

**MICRO-MECHANICS (HOLDINGS) LTD**

**Unaudited First Quarter Financial Statements Announcement for the period ended 30/09/2020**

**PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2, Q3), HALF YEAR AND 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 (First Quarter) 3 months ended		
		30 Sep 20 S\$	30 Sep 19 S\$	Change
Revenue	(1)	18,146,411	15,343,498	18.3%
Cost of sales	(2)	(8,206,997)	(7,150,449)	14.8%
<b>Gross profit</b>		<b>9,939,414</b>	<b>8,193,049</b>	21.3%
Other income	(3)	332,748	218,340	52.4%
Distribution costs	(4)	(807,402)	(824,209)	(2.0%)
Administrative expenses	(5)	(2,454,477)	(2,247,316)	9.2%
Other operating expenses	(6)	(1,050,745)	(921,861)	14.0%
<b>Profit from operations</b>		<b>5,959,538</b>	<b>4,418,003</b>	34.9%
Finance costs		-	-	-
<b>Profit before income tax</b>	(7)	<b>5,959,538</b>	<b>4,418,003</b>	34.9%
Income tax expense	(8)	(1,308,453)	(1,148,573)	13.9%
<b>Profit after tax</b>		<b>4,651,085</b>	<b>3,269,430</b>	42.3%
<b>Non-controlling interests</b>		-	-	-
<b>Profit for the period</b>		<b>4,651,085</b>	<b>3,269,430</b>	42.3%
<b>Statement of Comprehensive Income</b>				
Profit for the period		<b>4,651,085</b>	<b>3,269,430</b>	42.3%
<b>Other comprehensive income:</b>				
<b>Item that is or may be reclassified subsequently to profit or loss:</b>				
Foreign currency translation differences for foreign operations, net of tax		40,003	269,570	(85.2%)
<b>Total comprehensive income for the period</b>		<b>4,691,088</b>	<b>3,539,000</b>	<b>32.6%</b>

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 sales. Production headcount increased from 348 in 1Q20 to 364 in 1Q21. In addition, there were increase in overtime expenses of S\$80k, staff welfare and allowances of S\$62k, indirect supplies and related expenses of S\$142k and relocation expenses of \$37k for the shifting of machines.

- (3) Other income consists of:

	<b>Group (First Quarter) 3 months ended</b>		
	<b>30 Sep 20 S\$</b>	<b>30 Sep 19 S\$</b>	<b>Change</b>
(Loss)/gain on disposal of property, plant and equipment	(3,454)	8,081	(142.7%)
Interest income from banks and others	15,404	77,709	(80.2%)
Rental income	30,848	31,204	(1.1%)
Government grant – Skill Redevelopment, Wage Credit and Capability Development Scheme	259,799	12,129	2,042.0%
Exchange gain	6,938	56,640	(87.8%)
Others	23,213	32,577	(28.7%)

- (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:

	<b>Group (First Quarter) 3 months ended</b>		
	<b>30 Sep 20 S\$</b>	<b>30 Sep 19 S\$</b>	<b>Change</b>
Depreciation of property, plant and equipment	1,384,235	1,393,175	(0.6%)
Depreciation of right-of-use assets	294,497	258,550	13.9%
Inventories written off	26,922	31,176	(13.6%)
Interest expense on lease liabilities	25,152	25,266	(0.5%)
Property, plant and equipment written off	18	21	(14.3%)

The Group's total depreciation expenses was relatively consistent at approximately S\$1.7 million in both 1Q21 and 1Q20.

