S\$1,032,207</b>	<b>S\$3,418,145</b>
	<b>% of sales</b>					<b>5.7%</b>

The Group had incurred capital expenditure of S\$1.5 million and S\$2.0 million in 2Q20 and 1H20 respectively which was mainly for the purchase of new machines and accessories for our factories in Singapore, Malaysia, the Philippines and China. For FY2020, we expect to incur total capital expenditure of about S\$6.0 million.

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

The Group generated net cash from operations of S\$4.8 million in 2Q20 (S\$5.8 million in 2Q19). Net cash used for investing activities amounted to S\$1.3 million, which was mainly related to capital expenditure. After paying S\$8.3 million as final and special dividends in respect of FY2019, we closed the period with cash and cash equivalents of S\$19.2 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 1H20, Group revenue decreased 1.3% to S\$31.6 million from S\$32.0 million in 1H19 due to sluggish market conditions in the global semiconductor industry that began during the second half of calendar year 2018. Due to the combined impact of lower sales and an increase in production costs, the Group's profit before tax declined 10.1% to S\$9.1 million in 1H20 from S\$10.1 million in the same period a year ago.

For 2Q20, Group revenue increased 7.4% to S\$16.3 million from S\$15.2 million in the same quarter a year ago. This was the first time our quarterly revenue registered yoy growth since 4Q18 which reflects improving stability of the global semiconductor industry from the cyclical downturn. As a result, the Group's profit before tax increased 13.5% to S\$4.7 million from S\$4.1 million in 2Q19

While growing the Group's top line as 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 *24/7 Machining*, IT automation and department integration. Hence, in spite of the sluggish market conditions in 1H20 as well as ongoing selling price and cost pressures, our GP margin in 1H20 was relatively firm at 53.7% compared with 56.1% in 1H19. On a quarterly basis, our GP margin for 2Q20 increased to 53.9% compared to 52.4% in 2Q19.

We are also working diligently to keep a tight rein on overhead expenses. Despite ongoing cost pressures, especially for salaries, the Group's total distribution, administrative and other expenses including other income remained flat in 1H20 at S\$7.9 million (S\$7.9 million in 1H19). As a result, our total overhead expenses as a percentage of sales were steady at 25.0% (24.6% in 1H19). Although total overhead expenses in 2Q20 increased 7.1% to S\$4.1 million, these were also steady at 25.3% (25.4% in 2Q19) as a percentage of sales.

After deducting taxes of S\$1.1 million (S\$1.0 million in 2Q19), the Group reported a net profit of S\$3.6 million, an increase of 14.4% from S\$3.1 million in 2Q19 due mainly to higher sales, improved GP margin and effective cost management.

At the end of 1H20, the Group employed 509 great people, an increase from 497 at the end of 1H19. 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 2Q20 totaled S\$4.8 million (S\$5.8 million for 2Q19). After net investing activities of S\$1.3 million (S\$0.7 million for 2Q19), which was primarily for new equipment, and a dividend payment of S\$8.3 million (S\$8.3 million for 2Q19), the Group ended the quarter in a strong financial position with S\$19.2 million (including S\$0.2 million held as security deposits) and no bank borrowings.

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

According to statistics compiled by WSTS, world-wide chip sales during the first six months of 2019 declined 14.3%. During the second half of 2019 through to December, industry revenue began to stabilise, declining 10.0% over the same period in 2018. As a result, world-wide chip sales contracted 12.1% to US\$412.1 billion. Based on its latest forecast, the WSTS expects semiconductor sales to grow 5.9% in 2020. Indeed, based on the 7.4% increase in the Group's revenue in 2Q20 and the recent signing of a China-USA trade agreement, we are cautiously optimistic of the Group's prospects as we move into 2020.

Having said that, we are closely monitoring the evolving new coronavirus situation in China and elsewhere. On 29 January 2020, we announced that our factory in Suzhou, as with other facilities in China would be temporarily closed until 9 February 2020, as stipulated by the local government directives. Because it can be difficult to accurately assess the economic impact of this situation, or any other sudden or unexpected event, we prefer to focus as much as possible on the industry's long term trends and try not to get preoccupied 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.

Because the time to specify, order and qualify new equipment can easily stretch beyond a year, it can be difficult to align our investments in new equipment to short-term industry conditions. For instance, after the Group made capital investments of S\$12.1 million during FY2018, the semiconductor industry went into a cyclical downturn. Although we reduced our capital spending to S\$3.4 million in FY2019, our two-year outlay still amounted to S\$15.5 million. During 1H20, we spent S\$2.0 million (S\$1.5 million in 1H19) on new machines to improve the capacity and capabilities of our factories in Singapore, Malaysia, the Philippines and China. For FY2020, we expect our capital expenditure to be about S\$6.0 million.

