



MICRO-MECHANICS®

**FINANCIAL YEAR 2020
ANNUAL REPORT**

CORPORATE PROFILE

Micro-Mechanics designs, manufactures and markets high precision parts and tools used in process-critical applications for the wafer-fabrication and assembly processes of the semiconductor industry.

Beginning in 1983 with a small factory in Singapore, the Group has grown steadily to become a publicly-listed corporation with a global presence. Today, Micro-Mechanics serves a worldwide base of customers from five manufacturing facilities located in Singapore, Malaysia, China, the Philippines and the USA, and a direct sales presence in Taiwan and Europe.

The Group's strategy is to relentlessly pursue product and operational improvements while providing fast, effective and local support to its customers worldwide. In addition to designing and manufacturing a market-leading range of consumable tools and parts used in the assembly and testing of semiconductors, the Group also engages in the contract manufacturing of precision parts and tools used in process-critical applications for the semiconductor wafer-fabrication industry.

Since listing on the Singapore Exchange in June 2003, Micro-Mechanics has received over 30 awards in recognition of its high standards of corporate governance, quality of disclosure, transparency and investor relations.

MISSION STATEMENT

Our mission is to provide our customers with “*Perfect Parts and Tools, On Time, Every Time*”, based on scalable, repeatable and cost-effective manufacturing processes.

CONTENTS

01	Chairman's Statement
02	Executive Management Report
05	Awards and Accolades
06	Financial Highlights
08	Board of Directors
09	Executive Officers
10	Financial Contents
11	Corporate Information
12	Sustainability Report
35	Corporate Governance
62	Financial Report
112	Shareholders' Statistics
114	Notice of Twenty-Fourth Annual General Meeting
118	Additional Information for Directors Seeking Re-election Proxy Form

CHAIRMAN'S STATEMENT

Dear stakeholders,

On behalf of our Board of Directors, I am pleased to report that Micro-Mechanics delivered a very commendable performance for our financial year ended 30 June 2020 ("FY2020") despite the extraordinary circumstances of the past year.

In the following pages of this Annual Report, our Executive Management will provide a detailed review of the Group's financial and operational performance in FY2020 and outline our key operating strategies.

I am also particularly pleased to announce the Board's dividend proposal. In keeping with our usual practice and policy that dividends should broadly be correlated to results, Micro-Mechanics is proposing to pay a final dividend of 5 cents per share and a special dividend of 2 cents per share to share our improved results with shareholders. Together with the interim dividend of 5 cents per share, this will raise the Group's total dividend payout for FY2020 to 12 cents per share from 10 cents per share in FY2019. This dividend increase reflects the Board's confidence in the Group's strategies and ability to navigate the considerable uncertainties and challenges ahead, and Micro-Mechanics' long-term prospects as we continue to exercise prudence in our financial management.

Including the proposed final and special dividend for FY2020, the Group would 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.

While our main focus is on business and operational matters, Micro-Mechanics also pays attention and seeks continuously to enhance our corporate governance and investor relations in order to build a strong and principled corporate culture through all levels of the organisation through transparency and the establishment of prescribed best practices. All these matters must work in tandem for superior and sustainable results. Micro-Mechanics strives to be a good corporate citizen dealing fairly with all our stakeholders.

The Group has received over 30 governance-related awards since our listing. We have again ranked well in the Singapore Governance and Transparency Index (SGTI) which is the leading index for assessing corporate governance practices of companies listed on the Singapore Exchange. In the latest SGTI released on 4 August 2020, Micro-Mechanics' ranking improved to 13th out of 577 companies, from 17th out of 578 companies in 2019. As the top 20 in this ranking are largely blue-chip companies with large capitalisations, we are justifiably proud of this achievement.

In this regard, our Board decided unanimously in February 2020 to continue with quarterly reporting of the Group's financial results, notwithstanding that such reporting is now optional. This must necessarily mean the continued commitment of resources. In a volatile world, we feel that this is beneficial to all stakeholders and thus worthwhile.

Before concluding, the Board and I wish to express our considerable gratitude to each and every one at Micro-Mechanics. We are greatly appreciative not only of your commitment to the Group and hard work under difficult circumstances, but also for the unfailing care and consideration you have shown towards each other and for taking responsibility with the use of masks, hand washing and other enhanced hygiene practices. These efforts are keeping everyone healthy and safe. Thank you all very much.

To my fellow directors, I really appreciate your vision, sound judgement and practical advice.

On behalf of the Board, I would like to thank our customers, business partners and suppliers for their continued support and patronage of Micro-Mechanics.

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

Sumitri Menon
Independent Non-Executive Chairman

EXECUTIVE MANAGEMENT REPORT

To all our stakeholders,

For the 12 months ended 30 June 2020 (“FY2020”), Micro-Mechanics reported a 13.1% rise in net profit to S\$14.7 million which was attained on revenue growth of 6.4% to S\$64.2 million. The Group’s better financial performance reflects the global semiconductor industry’s resilience despite the widespread economic turmoil brought about by the COVID-19 pandemic.

Impact of COVID-19 on the Group

The COVID-19 outbreak in early 2020 has caused severe disruption to the global economy and businesses. As governments worldwide have been taking various measures to battle the spread of the virus, this inevitably had an impact on our Group’s operations.

In China, our Suzhou factory (“MMSU”) was temporarily closed for three weeks during the Lunar New Year period under a government directive to local businesses. MMSU reopened on 12 February 2020 and despite various supply chain disruptions and government restrictions, we have managed to keep the factory running, support our customers in China and, most importantly, ensure the safety of our people. Since the beginning of May 2020, MMSU has been running at normal operating and staff levels.

The Group also complied with similar directives from the governments of Malaysia and the United States in March. Most businesses in Malaysia were ordered to completely cease operations under a Movement Control Order (MCO). However, the Malaysia government designated semiconductor manufacturing as an essential industry and permitted our plant in Penang (“MMP”) to continue operations, albeit with a reduced workforce. In early June 2020, MMP returned to normal staff and operating levels after implementing extensive safety protocols and the lifting of the MCO.

Our plant in the United States (“MMUS”) is also considered an essential business. MMUS closed for only one day on 17 March 2020 in order to transition to reduced workplace density, work-from-home and other government stipulations. Owing in large part to our strategy of building a highly-automated factory, MMUS continued to run seven days a week even though our people there were restricted

to about 60% of their normal working hours. By early July 2020, about 92% of MMUS’ workforce was back to full working hours and we expect it to return to normal staff and operating levels in the first quarter of FY2021.

In early February, our team in Singapore (“MMS”) took immediate steps to implement employee and visitor health-screening, limit travel and activate other preparations that we had previously put in place when MMS successfully completed the ISO 22301:2012 for Business Continuity Management. As a result, when Singapore’s Circuit Breaker measures were introduced on 7 April 2020, MMS was able to continue normal operations.

In the Philippines, the government announced an Enhanced Community Quarantine directive on 17 March 2020. This was subsequently extended as a Modified Enhanced Community Quarantine (MECQ) through to 31 May 2020. As a result of public transportation constraints and an area-wide curfew, staff level at our Philippines’ factory (“MMPH”) fell to about 20% of normal level during this period. When the MECQ was lifted on 1 June 2020 and replaced with a General Community Quarantine, our workforce rose to about 80% of normal staff strength by the end of FY2020. But due to a resurgence of COVID-19 infections, the Philippines’ government reinstated various MECQ restrictions on 4 August 2020. As a result, MMPH had to reduce operations and its staff to about 50% of normal levels for a period of about two weeks.

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, 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.

As we move forward, one of our biggest concerns regarding COVID-19 is the possibility of a positive test by one of our people. In the event of a positive test, government regulations at all our factory locations will require a shutdown of work areas and/or the entire factory in order to

EXECUTIVE MANAGEMENT REPORT

undertake a full disinfection. Together with the related needs and requirements to quarantine the affected employee, and test and/or quarantine other employees that may have been infected, the impact of a positive test could result in a partial or even full work stoppage for up to two weeks for any given incident. 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.

Key initiatives to weather this unprecedented period

Although dealing with the repercussions of a global pandemic is something new for Micro-Mechanics, we have always been mindful of the need to build an organisation 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 changing circumstances and ensure business continuity. To this end, we intend to continue focusing on the following key initiatives.

Firstly, we aim to maintain 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 addition to the continuous progress we are making to enhance the Group's operational capabilities in Asia, our factory in the USA is also gaining steady traction and visibility with several key customers that are leaders in the semiconductor equipment industry. After a lengthy development and testing period, MMUS recently received customer qualification for a family of ultra-critical parts used in the semiconductor wafer-fabrication process. Because the qualification was based on the high quality and

competitive cost of our products, we have never felt more positive about MMUS' prospects. Indeed, our team there has worked tirelessly to develop MMUS as an elite supplier for critical parts for semiconductor wafer-fabrication.

Ultimately, we believe only a handful of suppliers to the semiconductor industry will possess the capabilities to meet the increasingly stringent requirements required for manufacturing nano-level device geometries. The Group's goal is to become a leading Next Generation Supplier to our customers. This strong focus on customers and the great work by our people should enable the Group to maintain a healthy gross profit margin. In FY2020, our gross profit margin was relatively steady at 53.4% despite the challenging conditions. We plan to continue working to strengthen this key measure of our focus on the customer, competitive strength, and the value our work creates.

A second initiative is to maintain good control of our overhead expenses while developing improved processes to keep a lean cost structure. For instance, we completed a multi-million-dollar computerization effort designed to streamline workflows a few years ago. We are also investing in advanced modelling and simulation tools to help our engineers work more effectively. As a result of these and other efforts, our total distribution, administrative and other expenses, including other income, was stable at S\$15.2 million in FY2020. When measured as a percentage of sales, our overhead costs for the full year improved to 23.7% compared to 25.4% in FY2019.

Automating our operations is a third key initiative. Because a single defect can cause disastrous consequences in the precision manufacturing process of semiconductors, our customers need the parts and tools used in their critical processes to be flawless. To achieve this, our goal is to automate our operations around processes that are repeatable, scalable and cost-effective. Due to the COVID-19 pandemic, we adjusted the timing of some of our capital expenditure during FY2020. However, implementing automation and the associated engineering work are difficult tasks that need a steady and deliberate approach. In FY2020, we invested S\$3.7 million on new equipment to increase the manufacturing capacity and capabilities of our five factories, renovation as well as for computers and IT software. During FY2021, we are budgeting capital expenditure of about S\$4 million for new equipment.

EXECUTIVE MANAGEMENT REPORT

We also aim to continue driving the Group's growth without taking on debt while consistently rewarding shareholders for their support. We believe that building a great manufacturing business without debt helps to foster a culture of resourcefulness, discipline and careful decision making.

During FY2020, the Group generated S\$18.8 million in net cash from operating activities. After net cash used in investing activities of S\$3.4 million and S\$15.3 million for the payment of dividends, we ended FY2020 in a strong financial position with S\$20.8 million in cash (including S\$0.2 million held as security deposits) and no bank borrowings.

Last but not least, we would like to excel at the development and practice of transparency and good governance. Indeed, we believe 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.

Back to Better

As we move into FY2021, it is still difficult to accurately assess the economic impact that the COVID-19 pandemic will have on the markets and our business. According to World Semiconductor Trade Statistics, global sales of semiconductors increased 6.0% during the first six months of 2020. As a result, the Semiconductor Industry Association now expects worldwide chip sales to increase 3.3% to US\$426 billion in 2021. But while demand for the high precision parts and tools that we supply to the semiconductor industry was surprisingly resilient during the fourth quarter of FY2020, it remains difficult to accurately predict the business outlook due to rapidly changing market conditions, continuing COVID-19 containment measures by governments around the world, travel restrictions and the possibility of future enforced factory shutdowns due to 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.

When this pandemic is over, 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 have made to adapt to changing circumstances, and better anticipate the challenges that lie ahead. In short, we see an incredible opportunity to go back to better.

Appreciation

In closing, our executive management would like to express our appreciation to all our people at Micro-Mechanics for their vision, teamwork and tireless commitment. Indeed, it is during times such as these where our saying has never rung more true: People Make Everything Happen!

We look forward to continuing our work to build value for all the Group's stakeholders.

Christopher Reid Borch

Chief Executive Officer

Low Ming Wah

Chief Operating Officer

Chow Kam Wing

Chief Financial Officer

AWARDS AND ACCOLADES

Since becoming a public company in 2003, Micro-Mechanics has received consistent recognition for our sound corporate governance, transparency and investor relations practices.

The Group has an Investor Relations policy which can be found in the Corporate Governance section of this Annual Report.

SINGAPORE CORPORATE AWARDS

2018	Best CEO Award
2017	Gold Award – Best Managed Board Gold Award – Best Investor Relations
2016	Silver Award – Best Managed Board
2015	Silver Award – Best Managed Board Silver Award – Best Investor Relations
2014	Silver Award – Best Investor Relations
2013	Silver Award – Best Investor Relations
2012	Gold Award – Best Managed Board Silver Award – Best Investor Relations
2011	Silver Award – Best Investor Relations
2010	Bronze Award – Best Investor Relations
2008	Chief Financial Officer of the Year (Sesdaq)

(For the category of companies with market capitalization of less than S\$300 million)



INVESTORS' CHOICE AWARDS – SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

2019	Singapore Corporate Governance Award (Small Cap) Shareholder Communications Excellence Award (Small Cap)
2018	Singapore Corporate Governance Award (Small Cap) Shareholder Communications Excellence Award (Small Cap)
2017	Singapore Corporate Governance Award (Small Cap) Singapore Corporate Governance Award (Information Technology) Shareholder Communications Excellence Award (Small Cap)
2016	Singapore Corporate Governance Award (Mid and Small Cap) Most Transparent Company (Information Technology)
2015	Most Transparent Company (Mainboard Small Caps)
2011	Most Transparent Company (Mainboard Small Caps)
2010	Most Transparent Company (Mainboard Small Caps)
2009	Most Transparent Company (Mainboard Small Caps)
2008	Most Transparent Company (Mainboard Small Caps)
2006	Corporate Governance Award (Sesdaq)
2005	Most Transparent Company (Sesdaq)

ASIAMONEY CORPORATE GOVERNANCE POLL

2010	Best for Shareholders' Rights and Equitable Treatment in Singapore
2009	Best for Shareholders' Rights and Equitable Treatment in Singapore

FORBES

2006	Asia 200 Best Under A Billion Companies
------	---

The Group is also a winner of productivity awards which are an endorsement of our continuing efforts to improve efficiency and raise productivity of our operations.

PRODUCTIVITY AWARDS

2018	Inaugural winner of Productivity Award conferred by the Singapore Precision Engineering and Technology Association (SPETA) in partnership with Singapore Institute of Manufacturing Technology (SIMTech)
2017	Winner of Singapore Productivity Awards by the Singapore Business Federation (SBF)

FINANCIAL HIGHLIGHTS

INCOME STATEMENT SUMMARY

Financial year-end 30 June

(S\$ million)	FY2016	FY2017	FY2018	FY2019	FY2020
Revenue	51.3	57.2	65.1	60.3	64.2
Gross Profit	29.1	33.0	37.1	32.4	34.3
Profit Before Tax	15.7	18.5	21.9	17.1	19.1
Net Profit	11.9	14.8	17.1	12.9	14.7
EPS (cents)	8.6	10.6	12.3	9.31	10.54
Weighted average number of shares in issue	139,031,881	139,031,881	139,031,881	139,031,881	139,031,881

BALANCE SHEET SUMMARY

(S\$ million)	As at 30 June 2019	As at 30 June 2020
Total Non-Current Assets	33.1	32.2
Total Current Assets	36.8	38.9
Total Non-Current Liabilities	3.0	3.2
Total Current Liabilities	8.5	10.0
Shareholders' Equity	58.4	58.0
<i>Cash and cash equivalents</i>	21.9	20.8
<i>Trade and other receivables (current)</i>	10.4	12.7
<i>Trade and other payables (current)</i>	6.4	7.1
<i>Borrowings*</i>	0.0	0.0
<i>NAV per share (cents)</i>	42.0	41.7

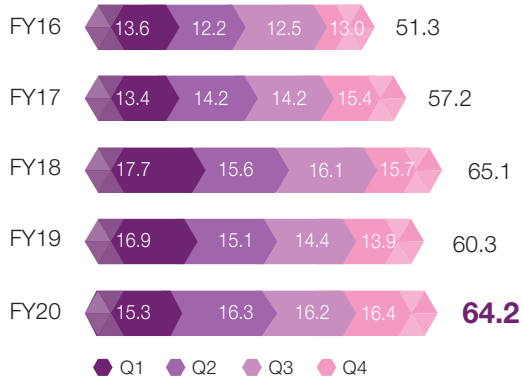
* excludes factory leases under the SRFS(I)16

KEY FINANCIAL RATIOS

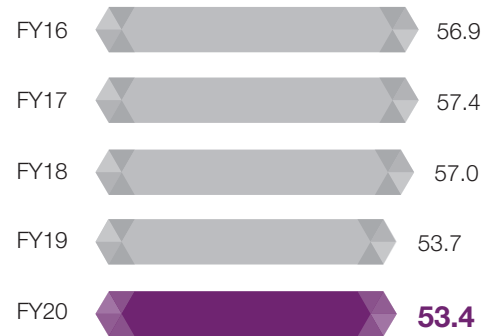
	FY2019	FY2020
Gross Profit Margin	53.7%	53.4%
Net Profit Margin	21.5%	22.8%
Return on Equity	22.2%	25.3%
Dividend Per Share	10.0 cents	12.0 cents
Dividend Payout	107.4%	113.9%

FINANCIAL HIGHLIGHTS

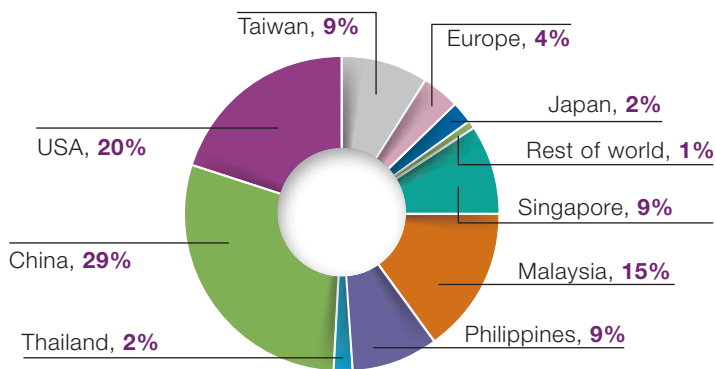
GROUP REVENUE (S\$M)



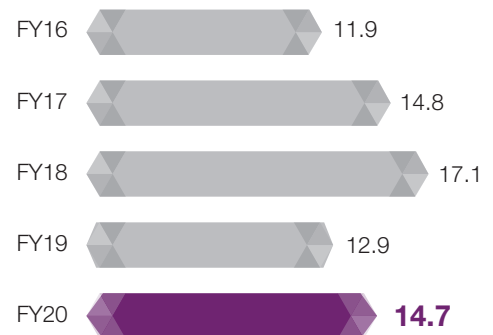
GROUP GROSS PROFIT MARGIN (%)



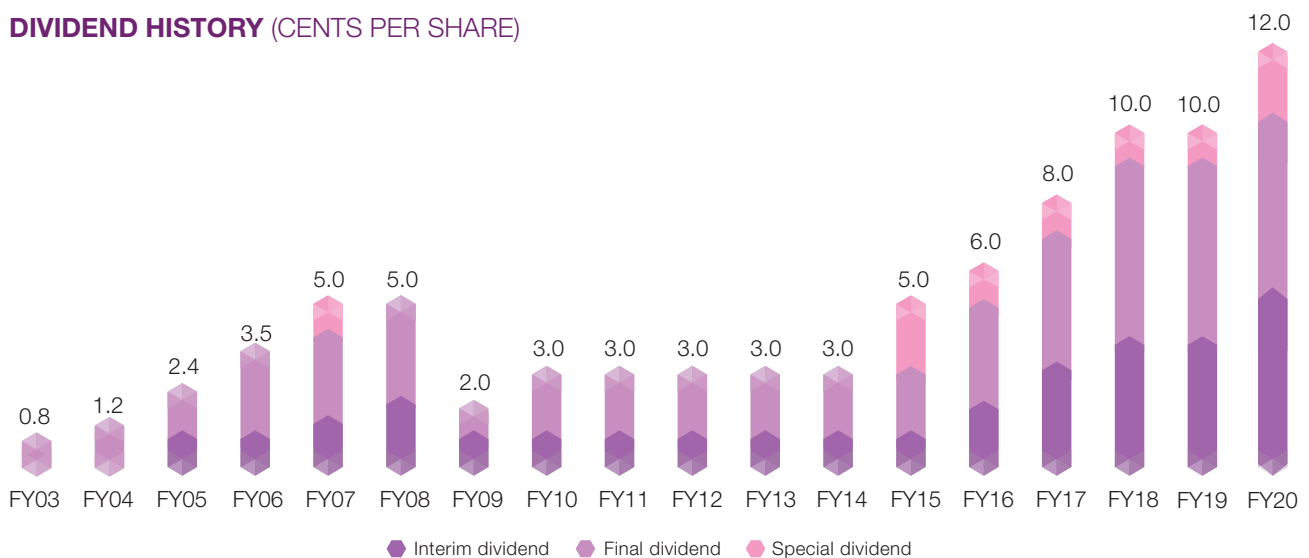
REVENUE BREAKDOWN BY GEOGRAPHICAL MARKET (FY2020)



GROUP NET PROFIT (S\$M)



DIVIDEND HISTORY (CENTS PER SHARE)



BOARD OF DIRECTORS



Sumitri Mirnalini Menon @ Rabia

Independent Non-Executive Chairman

Ms. Menon is an advocate and solicitor and has been practicing as a lawyer since 1982. She is currently with Menon and Co and was previously a partner with Jansen Menon and Lee. Ms. Menon graduated from the National University of Singapore with a Bachelor of Laws (Honours). She is a Commissioner For Oaths and a Notary Public and member of the Singapore Institute of Directors.



Christopher Reid Borch

Founder & Chief Executive Officer

Mr. Borch has nearly 40 years of engineering, manufacturing and management experience in the semiconductor industry, including 17 years living and working in Asia. Prior to founding Micro-Mechanics in 1983, Mr. Borch held positions with several leading makers of automatic assembly equipment including Kulicke & Soffa, Inc. Mr. Borch earned his undergraduate degree from Furman University and an MBA from The Wharton School at the University of Pennsylvania. Mr. Borch serves on the Dean's Board of the University of Southern California's Engineering School. In July 2018, Mr. Borch received the Best Chief Executive Officer Award at the Singapore Corporate Awards.



Low Ming Wah

President & Chief Operating Officer

Mr. Low joined Micro-Mechanics in 1989 as the company's first engineer. During his career at Micro-Mechanics, Mr. Low has held key engineering, manufacturing and management positions. Prior to joining Micro-Mechanics, Mr. Low held engineering and design positions with General Electric and Siemens. Mr. Low received his Diploma in Mechanical Engineering from Singapore Polytechnic and an MBA from the University of Hull, UK. He has over 35 years of experience in the semiconductor and precision engineering industry.

Currently, Mr. Low is the Chairman of the Singapore Precision Engineering & Technology Association (SPETA). He is also the member of the SMEC main committee under Singapore Business Federation and member for FEC Manufacturing Sub-committee under EDB. He is also a member of Singapore Institute of Directors. In 2012, Mr. Low established a bursary fund with the Singapore Polytechnic Graduate Guild Endowment to support students in need of financial assistance. Mr. Low is also the Distinguished Patron for Loving Heart Multi-Service Centre that serves the residents and needy students. In 2015, Ming Wah established a Study Grant with the Singapore Institute of Technology to be given to deserving and financially disadvantaged full-time undergraduates of the institute. In 2017, Ming Wah established a scholarship with Singapore University of Technology and Design to promote meritocratic access to education and provide opportunities to students with demonstrated financial need.



Chow Kam Wing

Chief Financial Officer & Company Secretary

Mr. Chow joined Micro-Mechanics in 1996 and played a key role for the Company's IPO on SGX in 2003 and business expansion and operations in the region. Prior to joining Micro-Mechanics, Mr. Chow has more than 15 years working experience in auditing and accounting in Hong Kong.

Currently, Mr Chow is Committee Member of CFO Committee and member of Joint Continuous Professional Development Committee of Australia CPA (Singapore). He served as Audit Committee Member of Singapore Chinese Orchestra (2013 – 2017), Committee Member of the Corporate Governance Committee of Institute of Singapore Chartered Accountants (ISCA) (2014 – 2020), Committee Member of CFO Committee of ISCA (2008 – 2014) and an Advisory Council Member of Singapore CFO Institute under Singapore Accountancy Commission (2015 – 2017).

Mr. Chow is a fellow Member of CPA Australia and Member of Institute of Singapore Chartered Accountants and Hong Kong Institute of Certified Public Accountants. He received his MBA from the University of Wales in the United Kingdom.

In February 2008, Mr. Chow was recognized as the Chief Financial Officer of the Year at the Singapore Corporate Awards.

BOARD OF DIRECTORS

Lai Chin Yee

Independent Director



Ms. Lai has over 30 years of experience in auditing, taxation, finance and accounting, and is currently the Finance Director of SGX-listed Qian Hu Corporation Limited. Ms. Lai was formerly an auditor with international accounting firms from 1987 to 2000.

Ms. Lai was appointed by the Ministry of Finance (MOF) as a member of the Tax Advisory Committee from 2004 to 2006. She served as a member of the CFO Committee of the Institute of Singapore Chartered Accountants (ISCA) from 2009 to 2012 and the Corporate Governance and Risk Management Committee from 2018 to June 2020.

Ms. Lai was elected as a council member of ISCA since 2018. She is currently a member of ISCA's Continuing Professional Education Committee and Membership Committee. In 2019, she was appointed by MOF as a Board member of Accounting and Corporate Regulatory Authority (ACRA). She is also an Independent Director of Singapore Paincentre Holdings Limited, a company listed on the Singapore Exchange.

Ms. Lai graduated with a Bachelor degree in Accountancy from the National University of Singapore. She is a Fellow Chartered Accountant of Singapore and a member of the Singapore Institute of Directors. In 2009, she was named the Chief Financial Officer of the Year at the Singapore Corporate Awards.