- (8) The effective tax rate for 1Q21 was 22.0% as compared to 26.0% in 1Q20. Included in the tax expense for the current quarter was a provision of S\$169k 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 20 S\$	Group 30 Jun 20 S\$	Company 30 Sep 20 S\$	Company 30 Jun 20 S\$
<b>Non-current assets</b>					
Property, plant and equipment		29,999,343	29,079,591	-	-
Right-of-use assets	(1)	1,689,508	1,980,198	-	-
Subsidiaries		-	-	29,095,544	29,095,544
Trade and other receivables		737,488	1,109,205	-	-
Deferred tax asset		47,345	46,586	-	-
		32,473,684	32,215,580	29,095,544	29,095,544
<b>Current assets</b>					
Inventories		5,326,847	5,397,148	-	-
Trade and other receivables		13,488,281	12,717,631	1,815,878	2,442,304
Cash and cash equivalents		25,491,265	20,814,685	14,268,727	9,599,881
		44,306,393	38,929,464	16,084,605	12,042,185
<b>Total assets</b>		76,780,077	71,145,044	45,180,149	41,137,729
<b>Shareholders' equity</b>					
Share capital		14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve		219,971	179,968	-	-
Accumulated profits		47,672,155	43,021,070	29,451,497	25,602,968
		62,675,057	57,983,969	44,234,428	40,385,899
<b>Non-current liabilities</b>					
Deferred tax liabilities		1,486,688	1,440,847	284,874	210,762
Trade and other payables		865,082	835,702	-	-
Lease liabilities	(1)	800,933	900,564	-	-
		3,152,703	3,177,113	284,874	210,762
<b>Current liabilities</b>					
Trade and other payables		7,909,916	7,142,026	654,526	534,747
Lease liabilities	(1)	907,511	1,079,298	-	-
Current tax payable		2,134,890	1,762,638	6,321	6,321
		10,952,317	9,983,962	660,847	541,068
<b>Total liabilities</b>		14,105,020	13,161,075	945,721	751,830
<b>Total equity and liabilities</b>		76,780,077	71,145,044	45,180,149	41,137,729

Notes:

- (1) Right-of-use assets and the corresponding lease liabilities were mainly related to leases of various factories occupied by the Group at different locations.

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

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

<b>As at 30 Sep 20</b>		<b>As at 30 Jun 20</b>	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

**Amount repayable after one year**

<b>As at 30 Sep 20</b>		<b>As at 30 Jun 20</b>	
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 2020 S\$	30 Sep 2019 S\$
<b>Cash flows from operating activities</b>			
Profit for the period		4,651,085	3,269,430
Adjustments for:			
Depreciation of property, plant and equipment		1,678,732	1,651,725
Property, plant and equipment written off		18	21
Loss/(gain) on disposal of property, plant and equipment		3,454	(8,081)
Interest income		(15,404)	(77,709)
Interest expense on lease liabilities		25,152	25,266
Tax expense		1,308,453	1,148,573
<b>Operating profit before changes in working capital</b>		7,651,490	6,009,225
Inventories		87,843	(222,502)
Trade and other receivables		(322,427)	(1,144,667)
Trade and other payables		677,458	(680,195)
Cash generated from operations		8,094,364	3,961,861
Income tax paid		(908,489)	(743,712)
<b>Net cash from operating activities</b>		7,185,875	3,218,149
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(1)	(2,274,736)	(517,525)
Proceeds from disposal of property, plant and equipment		3,787	8,082
Interest received		11,671	72,276
<b>Net cash used in investing activities</b>		(2,259,278)	(437,167)
<b>Cash flows from financing activities</b>			
Lease paid		(298,042)	(302,937)
<b>Net cash used in financing activities</b>		(298,042)	(302,937)
<b>Net increase in cash and cash equivalents</b>		4,628,555	2,478,045
Cash and cash equivalents at beginning of period		20,651,935	21,717,779
Effect of exchange rate fluctuations		46,175	(16,663)
<b>Cash and cash equivalents at the end of period</b>	(2)	25,326,665	24,179,161

Notes:

- (1) The Group purchased approximately S\$2.3 million of equipment in 1Q21 mainly for its factories in Singapore and Malaysia.