#### ***Semiconductor Industry Review***

Based on data from the World Semiconductor Trade Statistics (WSTS), worldwide semiconductor sales for the 6 months from July to December 2019 amounted to *US\$215.7 billion*, a decrease of 10.0% from the same period in 2018. For the whole of 2019, global chip sales were \$412.1 billion, down 12.1% from the previous year.

The Semiconductor Industry Association said the global semiconductor market rebounded somewhat during the second half of 2019, with sales increasing slightly from the third quarter into the fourth quarter, and modest annual growth is projected for 2020. In its Semiconductor Market Forecast Fall 2019 released on 3 December

2019, the WSTS is forecasting that chip sales growth in all regions will lift the global market by 5.9% to US\$433.0 billion in 2020.

### **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.

Our goal is 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 internal training program called *MM University* which goes hand-in-hand with various outside training programs and certification initiatives. For example, our plant in the USA recently received the aerospace industry's AS9100 quality certification. Although our plant in the USA is mainly focused on customers that make wafer-fabrication equipment, we adopted the aerospace industry's approach to quality management because we believe it establishes a comprehensive methodology for world-class quality performance. Likewise, at the beginning of this year, our factory in Singapore received ISO37001, an international certification for Anti-Bribery Management. Starting with such efforts in the USA or Singapore, we plan to develop and introduce best practice approaches at all of our worldwide facilities.

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

### **Transparency and Governance**

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

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

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

### **Appreciation and Stakeholder Value**

Since our listing we have also maintained a consistent practice of rewarding shareholders for their continuous support of Micro-Mechanics. Based on the Group's steady performance during 1H20, strong financial position, modest capital requirements for the remaining months of FY2020 and encouraging long-term business outlook, the Board of Directors has approved an interim dividend of 5 cents per ordinary share (one-tier tax exempt) payable on 28 February 2020 to the shareholders on record as at 19 February 2020. This represents a 25% increase over the interim dividend paid by the Group for 1H19.

After this interim dividend payment in February, we will have distributed total dividends of 78.9 cents per share since 2003. Based on dividends alone, this translates into a return of nearly 430% for shareholders who bought Micro-Mechanics shares at our Initial Public Offer.

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

#### **Voluntary Quarterly Reporting**

After due consideration, the Board has elected to continue with the quarterly reporting.

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

### **11. If a decision regarding dividend has been made:-**

#### **(a) Whether an interim (final) ordinary dividend has been declared (recommended)**

The Board of Directors has declared the payment of an interim dividend of 5 cents per ordinary share (one tier tax-exempt) amounting to approximately S\$7.0 million in respect of FY2020.

#### **(b) (i) Amount per share in cents (ii) Previous corresponding period in cents**

- (i) An interim dividend of 5 cents per ordinary share (one tier tax-exempt) was declared in respect of FY2020.
- (ii) An interim dividend of 4 cents per ordinary share (one tier tax-exempt) was paid on 18 February 2019 in respect of FY2019.

#### **(c) Whether the dividend is before tax, net of tax or tax-exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived. (If the dividend is not taxable in the hands of shareholders, this must be stated.)**

The declared dividend is one tier tax-exempt and it is not taxable in the hands of shareholders.

#### **(d) The date dividend is payable**

The dividend payment will be made on 28 February 2020.

#### **(e) The date on which Registrable Transfers received by the company (up to 5.00 pm) will be registered before entitlements to the dividend are determined.**

Notice is hereby given that the Share Transfer Books and Register of Members of Micro-Mechanics (Holdings) Ltd. (the "Company") will be closed 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 19 February 2020 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 19 February 2020 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 half year ended 31 December 2019, the Group has made rental payment of US\$192,000 (31 December 2018: US\$186,000) and solar-generated electrical services payment of US\$89,434 (31 December 2018: US\$26,307) 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 2019 to be false or misleading in any material aspect.

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

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

**PART II ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT**

**(This part is not applicable to Q1, Q2, Q3 or Half Year Results)**

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

Not applicable

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

Not applicable

**18. A breakdown of sales.**

Not applicable

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

Not applicable

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

Not applicable

**BY ORDER OF THE BOARD**

**CHOW KAM WING**

**Company Secretary**

8 February 2020