Kenny Kwan

Independent Director



Mr. Kwan is a partner at Baker & McKenzie. His areas of practice include capital markets transactions, mergers and acquisitions, and general corporate matters. Over two decades, Kenny has established himself as a respected Capital Markets lawyer. His securities law experience includes acting as both issuers' and underwriters' counsel on Singapore, Indonesia, Malaysia capital market transactions as well as US-registered and Rule 144A/Regulation S offerings. Mr. Kwan also advises on fund managers and issuers on the structuring and establishment of investment funds domiciled in Singapore as well as on regulatory aspects of managing investment funds outside of Singapore. He is also an Independent Director of Keppel DC REIT which is listed on the Singapore Exchange.

Mr. Kwan holds a Bachelor of Law (Honours) degree from the National University of Singapore and is a member of the Singapore Bar. He is also qualified to practice law in England and Wales and the State of New York in the United States of America.

EXECUTIVE OFFICERS

SINGAPORE

Micro-Mechanics Pte Ltd

Mr. Neo Say Chow (Manufacturing Manager)

MALAYSIA

Micro-Mechanics Technology Sdn. Bhd.

Ms. Ng Chin Lim (General Manager)

PEOPLE'S REPUBLIC OF CHINA

Micro-Mechanics Technology (Suzhou) Co. Ltd.

Mr. Shen Zi Quan (Deputy General Manager)

THE PHILIPPINES

Micro-Mechanics Technology International, Inc.

Mr. Richie Manuel (Factory Manager)

THE UNITED STATES

Micro-Mechanics, Inc.

Mr. Colin Wojno (Factory Manager)

FINANCIAL CONTENTS

11	Corporate Information
12	Sustainability Report
35	Corporate Governance
62	Directors' Statement
65	Independent Auditors' Report
70	Consolidated Statements of Financial Position
71	Consolidated Statement of Comprehensive Income
72	Consolidated Statement of Changes in Equity
74	Consolidated Statement of Cash Flows
75	Notes to the Financial Statements
112	Shareholders' Statistics
114	Notice of Twenty-Fourth Annual General Meeting
118	Additional Information for Directors Seeking Re-election Proxy Form

CORPORATE INFORMATION

Board of Directors

Sumitri Mirnalini Menon @ Rabia

Independent Non-Executive Chairman

First appointed: 16 May 2003
(Email: smenon@micro-mechanics.com)
(re-appointed on 29 October 2018)

Christopher Reid Borch

Executive Director

First appointed: 25 June 1996
(Email: cborch@micro-mechanics.com)
(re-appointed on 30 October 2017)

Low Ming Wah

Executive Director

First appointed: 25 June 1996
(Email: mwlow@micro-mechanics.com)
(re-appointed on 30 October 2019)

Chow Kam Wing

Executive Director

First appointed 20 January 2003
(Email: kamchow@micro-mechanics.com)
(re-appointed on 29 October 2018)

Lai Chin Yee

Independent Director

First appointed: 1 June 2014
(Email: laicy@micro-mechanics.com)
(re-appointed on 30 October 2017)

Kenny Kwan Yew Kwong

Independent Director

First appointed: 14 June 2019
(Email: kennykwan@micro-mechanics.com)
(re-appointed on 30 October 2019)

Audit Committee

Lai Chin Yee

Chairman

Sumitri Mirnalini Menon @ Rabia
Kenny Kwan Yew Kwong

Nominating Committee

Sumitri Mirnalini Menon @ Rabia

Chairman

Lai Chin Yee
Kenny Kwan Yew Kwong

Remuneration Committee

Kenny Kwan Yew Kwong

Chairman

Sumitri Mirnalini Menon @ Rabia
Lai Chin Yee

Risk Management Committee

Lai Chin Yee

Chairman

Sumitri Mirnalini Menon @ Rabia
Low Ming Wah
Chow Kam Wing
Kenny Kwan Yew Kwong

Company Secretary

Chow Kam Wing

Chartered Accountant (Singapore)

Registered Office

Company No: 199604632W

31 Kaki Bukit Place

Eunos Techpark

Singapore 416209

Tel: 65-6746-8800

Fax: 65-6746-7700

Share Registrar & Share Transfer Office

M & C Services Private Limited
112 Robinson Road
#05-01
Singapore 068902

Auditors

KPMG LLP,
Certified Public Accountant
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581
Partner-in-charge: Yeo Lik Khim
(appointed since Financial Year 2017)

Internal Auditors

Nexia TS Risk Advisory Pte Ltd
80 Robinson Road
#25-00
Singapore 068898

Principal Banker

DBS Bank Ltd
12 Marina Boulevard
DBS Asia Central
Marina Bay Financial Centre Tower 3
Singapore 018982

Investor Relations Consultant

Octant Consulting
7500A Beach Road
#04-329 The Plaza
Singapore 199591
Tel: 65-6296-3583
Email: herman@octant.com.sg/
lisa@octant.com.sg

SUSTAINABILITY REPORT

Year ended 30 June 2020

ABOUT REPORT

Micro-Mechanics (Holdings) Ltd (“Micro-Mechanics”) is pleased to present our third sustainability report prepared in accordance to Singapore Exchange Securities Trading Limited’s (“SGX-ST”) Mainboard listing Rule 711(A), 711(B) and with reference to the guidelines of the Global Reporting Initiative (“GRI”) Standards – “Core” option. It covers the sustainability efforts of our core business activities as a manufacturer of high precision tools and parts, and is incorporated as part of our annual report for Financial Year 2020 (“FY2020”) covering the period from 1 July 2019 to 30 June 2020.

We have reviewed and adopted the GRI reporting framework for its detailed guidance in the disclosure of governance approaches, the environment, social and economic (“ESG”) performance that is of relevance to our business. Micro-Mechanics has not sought external independent assurance for the preparation of this report.

Reporting Scope

Micro-Mechanics designs, manufactures and markets high precision parts and tools used in process-critical applications for the wafer-fabrication and assembly processes of the semiconductor industry. The Group operations include manufacturing facilities in Singapore, Malaysia, China, the Philippines and the USA as well as direct sales presence in Taiwan and Europe. The Group’s strategy is to relentlessly pursue product and operational improvements while providing fast, effective local support to customers worldwide.

This report covers all our manufacturing facilities, namely, Singapore, Malaysia, China, the Philippines and the USA.

For more information with regards to this report or feedback on our sustainability practices, please email to Investor@micro-mechanics.com.

MESSAGE FROM THE BOARD

The Board of Micro-Mechanics (Holdings) Ltd is pleased to present its Sustainability Report FY2020. In this report, we have continued with the Environment, Social and Governance (ESG) factors and related components that were identified in our first sustainability report, and have added a new Local Community ESG factor. Moving forward, we will continue to add any new factors which we may find relevant.

The Board would like to thank our Sustainability Steering Committee, Sustainability Working Committee and all employees for their support in measuring, monitoring and managing our performance in these ESG factors. Our sustainability report is aligned with the Singapore Exchange (SGX); SGX-ST Listing Rules 711A and 711B and references the internationally recognized Global Reporting Initiative (GRI) Standards.

Over the years, Micro-Mechanics has adopted various best practices and processes that are in line with the concept of sustainability. However, since embarking formally on our sustainability journey, we have realized there is much more we can learn and do for sustainable manufacturing in our industry and the global supply chain, and we will continue to further develop and increase our sustainability efforts.

SUSTAINABILITY REPORT

Year ended 30 June 2020

Since January 2020, COVID-19 has affected everyone's lives. As a result of the COVID-19 pandemic, our operations at various manufacturing facilities were required to cease operations for varying periods. However, as Micro-Mechanics' business operations are deemed to be essential services to the global supply chain, we were, in all the jurisdictions in which we operate, given clearance by the authorities to continue our operation with safe distancing and safety measures implemented at our work premises.

Aside from the brief interruption to our manufacturing operations, COVID-19 pandemic also affected some areas of our sustainability management. Certain training and education activities as well as planned social responsibility activities were hampered or cancelled due to the implementation of social distancing requirements. As the COVID-19 situation continues to develop, we will continue to review our operations, and announce any material changes to our business performance to shareholders timely, as and when appropriate.

On a positive note, the COVID-19 pandemic has taught us much about sustainability. We found that we were able to adapt and adjust our operations to continue our business activities quickly. We were also able to leverage on our existing business contingency plans and adjust them for an unforeseen circumstance, and to enhance our journey towards a more sustainable manufacturing environment in a safe manner.

We wish that all our stakeholders stay safe and healthy during this tumultuous period.

Sincerely,
Board of Directors
Micro-Mechanics (Holding) Ltd

SUSTAINABILITY REPORT

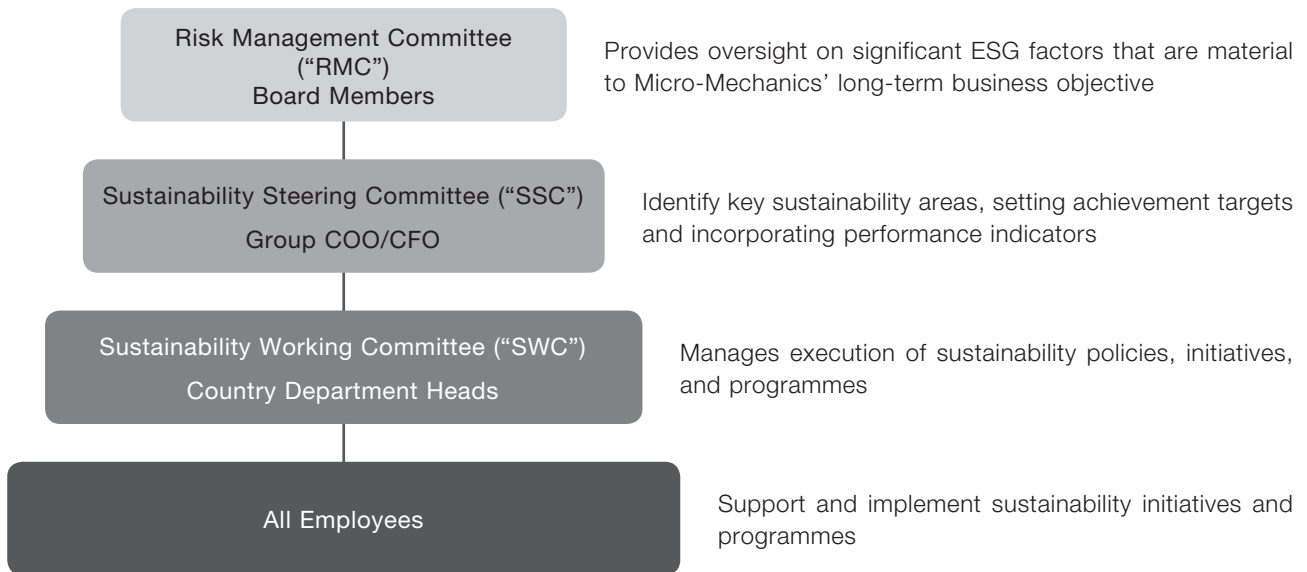
Year ended 30 June 2020

SUSTAINABILITY GOVERNANCE

Micro-Mechanics manages our sustainability performance under the governance of our Sustainability Steering Committee (“SSC”). Our corporate SSC, led by our Chief Operating Officer (“COO”) and Chief Financial Officer (“CFO”) provides guidance in identifying key sustainability areas, setting achievement targets and incorporating relevant performance measurement indicators.

SSC is supported by a Sustainability Working Committee (“SWC”) represented by departmental heads from every department in the organisation. The SWC members are tasked to execute sustainability efforts in their respective department and provide feedback and support to SSC. In turn, SSC provides sustainability report updates to the Board via the Risk Management Committee (“RMC”) on a periodic basis. The RMC comprises three independent directors, CFO and COO. The RMC chairman is an independent director. Our governance structure is as shown in the following:

Sustainability Governance Structure



MATERIALITY

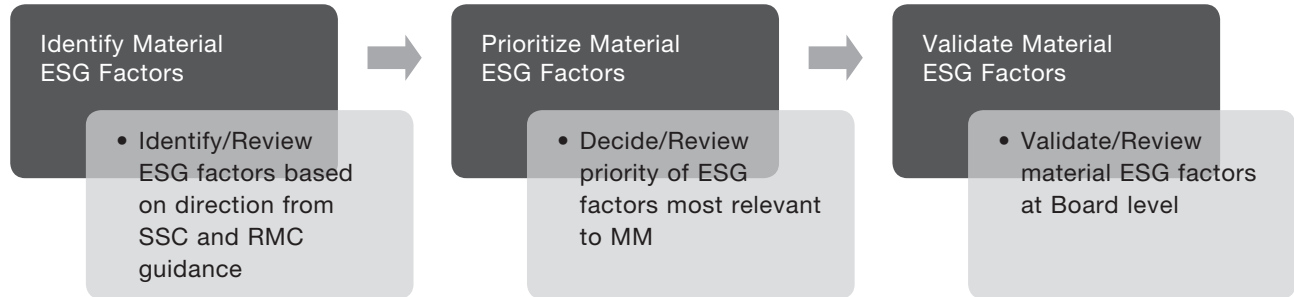
Since our first sustainability report, Micro-Mechanics has focused on Environmental and Social Governance (“ESG”) areas as the basis for our content in reporting.

ESG matters developed and reported in previous sustainability report continue to be relevant in the current context.

SUSTAINABILITY REPORT

Year ended 30 June 2020

Materiality Assessment Process



The material factors presented in this FY2020 sustainability report are as follows:

	Sustainability Material Factors
OUR OPERATIONS	Economic Performance
	Training and Education
	Occupational Health & Safety
	Diversity and Equal Opportunity
	Energy
	Local Community
	OUR SUPPLY CHAIN
	Supplier Social Assessment
GOVERNANCE	Anti-corruption
	Socioeconomic compliance

Except for Economic Performance, all other material factors are discussed in this sustainability report. The Economic Performance of the Company is detailed in the financial statements of our Annual Report for FY2020.

SUSTAINABILITY REPORT

Year ended 30 June 2020

Materiality Matrix

High	CONCERN TO STAKEHOLDERS		<ul style="list-style-type: none"> • Socioeconomic Compliance 	<ul style="list-style-type: none"> • Economic Performance • Training and Education • Occupational Health & Safety • Diversity and Equal Opportunity • Materials • Anti-corruption
Medium		<ul style="list-style-type: none"> • Customer Health & Safety • Child labour • Forced or compulsory labour • Emissions • Local Community 	<ul style="list-style-type: none"> • Supplier Environmental Assessment • Effluents and Waste • Talent Retention 	<ul style="list-style-type: none"> • Energy • Supplier Social Assessment
Low		<ul style="list-style-type: none"> • Marketing & Labelling 	<ul style="list-style-type: none"> • Water 	
SIGNIFICANCE TO THE BUSINESS				
	Low	Medium	High	

Stakeholder Engagement

Our stakeholders are engaged through various channels to ensure our business interests are aligned with them. We also seek to address stakeholders' concerns in a manner that will improve our business operations for long-term growth and sustainability.

Key stakeholder engagement platforms are shown in the table below:

Stakeholders	Engagement methods
Investors and shareholders	<ul style="list-style-type: none"> • Media releases • Quarterly SGX announcements • Half yearly results briefings for investors and media • Yearly AGM for shareholders • Annual Report • Ad hoc meetings and conference calls with our Investor Relations Consultants • Email communications – investor@micro-mechanics.com • Company website with investor relations section

SUSTAINABILITY REPORT

Year ended 30 June 2020

Stakeholders	Engagement methods
Employees	<ul style="list-style-type: none"> • Materiality prioritisation session • Company handbook- code of conduct • New Staff Orientation • Half-yearly Employee Improvement Dialogue with employees • Town hall meetings • Whistle blowing policy in place
Customers	<ul style="list-style-type: none"> • Customer visits by our sales personnel • Participation in Semiconductor trade shows • Customers material safety compliance requirements such as Restriction of Hazardous Substance (RoHS), Registration, Evaluation, Authorisation and Restriction of Chemicals (Reach) • Yearly customers satisfaction survey • Factory visit by customers
Suppliers	<ul style="list-style-type: none"> • Supplier selection process • Suppliers assessment • Meetings with suppliers
Regulators	<ul style="list-style-type: none"> • Seminar/updates received from local government agencies • Internal processes in place to ensure compliance with local government laws and regulations • Zero tolerance of non-compliance tone set by the top management
Local communities	<ul style="list-style-type: none"> • Compliance with local government laws and regulations such as pollution at surrounding factory areas, chemical discharge to drainage, etc. • Help local employment by applying locals first policy

OUR OPERATIONS

Training and Education

Our people are our key asset in the delivery of our organisational goals. Micro-Mechanics' human resource policies and practices are guided by our Company's Employee Handbook and applicable local laws and regulations.

Our human resource policy provides guidance to develop every employee's potential through comprehensive training programmes. The aim of our training programs is to continuously upgrade employees' knowledge and skill-sets in areas directly related to their work as well as future work development.

Supervisors are tasked to seek relevant training courses and make recommendations for their staff participation. Employees who have attended training courses will provide feedback to the Company about the training content quality and relevancy so that the Company can make appropriate decisions to pursue similar training for other employees in the future.

SUSTAINABILITY REPORT

Year ended 30 June 2020

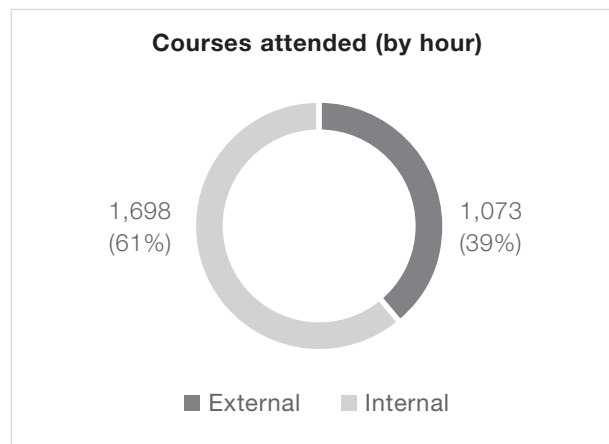
Management Initiatives

At Micro-Mechanics, training and development needs of each employee are determined during Employee Improvement Dialogue (EID) session where periodic performance appraisals are carried out. During such sessions, gaps in employees' knowledge or skill-sets are ascertained and relevant training or education established.

During FY2020, we had plans to implement the following training activities:

- On the job training for newly hired employees
- Anti-Bribery Management System (ABMS) ISO37001 refresher training
- Some Internal training on products and manufacturing capabilities
- Business Continuity Management (BCM) refresher training to ensure all employees are conversant with procedures during unexpected events or occurrence of disaster
- In-house Health and Safety first-aid training
- Relevant seminars, and training programs organized by external parties for employees
- Information Technology training for new updates on our ERP system and, Human Resource system

However, the COVID-19 outbreak affected training activities in the second half of FY2020. External training was affected the most as such activities are disallowed during the lockdowns imposed by government authorities in the countries where we have operations. Nonetheless, our staff strength of 511 across our group of companies attended a total of 2771 hours of internal and external training sessions. This translated to 5.42 training hours per employee.



SUSTAINABILITY REPORT

Year ended 30 June 2020

Policies and Guides	Performance Indicators	Achievement in FY2020
Company's training policies in Employee Handbook	Average 12 training hours per employee	Average 5.42 training hours per employee

Moving forward, we will explore other remote or virtual options to mitigate such impact to our training activities to adapt to the new norm of post Covid-19 work environment.

Occupational Health and Safety

At Micro-Mechanics, we believe employees' good health and workplace safety are important for their high productivity, performance and the reputation of our organisation. It is our goal to ensure a healthy and safe environment for all our employees. To achieve this goal, we have a Health & Safety Committee to manage all related health and safety matters in the organisation.



The Steering Committee is responsible for setting the direction and providing guidance and advice on all health and safety matters. Safety Officers together with the Department Rep of our worldwide operations will help to support, and provide feedback to the Steering Committee about workplace health and safety related matters of their respective factory.

Micro-Mechanics has an internal 7S culture that includes safety and sustainability matters. Audits are conducted periodically to ensure every aspect of occupational health and safety are maintained. 7S is a half-yearly KPI that is aligned with our in-house bonus incentive program to incentivize our employees' participation.

SUSTAINABILITY REPORT

Year ended 30 June 2020

Management Initiatives

In FY2020, the health and safety practices that we pursued at our workplace are listed below:

- Scheduled refresher employee training on safe handling of machines and accompanying fixtures
- Regular training and guidance on proper donning of PPEs and daily reminders for employees
- Scheduled practice for Fire and Emergency Drills at workplace for employees
- Scheduled health and safety first-aid training for employees
- Amidst COVID-19 outbreak, to protect employees from infection,
 - Employees instructed to wear a mask at all times, wash their hands regularly at the workplace
 - Employees instructed to take/monitor their temperature twice daily and to sanitize the own work spaces and common shared areas before and after usage
 - Office Site visits by external parties reduced to required basis and all visitors are screened for fever and contact details recorded for contact tracing
 - Commonly touched surfaces at workplace are regularly sanitised
 - Reconfiguration of work area for safe distancing measures at the workplace
 - Reduced employee physical interactions within work site and only at designated areas
 - All employee physical interactions within worksite are tracked
 - Employees divided into two teams on two shifts with no cross deployment of staff at work site at any one time
 - Employees who can perform their duties off work site are assigned to work-from-home

Prior to printing this report, we have an update from our facility in Manila, Philippines that one staff had been confirmed with COVID-19 positive in late August 2020. All close contacts with the infected staff at workplace were immediately identified and quarantined. Thorough cleaning and disinfecting were conducted at the facility and the staff on quarantine are being closely monitored.

SUSTAINABILITY REPORT

Year ended 30 June 2020



Briefing for Philippines employees about precautions for COVID-19



Temperature screening for employees at Singapore facility



Visitor screening at Penang facility



Sanitizing high touch surfaces at facility



Social distancing markings implemented at workplace

SUSTAINABILITY REPORT

Year ended 30 June 2020

Policies and Guides	Performance Indicators	Achievement in FY2020
Environment, Health and Safety Handbook	Zero workplace incidents resulting in a fatality or permanent injury	Zero incident

Moving forward, we aim to maintain this record in FY2021 and continue to abide by the existing health and safety policies.

DIVERSITY AND EQUAL OPPORTUNITY

Micro-Mechanics' recruitment policy is based on competencies and capabilities of potential employees for job appointment. We select employees on the basis of suitability of skills, experience and ability of candidates regardless of their age, race, gender, religion or family status.

Human resource policy

Our Employee Handbook details our policy and our approach to diversity and equal opportunity within the organisation. Using the handbook as reference, employees can gather information on Micro-Mechanics' hiring practices, promotion opportunities and have a good grasp of their career path in the Company.

Management Initiatives

To ensure diversity and equal opportunity, Micro-Mechanics practises the following;

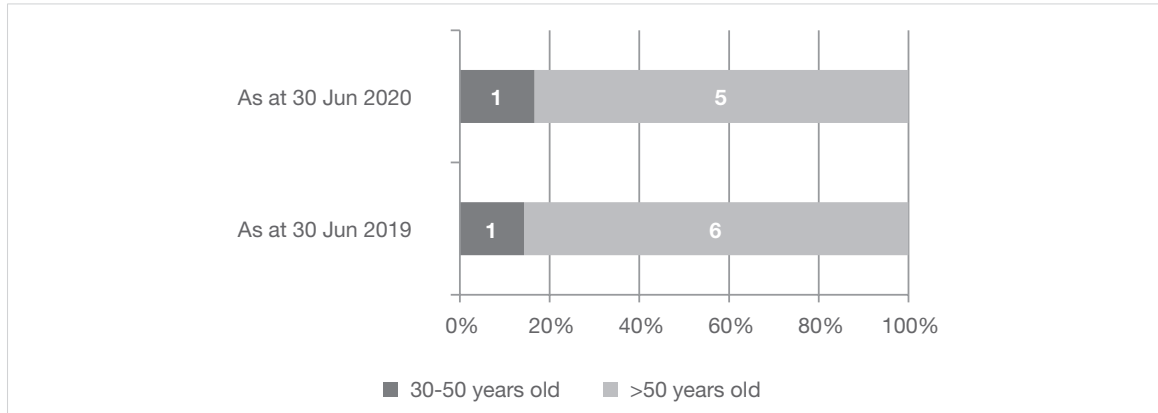
- Prior consideration of internal staff career development and suitability for new role in any new hiring requests before seeking external candidates
- Consideration of diversity for role in organisation prior to hiring potential employees
- Adhere to local authority requirements to consider employment of locals before seeking foreign candidates
- Regular review of diversity and equal opportunity at all levels including positions at Board level

Towards the end of FY2020, people at various organisation levels in Micro-Mechanics were reviewed and the current diversity is depicted in the following.