(2) Cash and cash equivalent is derived from:

	<b>Group 30 Sep 20 S\$</b>	<b>Group 30 Sep 19 S\$</b>
Cash and cash equivalent balances	25,491,265	24,344,111
Less: Pledged cash placed with bank	(164,600)	(164,950)
	25,326,665	24,179,161

**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</b>	<b>Foreign Currency Translation Reserve</b>	<b>Accumulated remeasure- ment on retirement benefits</b>	<b>Accumulated Profits</b>	<b>Total</b>
	S\$	S\$	S\$	S\$	S\$
<b>The Group</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	-	-	-	3,269,430	3,269,430
<b>Other comprehensive income:</b>					
Foreign currency translation difference	-	269,570	-	-	269,570
Total comprehensive income for the period	-	269,570	-	3,269,430	3,539,000
<b>As at 30 September 2019</b>	<b>14,782,931</b>	<b>201,688</b>	<b>(19,596)</b>	<b>46,933,964</b>	<b>61,898,987</b>
As at 1 July 2020	14,782,931	329,672	(149,704)	43,021,070	57,983,969
<b>Total comprehensive income for the period:</b>					
Profit for the period	-	-	-	4,651,085	4,651,085
<b>Other comprehensive income:</b>					
Foreign currency translation differences, net of tax	-	40,003	-	-	40,003
Total comprehensive income for the period	-	40,003	-	4,651,085	4,691,088
<b>As at 30 September 2020</b>	<b>14,782,931</b>	<b>369,675</b>	<b>(149,704)</b>	<b>47,672,155</b>	<b>62,675,057</b>

	<b>Share Capital</b>	<b>Foreign Currency Translation Reserve</b>	<b>Accumulated Profits</b>	<b>Total</b>
<b>The Company</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	-	-	4,271,649	4,271,649
Total comprehensive income for the period	-	-	4,271,649	4,271,649
<b>As at 30 September 2019</b>	<b>14,782,931</b>	<b>-</b>	<b>29,200,037</b>	<b>43,982,968</b>
As at 1 July 2020	14,782,931	-	25,602,968	40,385,899
<b>Total comprehensive income for the period</b>				
Net profit for the period	-	-	3,848,529	3,848,529
Total comprehensive income for the period	-	-	3,848,529	3,848,529
<b>As at 30 September 2020</b>	<b>14,782,931</b>	<b>-</b>	<b>29,451,497</b>	<b>44,234,428</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 30 September 2020 and 30 June 2019. The Company did not have any treasury shares as at the end of the current financial period or at the end of FY2020.

**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.

**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 auditors.

**3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications 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 2020 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.**

	<b>Group (First Quarter) 3 months ended</b>	
	<b>30 Sep 2020</b>	<b>30 Sep 2019</b>
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	3.35 cents	2.35 cents
(ii) On a fully diluted basis	3.35 cents	2.35 cents

The calculation is based on the weighted average number of shares in issue during the financial period. The weighted average number of shares outstanding as at 30 September 2020 was 139,031,881 (30 June 2020: 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 30 Sep 20</b>	<b>Group 30 Jun 20</b>	<b>Company 30 Sep 20'</b>	<b>Company 30 Jun 20</b>
Net Asset Value per ordinary share (cents)	45.08	41.71	31.82	29.05

The net asset value per ordinary share is calculated based on net assets of S\$62.7 million (30 June 2020: S\$58.0 million) and 139,031,881 (30 June 2020: 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***

According to the World Semiconductor Trade Statistics (WSTS), world-wide chip sales increased 5.1% to US\$279 billion in the first eight months of 2020 as compared to the same period in 2019. The Semiconductor Industry Association (SIA) said that global semiconductor sales increased year-on-year in August for the seventh consecutive month. However, it added there is still substantial uncertainty for the months ahead amid ongoing global macroeconomic headwinds.

In its Semiconductor Market Forecast released on 9 June 2020, the WSTS is forecasting the world semiconductor market to improve by 3.3% to US\$426 billion in 2020, reflecting expected increases in demand for Integrated Circuits, Memory and Logic. For 2021, WSTS is projecting the global semiconductor market to grow a further 6.2% to US\$452 billion, driven by double-digit growth of Memory.

### ***Group Revenue***

<b>REVENUE</b>		<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>Full Year</b>
	<b>FY2021</b>	<b>S\$18,146,411</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
<b>FY2020</b>	<b>S\$15,343,498</b>	<b>S\$16,275,737</b>	<b>S\$16,216,029</b>	<b>S\$16,372,486</b>	<b>S\$64,207,570</b>	
<b>% growth</b>	<b>18.3%</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

For the three months ended 30 September 2020 (1Q21), the Group's quarterly revenue increased by 18.3% year-on-year (yoy) to a record S\$18.1 million from S\$15.3 million in 1Q20, which was in tandem with steady growth of the global semiconductor industry.

On a quarter-on-quarter (qoq) basis, Group revenue in 1Q21 increased 10.8% from S\$16.4 million in 4Q20. Due to the general easing of COVID-19 related restrictions in many countries during 1Q21, more businesses have resumed operations. With all the Group's factories returned to normal operating levels, higher sales were registered in many of our geographical markets in 1Q21 as compared to 4Q20.

#### **Revenue breakdown by Geographical Market**

Country	4Q20		1Q21		1Q20		% change
	S\$ m	%	S\$ m	%	S\$ m	%	
Singapore	1.6	10%	1.9	11%	0.8	6%	129%
Malaysia	2.2	14%	2.8	15%	2.6	17%	7%
Philippines	1.3	8%	1.5	9%	1.7	11%	(8%)
Thailand	0.4	2%	0.3	2%	0.3	2%	10%
China	5.2	31%	5.4	30%	4.7	30%	17%
USA	3.3	20%	3.7	20%	3.0	19%	24%
Europe	0.5	3%	0.6	3%	0.6	4%	(12%)
Japan	0.3	2%	0.3	2%	0.3	2%	1%
Taiwan	1.4	9%	1.3	7%	1.2	8%	6%
Rest of world	0.2	1%	0.3	1%	0.1	1%	82%
	16.4	100%	18.1	100%	15.3	100%	18%

The Group witnessed a yoy increase in sales across the majority of our geographical markets during 1Q21, particularly in Singapore, China and the USA.

China, which is our largest geographical market, recorded a 17% increase in sales to S\$5.4 million in 1Q21 and contributed 30% of the Group's revenue.

Sales from our second largest market, the USA, has increased by 24% to S\$3.7 million in 1Q21 and accounted for 20% of the Group's revenue.

Sales in Malaysia increased by 7% to S\$2.8 million in 1Q21, from S\$2.6 million in 1Q20, and contributed 15% of the Group's revenue.

The Group registered sales of S\$1.9 million from customers in Singapore during 1Q21, an increase of 129% from S\$0.8 million in 1Q20.

#### **Capacity Utilisation**

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2021	59%	NA	NA	NA	NA
	FY2020	59%	61%	52%	56%	56%

Our average capacity utilisation rate of 59% in 1Q21 was comparable to 1Q20. It was higher versus 56% in 4Q20 due to the full resumption of operations at our factories in Malaysia, the Philippines and the USA.

#### **Gross Profit (GP) Margin**

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2021	54.8%	NA	NA	NA	NA
	FY2020	53.4%	53.9%	52.0%	54.5%	53.4%

The Group's gross profit increased by 21.3% yoy to S\$9.9 million in 1Q21. The Group's GP margin in 1Q21 increased to 54.8% as compared to 53.4% in 1Q20.

***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
	FY2021 % of sales	S\$3,979,876 21.9%	NA	NA	NA	NA
	FY2020 % of sales	S\$3,775,046 24.6%	S\$4,119,714 25.3%	S\$3,386,070 20.9%	S\$3,948,997 24.1%	S\$15,229,827 23.7%

The Group registered a 52.4% increase in other income to S\$333k in 1Q21 from S\$218k in 1Q20. This was mainly due to government grants amounting to \$177k given to our Singapore subsidiary pursuant to a Singapore Government initiative to support businesses during the COVID-19 pandemic, which was partially offset by lower interest income as a result of the decline in fixed deposit rates.