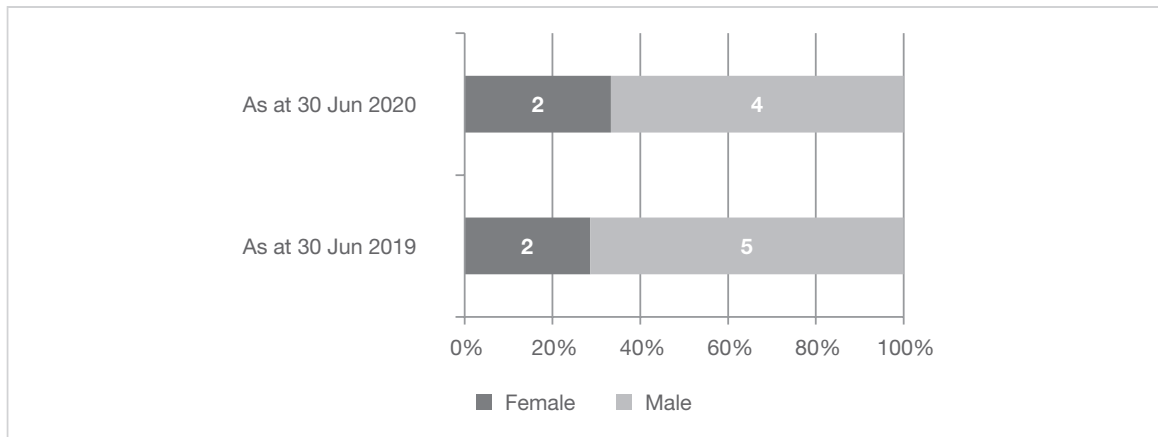
SUSTAINABILITY REPORT

Year ended 30 June 2020

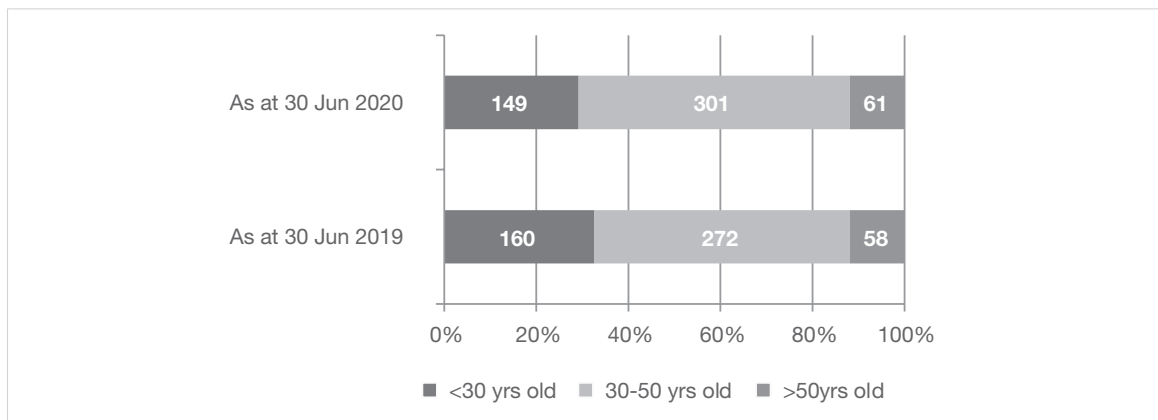
Diversity by Age (Board level)



Diversity by Gender (Board level)



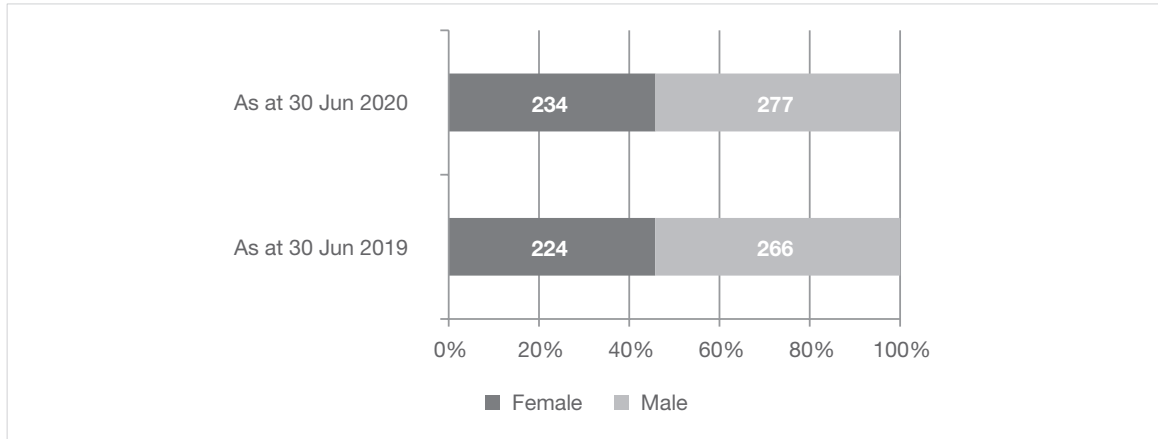
Employee Profile by Age



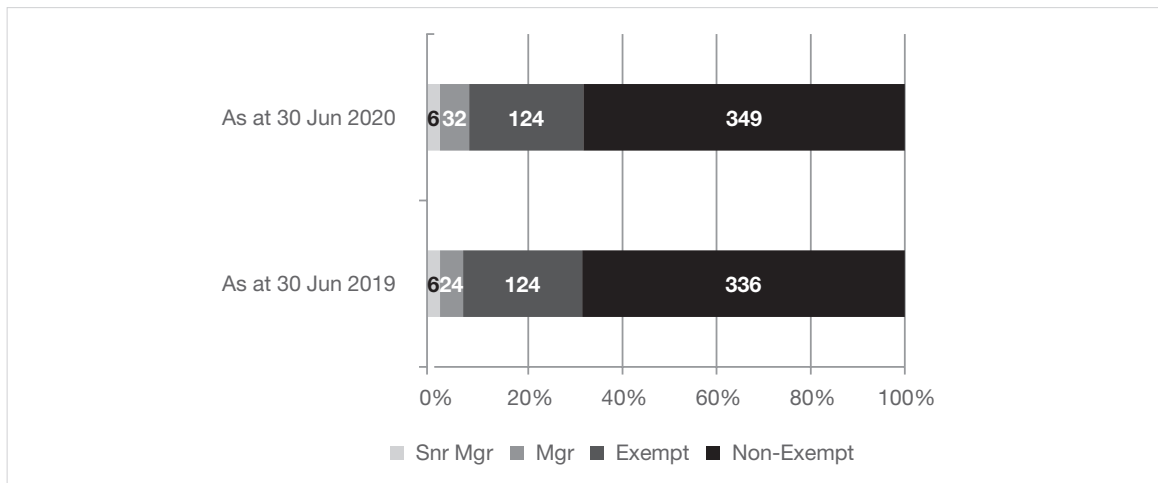
SUSTAINABILITY REPORT

Year ended 30 June 2020

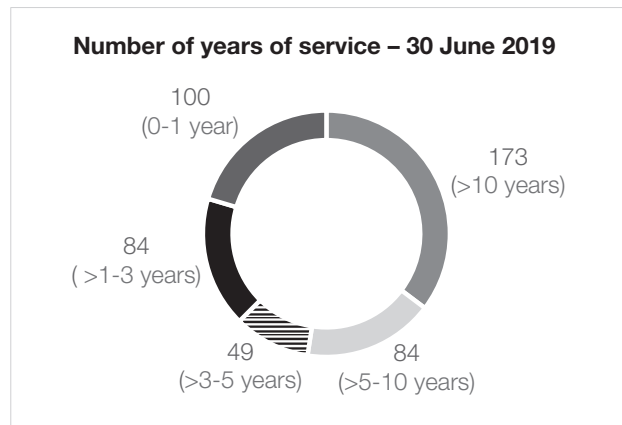
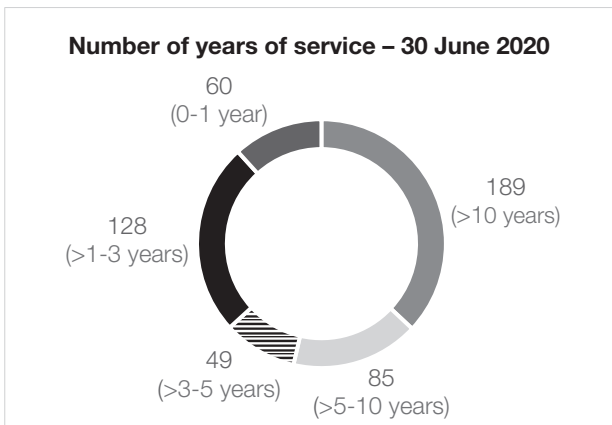
Employee Profile by Gender



Employee profile by Organisation Hierarchy



Employee profile by Years of Service



SUSTAINABILITY REPORT

Year ended 30 June 2020

Policies and Guides	Performance Indicator	Achievement in FY2020
Employee handbook on human resource policies	Diversity at both Board and Employee level	Diversity at various levels are well balanced

In FY2020, we are satisfied that we have a diversified work force across gender, age, job level as well as length of service and we strive to maintain this in years to come.

ENERGY

Micro-Mechanics' business operations consume electricity supplied by the local utility's authority or vendor. There are generators using diesel installed at various offices but these are mainly used as electrical power backup in the event of interruptions of the local authority's or vendor's power supply.

Our electrical energy consumption is mainly for our manufacturing plant machine operations and general air-conditioning for the premises. Optimizing energy consumption at our work sites has always been part of our operations strategy with the objective of cost savings for operations as well as support for environment conservation.

Management Initiatives

Our energy conservation efforts are ongoing and they include the following:

- Incorporating energy conservation methods in work processes
- Monitoring electrical energy consumption regularly to manage wastage
- Maintaining machineries regularly to ensure efficiencies and enhance reliability
- Regular education of employees on energy saving practices for machineries and equipment
- Energy saving feature included as criteria for purchase of new machineries
- Constant reminders about energy saving practices at the worksites
- Use of alternate (where feasible) energy source like solar to reduce consumption

Performance data

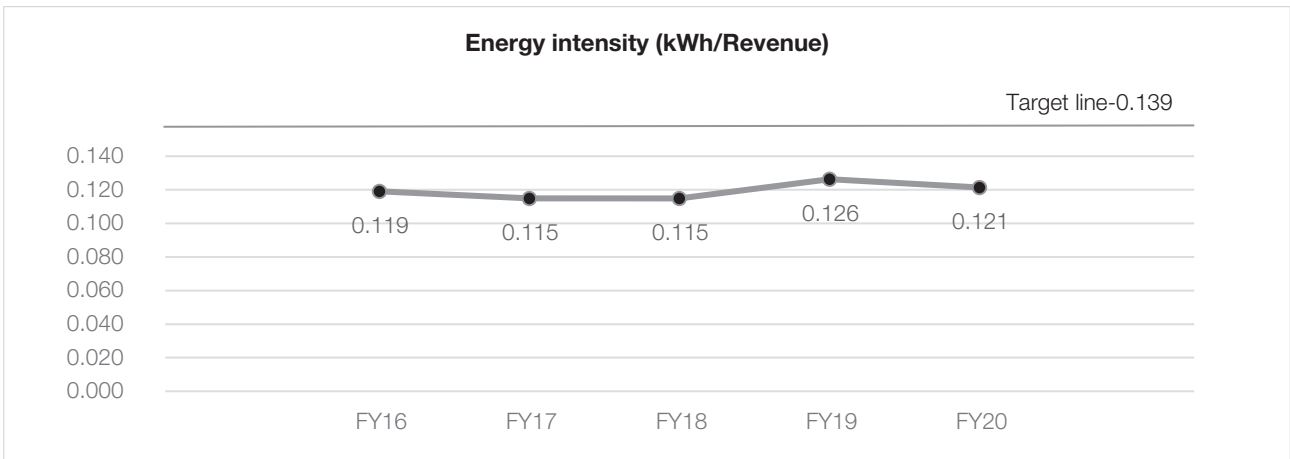
At our manufacturing facilities and offices, electrical energy is expended along with business activities. More sales orders will also mean higher energy consumption as more machines will need to be operated on for longer durations.

Micro-Mechanics monitors energy consumption by measuring Energy Intensity which has two factors, namely, power consumed over production output generated (kWh/Output) and power consumed over sales revenue (kWh/Revenue).

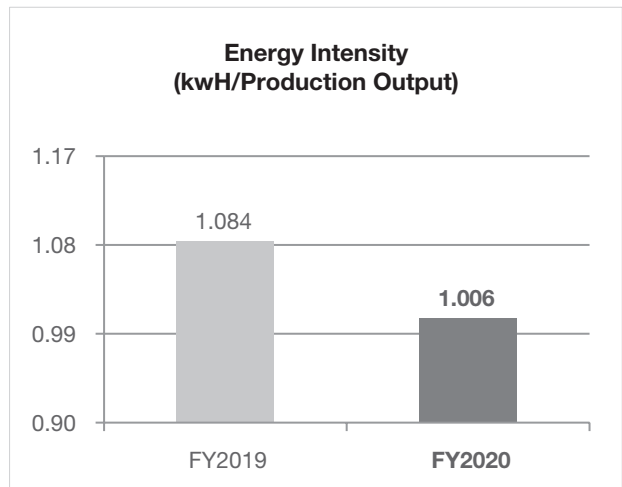
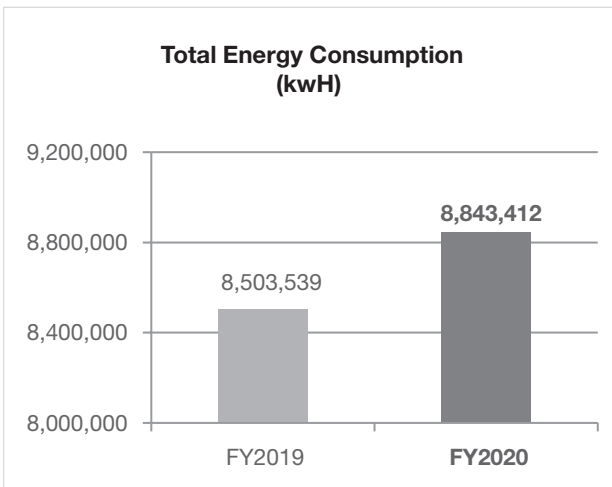
Although some of our manufacturing operations were briefly interrupted by COVID-19 outbreak, our sales increased as customers placed more orders to stock up their inventory. Thus, our energy consumption increased in line with sales. Our Energy Intensity performance target for FY2020 is at 0.121kWh which is within the stipulated target.

SUSTAINABILITY REPORT

Year ended 30 June 2020



Note: Revenue is converted to functional currency



Policies and Guides	Performance Indicator	Achievement in FY2020
Work instruction for Resource Conservation	Within 10% of FY2019 energy Intensity 0.126 (June 2019) Energy Intensity=kWh/Revenue	0.121 kWh/Revenue

Moving forward, we will continue to improve our production operations and be more efficient in our energy consumption.

SUSTAINABILITY REPORT

Year ended 30 June 2020

LOCAL COMMUNITY ENGAGEMENT

Micro-Mechanics has not included our organisation social involvement and activities with local communities in previous sustainability reports. From FY2020 onwards, these planned social community activities involvement will be reported hereon.

The intention of our initiatives is to do our part socially for the community and environment by supporting in areas where we can contribute our time and/or resources.

Management Initiatives

The following activities were planned for FY2020:

- Participate in eco-run event that champions environmental conservation with zero waste mission
- Participate in charity run by Metta social enterprise that support needs of various less fortunate in the community
- Visit to old folks' home with gifts for the residents
- Blood donation exercise for Red Cross
- Contribute subsidies for needy students

Unfortunately, many of these planned activities were disrupted by the COVID-19. Due to social distancing measures and restrictions by authorities in the countries where we have operations, the events were either cancelled or not permitted.



Our Malaysian team purchased and provided personal protection equipment (N95 masks) to frontline police in April 2020



Two teams from our Philippines office in separate blood donation exercises for the benefit of Red Cross Organisation in December 2019

SUSTAINABILITY REPORT

Year ended 30 June 2020

Policies and Guides Micro-Mechanics' Company Handbook	Performance Indicators At least five social community activities annually	Achievement in FY2020 Only two social community activities due to COVID-19
---	---	--

Though we could not achieve our target this year amidst the restrictions due to pandemic, we are inspired and encouraged to do better in enriching people and communities in coming years.

OUR SUPPLY CHAIN

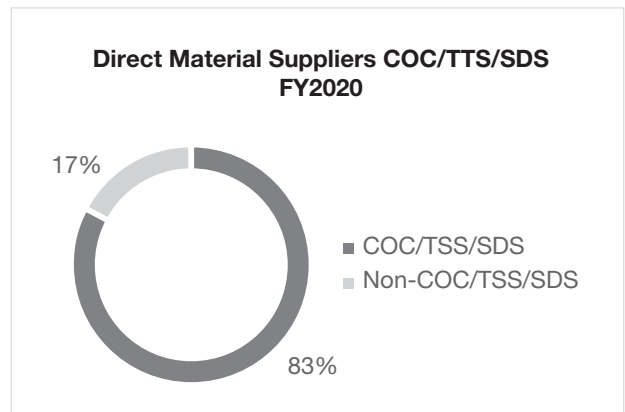
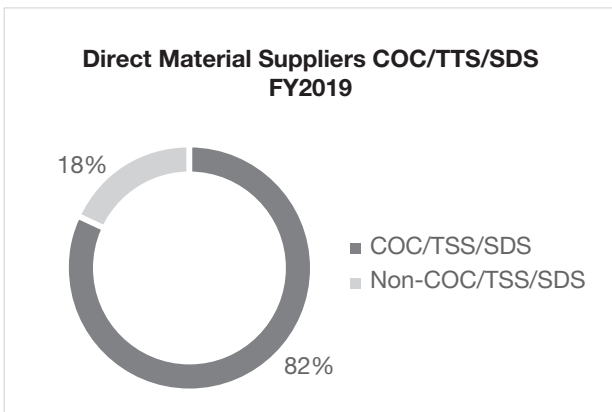
Materials

Micro-Mechanics acquires raw materials for our manufacturing operations from local as well as overseas suppliers. To be holistic in our sustainability efforts, we require our suppliers to also adhere to our quality standards and include sustainability practices in their production and supply of the materials to Micro-Mechanics.

Direct material suppliers must include the following documentations in every shipment as part of their order fulfilment to Micro-Mechanics:

- Certificate of Conformance (COC) with label description of supplier’s background, production number, lot size, material certification and purchase order number (Micro-Mechanics)
- Technical Specification Sheet (TSS) with label description of material specific name, chemical composition, physical and mechanical properties
- Safety Data Sheet (SDS) with label description of potential hazards and safety measures about health, fire, reactivity and the environment.

Whilst we have set our requirements for direct material suppliers and actively seek their cooperation, inevitably, some are still unable to adhere due to various reasons. Such instances include cases when our purchase volumes are too low for the supplier to make additional effort, or profit margins are too low for them to incorporate additional costs in preparing the detailed information required.



SUSTAINABILITY REPORT

Year ended 30 June 2020

Nonetheless, we have seen a gradual increase in the number of suppliers meeting our requirements over the past two years since our initiation. We will review our 80% target again for improvement in our drive towards partnering like-minded suppliers with similar sustainability goals.

Policies and Guides	Performance Indicator	Achievement in FY2020
Certificate of Conformance (COC), Technical Specification Sheet (TSS) and Safety Data Sheet (SDS)	80% of direct material suppliers shipped to us with required COC/TSS/SDS	83.08% of direct material suppliers adhered

SUPPLIER SOCIAL ASSESSMENT

Micro-Mechanics encourages our suppliers to use the Responsible Business Alliance (“RBA”) principles as a guide to meet our evaluation criteria for preferred supplier standing.

The Responsible Business Alliance (RBA) details standards for social, environmental and ethical matters for supply chain in the electronics industry. The Code of Conduct adopts international standards such as Universal Declaration of Human Rights, ILO International Labour Standards, and Organisation for Economic Co-operation and Development (“OECD”) Guidelines for Multinational Enterprises, ISO and Standards Association.

At Micro-Mechanics, we embrace RBA principles wholeheartedly and believe that with similar adoption by our suppliers and business partners, our contribution towards compliance and governance will enhance sustainability in the manufacturing industry supply chain in the long term.

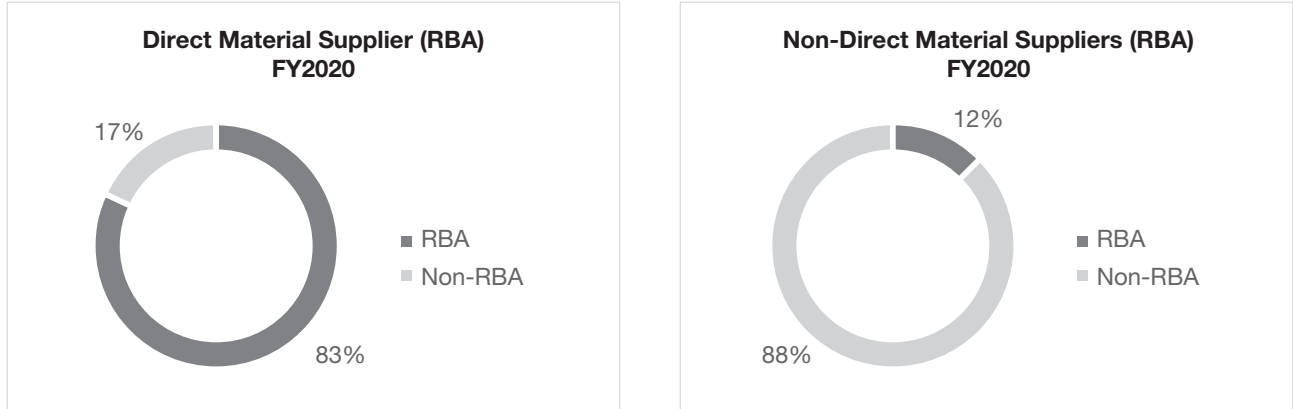
Management Initiatives

- Validate our suppliers’ adoption of RBA principles by requiring them to respond and declare in our questionnaire concerning RBA subject matter and their related practice. Compliance is required for suppliers who intend to be on Micro-Mechanics’ preferred supplier list
- Suppliers are updated about their compliance and action where needed
- Periodic audit is performed to review supplier’s continuous practice of RBA principles
- Assess impact of COVID-19 on suppliers and our supply chain and operations

SUSTAINABILITY REPORT

Year ended 30 June 2020

Below is an update of our supplier adoption of RBA practices during FY2020.



Policies and Guides	Performance Indicator	Achievement in FY2020
Responsible Business Alliance (RBA) practices	Declaration of RBA principle compliance from 80% of direct material suppliers	83% of Direct Material Supplier declared compliance with RBA principle.

In FY2019, we have initiated RBA with our Direct Material Suppliers. We have just started to do the same with non-Direct Material Suppliers this FY2020. Due to COVID-19 outbreak and limited workforce for suppliers as well as office staff, follow-up for adoption have been affected. We look forward to improved adoption rates by suppliers hopefully by next financial year.

GOVERNANCE

Compliance with laws and regulations

Micro-Mechanics recognizes that our reputation and the trust of our employees, customers and suppliers are critical to our organisation’s success. Any non-compliance with country laws and regulations or corruption incidents linked to our Company will damage our reputation and the trust we have built with stakeholders. The Board and the Company have zero tolerance towards corruption and non-compliance of laws and regulations.

Management Initiatives

During FY2020,

- Communicate compliance policies and procedures about anti-bribery, gifts and hospitality, conflict of interest, code of conduct, insider trading amongst others to all employees and directors
- Notified business partners and associates of our Supplier Code of Conduct and invited them to declare their Company practices in relation to legal compliance and anti-corruption

SUSTAINABILITY REPORT

Year ended 30 June 2020

- Made known to business partners and suppliers that Micro-Mechanics will only conduct business with companies that maintain good records of legal compliance and corruption-free practices
- Updated employee mandatory declaration of legal compliance and non-corruption behaviour or face termination of employment
- Planned audit exercise for Company procedures and practices in accordance to ABMS (Anti-Bribery Management System) guidelines

Policies and Guides	Performance Indicator	Achievement in FY2020
Micro-Mechanics Company Handbook	Zero incidents of corruption and non-compliance of rules and regulations	Zero incident reported

We are pleased to announce that there was zero incident of corruption and breach of laws and regulations reported for FY 2020. Moving forward, we aim to maintain zero incident report. In addition, we will be looking into conducting more trainings for our employees and continue to monitor compliance with our policies as well as applicable laws and regulations.

SUSTAINABILITY REPORT

Year ended 30 June 2020

GRI CONTENT INDEX

GRI Standards		Notes/Page number(s)
General Disclosures		
Organisational Profile		
102-1	Name of the organisation	Micro-Mechanics (Holdings) Ltd
102-2	Activities, brands, products, and services	Corporate Profile, inside cover
102-3	Location of headquarters	Corporate Profile, inside cover
102-4	Location of operations	Corporate Profile, inside cover Notes to the Financial Statements, pages 109-110
102-5	Ownership and legal form	Corporate Profile, inside cover Notes to the Financial Statements, page 90
102-6	Markets served	Corporate Profile, inside cover
102-7	Scale of the organisation	Corporate Profile, inside cover Executive Management Report, page 2-4 Financial Highlights, pages 6-7 Diversity and Equal Opportunity, pages 22-24
102-8	Information on employees and other workers	Diversity and Equal Opportunity, pages 22-24
		Micro-Mechanics (Holdings) Ltd does not have significant portion of its activities being carried out by workers who are not employees.
102-9	Supply chain	Our supply chain, pages 28-30
102-10	Significant changes to organisation and its supply chain	No significant changes during FY2020.
102-11	Precautionary principle or approach	Micro-Mechanics (Holdings) Ltd does not specifically address the principles of the precautionary approach.
102-12	External initiatives	Our Awards and Accolades, page 5 Occupational, Health and Safety, pages 19-22 Our supply chain, pages 28-30 Diversity and Equal Opportunity, pages 22-24
102-13	Membership of associations	Singapore Business Federation Singapore Precision Engineering and Technology Association
Strategy		
102-14	Statement from senior decision-maker	Board Statement, pages 12-13
Ethics and Integrity		
102-16	Values, principles, standards, and norms of behaviour	Board Statement, pages 12-13 Corporate Governance Report, pages 35-61 Compliance with Laws and Regulations, including Anti-corruption, pages 30-31
Governance		
102-18	Governance structure	Sustainability governance, page 14

SUSTAINABILITY REPORT

Year ended 30 June 2020

GRI CONTENT INDEX

GRI Standards		Notes/Page number(s)
Stakeholder Engagement		
102-40	List of stakeholder groups	Stakeholder Engagement, pages 16-17
102-41	Collective bargaining agreements	There are no collective bargaining agreements in place at Micro-Mechanics (Holdings) Ltd.
102-42	Identifying and selecting stakeholders	Stakeholder Engagement, pages 16-17
102-43	Approach to stakeholder engagement	Stakeholder Engagement, pages 16-17
102-44	Key topics and concerns raised	Stakeholder Engagement, pages 16-17
Reporting Practice		
102-45	Entities included in the consolidated financial statements	Notes to the Financial Statements, page 90
102-46	Defining report content and topic Boundaries	About this Report, page 12. Materiality, pages 14-16 All ESG factors are relevant within our organisation
102-47	List of material topics	Materiality, pages 14-16
102-48	Restatements of information	This is the third Sustainability Report published by Micro-Mechanics (Holdings) Ltd.
102-49	Changes in reporting	For FY2020, included Local Community pages 27-28
102-50	Reporting period	About This Report, page 12
102-51	Date of most recent report	About This Report, page 12
102-52	Reporting cycle	About this Report, page 12
102-53	Contact point for questions regarding the report	About this Report, page 12
102-54	Claims of reporting in accordance with GRI Standards	About this Report, page 12
102-55	GRI content index	GRI Index, pages 32-34
102-56	External assurance	Micro-Mechanics (Holdings) Ltd has not sought external assurance for this reporting period and may consider it for future periods.
Management Approach		
103-1	Explanation of the material topic and its boundary	Sustainability Governance, page 14
103-2	The management approach and its components	Materiality, pages 14-16
103-3	Evaluation of the management approach	Materiality and management initiatives are discussed within the section for each material factor, pages 17-31

SUSTAINABILITY REPORT

Year ended 30 June 2020

GRI Standards		Notes/Page number(s)
Material Topics		
Economic Performance		
201-1	Direct economic value generated and distributed	Financial Highlights, pages 6-7
Anti-corruption		
205-3	Confirmed incidents of corruption and actions taken	Governance, pages 30-31
Energy		
302-1	Energy consumption within the organisation	Energy, pages 25-26
302-3	Energy intensity	Energy, pages 25-26 Energy disclosed in this report refers to purchase electricity only
Occupational Health and Safety		
403-2	Types of injury and rates of injury, occupational diseases, lose days, and absenteeism, and number of work-related fatalities	Occupational Health and Safety, pages 19-22
Training and Education		
404-1	Average hours of training per year per employee	Training and Education, pages 17-19
404-2	Programs for upgrading employee skills and transition assistance programs	Training and Education, pages 17-19
Supplier Social Assessment		
414-1	New suppliers that were screened using social criteria	Our Supply Chain, pages 28-30
Diversity and Equal Opportunity		
405-1	Diversity of employees and governance bodies	Diversity and equal opportunity, pages 22-24
Local Communities		
413-1	Operations with local community engagement, impact assessments, and development programs	Local community engagement, pages 27-28
Socioeconomic Compliance		
419-1	Non-compliance with laws and regulations in the social and economic area	Governance, pages 30-31

CORPORATE GOVERNANCE

The Board of Directors and management of Micro-Mechanics (Holdings) Ltd. (the “**Company**”) are committed to a high standard of corporate governance and transparency, and to the protection of shareholders’ interests. The Company’s corporate governance policies and processes are in line with the revised Code of Corporate Governance (the “**Code**”) and accompanying Practice Guidance released by the Council on Corporate Disclosure and Governance in August 2018. Explanations will be provided for non-compliance.