We continue to keep a close watch on our expense structure. Our distribution costs remained stable at S\$0.8 million in both 1Q21 and 1Q20. Administrative expenses registered an increase of 9.2% to S\$2.5 million from S\$2.2 million mainly due to higher staff bonus and ERP data center relocation expenses. Other operating expenses in 1Q21 has also increased by 14.0% to S\$1.1 million as a result of higher salary and overtime expenses.

In aggregate, the Group's administrative, distribution and other operating expenses (net of other income) increased by 5.4% to S\$4.0 million in 1Q21 from S\$3.8 million in 1Q20. As a percentage of sales, these overhead expenses however was lower at 21.9% in 1Q21 from 24.6% in 1Q20.

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

Net Profit after tax		1Q	2Q	3Q	4Q	Full Year
	FY2021	S\$4,651,085	NA	NA	NA	NA
	FY2020	S\$3,269,430	S\$3,574,950	S\$3,868,641	S\$3,937,022	S\$14,650,043
% growth	42.3%	NA	NA	NA	NA	NA

As a result of the above, the Group's profit before tax increased by 34.9% to S\$6.0 million in 1Q21 from S\$4.4 million in 1Q20.

After deducting income tax expenses of S\$1.3 million in 1Q21 (S\$1.1 million in 1Q20), the Group's net profit increased by 42.3% yoy to S\$4.7 million in 1Q21 from S\$3.3 million in 1Q20. On a sequential basis, net profit in 1Q21 increased by 18.1% qoq from S\$3.9 million in 4Q20, driven mainly by the growth in the Group's revenue. Net profit margin widened to 25.6% in 1Q21 as compared to 21.3% in 1Q20 and 24.0% in 4Q20.

For 1Q21, the Group's effective tax rate was lower at 22.0% as compared to 26.0% in 1Q20. The tax expenses included a provision of S\$169k for withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.

Correspondingly, the Group's earnings per share increased to 3.35 cents in 1Q21 from 2.35 cents in 1Q20.

***Balance Sheet***

The Group remains in a sound financial position. As at 30 September 2020, we had a balance sheet with total assets of S\$76.8 million, shareholders' equity of S\$62.7 million, cash and cash equivalents of S\$25.5 million and no bank borrowings.

***Long Term Assets***

As at 30 September 2020, non-current assets increased marginally to S\$32.5 million as compared to S\$32.2 million as at 30 June 2020.

### Trade Receivables

		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
Trade Receivables	FY2021	S\$12,102,795	NA	NA	NA
	≥ 90 days	0.09%			
	Write-off	-			
	FY2020	S\$10,275,281	S\$10,407,200	S\$11,222,282	S\$11,839,561
	≥ 90 days	0.29%	0.01%	0.08%	0.00%
	Write-off	-	-	-	-

Total trade receivables as at 30 September 2020 increased to S\$12.1 million from S\$11.8 million as at 30 June 2020. Of this, S\$11k was outstanding for 90 days or more (zero at end of 30 June 2020). There was no bad debt expense during 1Q21 and 1Q20.

### Trade & Other Payables

As at 30 September 2020, our trade payables totaled S\$1.1 million with S\$1.7k outstanding for 30 days or more. Non-trade payables totaled S\$2.1 million. Other accrued expenses stood at S\$4.7 million.

### Long term liabilities

As at 30 September 2020, the deferred tax liabilities was S\$1.5 million as compared to S\$1.4 million as at 30 June 2020.

### Inventory

The Group continuously manages its inventory to avoid over-stocking and to minimise write-offs. As a percentage of annualised sales, our inventory of S\$5.3 million as at 30 September 2020 (S\$5.4 million at end of FY2020) was 7.3% (8.4% at end of FY2020). Inventory written off in 1Q21 was S\$27k as compared to S\$31k in 1Q20.

### Capital Expenditure

		1Q	2Q	3Q	4Q	Full Year
Capital Expenditure	FY2021	S\$2,274,736	NA	NA	NA	NA
	% of sales					
	FY2020	S\$517,525	S\$1,490,251	S\$717,106	S\$980,771	S\$3,705,653
	% of sales					5.8%

The Group's incurred capital expenditure amounting to approximately S\$2.3 million in 1Q21, mainly for the purchase of new machines for our factories in Singapore and Malaysia. We expect to incur capital expenditure in the range of S\$4 million to S\$5 million for FY2021.

### Cash Flow Analysis

The Group generated net cash from operations of S\$7.2 million in 1Q21 (S\$3.2 million in 1Q20). After deducting net cash used for investing activities of S\$2.3 million and net cash used for financing activities of S\$298k, we ended 1Q21 with cash and cash equivalents of S\$25.5 million which includes 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 period. There is no material variance from our previous financial period 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.**

**Compliance with SGX’s new COVID-19 disclosure requirements**

With reference to the *Regulator’s Column: What SGX expects of issuers’ disclosures during COVID-19* issued by the SGX on 22 April 2020, the Group confirms that it has made diligent efforts to help investors make an independent assessment of the Group’s prospects and how the Group’s operating and financial conditions have been impacted and may change as the result of COVID-19. As such, our aim is to disclose material information that reflects our current state of affairs as well as provide an overview of the strategy and other steps the Group is taking to address the effects of COVID-19.

**Impact of COVID-19 on the Group’s Factories**

On 29 January 2020, we announced that our factory in Suzhou, China (“MMSU”), would be temporarily closed under a directive by the local government to help limit the spread of COVID-19 infections. After reopening in late February, we gradually restored production and since the beginning of May 2020, MMSU has been running at normal operating and staffing levels.

On 19 March 2020, we also announced the Group would be complying with directives from the governments of Malaysia and the United States aimed at slowing the spread of COVID-19 by restricting business and social activity. Although our plant in Penang (“MMP”) operated for a period of time during 4Q20 at a greatly reduced staffing level of just 25%, MMP was able to return to normal staffing and operating levels by the beginning of 1Q21.

In the United States, our plant (“MMUS”) also operated for a period during 4Q20 at about 60% of normal working hours. By early July 2020, about 92% of our workforce in the USA was back to full working hours. By the end of 1Q21, MMUS was back to its normal staffing level except for a handful of employees who were required to quarantine at home for about two weeks at various times during the quarter following either a positive COVID-19 test by the employee or a member of the employee’s household.

When our plant in China closed in early February, our team in the Singapore plant (“MMS”) took immediate steps to implement employee and visitor health-screening, limit travel and activate other preparations that we had put in place about a year earlier when MMS successfully completed ISO 22301:2012 for *Business Continuity Management*. As a result, when the Singapore government introduced additional *Circuit Breaker* measures on 7 April 2020 to slow the escalation of COVID-19 infections, MMS was able to continue operating. Except for work-from-home and other measures designed to limit personnel contact, MMS operated normally during 1Q21.

On 17 March 2020, the government in the Philippines announced various quarantine requirements which resulted in major disruptions in the supply chain to our plant in the Philippines (“MMPH”). Public transportation was also affected making it difficult for our people to get to work for several months. When various quarantine measures were lifted in June 2020, we were able to bring the staffing level at MMPH back to about 80% of normal. Except for about two weeks in August 2020 when MMPH was required to reduce operating and staffing levels to about 50% due to a resurgence of COVID-19 infections and several employees who had to quarantine at home for various periods during the quarter, MMPH was able to operate at almost normal conditions during 1Q21.

In summary, the Group has worked diligently to establish new procedures, implement safety protocols and fully comply with the COVID-19 orders and guidelines of the governments in jurisdictions where we have operations. Although it has been an incredibly challenging period for the Group, we are very proud of our people for the way they have so willingly and quickly adapted to the many changes we needed to make, behaved in a caring, considerate and responsible manner that has helped to ensure everyone is safe, and worked hard to keep all of our plants running so that we could support our customers.