This report describes the Company’s corporate governance policies and processes for the financial year ended 30 June 2020 (“**FY2020**”) with specific reference to specific guidelines in the Code.

HIGHLIGHTS

1. In the Singapore Governance and Transparency Index (SGTI) 2020 – General Category released on 4 August 2020, Micro-Mechanics ranked 13th (compared to 17th in the previous year) out of 577 companies listed on the Singapore Exchange. Our SGTI score improved to 110 in 2020 from 101 in 2019
2. In June 2020, our Singapore plant operations was successfully re-confirmed as conforming to the Anti-Bribery Management System standard ISO37001:2016
3. In May 2020, our Singapore plant operations successfully renewed its certification of Business Continuity Management System standard ISO22301:2012
4. In June 2020, we completed our first Director Peer Evaluation
5. In February 2020, our Board decided to continue announcing our quarterly financial results via announcement on the SGXnet

BOARD MATTERS

The Board’s Conduct on Affairs

Principle 1: *The company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.*

Provision 1.1

As fiduciaries, all the Directors objectively in the discharge their duties and responsibilities, and at all times in the best interests of the company.

The Board believes that its primary role is to protect and enhance long-term shareholder value. To this end, it sets the overall strategy for the Company and its subsidiaries (collectively, the “Group”) and oversees management. To fulfill these objectives, the Board takes full responsibility for implementing and maintaining sound ethics and corporate governance practices for the Group. The Board provides leadership, sets the strategic directions of the Company, establishes a framework of prudent and effective controls, risk policies and procedures, and requires goals from management as well as monitors the achievement of those goals.

Directors abstain from discussion and decision making on any matter relating to them whether at Board or Committee level in order to avoid any conflict of interests. For example, an executive Director does not participate in the process of approving Directors’ remuneration, the Remuneration Committee comprising only non-executive Directors, having made a recommendation. A retiring Director does not participate in the assessment, recommendation by the Nominating Committee and any decision to propose that Director for re-election. Directors who are involved will abstain from decision making and voting. Any related party transaction is fully disclosed and considered for approval by the Board and the concerned Director is not permitted to participate in the discussion and abstains from the approval process.

CORPORATE GOVERNANCE

Provision 1.2

The Board recognizes the importance of appropriate training and continuing education for its Directors. Newly appointed Directors are fully briefed as to the business activities of the Group and its strategic directions and are informed of their statutory duties and responsibilities as a Director. A Director who does not have any prior experience as a Director of an entity listed on the Exchange is required to undergo training in the roles and responsibilities of a Director of a listed entity as prescribed by the Exchange.

The Directors are also updated in a timely manner on regulatory changes, in particular those which have a bearing on the Company and the Directors' obligations towards the Company by the Chief Financial Officer who is also the Company Secretary.

All Directors are required to have at least 8 hours of training and development every year which is fully paid by the Company. In FY2020, all Directors confirmed that they had achieved this requirement.

Provision 1.3

The Board regularly reviews all matters within its purview including but not limited to its business strategies, development plans and the performance of the Group. Reviews are also made of the annual budget, announcements of financial results, annual reports, performance bonus incentives and any acquisition or disposal of material assets. There are comprehensive internal guidelines on matters that require the Board's approval, such as Directors dealing in Company's shares, changes in the Company's constitution and structure, material capital commitments, commencing and defending litigation etc. These guidelines are reviewed and approved by the Board annually.

Provision 1.4

To assist in the execution of its responsibilities, the Board has to date established four committees, namely an Audit Committee, a Nominating Committee, a Remuneration Committee and a Risk Management Committee. These committees are chaired by independent and non-executive Directors and function within clearly defined terms of reference and operating procedures. The Board and the Committees meet regularly and, if necessary, on an ad hoc basis.

Provision 1.5

Attendances and number of meetings

To facilitate the ease, frequency and speed of Board/Committee meetings, the Company's Constitution allows Board/Committee members to attend meetings via any electronic or telegraphic methods of simultaneous communication including via teleconference.

CORPORATE GOVERNANCE

The following table shows the number of meetings held and Directors' attendances during the financial year under review. All Directors achieved full attendance.

	Board	Audit Committee	Remuneration Committee	Nominating Committee	Risk Mgt committee	AGM
Number of meetings held	4	5	2	3	3	1
Directors:	Number of Meetings Attended					
Christopher Reid Borch	4	1*	NA	NA	NA	1
Low Ming Wah	4	1*	NA	NA	3	1
Chow Kam Wing	4	5**	2**	3**	3	1
Sumitri Mirnalini Menon						
@ Rabia	4	5	2	3	3	1
Girija Pande#	2	2	1	2	2	1
Lai Chin Yee	4	5	2	3	3	1
Kenny Kwan Yew Kwong	4	5	2	3	3	1

NA – not applicable as the Director was not a member of the Committee

* – attendance by invitation of the Committee

** – attendance as Secretary of the Committee

– Mr Girija Pande ceased to be a member of the Board/Committees upon his retirement at the AGM held on 30 October 2019

Provision 1.6

The management provides financial, marketing, human resource and asset management reports and financial highlights to the Board on a monthly basis. In addition, the Board receives the quarterly financial reports accompanied with budget variance analysis and approves the SGXnet announcement of the Company's quarterly and full-year results.

Every quarter, there are Board meetings and Committee meetings where management updates the independent Directors on the Company's business and financial environment, and for the review and approve transactions according to the Internal Guideline and Listing Rules. The Risk Management Committee also holds regular meeting on matters relating to the various aspects of risk governance.

The Board and the Committees are furnished with complete, adequate and reliable Board/Committee papers and information in a timely manner prior to any meeting to facilitate Directors in the proper and effective discharge of their duties. Detailed Board papers are prepared for each Board meeting which are typically circulated one week in advance. The Board papers include sufficient information from the management on the financial, business and corporate issues to enable the Directors to properly consider these matters at the Board meetings. Based on findings from the Board evaluation, the Board members are satisfied with the arrangements and support from the company secretary.

Provision 1.7

The Directors have separate, unfettered and direct access to the management team, the company secretary, the internal auditor and the external auditors at all times. The independent Directors are encouraged to visit the Group's local and overseas subsidiaries and to meet with the management teams there.

The company secretary attends and minutes all Board/Committee meetings. He assists with proper procedures and compliance with the Companies Act, the Company's Constitution and other applicable rules and regulations. The Directors have full access to the company secretary with regard to any corporate issues.

The appointment or the removal of the company secretary is subject to the approval of the Board.

CORPORATE GOVERNANCE

Board Composition and Guidance

Principle 2: *The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.*

Provision 2.1

To ensure an independent Board, at least half the Board comprises independent and non-executive members and the Chairman of the Board and all Committees are chaired by independent and non-executive Directors. At present, all the Board members are not related to one another.

Provision 2.2

Independent and non-executive Directors make up half of the Board. The Chairman is non-executive and independent.

Provision 2.3

Non-executive Directors make up half of the Board. The Chairman of the Board and all Board Committees are independent non-executive Directors. The Company's Constitution provides for the Chairman to have a second or casting vote in case of any deadlock.

Despite the independent non-executive Directors do not make up the majority of the Board, they are able to constructively challenge the management's proposed strategies, fully discussed and thoroughly examined if their performance is in line with long-term interests of the Group and its stakeholders. In addition, the independent non-executive Directors have regular opportunities to meet with each other and with the internal and external auditors without the presence of executive Directors to discuss matters of concerns, if any.

The above arrangements ensure that the Board and Committees are able to discharge their responsibilities objectively in the best interests of the Company.

Provision 2.4

The Board has since listing valued and had a diversity of members. Diversity is comprised in members having different or varying competencies, core expertise, backgrounds, races, gender and nationalities etc. This allows for different perspectives and insights, robust discussion and avoids "groupthink" and consequently better decision making.

The Board currently comprises three independent and non-executive Directors and three executive Directors. The independent Directors are two senior practising lawyers with different core expertise and a finance Director of a listed company. The Board, the Audit Committee and the Risk Management Committee are chaired by two female Directors. The Board has achieved the diversity it has sought as mentioned in the foregoing and is satisfied with its current composition and size in the context of the Group's current size and business.

For relevant particulars of our members, please refer to pages 8 and 9.

The Board's Diversity Policy was formalized and approved by the Board on 28 August 2019:

Range of Board Diversity

The Company gives consideration to a range of diverse characteristics, including but not limited to independence, gender, nationality and ethnicity, skills and experience and age. The Company also bears in mind the need for an optimal Board size, given its current stage of growth, for effective and nimble decision making and responses and the discharge of Board responsibilities, as well as taking into account its own unique requirements within its industry and domain, and its strategic imperatives. The Board shall assess all relevant factors on an on-going basis.

CORPORATE GOVERNANCE

Independence

The Board shall comprise a balanced composition of executive and independent Directors with a small non-executive non-independent element if appropriate. This will allow the Board to benefit from a strong element of independence as well as deep industry and domain knowledge from the executive component.

Gender

The Board shall comprise persons of different gender. The Company is committed to equality and equal opportunity and its selection process and appointments at all levels of the organisation, including the Board, is unbiased in all respects including gender.

Nationality and ethnicity

The Board shall comprise persons of different nationalities and ethnic backgrounds who can contribute their knowledge and understanding of and insights into the different environments in which the Company operates its business.

Skills and Experience

The Board's selection process shall take into account its requirement for a diversity of skill sets as may be appropriate for its business needs and responsibilities. The Board should be able to call upon members having a mix of finance, legal and management backgrounds as well as technical skill and know-how that taken together will provide the Company with considerable experience for a range of activities and business needs.

Age

A Board shall, as far as may be practicable, comprise Directors from different generations allowing for the wisdom of experience as well as the agility and ability to navigate a rapidly changing world and considerable disruption.

Provision 2.5

Every year, non-executive Directors led by our Chairman meet with our external and internal auditors without the presence of the management. With effect from FY2021, the Chairman arranged for all non-executive Directors to meet formally every quarter in tandem and prior to Board meetings in the absence of management and the company secretary and without formal minuting. The Chairman is then to apprise the Board of any concerns raised and/or constructive suggestions made as part of the Board's formal agenda.

Separation of the roles of Chairman and Chief Executive Officer

Principle 3: *There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.*

Provision 3.1

Ms Sumitri Mirnalini Menon @ Rabia is the non-executive Chairman of the Board of Directors and Mr. Christopher Borch is the Chief Executive Officer (CEO) of the Group. The Chairman, the Chief Executive Officer (CEO) and the executive Directors are not related to one another.

Provision 3.2

The major responsibilities of the non-executive Chairman are:

- to ensure that Board meetings are held regularly and when necessary and run effectively to enable the Board to properly and fully discharge its duties and facilitate the Company's operations;
- to set Board meeting agendas in consultation with the company secretary and the Directors;

CORPORATE GOVERNANCE

- to review all Board papers;
- to make arrangements for the provision of adequate, timely and relevant materials and Board papers to the Board members to help to ensure the quality, sufficiency and timeliness of the flow of information between management and the Board;
- to ensure the Company practices effective, timely and transparent communications with shareholders;
- to assist in ensuring compliance with the Company's guidelines on corporate governance;
- to oversee the composition of the Board in terms of number, competence and diversity.

As Chief Executive Officer, Mr. Borch has overall responsibility for the management and day to day operations of the Group. He is supported by the executive Directors and executive officers. The separation of the Chairman and Chief Executive Officer roles enables Mr. Borch to focus on his executive duties including developing and implementing the Group's strategic plans and operations and allows for greater accountability from him.

Provision 3.3

The Chairman is a non-executive and independent Director. Therefore no lead independent Director has been appointed.

Board Membership

Principle 4: *The Board has a formal and transparent process for the appointment and re-appointment of Directors, taking into account the need for progressive renewal of the Board*

Provision 4.1(a)

The Board reviews succession plans for Directors and key management every year and this must necessarily be an on-going work in progress. A key element of the Board's succession planning includes a system and framework in place to ensure there are trained and so far as is possible, identified potential successors as well as a support team in place so that there shall be little or no disruption should any executive Director or senior manager cease for any reason allowing for a smooth transition to a current employee or fresh replacement. Thus, all Directors and senior management personnel are always supported by deputies and a trained support team. Since listing the Group has experienced and successfully managed several such smooth transitions following the departures of facility heads without any interruption to the Group's operations. The Board is confident it can similarly manage a smooth transition in the event any of our executive Directors cease.

Another key element is that effective from FY2019, the Company shall be able to engage the current CEO, COO and CFO who are also executive Directors and these employees have formally agreed to serve in the capacity of a mentor for one year following cessation of his executive role. This will allow the Company and his successor continued access to such Director's considerable organizational knowledge and experience.

Provision 4.1(b)

The structure, size and composition of the Board are reviewed periodically by the NC to ensure their adequacy. In addition, the NC evaluates the Board's effectiveness as a whole and the contribution of each Director to the Board and Committees and reports to the Board. The Board has adopted a system for such evaluation. For more details, please refer to Provision 5.1 and 5.2 of this statement.

CORPORATE GOVERNANCE

Provision 4.1(c)

With effect from 1 July 2010, all Directors are encouraged to attend at least 8 hours of relevant training and development each financial year by way of continuing education to better discharge their duties as Directors, the cost of which the Company will bear. Directors may and are encouraged to attend the regular in-house training programs offered by the Group to its employees so that they can more fully understand the Group's business and day-to-day operations and engage with employees at all levels in a familiar setting. In addition, independent Directors may and are encouraged to visit one or more of the Group's facilities in and outside Singapore at their convenience and when they do so a formal program is arranged including briefings, a tour of the facility and informal meetings with managers and heads of such facilities.

During FY2020, all Directors met the continuing education target.

Provision 4.1(d)

The Company's Constitution requires one-third of our Directors to retire and subject themselves to re-election by shareholders at every AGM. At the forthcoming AGM, Mr Christopher Borch and Miss Lai Chin Yee will retire by rotation. Mr Borch and Miss Lai have indicated that they are willing to stand for re-election. After taking into account their contribution and performance, the NC has recommended to the Board that Mr Borch and Miss Lai be nominated for re-appointment at the forthcoming AGM.

A member of the NC is required to and does abstain from discussions and voting on any matter in which he or she is interested.

Provision 4.2

The Nominating Committee ("NC") has three members, all of whom are independent and non-executive Directors. The members are:

Chairman : Sumitri Mirnalini Menon @ Rabia
 Member : Lai Chin Yee
 Member : Kenny Kwan Yew Kwong

The NC makes recommendations to the Board on all Board appointments and re-appointments. The NC aids the Board in obtaining an appropriate mix of relevant knowledge and experience among Board appointees.

The NC's written terms of reference, which describe its major responsibilities, are:

- to make recommendations to the Board on the re-nomination of retiring Directors standing for re-election at the Company's Annual General Meeting ("**AGM**"), having regard to the Directors' contribution and performance;
- to determine annually whether an independent Director is independent;
- to determine whether a Director is able to and has been adequately carrying out his/her duties as a Director of the Company;
- to ensure that disclosure of key information relating to Directors is in the annual reports as required by the Code;
- to decide how the Board's performance may periodically be evaluated against objective criteria;
- to review the Board's succession plan, in particular, the roles of Chairman and CEO; and
- to develop a process for the evaluation of the Board's performance as a whole, of its Committees and if and when appropriate, its individual members.

CORPORATE GOVERNANCE

Provision 4.3

The NC's process for identifying and selecting candidates for the Board (whether in the event of a vacancy or to add to the Board) has been and is as follows:

The Board sets selection criteria based on the desired complementary skill set i.e. managerial, technical, financial, legal etc. expertise and experience in a similar or related industry. The NC shall have recourse to both internal sources as well as external sources to draw up a list of potential candidates. Internal sources include the Company's own Directors and management. Interviews shall be conducted by the NC and short-listed candidates are recommended to the Board for consideration.

For example, during FY2019, the Nominating Committee (NC) identified potential candidates fitting the criteria set by the Board by making inquiries with the Singapore Institute of Directors, Singapore Precision Engineering Technology Association and its own Directors. A number of potential candidates consequently came into view. Having shortlisted potential candidates, the NC then conducted interviews and made recommendations to the Board. After a second round of interviews and based on suitability of experience, background, qualifications and other attributes deemed desirable, the Board issued an invitation to Mr. Kwan Yew Kwong Kenny who accepted the same.

Regarding re-electing incumbent Directors, the Board will comply with the Company's Constitution requiring one-third of our Directors to retire and subject themselves to re-election by shareholders at every AGM. After taking into account their contribution and performance, the NC will recommend the Board re-nominate the retired Directors for re-appointment at the forthcoming AGM.

A member of the NC is required to and does abstain from discussions and voting on any matter in which he or she is interested.

Provision 4.4

Ms Sumitri Mirnalini Menon@Rabia, Miss Lai Chin Yee and Mr Kenny Kwan Yew Kwong have satisfied the criteria stipulated in the below policy and the Board is of the view they are independent and non-executive Directors. For key information relating to the Directors, please refer to the particulars of the Directors as set out on pages 8 and 9. The dates of first appointment and last re-appointment of each Director are provided in the Corporate Information section on page 11.

All of our independent and non-executive Directors are deemed to be independent according to the Code and the policy mentioned below and they have no relationship with the CEO, substantial shareholders and other Directors of the Company or at its subsidiary level.

Policy on the independence of independent Directors

The Company is committed to having a strong independent element on the Board and has adopted a policy and established a process to obtain and maintain the requisite degree of independent representation for good and sound governance. As prescribed by the policy, the process:

- Establishes the methodology the Board shall use to assess the independence of each independent Director bearing in mind the definition of independence in the Code;
- Identifies the information that shall be collected from each independent Director to make the assessment of independence; and

CORPORATE GOVERNANCE

- Fixes the elements of disclosure to shareholders with regard to the assessment to be made, including the disclosure of any relationships and associations that may be perceived to affect the independence or objectivity of an independent Director.

The process requires the NC to make a formal assessment and report to the Board their findings as to whether the independent Directors are independent of management and independent in character and judgment and whether there are any business or other relationships that could materially affect or interfere with the exercise of objective, unfettered or independent judgment by the independent Directors or the independent Directors' ability to fulfill their mandate and duties. The Board's rigorous review of the process is an important element in this process as the NC itself comprises only independent Directors. The key features of the process are briefly set out below.

On an annual basis, the NC shall require each independent Director to complete, confirm and sign a Declaration of Independence, the content and form of which has been approved. Each declaration shall be reviewed by the other members of the NC. This forms the basis of the assessment. All relevant facts and circumstances shall be considered in making the assessment. Generally (but without limiting the scope of the factors which may be taken into account), in accordance with best practices, independence is, prima facie, established if the criteria set out below are met.

An independent Director should have no relationship (whether familial, business, financial, employment or otherwise) with the company, its related corporations, substantial shareholders or officers, which could interfere or be perceived to interfere with the Director's independent judgment.

A Director is independent if he or she:

- (a) is not employed by the Company or any of its related corporations for the current or any of the past three financial years;
- (b) does not have close family ties to an executive Director of the Company or any of its related corporations;
- (c) does not have an immediate family member who is, or has been in any of the past three financial years, employed by the Company or any of its related corporations as a senior executive officer whose remuneration is determined by the RC;
- (d) does not accept any compensation from the Company or any of its subsidiaries other than compensation for Board service for the current or immediate past financial year;
- (e) does not have an immediate family member who is accepting any compensation from the Company or any of its subsidiaries other than compensation for Board service for the current or immediate past financial year;
- (f) is not a substantial shareholder of or a partner in (with 5% or more stake), or an executive officer of, or a Director of any for-profit business organization to which the Company or any of its subsidiaries made, or from which the Company or any of its subsidiaries received, significant payments (in excess of an aggregate of S\$100,000 per annum) in the current or immediate past financial year;
- (g) does not have an immediate family member who is a substantial shareholder of or a partner in (with 5% or more stake), or an executive officer of, or a Director of any for-profit business organization to which the Company or any of its subsidiaries made, or from which the Company or any of its subsidiaries received, significant payments (in excess of an aggregate of S\$100,000 per annum) in the current or immediate past financial year;

CORPORATE GOVERNANCE

- (h) has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the independent Director's ability to act in the best interests of the Company;
- (i) does not have a relationship which would interfere, or be reasonably perceived to interfere with, the exercise of independent judgment in carrying out the functions of an independent Director of the Company; and
- (j) does not receive a significant holding of shares in the company by way of gift or financial assistance from the company or its major shareholders for the purchase of shares.

Independent Directors are obliged to update the Board with any new information in relation to interests or relationships relevant to independence. The Board shall re-assess independence as and when any new interests or relationships are disclosed or come to light, as well as annually.

Following this process, the NC shall report to the Board, drawing to its attention in particular any failure to meet any of the above criteria and to any other relevant circumstances and the NC shall make recommendations. However, it is the Board's duty and prerogative to determine the sufficiency or otherwise of independence and to determine its composition. In accordance with best practices and the Code, the Board shall provide a justification if an appointee fails to meet any of the criteria above but the Board still considers the appointee an independent Director.

The Board shall make the following disclosure to shareholders in the Company's annual report with regard to the matter of independent Directors:

- The status of each of its members, that is whether each is an independent or non-independent Director (and any change in status that occurred during the year) and their period of office.
- The justification for designating any member an independent Director who fails to meet all of the criteria stated above or whose status requires an explanation for any reason.
- The policy and criteria mentioned above.

Independent and non-independent Directors standing for re-election will be so identified in the Notice of Annual General Meeting. If the Board's assessment of a Director's independence changes, that change will be disclosed immediately through an announcement on the Singapore Exchange website and the Company's website.

Director who has served over 9 years

The Board notes that Ms Sumitri Mirnalini Menon @ Rabia shall be serving as independent Director for the seventeenth year. After careful deliberation, the Board (excluding Ms Sumitri Mirnalini Menon @ Rabia) is of the view that her length of service has not compromised her objectivity and her commitment and ability to discharge her duty as an independent Director.

Ms Sumitri Mirnalini Menon @ Rabia has fulfilled all the criteria of being an independent Director. The Board also judged her independent in character and judgment and noted factors demonstrating continued independence such as expressions of frank, divergent and independent views at meetings, the complete absence of any other circumstances that might compromise independence and the absence of any evidence of a lack thereof. The Board is confident that Ms Sumitri Mirnalini Menon @ Rabia has the ability to continue exercising strong independent judgment in the discharge of her duties and have requested that she continue for the ensuing year. Ms Sumitri Mirnalini Menon @ Rabia has acceded to the Board's request.

CORPORATE GOVERNANCE

Under the chairmanship of Ms Sumitri Mirnalini Menon@Rabia, the company has received public recognition on numerous occasions from the Singapore Corporate Awards, Securities Investors Association (Singapore) and Asia Money for its good corporate governance practices since its IPO. The Company received the Best Managed Board Gold Award in 2012 and 2017. In the latest Singapore Governance and Transparency Index (SGTI) 2020 released on 4 August 2020, Micro-Mechanics ranked 13th (17th in 2019) out of the 577 companies listed under the general category on the Singapore Exchange. Our current SGTI score of 110 is commendable (101 in 2019).

In accordance with the amendments to the SGX Listing Rules which will come into effect from 1 January 2022, the re-appointment of Directors who have served more than nine years from the date of their first appointment shall be subject to a two-tier voting process for approval by shareholders. Ms Sumitri Mirnalini Menon@Rabia shall be retiring by rotation from the Board in FY2021 and her re-appointment shall be subject to such approval.

Provision 4.5

On 1 May 2010, the Board resolved to limit each Director to holding not more than FOUR Directorships in listed companies including the Company. At the end of the financial year, each Director confirmed compliance with this restriction.

All Directors are required to formally declare their other Board representations. The NC reviewed and was satisfied that the Directors' other board appointments did not give rise to any conflicting relationship or interests vis a vis the Company. It is also part of the NC's duties to review and ascertain whether any Director who has multiple Board representations is able to and has been effectively carrying out his duties as a Director in accordance with its internal guidelines and to ensure the guidelines remain relevant.

During FY2020, all Directors achieved full attendance in AGM, Board and all Committee meetings. (For details, please refer to Provision 1.5 of this statement).

Directorships

The following lists the present and past Directorships of our Directors in listed companies other than Directorships held in our Company.

Name	Present Directorships	Past Directorships (preceding 3 years)
Christopher Borch	NIL	NIL
Low Ming Wah	NIL	NIL
Chow Kam Wing	NIL	NIL
Sumitri Mirnalini Menon @ Rabia	NIL	NIL
Lai Chin Yee	Qian Hu Corporation Limited Singapore Paincare Holdings Limited	Ryobi Kiso Holdings Ltd
Kenny Kwan Yew Kwong	Keppel DC REIT Management Ltd	NIL

CORPORATE GOVERNANCE

Board Performance

Principle 5: *The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its Board Committees and individual Directors.*

Provision 5.1 and 5.2

Board Evaluation

The NC is charged with carrying out an annual Board appraisal. As part of the process, each Board member (executive and non-executive) is required to complete an evaluation form within a stipulated period. The completed form is returned by each member to the Chairman of the NC who compiles a consolidated report after discussion with the NC members.

The NC's report and any recommendations are then tabled for discussion by the whole Board. The Board takes this evaluation process seriously. The evaluation form and process have been designed to obtain constructive feedback and initiate dialogue among Board members with a view to enhancing shareholder value, the effectiveness of the Board as a whole and the discharge of each Member's duties. The evaluation tracks and reviews quantitative as well as qualitative indicators to measure the Board's performance. Objective quantitative indicators include standard ones such as the performance of the Company's share price measured against the STI and its peers, dividend rates and capital efficiency indicators such as ROI etc. Qualitative governance indicators regarded cover the composition of the Board, its independence, processes, functioning, advisory and oversight functions, risk and crisis management protocols, compliance record and protocols, the discharge of its duties towards shareholders and the sufficiency and effectiveness of its committees. The contribution of each Director to the effectiveness of the Board is tracked via their attendance at Board and Committee meetings.

Peer Evaluation/Board Chairman Evaluation

In addition during FY2020, the Board initiated and carried out the first of a yearly Director Peer Performance Evaluation of each Director. The process was structured to allow for frank appraisal. Each Board member evaluated the performance of his/her peers and submitted the duly completed evaluations to the Board Chairman only. Directors also evaluated the performance of the Board Chairman and submitted the completed evaluations to the CEO only. The Board Chairman then privately apprised and where appropriate discussed the evaluations received with the relevant Director, keeping the identity of each appraiser confidential. The CEO did likewise with the evaluations made of the Board Chairman's performance.

Performance indicators were designed to evaluate such factors as the degree of a Director's involvement and engagement, demonstrations of leadership, understanding of the business, strategy and risk management and communication skills through interactions within the Board and individually with peers, senior management, internal and external auditors, willingness and ability to make constructive contributions to Board discussions, and overall relevant knowledge. Stipulated indicators were ranked and additional comment and feedback solicited and encouraged.

Committee Chairmen report to the Board regularly. All Committee minutes are distributed to the Board for review. The mandates for all Committees are stipulated in clear terms of reference which terms are reviewed and approved by the Board every year. The Board has not initiated a separate evaluation process for each Committee but general satisfaction with Committees is evaluated in the course of the Board evaluation exercise and the Board is satisfied with the functioning and performance of its four Committees. The Board shall consider a separate Committee evaluation process in FY2021 where appropriate.

CORPORATE GOVERNANCE

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 6: *The Board has a formal and transparent procedure for developing policies on Director and executive remuneration, and for fixing the remuneration packages of individual Directors and key management personnel. No Director is involved in deciding his or her own remuneration.*

Provision 6.1(a) and (b)

The RC's written terms of reference which describe its major responsibilities, are:

- to make recommendations to the Board on the framework for remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits in kind for the Board and key executives and to determine specific remuneration packages for each executive Director and key management personnel;
- to review all benefits and long-term incentive schemes (including share schemes), whether Directors and key management personnel should be eligible for benefits under long-term incentive schemes and compensation/remuneration packages for the Board and key executives;
- to review annually the remuneration package of Directors and key management personnel;
- to review specific remuneration packages (the performance bonus incentive) for Directors and key management personnel;
- to review service contracts of the executive Directors;
- to review remuneration packages of employees who are related to any Director or substantial shareholders.

Provision 6.2

The Remuneration Committee ("RC") has three members, all of whom are independent and non-executive Directors.

The members are:

Chairman	:	Kenny Kwan Yew Kwong
Member	:	Sumitri Mirnalini Menon @ Rabia
Member	:	Lai Chin Yee

Provision 6.3

Service contracts with the CEO, COO and CFO, all of whom are executive Directors, are renewable every two years with a notice period of three months in each of their respective service contracts. There are no onerous clauses or 'golden handshake' provisions in connection with termination. There are no termination, retirement and post-employment benefits that are granted to the executive Directors, the CEO and the key management personnel. These service contracts are subject to the review and approval of the Remuneration Committee. An over-riding principle of our remuneration policy is that no Director is involved in deciding his own remuneration.

Provision 6.4

The company did not appoint any remuneration consultant during the financial year.

CORPORATE GOVERNANCE

Level and Mix of Remuneration

Principle 7: *The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company*

Provision 7.1

The Company adopts a remuneration structure for employees including executive Directors, which is made up of fixed and variable components. The fixed component is the basic salary and the variable components are the Performance Bonus Incentive (“PBI”) scheme, special bonus and the schemes mentioned below being the Sales Incentive scheme and the Performance Shares Plan.

The PBI for all Company employees (including key management personnel), is linked to the performance of the relevant subsidiary and its achievement of established targets approved by the Remuneration Committee such as profitability, sales turnover, assets management, human resource management, quality, customer services and delivery time etc. The PBI for executive Directors is linked to the performance of the Group and the achievement of established targets that are the same as that for other employees. The Company also has a Sales Incentive scheme for its sales and marketing teams structured on pre-defined targets. Executive Directors and key management personnel are not entitled to the Sales Incentive.

To ensure a sensible bonus structure in line with performance and remuneration objectives there is a cap and control on the total amount of bonuses to employees and executive Directors. Employees of profitable subsidiaries are entitled to PBI but the aggregate amount should not be more than 10% of that subsidiary’s profit pre-tax and pre-bonus. Executive Directors are entitled to PBI and the aggregated executive bonus should not be more than 10% of the Group profit pre-tax and pre-bonus.

Provision 7.2

The independent and non-executive Directors receive Directors’ fees in line with the market taking into consideration the size of the company and the level of contribution, time spent, effort and responsibilities of each independent and non-executive Director. The formula for calculation of fees for independent and non-executive Directors is as follows:

- the base Director’s fee + 15% for each Committee Chairperson;
- the base Director’s fee + 30% for Audit Committee Chairperson;
- the base Director’s fee + 50% for Board Chairperson.

During FY2020, all independent and non-executive Directors attended all Board and Committee meetings.

The base Director’s fee was revised in FY2019 after benchmarking with listed peer companies of similar market capitalization i.e. in the range of S\$250 million. Prior to FY2019, the base Director’s fee had not been revised since the Company’s IPO in 2003.

The Director’s fees are subject to shareholders’ approval at the Annual General Meeting.

CORPORATE GOVERNANCE

Provision 7.3

The Group conducts an annual salary review for all employees, including key management personnel and takes into account individual performance as well as the company's performance. We also review and adjust the salary scale for each position so as to be in line with the market on an annual basis.

The Remuneration Committee reviews the remuneration package of executive Directors and key management personnel yearly and assess if it is in line with the performance of the Company and the individual. The total remuneration comprises a fixed base salary and variable bonuses so as to align the performance of executive Directors and key management personnel with the Company's goals and objectives. All our executive Directors and key management personnel have served the Company since our IPO and all of them are our long-term shareholders.

Disclosure on Remuneration

Principle 8: *The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.*

Provision 8.1

The Board supports and is keenly aware of the need for transparency. However, after careful deliberation and considerable debate, the Board is of the view that full disclosure of the specific remuneration of each executive Director, the CEO and the key management personnel is not in the best interests of the Company and therefore the shareholders. Inter alia, the Board took into account the very sensitive nature of the matter, the relative size of our Company, the competitive business environment we operate in and the irrevocable negative impact such disclosure would have on the Company.

We disclose fully the remuneration of independent and non-executive Directors and any employee related to the substantial shareholder, CEO or Directors.

Provision 8.1(a)

The breakdown of the level and mix of remuneration of each Director and the key executives in FY2020 is as follows:

Remuneration of Directors

Remuneration band and name of executive Director	Director's fee	Salary	Bonus	Allowances/ Benefits	Total
<u>S\$750,000 to S\$1,000,000</u>					
Christopher R. Borch (CEO)	7%	43%	49%	1%	100%
Low Ming Wah	7%	42%	49%	2%	100%
Chow Kam Wing	7%	42%	49%	2%	100%

Name of independent and non-executive Director	Director's fee	Salary	Bonus	Allowances/ Benefits	Total
Sumitri Mirnalini Menon @ Rabia	99,000	–	–	–	99,000
Girija Prasad Pande#	23,176	–	–	–	23,176
Lai Chin Yee	87,000	–	–	–	87,000
Kenny Kwan Yew Kwong##	66,011	–	–	–	66,011

Mr Pande retired from the Board at the AGM held on 30 October 2019

Mr Kwan was appointed on 14 June 2019

CORPORATE GOVERNANCE

Provision 8.1(b)

Remuneration of key management personnel

Remuneration band and name of key management personnel	Director's fee	Salary	Bonus	Allowances/ Benefits	Total
<u>Below S\$250,000</u>					
Colin Wojno	–	84%	9%	7%	100%
Ng Chin Lim	–	60%	25%	15%	100%
Richie Cajili Manuel	–	65%	32%	3%	100%
Shen Zi Quan	–	53%	40%	7%	100%
Neo Say Chow	–	64%	18%	18%	100%

The aggregate remuneration paid to the top 5 key management personnel is S\$769,781 for FY2020.

Provision 8.2

Mr. Kyle Borch, the eldest son of Mr. Christopher Borch joined Micro-Mechanics, Inc (a subsidiary of the Company) on 27 August 2018 as a Manufacturing Engineer. Mr. Kyle Borch obtained a Bachelor of Science degree in Physics and Math from the University of California Los Angeles (UCLA) in 2014 and a Master's degree in Mechanical Engineering and Engineering Management from the University of Southern California in 2018. Mr. Kyle Borch's current role is non-managerial and he received a total remuneration during the financial year ended 30 June 2020 of approximately S\$125k.

Provision 8.3

The remuneration package for executive Directors and key management personnel includes a base salary and a variable bonus (performance bonus incentive) as well as benefits such as a car allowance.

The Performance Shares Plan ("**Plan**") was approved by Shareholders on 30 October 2008 and expired on 30 October 2018. Approval has not been sought for a renewal of the Plan. Under the expired Plan, 546,000 new shares were issued to our employees. None of our executive Directors received any shares from the Plan.

As at 30 June 2020, there were 57 employees, 3 executive Directors, 2 independent and non-executive Directors and the top 5 key management personnel holding shares in the Company.

ACCOUNTABILITY AND AUDIT

Risk Management and Internal Controls

Principle 9: *The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.*

Provision 9.1

Risk Management

The Company has put in place internal controls necessary to identify and manage significant business risks. The Company's internal audit provides an independent resource and perspective to the Audit Committee by its systematic process and highlighting any areas of concern discovered during the course of performing such internal audit.

CORPORATE GOVERNANCE

Management regularly reviews the Company's business and operational activities to identify areas of financial, operational, compliance and information technology risk as well as measures to control these risks and report to the Risk Management Committee quarterly. These include detailed financial and management reporting and detailed operational manuals and reports. Targets are set to measure and monitor the performance of operations periodically, such as growth, profit margins, inventory efficiency, accounts receivable management, personnel attendance, cycle time and housekeeping.

The Company's assets and our employees are insured under a comprehensive insurance program which is reviewed annually. These also include product liability insurance and Directors and officers' liability insurance.

In June 2016, our Singapore plant operations was successfully certified as conforming to the Business Continuity Management System standard ISO22301:2012. It was audited again in June 2020 and the certification was successfully renewed.

Financial risk management is discussed in Note 19 to the financial statements set out on page 101.

Risk Management Committee

Risk Management Committee was formed on 28 August 2014 to strengthen the Group's risk management processes and framework. It comprises three independent Directors and two executive Directors:

Chairman	:	Lai Chin Yee
Member	:	Sumitri Mirnalini Menon @ Rabia
Member	:	Kenny Kwan Yew Kwong
Member	:	Low Ming Wah
Member	:	Chow Kam Wing

The Committee is guided by the terms of reference to assist the Board as follows:

- determine the Group's level of risk tolerance and risk policies
- ensure the management maintains a sound system of risk management
- recommend and review the implementation of risk management framework
- review the processes and procedures for ensuring that all material risks are properly identified and that appropriate systems of monitoring and control are in place
- review the Group's risk profiles regularly
- review breaches of risk appetite and tolerances

The Committee has referenced ISO 31000: Risk Management Standards and Committee of Sponsoring of the Treadway Commission (COSO) Model in assessing the effectiveness of its risk management system and ISO27000 for its IT governance.

CORPORATE GOVERNANCE

At the management level, an Enterprise Risk Management Working Committee was formed, comprising key management personnel for the development and implementation of the enterprise risk management (ERM) system. The working committee reports regularly to Risk Management Committee.

The Risk Management Committee reports to the Board. The Board determines and reviews the company's levels of risk tolerance and risk policies and oversees the risk management and internal control systems.

Accountability

The Board is accountable to the shareholders while the management is accountable to the Board. The Board is mindful of its obligation to provide timely, reliable and fair disclosure of material information in compliance with the SGX-ST Listing Manual and presents the financial results quarterly, half yearly and yearly to the public. The management announces the quarterly and the half yearly financial results within 30 days from the relevant financial period. The CEO and CFO certify all such financial results.

In presenting the financial results, the Board has sought to provide a balanced and reader friendly assessment of the Company's performance and position.

To continually ensure the accountability of management to the Board, the management provides all members of the Board with a summary of the Company's performance and financial position such as Profit & Loss Accounts, Balance Sheets and other management reports on a monthly basis.

Provision 9.2 a and 9.2b/Listing Rule 1207(10)

The Board's opinion is, with the concurrence of the AC, that there are adequate internal controls in place to address material financial, operational and compliance risks during the financial year and up to the date of this report after considering the following:

- work done and reports by the internal and external auditors given during the year;
- report by Risk Management Committee;
- the lack of any whistle blower disclosure or alert;
- certification as conforming to the Business Continuity Management System standard ISO22301:2012;
- assurance obtained from the CEO and CFO (a) that the financial records have been properly maintained and the financial statements give true and fair view of the company's operations and finances and (b) regarding the effectiveness of the company's risk management and internal control systems. The audited report was signed by the CEO and CFO. Similar assurance from subsidiary and finance heads; and
- assurance from the internal auditor that the internal control (including financial, operational, compliance and information technology controls) and risk management systems of the Group are adequate and effective.

CORPORATE GOVERNANCE

Areas of concern

The Board draws attention to the following risk which became apparent or was brought to its attention.

Earthquake Damage in California: – California is an earthquake prone area. The Group’s factory in the USA is situated in Morgan Hill, California. The Board has ascertained that not only is such insurance very expensive but that insurance deductibles on any policy obtainable to cover consequential damage is very high so that, in the Board’s view, such coverage is ineffective. Furthermore, the Board understands that the greater damage is likely to be caused by flooding in the event of a major earthquake which damage is not insurable at all in this region. After due consideration, the management has decided not to insure against earthquake damage. The management has taken and shall continue to take steps to minimize potential damages and loss by employee education training programs and by proper and appropriate bracing and anchoring of the contents in the plant. In FY 2020, our USA operations recorded an annual revenue of S\$13.6 million and had total assets of S\$13.8 million as at 30 June 2020.

Audit Committee

Principle 10: *The Board has an Audit Committee (“AC”) which discharges its duties objectively.*

Provision 10.2

The Audit Committee (“AC”) comprises three members, all of whom are independent and non-executive Directors.

Chairman	:	Lai Chin Yee
Member	:	Sumitri Mirnalini Menon @ Rabia
Member	:	Kenny Kwan Yew Kwong

All the members have had many years of experience in senior positions in financial, legal and/or commercial sectors. They have sufficient financial expertise and experience to discharge the AC’s functions. The Chair, who is a Chartered Accountant in Singapore, has been Finance Director of a listed company and Audit Committee Chair in other listed companies in Singapore.

Provision 10.1

Provision 10.1 (a)(b)(c)(d)(e) and (f)

The AC’s written terms of reference which describe its major responsibilities are:

- to review with the external and internal auditors the audit plan and the results of the external auditor’s examination and evaluation of the Group’s system of internal controls;
- to review (i) the quarterly, half yearly and yearly announcement of financial results, and (ii) the consolidated financial statements, balance sheets and statements of profit & loss accounts, and the external auditor’s reports on those financial statements, before submission to the Board for approval;
- to review and discuss with external and internal auditors any suspected fraud or irregularities, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on the Company’s operating results and/or financial position;
- to review the policy and arrangements for concerns about possible improprieties in financial reporting or other matters and how to handle it properly including independent investigation, public announcement and internal communication with employees and related stakeholders;

CORPORATE GOVERNANCE

- to make recommendations to the Board on the appointment, re-appointment and removal of the external and internal auditors, and approve the remuneration and terms of engagement of the external and internal auditors;
- to review the independence of the external auditors annually including the nature and extent of non-audit services provided by the external auditors;
- to review interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual;
- to review the adequacy and effectiveness of the internal control framework and risk management processes including financial, operational, compliance and information technology controls and help ensure adequate measures are in place;
- to review the compliance with the Code of Best Practice on Security Transactions;
- to undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual;
- to review the scope of the work of the internal auditor and to review with the internal auditor the audit plan and the results of the internal auditor's examination and evaluation of the Group's system of internal controls;
- to review the assurance from CEO and the CFO on the financial records and financial statements;
- to review the corporate governance processes.

The AC has reviewed the non-audit services performed by the external auditors and is satisfied that the provision of such services has not affected the independence of the external auditors. The AC has recommended their re-appointment at the forthcoming AGM. The aggregate amount of fees paid to the external auditors for the year is S\$164k and the non-audit services fee is S\$19k.

Some of the subsidiaries in the Group are audited by external auditors other than those of the Company. The AC is satisfied that there are sound internal controls put in place in these subsidiaries and the scope of audit performed by these other external auditors is adequate. Furthermore, the external auditors of the Company visited these subsidiaries and carried out the necessary review procedures to their accounts.

It is the Company's practice for our external auditors to present the AC with their audit plan and with updates relating to any change of accounting standards impacting on the financial statements of the Group before the audit commences. It is also the responsibility of the CFO to update the Board on any changes in accounting standards which may have an impact on the financial statements. During the financial year in review, the changes in accounting standards did not have any significant impact on the Group's financial statements.

Whistle Blowing Policy

The Board has formulated a written and comprehensive Whistle Blowing policy which has been disseminated throughout the Group and is an integral part of the Company's Handbook. The Board believes that this policy will, inter alia, act as a deterrent to malpractice and wrongdoing, encourage openness, promote transparency and underpin the risk management systems of the Group.

The Whistle Blowing Officers are the members of the Board. Any Whistle Blowing Officer to whom a concern has been raised is obliged to make a report to the Audit Committee of the substance of the concern without breaching employee confidentiality. The AC is obliged to review all reports received and take or approve appropriate action.

CORPORATE GOVERNANCE

The policy requires that the Whistle Blowing Officer shall consider any concern raised seriously even if they made anonymously.

The policy covers all and any improprieties and wrongdoings:

- affecting the financial position of the company;
- relating to the honesty and integrity of the company's dealings;
- relating to the honesty and integrity of any employee or Director in the course of his or her employment or dealing with or on behalf of the company.

A whistle blower can choose to raise a concern by any means convenient including sending a letter or email or by telephone to any Whistle Blowing officer directly. Within 10 working days, the Whistle Blowing officer is obliged to acknowledge receipt of the information and provide an explanation as to how the matter is being handled if the report is not anonymous. The concern is appropriately and expeditiously dealt with and could be referred to the police, our external auditor or an independent investigator depending on the nature of the disclosure and the outcome of preliminary investigations.

All concerns raised must be referred to the AC in a timely manner. There was no reported incident pertaining to whistle blowing during FY2020.

Provision 10.3

It is the Company's practice not to recruit any former or current partner or Director of the Company's existing internal or external auditing firms to act as a Board member or any Committee member, so as to ensure independence and objectivity of the Board and its Committees.

Provision 10.4 and 10.5

In the financial year under review, the AC met with the external auditors and internal auditors without the presence of executive Directors and senior management. All AC meetings were conducted without the presence of executive Directors and senior management unless they are invited by the AC to attend for any particular reason(s).

The Company maintains a sound internal control and internal audit system to ensure the integrity and reliability of our financial information, as well as to safeguard shareholder value and the Group's assets. The system is strengthened and reinforced by the Group's internal auditor who carries out regular internal audits to ensure compliance with stipulated internal controls, applicable laws and regulations.

The internal audit function has been outsourced to a reputable auditing firm which was appointed by the Audit Committee. Since August 2011, Nexia TS Risk Advisory Pte Ltd has been the internal auditors of the Group. The internal auditor reports directly to the AC. The internal auditor meets with the AC half yearly to present their internal audit reports. The AC assesses the effectiveness of the internal audit function, approves the internal audit schedule and audit plan and reviews the activities of the internal auditors on a regular basis. Outsourcing of the internal audit function enhances continuity, objectivity and independence and thus good corporate governance.

CORPORATE GOVERNANCE

The recruitment, selection and appointment of the internal auditor was made by the AC after reviewing suitable candidates identified by internal and external parties including the external auditors, company secretary and others. The internal auditor is independent and is not associated with or related to the substantial shareholders, Directors, the CEO and the CFO.

The internal audit person in-charge is a qualified accountant with many years of internal audit experience. The internal audit has been carried out in accordance with the IIA standards.

SHAREHOLDER RIGHTS AND ENGAGEMENT

Shareholder Rights and Conduct of General Meetings

Principle 11: *The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.*

Provision 11.1

During the Company's Annual General Meeting (AGM), it is our practice for the Chairman to read the rules, including voting procedures that govern the AGM, so that the shareholders can participate in and vote effectively.

Provision 11.2

All resolutions tabled at the AGM are voted by poll, counted and validated by an independent scrutineer. The Board takes note that there should be a separate resolution at general meetings on each substantially separate issue and will provide reasons and material implications where resolutions are interlinked.

Provision 11.3

At AGMs, the CEO, COO and CFO will conduct a presentation on the Group's developments, financial results, outlook and strategy to provide shareholders with updates on the Group's progress. Shareholders also have the opportunity to share with and communicate their views to the Board. The Chairpersons of the Audit, Nominating, Remuneration and Risk Management Committees, as well as the external auditors are requested to be present and are available to address any queries by shareholders.

Provision 11.4

If shareholders are unable to attend the meetings, the Constitution of the Company allows shareholders to appoint not more than two proxies to attend, speak and vote at general meetings in their absence, and shareholders who are relevant intermediaries to appoint more than two proxies to attend, speak and vote at general meetings. In order to have a valid registration of proxy, the proxy forms must be sent in advance to the place(s) as specified in the notice of the general meetings at least 72 hours before the time set for the general meetings.

Provision 11.5

The Company publishes the results of the voting on each resolution tabled and posts detailed minutes of the AGM which records shareholders' questions and the Board's/Management's responses via SGXnet. The minutes of the AGM include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting and responses from the Board and Management.

CORPORATE GOVERNANCE

Provision 11.6

The Company has a formal dividend policy which is to distribute 40% or more of the Group's audited net profit. The policy, which reflects the record existing since listing, was instituted and formalized with effect from FY2016.

The Company pays interim and final dividends each year after taking into consideration the Group's financial performance, cash position, cash flow generated from operations, projected capital requirements for business growth, general global economic conditions and other factors as the Board may deem appropriate.

Engagement with Shareholders

Principle 12: *The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.*

Provision 12.1

The Company's primary communication platforms are its annual report, announcements posted on the SGXnet and Company's website and at the AGM. The Company augments its communications with regular analyst/media briefings, one-on-one meetings and conference calls when required.

The Company announces its financial results via SGXnet and strives to provide material information beyond the mandatory regulatory requirements of the SGX-ST Listing Manual. Where there is inadvertent disclosure made to a select group, we will make the same disclosure publicly to all others as promptly as possible.

Annual reports and notices of AGMs are sent to all shareholders 21 days before such AGM. Such notices are also published in the local newspapers and announced via SGXNET. Shareholders are encouraged to attend the Company's AGMs. To enhance shareholders' participation, the Company holds its AGM at central locations within walking distance from MRT stations. Nonetheless, for FY2020, due to the on-going COVID-19 pandemic, the Company will hold its upcoming AGM virtually so as to comply with the stipulated social distancing requirements.

Provision 12.2 and 12.3

To enhance and encourage communication with investors, the Company provides an email address for investors at investor@micro-mechanics.com and contact details of our Investor Relations Consultants. We have a practice of posting FAQs which are informative on our website to provide shareholders and the public with more information about the Company. Announcements via SGXnet will be made to inform the shareholders and the public if there are any changes in the Company or its business which would be likely to materially affect the price or value of the Company's shares.

The CEO is Head of the IR team and oversees the IR strategy. He is supported by the CFO and external IR consultants engaged by the Company to reinforce its communications and interactions with investors and analysts. IR contact information is also publicly disclosed in our annual reports, announcements and website.

Investor Relations Practices and Guidelines

The main objective of the Company's Investor Relations (IR) function is to maintain an open, effective and active dialogue with existing and potential stakeholders. This is so as to ensure that all stakeholders have equal and adequate access to clear, comprehensive and relevant information on a timely basis. Regular media and analyst briefings are organized to enable a better appreciation of the Group's performance and developments. It is the Company practice to hold investor briefings, inviting the media and analysts, after the release of the half year and full year financial results.

CORPORATE GOVERNANCE

The Company conducts its IR practices with the following principles:

- Operate an open-door policy with regard to investor/analyst enquiries which should be responded to within three working days;
- Management and IR team are accessible to requests for one-on-one meetings and conference calls with investors and analysts;
- Information deemed to be price-sensitive is disseminated without delay via announcements and/or press releases on SGXnet;
- Discuss only publicly-available and publicly known information during dialogues with investors and analysts, principally following announcements of financial results;
- Maintain a blackout period prior to the planned release of financial statements during which no meetings and presentations will be held with analysts or investors. The blackout period is two weeks for quarterly financial results and one month for the half yearly and full-year financial results;
- Endeavour to provide comprehensive information in financial results announcements to help shareholders and potential investors make informed decisions;
- Announce the date of release of quarterly financial reports at least a week in advance;
- Allocate sufficient time to address queries of shareholders outside the formal business of the AGM.