One of our biggest concerns regarding COVID-19 is the possibility of a positive test by one or more of our people which might lead to the shutdown of a work area and/or the entire factory in order to undertake a full disinfection. Although we are working to mitigate this risk through all of the recommended safety protocols including masking, social distancing, cleaning, hand-washing and eliminating all but essential employee or visitor traffic, the Group is highly wary of the possibility of a COVID-19 related quarantine or factory shutdown as we move forward.

## Strategic, Operating and Financial Review

In spite of all of the challenges and concerns during this unprecedented period, the Group was able to perform admirably in 1Q21. The Group's quarterly revenue increased to a record level of S\$18.1 million, up 18.3% from S\$15.3 million in 1Q20. Profit before tax rose 34.9% to S\$6.0 million from S\$4.4 million in the same period a year ago. After deducting taxes of S\$1.3 million, Group profit after tax for 1Q21 increased 42.3% to S\$4.7 million from S\$3.3 million in 1Q20.

Although dealing with the repercussions of a global pandemic is something new for the Group, we have always been mindful of the need to build an organization that is strong, flexible and resilient. Whether it is the adverse impact of a market downturn, introduction of disruptive technology, political unrest or a host of other unforeseen events, we need to have goals, structures and processes in place that make it easier for the Group to adjust to changes in circumstances and ensure business continuity. To this end, we intend to continue focusing on a handful of key initiatives which include:

- *Maintaining a Healthy Gross Profit Margin* – Having a strong and unwavering focus on customers and the value we bring to their business is a key objective. This means working diligently to understand and meet the requirements of our customers by delivering *Perfect Parts and Tools, On-Time, Every Time*. As the semiconductor industry develops new equipment and processes for manufacturing chips with device geometries below 10 nano-meters, our customers will increasingly require parts and tools manufactured using improved materials and processes that eliminate defects and variability. In the future, we think there may only be a handful of suppliers capable of meeting these stringent requirements and our goal is to become a leading *Next Generation Supplier*. We believe that our strong customer focus and the great work by our people should enable the Group to maintain a healthy GP margin. Indeed, our GP margin in 1Q21 improved to 54.8% from 53.4% in the same quarter a year ago. We plan to continue working to strengthen this key measure of our focus on the customer, competitive strength and the value our work creates.
- *Controlling Overhead Expenses* – Maintaining a tight rein on expenses and developing improved processes in order to keep a lean overhead structure is of critical importance. During 1Q21 our total distribution, administrative and other expenses, including other income rose 5.4% to S\$4.0 million from S\$3.8 million in 1Q20. When measured as a percentage of sales, our overhead costs in 1Q21 came to 21.9% compared to 24.6% in 1Q20.

At the end of 1Q21, the Group employed 514 great people, an increase of 3.4% from 497 people at the end of 1Q20. As the Group grows, we plan to continue working to improve efficiency, add personnel carefully and use technology to leverage the know-how and skills of our people.

- *Automating Our Operations* – Because a single defect can cause disastrous consequences in the precision manufacturing process of semiconductors, our customers need the parts and tools used in critical processes to be flawless. To achieve this, our goal is to automate our operations around processes that are repeatable, scalable and cost-effective. This automation also extends to digitalizing our workflows for efficiency, mobility and the ability to work remotely for both personnel safety and work-life balance.

Due to the COVID-19 pandemic, we adjusted the timing of some of our capital expenditures during FY2020. However, implementing automation and the associated engineering work are difficult tasks that need a steady and deliberate approach. During 1Q21, we spent S\$2.3 million primarily for new equipment compared with S\$1.0 million in 4Q20 and S\$0.5 million in the same period a year ago. During FY2021, we expect to spend about S\$4 million to S\$5 million on new equipment.

- *Growing Without Debt and Rewarding Our Shareholders* – Building a great manufacturing business without debt helps to foster a culture of resourcefulness, discipline and careful decision making. In addition, we would like to attract shareholders who share our approach to long-term investing. Hence, one of the Group's key goals is to continue growing without taking on debt while building a track record for consistently rewarding shareholders.