MANAGING STAKEHOLDERS RELATIONSHIPS

Engagement with Stakeholders

Principle 13: *The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.*

Provision 13.1

The Board encourages stakeholder engagement by identifying the key stakeholder groups and understanding their perceptions about the Company especially regarding sustainability issues. Setting high ethical standards for all levels within the Company is one of the Board's priorities. Our stakeholders are engaged through various channels to ensure our business interests are aligned with them and their concerns are addressed in a manner that will improve our business operations for long-term growth and sustainability.

Our major stakeholders mainly include customers, employees, suppliers, shareholders, regulators and the local communities where our businesses operate.

CORPORATE GOVERNANCE

Provision 13.2

Customers

Focusing on the needs of customers is a critical for the success of our business. We have about 600 customers worldwide. Our top 10 customers are mainly in the USA, China and Malaysia and collectively accounted for 40% of the Group's revenue in FY2020. The majority of our customers have been working with the Group for more than 10 years. We have implemented a Customer Relationship Management (CRM) system embedded in our ERP system to help us interact with our customers. Our sales and R&D teams make regular visits to our customers to provide technical solutions and provide updates on our latest capabilities. Despite the COVID-19 pandemic, we remain in regular communication with customers via virtual conference. Every year, we carry out a Customer Satisfaction Survey to have a better understanding of their needs. We participate in trade shows and exhibitions relating to our industry to showcase our latest products and services to both our existing and prospective customers.

Employees

Employee engagement is another factor critical for the success of our business. Our people are the Group's most important asset. All new employees have an orientation session when our HR manager will explain every detail of the Company's handbook especially the Code of Conduct. This is to ensure that every new employee understands the Company's culture and his/her rights and obligations. Training will be provided to make sure that all employees are able to carry out their respective jobs competently. Every half year, we have an interactive session called Employee Improvement Dialogue when our employees will have a discussion with their supervisors regarding their performance and career development. To align all employees with the Group's goals and objectives, we have designed a half yearly Performance Bonus Incentive (PBI) Scheme. All employees are informed so that they fully understand the targets they have to achieve in order to be rewarded in the PBI Scheme. Our practice is to have a diverse and inclusive workforce and to provide a safe and healthy work environment for our employees.

We are committed to providing our employees with opportunities to develop their potential through relevant training programs. The focus of such training programs is skills-upgrading and education in areas directly related to an employee's present work and/or future development. During FY2020 about 511 confirmed employees received formal and structured training of 2,771 hours, not including on-the-job training. In the previous year, there was training amounting to 6,011 hours. Due to the COVID-19 pandemic, some of the training that was scheduled in FY2020 was cancelled.

Suppliers

Our suppliers are key to our performance in terms of quality and cycle time. We need to form trusting relationships that are mutually beneficial. We encourage our suppliers to use the Responsible Business Alliance ("RBA") principles as a guide to meet our evaluation criteria for preferred supplier standing. The Responsible Business Alliance (RBA) details standards for social, environmental and ethical matters for supply chain in the electronics industry. We assess the performance of our suppliers yearly and also assess the business continuity risk of our supply chains. The majority of our suppliers and service providers have been working with us for more than 10 years.

Shareholders

We provide our shareholders and the investment community sufficient material and opportunities for an understanding of our business model, strategy, performance and culture. We have a strong Investor Relations team to communicate with our shareholders and the public. Please refer to Provision 12.1, 12.2 and 12.3. under the Engagement with Shareholders of this statement.

CORPORATE GOVERNANCE

Regulators

We fully comply with and respect local rules and regulations. The Board and the Company have zero tolerance of corruption and non-compliance of laws and regulations. Any non-compliance with country laws and regulations or taint of corruption will damage our reputation and the trust we have built with stakeholders. The Board is regularly updated on any change of rules or regulations affecting the business of the Company.

Local Communities

We work to build and maintain a positive relationship with the communities in which we operate and seek to support these communities. In this regard we draw from and engage employees from local communities as a preference. All our employees are locals in our operations in USA, the Philippines and China. We have initiated participation in some social and charitable activities within local communities and have engaged in such activities as blood donation, an environmental conservation project, a contribution to technical institutes and visiting old folk homes. We managed to complete two such activities in FY2020 before being obliged to abort other planned activities due to the COVID-19 pandemic. Going forward, we shall encourage our people to continue with such support of and engagement with local communities.

Provision 13.3

Our website www.micro-mechanics.com is updated in a timely manner with the Group's latest announcements. In addition, shareholders can also view our latest financial highlights, financial reports, company presentations, investor factsheet, research reports, annual reports, stock quote and answers to Frequently Asked Questions (FAQs) under the Investor Relations section. Anyone may subscribe to the Company's announcements by registering for "email alerts" via the Company's corporate website.

Please refer to our Sustainability Report for more details on the engagement with all stakeholders.

Other Corporate Governance matters:

Anti-corruption

Our company has zero tolerance with regard to any kind and form of bribery or corruption. An employee is not allowed to solicit or offer or give bribes or incentives whether in the form of money or gifts or favours in any form whatsoever. Any unsolicited gift/s having an aggregate value in excess of \$200 must immediately be disclosed to a Director. Violations shall result in the immediate initiation of termination processes and a report will be made to the local authority as appropriate. Entertainment of Customers/suppliers is allowed in the form of breakfast, lunch or dinner meals only and the level of such entertainment must be modest.

In June 2019, our Singapore plant operations was successfully certified as conforming to the Anti-Bribery Management System standard ISO37001:2016

Dealings in Securities

The Company has adopted an internal compliance code, which is applicable to all Directors and employees, in relation to dealings in the Company's securities. All its Directors and employees are not allowed to deal in the Company's shares during the stipulated black-out periods (i.e. the period commencing two weeks before the announcement of the Company's financial statements for quarterly results and one month before half year or full year financial results and ending on the date of announcement of such results) or if they are in possession of unpublished material price-sensitive information pertaining to the Group.

CORPORATE GOVERNANCE

All Directors and all employees of the Group have been instructed to observe the internal compliance code and all applicable insider trading laws at all times even when dealing in securities within permitted trading periods. In this regard, all Directors and employees are requested to sign a Declaration of Compliance with the internal compliance code annually and submit the same to the company secretary who, in turn, tables the duly signed declarations to the Audit Committee for inspection annually.

Interested Person Transactions

The Company has adopted a policy in respect of any transactions with interested persons and requires that all such transactions be at arm's length and reviewed by the Audit Committee quarterly.

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 the factory with Sarcadia LLC, a controlling shareholder of the Company and a family company set up by Mr. Christopher Reid Borch, the CEO and substantial shareholder of the Company.

For the financial year ended 30 June 2020, the Group has made rental payments of US\$386,000 (30 June 2019: US\$374,000) and electrical services payments of US\$163,338 (30 June 2019: US\$85,067) 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.

DIRECTORS' STATEMENT

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 30 June 2020.

In our opinion:

- (a) the financial statements set out on pages 70 to 111 are drawn up so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 30 June 2020 and the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International); and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

DIRECTORS

The directors in office at the date of this statement are as follows:

Christopher Reid Borch
 Low Ming Wah
 Chow Kam Wing
 Sumitri Mirnalini Menon @ Rabia
 Lai Chin Yee
 Kwan Yew Kwong, Kenny

DIRECTORS' INTERESTS

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the Act), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures and share options in the Company are as follows:

Name of director in which interests are held	At beginning of the year	At end of the year	At 21 July 2020
Ordinary shares			
Christopher Reid Borch	72,335,169	72,335,169	72,335,169
Low Ming Wah	7,127,001	7,127,001	7,127,001
Chow Kam Wing	2,812,000	2,812,000	2,812,000
Sumitri Mirnalini Menon @ Rabia	300,000	300,000	300,000
Lai Chin Yee	20,000	20,000	20,000
Kwan Yew Kwong, Kenny	–	–	–

By virtue of Section 7 of the Act, Christopher Reid Borch is deemed to have an interest in all the wholly-owned subsidiaries of the Company at the beginning and at the end of the financial year.

DIRECTORS' STATEMENT

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company or of related corporations at the beginning of the financial year or at the end of the financial year.

Neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTIONS

During the financial year, there were:

- (a) no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries; and
- (b) no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries.

As at the end of the financial year, there were no unissued shares of the Company or its subsidiaries under options.

AUDIT COMMITTEE

The members of the Audit Committee during the year and at the date of this statement are as follows:

- Lai Chin Yee (Chairman), independent Director
- Sumitri Mirnalini Menon @ Rabia, independent Director
- Kwan Yew Kwong, Kenny, independent Director

The Audit Committee performs the functions specified by section 201B of the Act, the Listing Manual of the Singapore Exchange and the Code of Corporate Governance.

The Audit Committee has held five meetings during the year. In performing these functions, the Audit Committee reviewed the scope of work of the Company's external auditors, and their evaluation of the Company's system of internal accounting controls.

The Audit Committee also reviewed the following:

- the scope and results of the work of the internal auditor;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption;
- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual);
- the assistance provided by the Company's officers to the external auditors and the independence of the external auditors; and
- corporate governance processes.

DIRECTORS' STATEMENT

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

In appointing our auditors for the Company and subsidiaries, we have complied with Rules 712, 715 and 716 of the SGX Listing Manual.

AUDITORS

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Christopher Reid Borch

Director

Chow Kam Wing

Director

28 August 2020

INDEPENDENT AUDITORS' REPORT

Members of the Company

Micro-Mechanics (Holdings) Ltd.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Micro-Mechanics (Holdings) Ltd. (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 70 to 111.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International) (SFRS(I)s) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 30 June 2020, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *'Auditors' responsibilities for the audit of the financial statements'* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT

Members of the Company

Micro-Mechanics (Holdings) Ltd.

Valuation of Property, Plant and Equipment (PPE) and Right-of-use (ROU) assets (Refer to Note 4 to the financial statements)

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group has PPE and ROU assets with a net book value of \$31.0 million (2019: \$32.6 million).</p> <p>During the financial year, the cash-generating unit (CGU) from the United States, Micro-Mechanics Inc. (MMUS), was in a loss making position. Management found this represents an impairment indicator on the PPE and ROU assets within this CGU. Accordingly, the Group performed an impairment assessment on MMUS's PPE and ROU assets by estimating the recoverable amount of the CGU based on value in use (VIU) method.</p> <p>The impairment assessment and the estimation of the recoverable amount is subjective and involves management's judgement. The assessment of these judgement is a key focus area of our audit.</p>	<p>Our procedures in relation to management's impairment assessment included, among others:</p> <ul style="list-style-type: none"> • Reviewed management's assessment of existence of impairment indicators, which among others, include observable indicators that the assets value has declined, any adverse economic effect on the CGU and evidence of obsolescence. • Evaluated management's computation and assumptions used in determining the recoverable amount of MMUS, including the projected revenue growth rates, projected gross profit margin, terminal value and discount rates. The recoverable amount was determined based on VIU method, using a discounted cash flows (DCF) model. • Assessed the reasonableness of the management assumptions made in the DCF model by comparing the parameters in the DCF model against available market data and historical performances of MMUS. • Performed sensitivity analysis on the DCF model. • Reviewed the disclosures included in the financial statements against the requirements of the accounting standards. <p>We found management's process of assessing for impairment indicators to be appropriate and the estimates used to determine recoverable amounts to be balanced.</p>

INDEPENDENT AUDITORS' REPORT

Members of the Company

Micro-Mechanics (Holdings) Ltd.

Valuation of the Company's investment in Micro-Mechanics Inc. (MMUS) (Refer to Note 5 to the financial statements)	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Company has investment in MMUS stated at cost less accumulated impairment losses (of \$6.4 million) amounting to \$19.9 million.</p> <p>In performing the impairment assessment, judgement is required to assess management assumptions used in computing the recoverable amount. There is a risk of additional impairment should the carrying amount of investment exceed the recoverable amount.</p>	<p>Our procedures in relation to the valuation of investment in MMUS included, among others:</p> <ul style="list-style-type: none"> • Evaluated management's computation and assumptions used in determining the recoverable amount of MMUS, including the projected revenue growth rates, projected gross profit margin, terminal value and discount rates. The recoverable amount was determined based on VIU method, using a DCF model. • Assessed the reasonableness of the management assumptions made in the DCF model by comparing the parameters in the DCF model against available market data and historical performances of MMUS. • Performed sensitivity analysis on the DCF model. <p>We found the estimates used in determining the recoverable amount to be balanced.</p>

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report except for Shareholders' statistics (the Reports) which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

INDEPENDENT AUDITORS' REPORT

Members of the Company

Micro-Mechanics (Holdings) Ltd.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT

Members of the Company

Micro-Mechanics (Holdings) Ltd.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Yeo Lik Khim.

KPMG LLP

*Public Accountants and
Chartered Accountants*

Singapore

28 August 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 30 June 2020

	Note	Group		Company	
		2020	2019	2020	2019
		\$	\$	\$	\$
Assets					
Property, plant and equipment	4	29,079,591	30,811,334	–	–
Right-of-use assets	4	1,980,198	1,815,233	–	–
Subsidiaries	5	–	–	29,095,544	29,095,544
Trade and other receivables	7	1,109,205	428,008	–	–
Deferred tax asset	11	46,586	48,409	–	–
Non-current assets		<u>32,215,580</u>	<u>33,102,984</u>	<u>29,095,544</u>	<u>29,095,544</u>
Inventories	6	5,397,148	4,514,659	–	–
Trade and other receivables	7	12,717,631	10,380,307	2,442,304	2,596,890
Cash and cash equivalents	8	20,814,685	21,881,179	9,599,881	8,743,944
Current assets		<u>38,929,464</u>	<u>36,776,145</u>	<u>12,042,185</u>	<u>11,340,834</u>
Total assets		<u>71,145,044</u>	<u>69,879,129</u>	<u>41,137,729</u>	<u>40,436,378</u>
Shareholders' equity					
Share capital	9	14,782,931	14,782,931	14,782,931	14,782,931
Reserves	10	43,201,038	43,577,056	25,602,968	24,928,388
Total equity		<u>57,983,969</u>	<u>58,359,987</u>	<u>40,385,899</u>	<u>39,711,319</u>
Liabilities					
Deferred tax liabilities	11	1,440,847	1,434,464	210,762	213,960
Trade and other payables	12	835,702	643,777	–	–
Lease liabilities	13	900,564	967,621	–	–
Non-current liabilities		<u>3,177,113</u>	<u>3,045,862</u>	<u>210,762</u>	<u>213,960</u>
Trade and other payables	12	7,142,026	6,436,347	534,747	502,740
Lease liabilities	13	1,079,298	847,230	–	–
Current tax payable		1,762,638	1,189,703	6,321	8,359
Current liabilities		<u>9,983,962</u>	<u>8,473,280</u>	<u>541,068</u>	<u>511,099</u>
Total liabilities		<u>13,161,075</u>	<u>11,519,142</u>	<u>751,830</u>	<u>725,059</u>
Total equity and liabilities		<u>71,145,044</u>	<u>69,879,129</u>	<u>41,137,729</u>	<u>40,436,378</u>

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June 2020

	Note	2020 \$	2019 \$
Revenue	14	64,207,750	60,330,946
Cost of sales		<u>(29,893,433)</u>	<u>(27,962,857)</u>
Gross profit		34,314,317	32,368,089
Other income		1,183,512	628,009
Distribution costs		(3,168,605)	(3,213,105)
Administrative expenses		(9,258,378)	(9,350,468)
Other operating expenses		<u>(3,986,356)</u>	<u>(3,363,301)</u>
Profit before tax	15	19,084,490	17,069,224
Tax expense	16	<u>(4,434,447)</u>	<u>(4,120,519)</u>
Profit for the year		<u>14,650,043</u>	<u>12,948,705</u>
Attributable to:			
Owners of the Company		<u>14,650,043</u>	<u>12,948,705</u>
Profit for the year		<u>14,650,043</u>	<u>12,948,705</u>
Other comprehensive income			
Item that is or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations, net of tax		392,862	(922,545)
Item that will not be reclassified to profit or loss:			
Remeasurement income on retirement benefits	12	(129,704)	(69,824)
Related tax	11	<u>4,288</u>	<u>2,298</u>
Total comprehensive income for the year		<u>14,917,489</u>	<u>11,958,634</u>
Total comprehensive income attributable to:			
Owners of the Company		<u>14,917,489</u>	<u>11,958,634</u>
Total comprehensive income for the year		<u>14,917,489</u>	<u>11,958,634</u>
Earnings per share (in cents) – basic and diluted	17	<u>10.54</u>	<u>9.31</u>

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2020

	Share capital \$	Foreign currency translation reserve \$	Accumulated remeasurement on retirement benefits \$	Accumulated profits \$	Total \$
At 1 July 2018	14,782,931	855,088	47,505	44,619,017	60,304,541
Total comprehensive income for the year					
Profit for the year	–	–	–	12,948,705	12,948,705
Other comprehensive income					
Foreign currency translation differences	–	(922,970)	425	–	(922,545)
Remeasurement income on retirement benefits, net of tax	–	–	(67,526)	–	(67,526)
Total other comprehensive income	–	(922,970)	(67,101)	–	(990,071)
Total comprehensive income for the year	–	(922,970)	(67,101)	12,948,705	11,958,634
Transactions with owners of the Company, recognised directly in equity					
Interim dividend of 4.0 cents per share (tax-exempt) in respect of 2019	–	–	–	(5,561,275)	(5,561,275)
Final dividend of 6.0 cents per share (tax-exempt) in respect of 2018	–	–	–	(8,341,913)	(8,341,913)
Total transactions with owners of the Company	–	–	–	(13,903,188)	(13,903,188)
At 30 June 2019	14,782,931	(67,882)	(19,596)	43,664,534	58,359,987

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2020

	Share capital \$	Foreign currency translation reserve \$	Accumulated remeasurement on retirement benefits \$	Accumulated profits \$	Total \$
At 1 July 2019	14,782,931	(67,882)	(19,596)	43,664,534	58,359,987
Total comprehensive income for the year					
Profit for the year	–	–	–	14,650,043	14,650,043
Other comprehensive income					
Foreign currency translation differences	–	397,554	(4,692)	–	392,862
Remeasurement income on retirement benefits, net of tax	–	–	(125,416)	–	(125,416)
Total other comprehensive income	–	397,554	(130,108)	–	267,446
Total comprehensive income for the year	–	397,554	(130,108)	14,650,043	14,917,489
Transactions with owners of the Company, recognised directly in equity					
Interim dividend of 5.0 cents per share (tax-exempt) in respect of 2020	–	–	–	(6,951,594)	(6,951,594)
Final dividend of 6.0 cents per share (tax-exempt) in respect of 2019	–	–	–	(8,341,913)	(8,341,913)
Total transactions with owners of the Company	–	–	–	(15,293,507)	(15,293,507)
At 30 June 2020	<u>14,782,931</u>	<u>329,672</u>	<u>(149,704)</u>	<u>43,021,070</u>	<u>57,983,969</u>

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Profit for the year		14,650,043	12,948,705
Adjustments for:			
Depreciation of property, plant and equipment		6,774,812	6,530,719
Property, plant and equipment written off		6,400	6,824
Loss on disposal of property, plant and equipment		29,454	2,329
Interest income		(209,466)	(226,646)
Interest expense on lease liabilities		101,704	106,455
Tax expense		4,434,447	4,120,519
		<u>25,787,394</u>	<u>23,488,905</u>
Changes in working capital:			
Inventories		(812,553)	(31,092)
Trade and other receivables		(2,903,344)	962,256
Trade and other payables		573,336	(597,184)
Cash generated from operations		22,644,833	23,822,885
Income tax paid		<u>(3,848,424)</u>	<u>(4,555,973)</u>
Net cash from operating activities		<u>18,796,409</u>	<u>19,266,912</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,705,653)	(3,418,145)
Proceeds from disposal of property, plant and equipment		111,118	14,697
Interest received		216,762	231,304
Net cash used in investing activities		<u>(3,377,773)</u>	<u>(3,172,144)</u>
Cash flows from financing activities			
Payment of lease liabilities		(1,127,392)	(1,109,070)
Dividends paid		<u>(15,293,507)</u>	<u>(13,903,188)</u>
Net cash used in financing activities		<u>(16,420,899)</u>	<u>(15,012,258)</u>
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at 1 July		21,717,779	20,918,381
Effect of exchange rate fluctuations		(63,581)	(283,112)
Cash and cash equivalents at 30 June*	8	<u>20,651,935</u>	<u>21,717,779</u>

* Differ from cash and cash equivalents in consolidated statements of financial position due to deposits pledged not considered as part of the cash and cash equivalents in consolidated statement of cash flows. Refer to Note 8 for details.

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 28 August 2020.

1 DOMICILE AND ACTIVITIES

Micro-Mechanics (Holdings) Ltd. (the Company) is incorporated in Singapore. The address of the Company's registered office is 31 Kaki Bukit Place, Eunos Techpark, Singapore 416209.

The financial statements of the Group as at and for the year ended 30 June 2020 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The Group is primarily involved in the manufacturing of precision tools and components.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)).

2.2 Basis of measurement

The financial statements are prepared on the historical cost basis, except for certain financial instruments which are stated at fair value.

2.3 Functional and presentation currency

The financial statements are presented in Singapore dollars which is the Company's functional currency.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with SFRS(I) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In the application of the Group's accounting policies, management applies the following critical judgement which is expected to have a significant effect on the amounts recognised in the financial statements:

Impairment on non-financial assets

The carrying value of non-financial assets (including property, plant and equipment and investment in subsidiaries) are tested for impairment whenever there is any objective evidence or indication that the non-financial assets may be impaired. This determination and derivation of the relevant inputs requires significant judgement. This impairment assessment takes into account the market value of the asset, changes to the technological, market, economic or legal environment in which the Group operates, market interest rates, evidence of obsolescence or physical damage to the asset and changes to the expected usage to the asset.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

2 BASIS OF PREPARATION (continued)

2.4 Use of estimates and judgements (continued)

Impairment on non-financial assets (continued)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 4 – estimation of useful lives and valuation of property, plant and equipment
- Note 5 – valuation of investments in subsidiaries
- Note 6 – valuation of inventories
- Note 19 – valuation of trade receivables

2.5 Changes in accounting policies

New standards and amendments

The Group has applied the following SFRS(I)s, amendments to and interpretations of SFRS(I) for the first time for the annual period beginning on 1 July 2019:

- SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*
- *Income Tax Consequences of Payments on Financial Instruments Classified as Equity* (Amendments to SFRS(I) 1-12)

The application of these amendments to standards and interpretations does not have a material effect on the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less accumulated impairment losses.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the financial year are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the financial year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the financial year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item which is considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented as equity in the translation reserve.

3.3 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Property, plant and equipment (continued)

Recognition and measurement (continued)

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within income/other expenses in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years are as follows:

Leasehold properties	50 years
Plant and equipment	5 to 10 years
Furniture, fittings and office equipment	5 years
Motor vehicles	5 years

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready to use, or in respect of assets under construction, from the date that the asset is completed and ready for use. Property, plant and equipment under construction are not depreciated.

Fully depreciated assets are retained in the financial statements until they are no longer in use. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.4 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Leases (continued)

- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - The Group has the right to operate the asset; or
 - The Group designated the asset in a way that predetermines how and for what purpose it will be used.

Recognition and measurement

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Depreciation

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Leases (continued)

Lease liability (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short term leases of machineries that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.5 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.6 Financial instruments

Non-derivative financial assets

Financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL). Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial instruments (continued)

Non-derivative financial assets (continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into financial assets at amortised cost category.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets at amortised cost comprise cash and cash equivalents, and trade and other receivables, excluding advances to suppliers, prepayments and forward exchange contracts.

Cash and cash equivalents comprise cash balances and bank deposits.

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model and how those risks are managed;
- how managers of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial instruments (continued)

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

Non-derivative financial liabilities

The Group's financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

Other financial liabilities comprise trade and other payables excluding advances from customers, foreign exchange contracts and retirement benefits.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Financial instruments (continued)

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below:

Non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

3.7 Impairment

Non-derivative financial assets

A financial asset measured at amortised cost is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

Financial assets at amortised cost

Loss allowances are measured on either of the following bases:

- 12-month 'expected credit loss' (ECLs): these are ECLs that result from possible default events within 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which is measured as 12-month ECLs.

The Group has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, including forward looking information.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Credit impaired financial assets

At each reporting date, the Group assess whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment (continued)

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax asset, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Employee benefits (continued)

(ii) Defined benefit plans (continued)

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA from a recognised rating agency that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid. In countries where there is no deep market in such bonds, the market yields on the government bonds shall be used.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefits expense in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

(iii) Unconsumed leave

Employees' entitlement for unconsumed leave is recognised as a liability.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.10 Revenue

Revenue from the manufacture and sale of precision tools is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over the product to a customer.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Interest income and interest expense

Interest income or expense is recognised as it accrues in profit or loss, using the effective interest method.

3.12 Dividend income

Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established.

3.13 Government grants

An unconditional government grant related to computer software and equipment is recognised initially as deferred income at fair value. The grant is then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grant that compensates the Group for expenses incurred is recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

3.14 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

3.15 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to the transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Executive Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Executive Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

3.16 New standards and interpretations not yet adopted

A number of new standards, interpretations and amendments to standards are effective for annual periods beginning after 1 July 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards and interpretations in preparing these financial statements.

The following new SFRS(I)s, interpretations and amendments to SFRS(I)s are not expected to have a significant impact on the Group's financial statements.

- *Amendments to References to Conceptual Framework in SFRS(I) Standards*
- *Definition of a Business* (Amendments to SFRS(I) 3)
- *Definition of Material* (Amendments to SFRS(I) 1-1 and SFRS(I) 1-8)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

4 PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties \$	Plant and equipment \$	Assets under construction \$	Furniture, fittings and office equipment \$	Motor vehicles \$	Total \$
Group						
Cost						
At 1 July 2018	15,791,722	54,797,934	–	6,624,249	833,823	78,047,728
Additions	760,075	2,470,163	429,018	373,550	20,724	4,053,530
Disposals/Write-off	–	(582,347)	–	(113,454)	(19,597)	(715,398)
De-recognition due to expiry/ termination of lease	(379,155)	–	–	–	–	(379,155)
Translation differences on consolidation	(126,463)	(704,160)	(3,190)	(83,725)	(1,470)	(919,008)
At 30 June 2019	<u>16,046,179</u>	<u>55,981,590</u>	<u>425,828</u>	<u>6,800,620</u>	<u>833,480</u>	<u>80,087,697</u>
At 1 July 2019	16,046,179	55,981,590	425,828	6,800,620	833,480	80,087,697
Additions	1,271,435	2,926,832	330,335	372,700	11,048	4,912,350
Disposals/Write-off	(36,835)	(1,150,892)	–	(93,919)	(9,894)	(1,291,540)
Reclassification	–	435,824	(435,824)	–	–	–
De-recognition due to expiry/ termination of lease	(691,736)	–	–	–	–	(691,736)
Translation differences on consolidation	114,718	829,452	11,480	59,614	8,284	1,023,548
At 30 June 2020	<u>16,703,761</u>	<u>59,022,806</u>	<u>331,819</u>	<u>7,139,015</u>	<u>842,918</u>	<u>84,040,319</u>
Accumulated depreciation and impairment loss						
At 1 July 2018	7,121,741	29,477,455	–	5,790,278	113,266	42,502,740
Charge for the year	1,394,751	4,605,451	–	356,906	173,611	6,530,719
Disposals/Write-off	–	(558,763)	–	(113,188)	(19,597)	(691,548)
De-recognition due to expiry/ termination of lease	(356,321)	–	–	–	–	(356,321)
Translation differences on consolidation	(58,397)	(385,957)	–	(80,078)	(28)	(524,460)
At 30 June 2019	<u>8,101,774</u>	<u>33,138,186</u>	<u>–</u>	<u>5,953,918</u>	<u>267,252</u>	<u>47,461,130</u>
At 1 July 2019	8,101,774	33,138,186	–	5,953,918	267,252	47,461,130
Charge for the year	1,415,018	4,875,017	–	311,167	173,610	6,774,812
Disposals/Write-off	(36,835)	(1,003,937)	–	(93,902)	(9,894)	(1,144,568)
De-recognition due to expiry/ termination of lease	(691,736)	–	–	–	–	(691,736)
Translation differences on consolidation	79,140	454,304	–	42,989	4,459	580,892
At 30 June 2020	<u>8,867,361</u>	<u>37,463,570</u>	<u>–</u>	<u>6,214,172</u>	<u>435,427</u>	<u>52,980,530</u>
Carrying amounts						
At 30 June 2019	<u>7,944,405</u>	<u>22,843,404</u>	<u>425,828</u>	<u>846,702</u>	<u>566,228</u>	<u>32,626,567</u>
At 30 June 2020	<u>7,836,400</u>	<u>21,559,236</u>	<u>331,819</u>	<u>924,843</u>	<u>407,491</u>	<u>31,059,789</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

4 PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment comprise owned and leased assets.

	2020	2019
	\$	\$
Property, plant and equipment-owned	29,079,591	30,811,334
Right-of-use assets	<u>1,980,198</u>	<u>1,815,233</u>
	<u>31,059,789</u>	<u>32,626,567</u>

Right-of-use assets are included in the following categories of property, plant and equipment:

Group	Leasehold properties
	\$
Cost	
At 1 July 2018	2,967,594
Additions	635,385
De-recognition due to expiry of lease	(340,011)
De-recognition due to termination of lease	(39,144)
Translation differences on consolidation	<u>(17,270)</u>
At 30 June 2019	<u>3,206,554</u>
At 1 July 2019	3,206,554
Additions	1,206,697
De-recognition due to termination of lease	(691,736)
Translation differences on consolidation	<u>70,187</u>
At 30 June 2020	<u>3,791,702</u>
Accumulated depreciation	
At 1 July 2018	688,461
Charge for the year	1,068,880
De-recognition due to expiry of lease	(340,011)
De-recognition due to termination of lease	(16,310)
Translation differences on consolidation	<u>(9,699)</u>
At 30 June 2019	<u>1,391,321</u>
At 1 July 2019	1,391,321
Charge for the year	1,076,693
De-recognition due to termination of lease	(691,736)
Translation differences on consolidation	<u>35,226</u>
At 30 June 2020	<u>1,811,504</u>
Carrying amounts	
At 30 June 2019	<u>1,815,233</u>
At 30 June 2020	<u>1,980,198</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

4 PROPERTY, PLANT AND EQUIPMENT (continued)

Estimation of useful lives of property, plant and equipment

The Group reviews the useful lives of property, plant and equipment at each reporting date in accordance with the accounting policy in note 3.3. The estimation of the useful lives involves significant judgement. The net book value of property, plant and equipment at 30 June 2020 was \$29,079,591 (2019: \$30,811,334) and the annual depreciation charge for the year ended 30 June 2020 was \$5,698,119 (2019: \$5,461,839). If the actual useful lives of the property, plant and equipment were longer or shorter than the management's estimate by one year on average, the Group's annual depreciation charge would reduce by \$660,961 (2019: \$636,627) or increase by \$878,101 (2019: \$847,811) respectively.

Valuation of property, plant and equipment

During the year, the Company carried out a review of the recoverable amount of MMUS's property, plant and equipment, in view of its loss-making position. The recoverable amount was determined based on value in use method. As a result of the review, no impairment loss was recognised in profit or loss during the year (and in 2019).

5 SUBSIDIARIES

	Company	
	2020	2019
	\$	\$
Investments in subsidiaries, at cost	35,527,955	35,527,955
Impairment losses	(6,432,411)	(6,432,411)
	29,095,544	29,095,544

The investments in subsidiaries in the Company's statement of financial position are stated at cost less accumulated impairment losses. Details of the subsidiaries are as follows:

Name of subsidiary	Principal activities	Place of incorporation and business	Percentage of equity held by the Group		Cost	
			2020	2019	2020	2019
			%	%	\$	\$
Micro-Mechanics Pte Ltd ¹	Manufacturing of precision tools	Singapore	100	100	5,463,500	5,463,500
Micro-Mechanics Technology Sdn Bhd ²	Manufacturing of precision tools	Malaysia	100	100	856,875	856,875
Micro-Mechanics Technology International, Inc. ²	Manufacturing of precision tools	The Philippines	100	100	347,200	347,200
Micro-Mechanics Technology (Suzhou) Co. Ltd ²	Manufacturing of precision tools	People's Republic of China	100	100	2,544,407	2,544,407
Micro-Mechanics Inc. ³	Manufacturing of precision components and modules and sale of precision tools	United States of America				
			100	100	26,315,973	26,315,973
					35,527,955	35,527,955

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

5 SUBSIDIARIES (continued)

- 1 Audited by KPMG LLP, Singapore.
- 2 Audited by other member firms of KPMG International.
- 3 Audited by Fiondella, Milone & LaSaracina LLP.

During the year, the Company carried out a review of the recoverable amount of its investment in MMUS. The recoverable amount was determined based on value in use method. As a result of the review, no additional impairment loss was recognised in profit or loss during the year (and in 2019).

6 INVENTORIES

	Group	
	2020	2019
	\$	\$
Raw materials	1,467,941	1,513,713
Work-in-progress	2,032,021	864,053
Finished goods	1,897,186	2,136,893
	<u>5,397,148</u>	<u>4,514,659</u>

In 2020, raw materials and changes in finished goods and work-in-progress recognised in cost of sales amounted to \$29,893,433 (2019: \$27,962,857).

Valuation of inventories

The valuation of inventory at the lower of cost and net realisable value requires the Group to review inventories for their saleability and for indicators of obsolescence. This requires management to make estimates based on future market demand and their past experiences with similar inventories. In addition, judgements and estimates regarding future selling prices, level of demand and indicators of obsolescence must be made and used in connection with evaluating whether such write-downs are necessary and the amounts of such write-downs.

7 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020	2019	2020	2019
	\$	\$	\$	\$
Trade receivables	11,839,561	9,455,277	–	–
Other receivables	302,188	102,688	34	992
Deposits	350,027	293,053	–	–
Amount owing by subsidiaries (non-trade)	–	–	2,433,435	2,583,063
Financial assets at amortised cost	12,491,776	9,851,018	2,433,469	2,584,055
Advances to suppliers	788,363	436,105	–	–
Prepayments	523,073	491,060	8,835	12,835
Forward exchange contracts	23,624	30,132	–	–
Trade and other receivables	<u>13,826,836</u>	<u>10,808,315</u>	<u>2,442,304</u>	<u>2,596,890</u>
Non-current	1,109,205	428,008	–	–
Current	<u>12,717,631</u>	<u>10,380,307</u>	<u>2,442,304</u>	<u>2,596,890</u>
	<u>13,826,836</u>	<u>10,808,315</u>	<u>2,442,304</u>	<u>2,596,890</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

7 TRADE AND OTHER RECEIVABLES (continued)

The Group's non-current trade and other receivables of \$1,109,205 (2019: \$428,008) was due to advance payment made to suppliers to purchase plant and equipment and security deposits.

Amounts due from subsidiaries (non-trade)

Outstanding non-trade balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The amounts are classified as current as the Company expects to receive payment within the next 12 months.

8 CASH AND CASH EQUIVALENTS

	Group		Company	
	2020	2019	2020	2019
	\$	\$	\$	\$
Cash at banks and on hand	11,973,785	12,855,847	4,599,881	6,043,944
Fixed deposits	8,840,900	9,025,332	5,000,000	2,700,000
	<u>20,814,685</u>	<u>21,881,179</u>	<u>9,599,881</u>	<u>8,743,944</u>
Deposits pledged	(162,750)	(163,400)		
Cash and cash equivalents in the statement of cash flows	<u>20,651,935</u>	<u>21,717,779</u>		

The deposits pledged are for the banker's guarantees issued on behalf of subsidiary in Malaysia.

9 SHARE CAPITAL

Group and Company Fully paid ordinary shares, with no par value	2020		2019	
	No. of shares	\$	No. of shares	\$
At 1 July and 30 June	<u>139,031,881</u>	<u>14,782,931</u>	<u>139,031,881</u>	<u>14,782,931</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary share rank equally with regard to the Company's residual assets.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders.

The Group defines capital as share capital and accumulated profit.

The Group aims to obtain an optimal capital structure by balancing capital efficiency and financial flexibility. The Group manages the capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets.

There were no changes in the Group's approach in capital management during the year.

The Group and its subsidiaries are not subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

9 SHARE CAPITAL (continued)

Dividends

The following dividends were declared and paid by the Group and the Company:

For the year ended 30 June

	Group and Company	
	2020	2019
	\$	\$
Final tax-exempt dividend paid of 6.0 cents (2019: 6.0 cents) per share in respect of previous financial year	8,341,913	8,341,913
Interim tax-exempt dividend paid of 5.0 cents (2019: 4.0 cents) per share in respect of current financial year	6,951,594	5,561,275
	<u>15,293,507</u>	<u>13,903,188</u>

After the reporting date, the following dividends were proposed by the directors. The dividends have not been provided for, and there are no income tax consequences.

	Group and Company	
	2020	2019
	\$	\$
Final proposed tax-exempt dividend of 7.0 cents (2019: 6.0 cents) per share	9,732,232	8,341,913

10 RESERVES

	Group		Company	
	2020	2019	2020	2019
	\$	\$	\$	\$
Accumulated profits	43,021,070	43,664,534	25,602,968	24,928,388
Foreign currency translation reserve	329,672	(67,882)	–	–
Accumulated remeasurement on retirement benefits	(149,704)	(19,596)	–	–
	<u>43,201,038</u>	<u>43,577,056</u>	<u>25,602,968</u>	<u>24,928,388</u>

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

The accumulated remeasurement on retirement benefits comprise actuarial gains and losses which are recognised immediately in other comprehensive income in the period which they arise.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

11 DEFERRED TAX LIABILITIES

Movement in deferred tax assets and liabilities (prior to offsetting of balances) during the year is as follows:

Group	At 1 July 2018		Recognised in profit or loss (note 16)		Recognised in other comprehensive income		Exchange differences		At 30 June 2019		Recognised in profit or loss (note 16)		Recognised in other comprehensive income		Exchange differences		At 30 June 2020		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Deferred tax (assets)/ liabilities																			
Property, plant and equipment	1,365,165	8,527	8,527	-	-	(16,332)	1,357,360	30,627	-	(2,128)	1,385,859								
Others	55,267	(30,906)	(30,906)	2,298	2,298	2,036	28,695	(15,451)	(4,288)	(554)	8,402								
	1,420,432	(22,379)	(22,379)	2,298	2,298	(14,296)	1,386,055	15,176	(4,288)	(2,682)	1,394,261								

During the year, the Company's deferred tax expense of \$3,198 (2019: \$21,188) for temporary differences related to investments in subsidiaries are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

11 DEFERRED TAX LIABILITIES (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority. The amounts determined after appropriate offsetting are included in the statement of financial position as follows:

	Group		Company	
	2020	2019	2020	2019
	\$	\$	\$	\$
Deferred tax liabilities	1,440,847	1,434,464	210,762	213,960
Deferred tax assets	(46,586)	(48,409)	–	–
Net deferred tax liabilities	<u>1,394,261</u>	<u>1,386,055</u>	<u>210,762</u>	<u>213,960</u>

12 TRADE AND OTHER PAYABLES

	Group		Company	
	2020	2019	2020	2019
	\$	\$	\$	\$
Trade payables	978,855	683,580	–	–
Other payables	898,764	1,250,349	27,506	28,928
Accrued expenses	5,066,950	4,555,838	507,241	473,812
Deferred income – Government Grant	409,903	131,736	–	–
Advances from customers	104,179	141,120	–	–
Forward exchange contracts	25	4	–	–
Provision for retirement benefits	519,052	317,497	–	–
	<u>7,977,728</u>	<u>7,080,124</u>	<u>534,747</u>	<u>502,740</u>
Non-current	835,702	643,777	–	–
Current	<u>7,142,026</u>	<u>6,436,347</u>	<u>534,747</u>	<u>502,740</u>
	<u>7,977,728</u>	<u>7,080,124</u>	<u>534,747</u>	<u>502,740</u>

Included in accrued expenses is provision for reinstatement costs of:

Group	Reinstatement costs
	\$
At 1 July 2018	130,944
Unwind of discount on reinstatement costs	<u>7,387</u>
At 30 June 2019	<u>138,331</u>
At 1 July 2019	138,331
Additions	52,807
Unwind of discount on reinstatement costs	<u>7,803</u>
At 30 June 2020	<u>198,941</u>

The provision is due within 2 to 5 years and is classified as non-current liabilities.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

12 TRADE AND OTHER PAYABLES (continued)

The Group's non-current trade and other payables also include the provision for retirement benefits for employees of \$519,052 (2019: \$317,497).

The maturity analyses show the undiscounted cash flows of the Group's and the Company's financial liabilities on the basis of their earliest possible contractual maturity.

It is not expected that the cash flows included in the maturity analyses could occur significantly earlier, or at significantly different amounts.

Provision for retirement benefits

The Group has an unfunded, non-contributory defined benefits retirement plan covering its permanent employees. Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Group latest actuarial valuation date is 30 June 2020.

The following table shows the reconciliation from the opening balances to the closing balances of the retirement benefits liability recognised in the statements of financial position and its components.

	Group	
	2020	2019
	\$	\$
At 1 July	317,497	205,689
Included in profit or loss		
Current service cost	27,915	18,146
Interest cost	19,935	15,089
	<u>47,850</u>	<u>33,235</u>
Included in other comprehensive income		
Remeasurements arising from:		
Experience adjustment	6,148	18,307
Change in financial assumptions	123,556	51,517
	<u>129,704</u>	<u>69,824</u>
Exchange difference	24,001	8,749
At 30 June	<u>519,052</u>	<u>317,497</u>

The principal actuarial assumptions at the reporting date (expressed as weighted averages) are as follows:

	Group	
	2020	2019
	%	%
Discount rate	4.34	6.09
Salary increase rate	<u>5.00</u>	<u>5.00</u>

The discount rate assumption is based on the Bankers Association of the Philippines' PHP Bloomberg BVAL Reference Rates benchmark reference curve for the government securities market as of the valuation dates (or latest available), considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

12 TRADE AND OTHER PAYABLES (continued)

Provision for retirement benefits (continued)

The weighted-average duration of the retirement benefits obligation is 16.7 years (2019: 16.4 years).

Assumptions regarding future mortality have been based on published statistics and mortality tables.

Funding Policy

Benefit claims under the retirement benefits obligation are paid directly by the Group when they become due. The Group is not expected to make contributions in 2020.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefits obligation by the amounts shown below.

	Group			
	2020		2019	
	1% Increase	1% Decrease	1% Increase	1% Decrease
	\$	\$	\$	\$
Discount rate	(77,841)	93,508	(46,947)	57,068
Salary increase rate	95,153	(78,071)	57,121	(47,801)

While the Group believes that, the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the recognised income and expenses and related assets or obligations.

The retirement benefits obligation is exposed to actuarial and longevity risks.

Maturity Profile

No future benefits payments are expected until the financial year 2026.

13 LEASE LIABILITIES

	2020	2019
	\$	\$
Maturity analysis – contractual undiscounted cash flows		
Less than one year	1,168,811	945,588
One to two years	658,520	1,002,932
Two to three years	406,935	–
Total undiscounted lease liabilities	<u>2,234,266</u>	<u>1,948,520</u>
Lease liabilities included in the statement of financial position		
– Current	1,079,298	847,230
– Non-current	900,564	967,621
	<u>1,979,862</u>	<u>1,814,851</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

13 LEASE LIABILITIES (continued)

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position is 5.4% (2019: 5.5%).

The Group applies practical expedient in paragraph C9(a) and C10(c) of SFRS(I) 16, that resulted in not applying the requirements in paragraphs 22 to 49 of SFRS(I) 16 to short-term leases and leases for which the underlying asset is of low value.

Reconciliation of movements of lease liabilities to cash flows arising from financing activities

	\$
At 1 July 2018	2,213,433
Addition of lease liabilities	635,385
Payment of lease liabilities	(1,109,070)
De-recognition of lease liabilities	(22,834)
Interest expense on lease liabilities	106,455
Translation difference on consolidation	(8,518)
At 30 June 2019	<u>1,814,851</u>
At 1 July 2019	1,814,851
Addition of lease liabilities	1,153,890
Payment of lease liabilities	(1,127,392)
Interest expense on lease liabilities	101,704
Translation difference on consolidation	36,809
At 30 June 2020	<u>1,979,862</u>

14 REVENUE

Revenue of the Group represents the value of goods invoiced to third parties. Revenue comprises sale of precision tools.

15 PROFIT BEFORE TAX

The following items have been included in arriving at profit before tax:

	Group	
	2020	2019
	\$	\$
Other income:		
– Exchange gain (net)	226,235	97,094
– Interest income	209,466	226,646
– Government grants	517,929	56,605
– Others	229,882	247,664
	<u>1,183,512</u>	<u>628,009</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

15 PROFIT BEFORE TAX (continued)

	Group	
	2020	2019
	\$	\$
Staff costs:		
– Wages and salaries	20,789,020	19,644,202
– Contribution to defined contribution plans	2,030,862	1,759,007
– Increase/(Decrease) in liability for unconsumed leave	32,289	(8,542)
– Employee benefit expense	47,850	33,235
	<u>22,900,021</u>	<u>21,427,902</u>
Interest on lease liabilities	101,704	106,455
Expenses relating to short term leases	18,986	7,200
Expenses related to leases of low value assets, excluding short term leases of low value assets	4,296	12,754
Audit fees:		
– auditors of the Company	118,250	118,250
– other member firms of the auditors of the Company	45,973	45,927
– other auditors	62,869	61,348
Non-audit fees:		
– auditors of the Company	16,396	23,400
– other member firms of the auditors of the Company	3,419	3,331
– other auditors	13,156	12,338
Depreciation of property, plant and equipment	6,774,812	6,530,719
Directors' remuneration:		
– directors of the Company	2,978,553	2,835,177
– other directors	148,828	267,409
Inventories written off	95,423	103,582
Property, plant and equipment written off	6,400	6,824
Loss on disposal of property, plant and equipment	29,454	2,329

16 TAX EXPENSE

	Group	
	2020	2019
	\$	\$
Tax charge		
Current year	4,477,206	4,282,148
Overprovision in prior years	(57,935)	(139,250)
	<u>4,419,271</u>	<u>4,142,898</u>
Deferred tax		
Origination and reversal of temporary differences	(1,604)	(15,786)
Under/(Over) provision in prior years	16,780	(6,593)
	<u>15,176</u>	<u>(22,379)</u>
Total tax expenses	<u>4,434,447</u>	<u>4,120,519</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

16 TAX EXPENSE (continued)

	Group	
	2020	2019
	\$	\$
Reconciliation of effective tax rate		
Profit before tax	19,084,490	17,069,224
Income tax calculated using the statutory tax rate of 17%	3,244,363	2,901,768
Non-deductible expenses	240,607	199,271
Income not subjected to tax	(144,479)	(80,739)
Deferred tax assets not recognised	34,086	176,670
Effect of tax incentives granted	(14,272)	(8,018)
Effect of tax rate in foreign jurisdictions	561,422	436,607
Withholding tax paid in foreign jurisdictions	553,141	658,238
Over provision in prior years	(41,155)	(145,843)
Others	734	(17,435)
	<u>4,434,447</u>	<u>4,120,519</u>

During the year, Micro-Mechanics Inc. had a loss before tax of US\$108,099 (2019: US\$762,332). The tax losses brought forward are subject to agreement with the tax authorities and compliance with tax regulations in the jurisdiction in which the subsidiary operate. Cumulative deferred tax assets with respect to taxable losses of US\$9,587,082 (2019: US\$9,478,983) have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

17 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on:

	Group	
	2020	2019
	\$	\$
Net profit for the year	14,650,043	12,948,705
Number of shares outstanding during the year	<u>139,031,881</u>	<u>139,031,881</u>

There is no difference between the basic earnings per ordinary share and the diluted earnings per ordinary share as there are no potentially dilutive ordinary shares at the end of either financial year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

18 RELATED PARTIES

Key management personnel compensation

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group. The directors and the facility heads of the Company and the subsidiaries are considered as key management personnel of the Group.

	Group	
	2020	2019
	\$	\$
Short-term benefits of key management personnel	3,565,156	3,494,933
Defined contribution and defined benefit plans	61,267	75,150
	3,626,423	3,570,083

Key management personnel and director transactions

Previously, the Group entered into an agreement with Sarcadia LLC, a shareholder of the Company and a company which is controlled by Christopher Reid Borch, a director of the Company, for the lease of a premise which is used as the office of Micro-Mechanics, Inc. The Group entered into an additional agreement with Sarcadia LLC in 2019 for the provision of electrical services. During the year, the Group made lease payments of \$535,940 (2019: \$509,849) and electrical services payments of \$226,200 (2019: \$115,966) to Sarcadia LLC. As at 30 June 2020, the amount of lease liability recognised for the lease of building is \$450,806 (2019: \$923,733). The balance is not secured and is payable under normal payment terms.

19 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing the risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

19 FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Financial assets at amortised cost

The following analysis provides further details about the calculation of expected credit loss (ECLs) related to trade receivables. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The ECLs were calculated based on actual credit loss experience over the past 3 years. The Group performed the calculation of ECL rates separately for distributors, subsidiaries and other customers. The Group also considers the demographics of the customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Based on Group's assessment, there are no ECLs recognised during the financial year.

The maximum exposure to credit risk for financial assets at amortised cost at the reporting date by type of customer is:

	Group		Company	
	2020	2019	2020	2019
	\$	\$	\$	\$
Distributors	327,322	282,517	–	–
Direct customers	11,526,022	9,172,761	–	–
Subsidiaries	–	–	2,433,435	2,583,063
Others	638,432	395,740	34	992
	<u>12,491,776</u>	<u>9,851,018</u>	<u>2,433,469</u>	<u>2,584,055</u>

The maximum exposure to credit risk for financial assets at amortised cost at the reporting date by geographical location is:

	Group		Company	
	2020	2019	2020	2019
	\$	\$	\$	\$
Singapore	1,863,621	854,994	34	992
Malaysia	1,740,380	1,966,969	–	–
Philippines	933,809	814,295	2,433,435	2,583,063
Thailand	225,630	188,123	–	–
USA	1,971,572	1,336,543	–	–
Europe	235,385	302,119	–	–
China	4,322,130	3,299,037	–	–
Japan	190,013	170,790	–	–
Taiwan	939,693	808,698	–	–
Others	69,543	109,450	–	–
	<u>12,491,776</u>	<u>9,851,018</u>	<u>2,433,469</u>	<u>2,584,055</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

19 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Financial assets at amortised cost (continued)

The aging of financial assets at amortised cost (excluding deposits) at the reporting date is:

	Group		Company	
	2020	2019	2020	2019
	\$	\$	\$	\$
Current	9,764,287	7,533,572	1,921,306	2,584,055
Past due 1 – 30 days	1,997,151	1,623,828	–	–
Past due 31 – 60 days	358,080	332,457	–	–
More than 60 days	22,231	68,108	512,163	–
	<u>12,141,749</u>	<u>9,557,965</u>	<u>2,433,469</u>	<u>2,584,055</u>

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group maintains the following line of credit:

- \$2,000,000 overdraft facility that is unsecured. Interest would be payable at 1.25% above the DBS Bank Prime rate.

At the reporting date, the Group has no outstanding payable on the line of credit.

The following is the expected contractual undiscounted cash outflows of financial liabilities and derivative financial instruments:

	Carrying amount	Contractual cash flows	Within 1 year	Within 2 to 5 years
	\$	\$	\$	\$
Group				
30 June 2020				
Non-derivative financial liabilities				
Trade and other payables*	<u>(7,155,531)</u>	<u>(7,155,531)</u>	<u>(7,037,822)</u>	<u>(117,709)</u>
Derivative financial instruments				
Forward exchange contracts – assets	23,599			
– Gross payments		(3,618,462)	(3,618,462)	–
– Gross receipts		<u>3,642,061</u>	<u>3,642,061</u>	–
		<u>23,599</u>	<u>23,599</u>	–

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

19 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Carrying amount \$	Contractual cash flows \$	Within 1 year \$	Within 2 to 5 years \$
30 June 2019				
Non-derivative financial liabilities				
Trade and other payables*	(6,483,172)	(6,483,172)	(6,411,693)	(71,479)
Derivative financial instruments				
Forward exchange contracts – assets	30,128			
– Gross payments		(3,849,559)	(3,849,559)	–
– Gross receipts		3,879,687	3,879,687	–
		30,128	30,128	–

* Excluding advances from customers, forward exchange contracts, provision for retirement benefits and provision for reinstatement costs.