During 1Q21, we generated S\$7.2 million in net cash from operating activities (S\$3.2 million in 1Q20). After net investing activities of S\$2.3 million, the Group ended the quarter in a strong financial position with S\$25.5 million in cash (including S\$0.2 million held as security deposits) and no bank borrowings.

Since our listing we have also maintained a consistent practice of rewarding shareholders for their continuous support of Micro-Mechanics. Subject to approval at the upcoming Annual General Meeting on 30 October 2020, we plan to distribute a final dividend of 5 cents and a special dividend of 2 cents per ordinary share.

This will bring the total dividend payment for FY2020 to 12 cents per ordinary share, compared with 10 cents per ordinary share for FY2019. In addition to reflecting our confidence in the Group's long-term prospects, we hope this dividend increase will also benefit our shareholders during a difficult and unprecedented period.

Including the proposed final and special dividend for FY2020, we will have distributed total dividends of 85.9 cents per share since 2003. Based on dividends alone, this translates into a return of nearly 467% for shareholders who bought Micro-Mechanics shares at our Initial Public Offer.

- *Excelling in Transparency and Governance* – Lastly, we would like to excel at the development and practice of transparency and good governance. 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. Since our listing in 2003, the Group has received recognition 31 times for our good corporate governance, transparency and investor relations. In addition, in the Singapore Governance and Transparency Index (SGTI) released on 4 August 2020, Micro-Mechanics improved its ranking to 13th out of 577 companies (17<sup>th</sup> out of 578 companies in 2019) listed on the Singapore Exchange. The top 20 companies in the SGTI are mainly large capitalisation companies.

To affirm our commitment to transparency and good disclosure, our Board decided unanimously in February 2020 to continue with quarterly reporting of the Group's financial results. Although it entails more work and is now an optional SGX requirement, we think quarterly reporting is the right decision especially after the fast-moving events that we witnessed during the last several months. 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.

### **Back to Better**

As we move into 2Q21, it is difficult to accurately assess the economic impact of the COVID-19 pandemic on our business. According to WSTS, global sales of semiconductors increased 5.1% during the first eight months of 2020. In its forecast released on 9 June 2020, WSTS expects worldwide chip sales to increase 3.3% during 2020 to US\$426 billion. However, with large sections of the world economy in turmoil and near shutdowns of whole industries, there is still plenty to worry about. While demand for the high precision parts and tools that we supply to the semiconductor industry was resilient during 1Q21, it remains difficult to accurately predict the business outlook due to rapidly changing market conditions, measures by governments around the world to combat the spread of COVID-19, travel restrictions and the possibility that production at any of our plants may be suspended due to quarantine or other measures designed to deal with the pandemic.

In the long term however, our view for the future of the semiconductor industry remains unchanged if not enhanced. We believe the industry is poised for a prolonged period of solid growth as chips become increasingly embedded in nearly every aspect of modern life, from today's smart phones to tomorrow's driverless cars. Indeed, according to a recent forecast from VLSI Research, chip sales of the semiconductor industry could double to nearly US\$1 trillion by 2030 from about US\$450 billion in 2020. 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.

As we move forward, our goal is not to hope for life and business to just go *back to normal*. Instead, we want to absorb what we have learned, implement more fully some of the changes we made to adapt to changing circumstances, and better anticipate the challenges that lie ahead. In short, we have an incredible opportunity to go *back to better*.

## **11. Dividend**

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

Nil

### **(b) (i) Amount per share in cents**

Nil

### **(ii) Previous corresponding period in cents**

Nil

**(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.)**

Not applicable

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

Not applicable

**(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.**

Not applicable

**12. If no dividend has been declared/recommended, a statement to that effect and the reason(s) for the decision.**

No dividend has been declared in the first quarter ended 30 September 2020 which is in line with the Group's usual practice to declare or recommend dividend in the second quarter and fourth quarter of each financial year since its IPO.

**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 three months ended 30 September 2020, the Group has made rental payment of US\$99,000 (30 September 2019: US\$96,000) and electrical services payment of US\$39,369 (30 September 2019: US\$45,897) 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 30 September 2020 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  
29 October 2020