	Carrying amount \$	Contractual cash flows \$	Within 1 year \$
Company			
30 June 2020			
Non-derivative financial liabilities			
Trade and other payables	(534,747)	(534,747)	(534,747)
30 June 2019			
Non-derivative financial liabilities			
Trade and other payables	(502,740)	(502,740)	(502,740)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's exposure to foreign currency risk relates primarily to its US dollar, Japanese yen and Philippines peso denominated financial assets and liabilities. The Group is also exposed to the foreign currencies of the countries in which the subsidiaries operate. The Group endeavours to minimise such exposures as far as possible by matching assets and liabilities of the same currency although there is no formal hedging policy. As at 30 June 2020, the Group had outstanding foreign exchange contracts with notional amounts of approximately \$3,642,061 (2019: \$3,879,687) to manage exposure to foreign currency fluctuation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

19 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

The Group's and Company's exposure to foreign currency risks in the Singapore dollar equivalents are as follows:

	US dollar \$	Japanese yen \$
Group		
30 June 2020		
Trade and other receivables	3,562,807	190,013
Cash and cash equivalents	1,272,839	144,543
Trade and other payables	(54,533)	(127,442)
	<u>4,781,113</u>	<u>207,114</u>
30 June 2019		
Trade and other receivables	4,451,567	208,722
Cash and cash equivalents	401,820	34,587
Trade and other payables	(160,511)	(39,763)
	<u>4,692,876</u>	<u>203,546</u>
Company		
30 June 2020		
Trade and other receivables	–	2,433,435
Cash and cash equivalents	280,924	–
	<u>280,924</u>	<u>2,433,435</u>
30 June 2019		
Trade and other receivables	–	2,583,063
Cash and cash equivalents	1,813	–
	<u>1,813</u>	<u>2,583,063</u>

Sensitivity analysis

A 10% strengthening of Singapore dollar against the following currencies at the reporting date would increase/ (decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2020 \$	2019 \$
Group		
US dollar	(478,111)	(469,288)
Japanese yen	(20,711)	(20,355)
	<u>(500,822)</u>	<u>(489,643)</u>
Company		
US dollar	(28,092)	(181)
Philippines peso	(243,344)	(258,306)
	<u>(271,436)</u>	<u>(258,487)</u>

A 10% weakening of Singapore dollar against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

19 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, in respect of the fixed rate instruments a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

The Group does not have any variable rate instruments as at the reporting date.

Accounting classifications and fair values

Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Note	Financial assets at amortised cost \$	Designated at fair value \$	Other financial liabilities \$	Total carrying amount \$	Fair value \$
Group						
30 June 2020						
Trade and other receivables*	7	12,491,776	–	–	12,491,776	
Forward exchange contracts assets	7	–	23,624	–	23,624	23,624
Cash and cash equivalents	8	20,814,685	–	–	20,814,685	
		<u>33,306,461</u>	<u>23,624</u>	<u>–</u>	<u>33,330,085</u>	
Trade and other payables**	12	–	–	(7,155,531)	(7,155,531)	
Forward exchange contracts – liability	12	–	(25)	–	(25)	(25)
		<u>–</u>	<u>(25)</u>	<u>(7,155,531)</u>	<u>(7,155,556)</u>	
30 June 2019						
Trade and other receivables*	7	9,851,018	–	–	9,851,018	
Forward exchange contracts – assets	7	–	30,132	–	30,132	30,132
Cash and cash equivalents	8	21,881,179	–	–	21,881,179	
		<u>31,732,197</u>	<u>30,132</u>	<u>–</u>	<u>31,762,329</u>	
Trade and other payables**	12	–	–	(6,483,172)	(6,483,172)	
Forward exchange contracts – liability	12	–	(4)	–	(4)	(4)
		<u>–</u>	<u>(4)</u>	<u>(6,483,172)</u>	<u>(6,483,176)</u>	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

19 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Accounting classifications and fair values (continued)

Fair value versus carrying amounts (continued)

	Note	Financial assets at amortised cost \$	Designated at fair value \$	Other financial liabilities \$	Total carrying amount \$	Fair value \$
Company						
30 June 2020						
Trade and other receivables*	7	2,433,469	–	–	2,433,469	
Cash and cash equivalents	8	9,599,881	–	–	9,599,881	
		<u>12,033,350</u>	<u>–</u>	<u>–</u>	<u>12,033,350</u>	
Trade and other payables**	12	<u>–</u>	<u>–</u>	<u>(534,747)</u>	<u>(534,747)</u>	
30 June 2019						
Trade and other receivables*	7	2,584,055	–	–	2,584,055	
Cash and cash equivalents	8	8,743,944	–	–	8,743,944	
		<u>11,327,999</u>	<u>–</u>	<u>–</u>	<u>11,327,999</u>	
Trade and other payables**	12	<u>–</u>	<u>–</u>	<u>(502,740)</u>	<u>(502,740)</u>	

* Excluding advances to suppliers, prepayments and forward exchange contracts.

** Excluding advances from customers, forward exchange contracts, provision for reinstatement costs and provision for retirement benefits.

Fair value hierarchy

The table below analyses fair value measurements for financial assets and financial liabilities, the levels of fair value hierarchy based on the inputs to valuation techniques. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group	Level 2 \$	Total \$
30 June 2020		
Forward exchange contracts – asset	23,624	23,624
Forward exchange contracts – liability	<u>(25)</u>	<u>(25)</u>
30 June 2019		
Forward exchange contracts – asset	30,132	30,132
Forward exchange contracts – liability	<u>(4)</u>	<u>(4)</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

19 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Accounting classifications and fair values (continued)

Fair value versus carrying amounts (continued)

Fair value hierarchy (continued)

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Forward exchange contracts	<p><i>Market comparison technique:</i></p> <p>The fair values are based on financial institutions quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.</p>	Not applicable	Not applicable

20 SEGMENT REPORTING

The Group has five reportable segments, as discussed below, which are the Group's strategic business units. The strategic business units are managed separately because they require different marketing strategies. For each of the strategic business units, the Group's Executive Directors review internal management reports regularly. The following describes the operations in each of the Group's reportable segments:

- Singapore: Includes manufacturing and distributing of precision tools
- Malaysia: Includes manufacturing and distributing of precision tools
- The Philippines: Includes manufacturing and distributing of precision tools
- USA: Includes manufacturing of precision components and modules and distributing of precision tools
- China: Includes manufacturing and distributing of precision tools

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's Executive Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments.

Inter-segment pricing is determined on mutually agreed terms.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

20 SEGMENT REPORTING (continued)

Operating Segments

	Singapore \$	Malaysia \$	The Philippines \$	USA \$	China \$	Elimination \$	Consolidated \$
2020							
Total revenue from							
external customers	15,925,590	10,840,438	6,043,682	13,602,414	17,795,626	–	64,207,750
Inter-segment revenue	<u>6,632,347</u>	<u>1,520,962</u>	<u>444,247</u>	<u>211</u>	<u>64,245</u>	<u>(8,662,012)</u>	<u>–</u>
Total revenue	<u>22,557,937</u>	<u>12,361,400</u>	<u>6,487,929</u>	<u>13,602,625</u>	<u>17,859,871</u>	<u>(8,662,012)</u>	<u>64,207,750</u>
Segment results	6,148,473	4,848,441	2,493,186	(149,702)	6,319,094	(1,969)	19,657,523
Unallocated expenses							<u>(573,033)</u>
Profit from operations							19,084,490
Tax expense							<u>(4,434,447)</u>
Net profit for the year							<u>14,650,043</u>
Segment assets	19,479,065	12,746,222	4,168,924	13,863,658	13,220,358	(1,941,933)	61,536,294
Unallocated assets:							
Others							<u>9,608,750</u>
Total assets							<u>71,145,044</u>
Segment liabilities	4,461,215	836,459	3,825,112	1,414,773	2,661,604	(3,776,320)	9,422,843
Unallocated liabilities:							
Tax	1,844,842	602,840	57,184	–	481,537	217,082	3,203,485
Others							<u>534,747</u>
Total liabilities							<u>13,161,075</u>
Other segment information							
Capital expenditure	1,838,234	482,880	421,563	393,871	569,105	–	3,705,653
Depreciation	2,008,424	917,430	589,153	2,293,631	966,174	–	6,774,812
Non-current assets	<u>11,636,108</u>	<u>5,027,961</u>	<u>2,199,948</u>	<u>9,228,033</u>	<u>4,220,605</u>	<u>(97,075)</u>	<u>32,215,580</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

20 SEGMENT REPORTING (continued)

Operating Segments (continued)

	Singapore \$	Malaysia \$	The Philippines \$	USA \$	China \$	Elimination \$	Consolidated \$
2019							
Total revenue from							
external customers	14,397,292	11,792,273	6,368,866	11,303,664	16,468,851	–	60,330,946
Inter-segment revenue	<u>6,304,772</u>	<u>1,049,005</u>	<u>586,015</u>	<u>262</u>	<u>–</u>	<u>(7,940,054)</u>	<u>–</u>
Total revenue	<u>20,702,064</u>	<u>12,841,278</u>	<u>6,954,881</u>	<u>11,303,926</u>	<u>16,468,851</u>	<u>(7,940,054)</u>	<u>60,330,946</u>
Segment results	4,488,533	5,447,959	3,172,631	(1,039,236)	5,397,562	292,467	17,759,916
Unallocated expenses							<u>(690,692)</u>
Profit from operations							17,069,224
Tax expense							<u>(4,120,519)</u>
Net profit for the year							<u>12,948,705</u>
Segment assets	19,327,114	13,532,830	4,300,017	14,848,922	11,713,017	(2,600,542)	61,121,358
Unallocated assets:							
Others							<u>8,757,771</u>
Total assets							<u>69,879,129</u>
Segment liabilities	3,866,043	725,752	3,968,383	2,644,750	1,773,833	(4,586,529)	8,392,232
Unallocated liabilities:							
Tax							2,624,167
Others							<u>502,743</u>
Total liabilities							<u>11,519,142</u>
Other segment information							
Capital expenditure	1,241,939	710,876	407,835	644,355	413,140	–	3,418,145
Depreciation	1,943,152	837,341	568,561	2,246,595	935,070	–	6,530,719
Non-current assets	<u>10,766,637</u>	<u>5,457,836</u>	<u>2,177,677</u>	<u>10,746,149</u>	<u>4,051,760</u>	<u>(97,075)</u>	<u>33,102,984</u>

Major customers

Revenues of major customers (contributing more than 10% of total revenue from external customers of each segment) of the reportable segments are as follows:

	Singapore \$	Malaysia \$	The Philippines \$	USA \$	China \$	Total \$
2020						
Revenue	–	1,286,050	3,601,220	13,095,716	2,802,548	20,785,534
Number of customers	<u>–</u>	<u>1</u>	<u>3</u>	<u>5</u>	<u>1</u>	<u>10</u>
2019						
Revenue	–	3,150,546	5,068,056	10,057,404	2,778,927	21,054,933
Number of customers	<u>–</u>	<u>2</u>	<u>4</u>	<u>4</u>	<u>1</u>	<u>11</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2020

21 COMMITMENTS

Apart from the obligations set out elsewhere, the Group had the following commitments as at reporting date:

	Group	
	2020	2019
	\$	\$
Capital commitments:		
– contracted but not provided for	<u>3,156,102</u>	<u>2,914,005</u>

SHAREHOLDERS' STATISTICS

As at 3 September 2020

SHARE CAPITAL

Number of Shares	:	139,031,881
Class of Shares	:	Fully paid ordinary shares
Voting Rights	:	On a poll – 1 vote for each ordinary share held

Based on the information available to the Company as at 3 September 2020, the percentage of shareholding held in the hands of the public is approximately 39.81% which is more than 10% of the issued ordinary shares of the Company. Therefore Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited has been complied with. The Company did not have any treasury shares or subsidiary holdings (as defined in the Listing Manual) as at 3 September 2020.

SUBSTANTIAL SHAREHOLDERS AS AT 3 SEPTEMBER 2020

Name	Shareholdings beneficially held by the substantial shareholder		Other shareholdings in which the substantial shareholder is deemed to have an interest	
	No. of Shares	%	No. of Shares	%
1 Christopher Reid Borch	34,474,913*	24.80	37,860,256**	27.23
2 Sarcadia LLC	37,760,256	27.16	–	–
3 Low Ming Wah***	7,126,001	5.13	1,000	0.00
4 Frederic Louis Borch****	859,500	0.62	37,760,256	27.16
5 Andrea W. Borch****	–	–	37,760,256	27.16
6 Kyle Christopher Borch****	25,000	0.02	37,760,256	27.16
7 Tyler Campbell Borch****	25,000	0.02	37,760,256	27.16
8 Cameron Louis Borch****	25,000	0.02	37,760,256	27.16
9 Allison Ruth Borch****	25,000	0.02	37,760,256	27.16

* 34,474,913 shares held in the name of Christopher R. Borch's nominee, Citibank Nominees Singapore Pte Ltd.

** Deemed to be interested in 37,760,256 shares held by Sarcadia LLC and 100,000 shares held by his children.

*** Deemed to be interested in 1,000 shares held by spouse.

**** Deemed to be interested in 37,760,256 shares held by Sarcadia LLC.

SHAREHOLDERS' STATISTICS

As at 3 September 2020

ANALYSIS OF SHAREHOLDERS BY RANGE AS AT 3 SEPTEMBER 2020

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued share capital
1 – 99	17	1.10	605	0.00
100 – 1,000	422	27.28	300,500	0.22
1,001 – 10,000	739	47.77	3,274,222	2.36
10,001 – 1,000,000	357	23.08	27,145,953	19.52
1,000,001 and above	12	0.77	108,310,601	77.90
Total	1,547	100.00	139,031,881	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 3 SEPTEMBER 2020

Name	No. of Shares	% of Issued share capital
1 Citibank Nominees Singapore Pte Ltd	42,499,144	30.57
2 Sarcardia LLC	37,760,256	27.16
3 Low Ming Wah	7,126,001	5.13
4 DBS Nominees Pte Ltd	3,855,600	2.77
5 Raffles Nominees (Pte) Limited	3,656,900	2.63
6 Lam Yen Yong	3,256,000	2.34
7 Chow Kam Wing	2,811,000	2.02
8 Tan Eng Yam @ Tan Eng Ann	2,171,400	1.56
9 Tan Eng Yam Holdings Pte Ltd	1,602,700	1.15
10 Tan Boon Khak Holdings Pte Ltd	1,541,100	1.11
11 Yeap Lam Yang	1,029,000	0.74
12 Karl Zurfluh	1,001,500	0.72
13 Lim Yong Wah	971,100	0.70
14 Maybank Kim Eng Securities Pte Ltd	917,350	0.66
15 Tan Kok Ching	867,450	0.62
16 Frederic Louis Borch	859,500	0.62
17 Ang Lian Huat	810,000	0.58
18 Chew Kwai Yoke	805,000	0.58
19 United Overseas Bank Nominees Pte Ltd	648,200	0.47
20 Lim Low Yeok	585,700	0.42
Total	114,774,901	82.55

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty-Fourth Annual General Meeting of the Company will be convened and held by way of electronic means on Friday, 30 October 2020 at 9.00 a.m. to transact the following business.

Ordinary Business

- 1 To receive and adopt the Directors' Statement and Audited Financial Statements for the financial year ended 30 June 2020 and the Auditors' Report thereon. **[Resolution 1]**
- 2 To declare a final dividend of five cents per ordinary share tax exempt (one-tier) and a special dividend of two cents per ordinary share tax exempt (one-tier) for the financial year ended 30 June 2020. **[Resolution 2]**
- 3 To re-elect Mr Christopher Reid Borch, who retires by rotation pursuant to Regulation 97 of the Company's Constitution, as Director of the Company. **[Resolution 3]**
- 4 To re-elect Ms Lai Chin Yee, who retires by rotation pursuant to Regulation 97 of the Company's Constitution, as Director of the Company. **[Resolution 4]**
- 5 To approve the payment of Directors' Fees of S\$455,187 for the financial year ended 30 June 2020 (2019: S\$437,538) **[Resolution 5]**
- 6 To re-appoint KPMG LLP as Auditors of the Company and to authorise the Directors to fix their remuneration. **[Resolution 6]**
- 7 To transact any other business that may be transacted at an Annual General Meeting.

Special Business

To consider and, if thought fit, to pass the following as Ordinary Resolution, with or without modifications:-

8 **Authority to allot and issue shares in the capital of the Company**

That pursuant to Section 161 of the Companies Act, Chapter 50 (Act), the Constitution and the listing rules of the Singapore Exchange Securities Trading Limited (SGX-ST), authority be and is hereby given to the Directors of the Company to:-

- (a) (i) allot and issue shares in the capital of the Company (**Shares**) (whether by way of rights, bonus or otherwise); and/or
- (ii) make or grant offers, agreements, or options (collectively, **Instruments**) that might or would require Shares to be issued, including but not limited to the creation and issue of warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING

- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instruments made or granted by the Directors while this Resolution was in force,

provided that:

- (1) the aggregate number of Shares to be issued pursuant to this Resolution (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time of the passing of this Resolution (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares issued other than on a pro-rata basis to existing shareholders (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 10% of the Company's total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) (as calculated in accordance with sub-paragraph (2) below); and
- (2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) shall be calculated based on the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time of the passing of this Resolution, after adjusting for:–
- (a) new Shares arising from the conversion or exercise of convertible securities or from the exercise of share options or vesting of share awards which were issued and are outstanding or subsisting at the time this Resolution is passed, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the SGX-ST Listing Manual; and
- (b) any subsequent bonus issue, consolidation or subdivision of Shares;
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the requirements imposed by the SGX-ST from time to time and the provisions of the listing rules of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company; and
- (4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier.

[Resolution 7]

By Order of the Board

Chow Kam Wing
Company Secretary
1 October 2020
Singapore

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING

Explanatory Notes:

- (1) For ordinary resolutions 3 and 4, detailed information on the two Directors can be found in the sections on “Board of Directors”, “Corporate Information”, “Corporate Governance” and “Additional Information on Directors Seeking Re-election” in the Company’s Annual Report FY2020.

Ms Lai Chin Yee, if re-elected as Director of the Company, will remain as Chairman of the Audit Committee and Risk Management Committee and a member of the Remuneration Committee and Nominating Committee and will be considered as an independent director.

- (2) The ordinary resolution 7, if passed, will empower the Directors from the date of this Annual General Meeting until the date of the next Annual General Meeting to issue Shares, make or grant instruments convertible into Shares and to issue Shares pursuant to such instruments up to an aggregate number not exceeding 50% of the total number of issued Shares excluding treasury shares and subsidiary holdings, if any, in the capital of the Company, with a sub-limit of 10% for issues other than on a pro-rata basis.

Notes:

1. Pre-Registration

This Annual General Meeting (“AGM”) is being convened, and will be held, by electronic means pursuant to the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020.

Alternative arrangements relating to attendance at the AGM via electronic means (including arrangements by which the meeting can be electronically accessed via live audio-visual webcast or live audio-only stream), submission of questions to the Chairman of the Meeting in advance of the AGM, addressing of substantial and relevant questions before or at the AGM and voting by appointing the Chairman of the Meeting as proxy at the AGM, are set out in the Notice of AGM dated 1 October 2020 which has been uploaded on SGXNET on the same day. The announcement and Notice of AGM may also be assessed at the Company’s website at <https://micromechanics.listedcompany.com/>.

Members who wish to attend the AGM via live audio-visual webcast or live audio-only stream, must pre-register at the pre-registration website at <https://globalmeeting.bigbangdesign.co/micro-mechanics/> from **8.30 a.m. on 1 October 2020 till 9.00 a.m. on 27 October 2020** to enable the Company to verify their status as members.

Following the verification, authenticated members will receive a confirmation email by **11 a.m. on 29 October 2020** which will contain login details to access the live audio-visual webcast or a toll-free telephone number with details to access the live audio-only stream of the AGM proceedings. Members should not disclose such login details to persons who are not entitled to attend the AGM. Members who do not receive the confirmation email by **11 a.m. on 29 October 2020** may contact the Company’s Share Registrar, M & C Services Private Limited at +65 62280518 before 6.00 p.m. on 29 October 2020.

Persons who hold shares through relevant intermediaries, including CPF and SRS investors, and who wish to participate in the AGM should approach their respective relevant intermediaries as soon as possible in order for necessary arrangements to be made for their participation in the AGM.

2. Submission of Proxy Form

In view of the current Covid-19 control measures in Singapore, the AGM will be held by electronic means and a member will not be able to attend the AGM in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the AGM if such member wishes to exercise his/her/its voting rights at the AGM. The Chairman of the Meeting, as proxy, need not be a member of the Company. The Proxy Form is available on SGXNET and <https://micromechanics.listedcompany.com/>. A printed copy of the Proxy Form can also be found in the Annual Report 2020 which will be despatched to members. A member must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the Proxy Form, failing which the appointment of the Chairman of the Meeting as proxy for that resolution will be treated as invalid. The Proxy Form must be submitted in the following manner:

- if submitted electronically, be submitted via email to the Company’s Share Registrar, M & C Services Private Limited at GPD@mncsingapore.com; or
- if submitted by post, be deposited at M & C Services Private Limited at 112 Robinson Road, #05-01, Singapore 068902

in either case, by **9.00 a.m. on 27 October 2020**.

A member who wishes to submit a Proxy Form must complete and sign the Proxy Form, before submitting it by post to the address provided above, or before scanning and sending it by email to the email address provided above.

CPF or SRS investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes by **5.00 p.m. on 20 October 2020**.

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING

3. Submission of Questions

Members can submit their questions related to the resolutions to be tabled at the AGM to the Chairman of the Meeting, in advance of the AGM, via the pre-registration website when they register for the webcast. Members can also send their questions by email to investor@micro-mechanics.com or by post to the Company at Micro-Mechanics (Holdings) Ltd, 31 Kaki Bukit Place, Eunos Techpark, Singapore 416209.

When sending in your questions by post or by email, please also provide the following details:

- a. your full name;
- b. number of shares held; and
- c. the manner in which you hold shares in the Company (e.g. via CDP, CPF or SRS).

All questions must be submitted by **9.00 a.m. on 27 October 2020**. Members will not be able to ask questions at the AGM live during the webcast or audio-stream.

The Company will endeavour to address all substantial and relevant questions related to the resolutions to be tabled at the AGM before or at the AGM. A summary of the questions and responses will be published on SGXNET and the Company's website.

4. Annual Report

The Annual Report 2020 has been made available on SGXNET and the Company's website at <https://micromechanics.listedcompany.com/>. A printed copy of the Annual Report 2020 which includes the Notice of AGM and Proxy Form will be despatched to members.

Personal data privacy:

By (a) submitting an instrument appointing the Chairman of the Meeting as proxy to attend, speak and vote at the AGM and/or any adjournment thereof, (b) completing the pre-registration in accordance with the Company's announcement dated 1 October 2020, or (c) submitting any question prior to the AGM in accordance with the Company's announcement dated 1 October 2020, a member of the Company consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the following purposes: (i) processing, administration and analysis by the Company (or its agents or service providers) of proxy forms appointing the Chairman of the Meeting as proxy for the AGM (including any adjournment thereof); (ii) processing of the pre-registration for purposes of granting access to members to the live audio-visual webcast or live audio-only stream of the AGM proceedings; (iii) addressing substantial and relevant questions from members received before the AGM and if necessary, following up with the relevant members in relation to such questions; (iv) preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the AGM (including any adjournment thereof); and (v) enabling the Company (or its agents or service providers) to comply with any applicable laws, listing rules, take-over rules, regulations and/or guidelines.

NOTICE OF RECORD DATE FOR DIVIDEND PAYMENT

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 6 November 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 6 November 2020 will be entitled to the proposed dividend.

The proposed dividend, if approved by the members at the Twenty-Fourth Annual General Meeting to be held on 30 October 2020, will be paid on 19 November 2020.

ADDITIONAL INFORMATION FOR DIRECTORS SEEKING RE-ELECTION

Name of Director	Christopher Reid Borch	Lai Chin Yee
Date of last appointment	25 June 1996	1 June 2014
Date of last re-appointment (if any)	30 October 2017	30 October 2017
Age	64	54
Country of principal residence	USA	Singapore
The Board's comments on this re-election/ appointment	After reviewing the recommendation of the Nominating Committee and Mr. Borch's performance and contribution and experience (as set out below), the Board has approved that Mr. Borch stands for re-election as Executive Director.	After reviewing the recommendation of the Nominating Committee and Ms. Lai's qualifications and experience (as set out below), the Board has confirmed Ms. Lai's independence and approved that Ms. Lai stands for re-election as a Non-Executive Independent Director.
Whether appointment is executive, and if so, the area of responsibility	Executive Director Group CEO	Non-Executive
Job title (e.g. Lead ID, AC Chairman, AC Member, etc)	Executive Director Group CEO	Non-Executive Independent Director; Member of Remuneration Committee; Chairman of Audit Committee, Member of Nominating Committee; Chairman of Risk Management Committee.
Professional qualification	Undergraduate degree from Furman University and MBA from The Wharton School at the University of Pennsylvania	Bachelor degree in Accountancy, National University of Singapore; Fellow member of the Institute of Singapore Chartered Accountants; Member of the Singapore Institute of Directors.
Working experience and occupation(s) during the past 10 years	Executive Director/Group CEO, Micro-Mechanics (Holdings) Ltd	Finance Director, Qian Hu Corporation Limited

ADDITIONAL INFORMATION FOR DIRECTORS SEEKING RE-ELECTION

Name of Director	Christopher Reid Borch	Lai Chin Yee
Shareholding interest in the listed issuer and its subsidiaries	Yes 34,474,913 ordinary shares in Micro-Mechanics (Holdings) Ltd (Direct interest) 37,860,256 ordinary shares in Micro-Mechanics (Holdings) Ltd (Deemed Interest)	Yes 20,000 ordinary shares in Micro-Mechanics (Holdings) Ltd (Direct Interest)
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	No	No
Conflict of interests (including any competing business)	No	No
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes
Other Principal Commitments* Including Directorships# * "Principal Commitments" has the same meaning as defined in the Code.		
Past (for the last 5 years)	Nil	Ryobi Kiso Holdings Limited
Present	Nil	Qian Hu Corporation Limited Singapore Paincare Holdings Limited
<u>Information required</u> Disclose the following matters concerning an appointment of director.		
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No

ADDITIONAL INFORMATION FOR DIRECTORS SEEKING RE-ELECTION

Name of Director	Christopher Reid Borch	Lai Chin Yee
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	<p>Ms Lai was the independent director of Ryobi Kiso Holdings Ltd. ("RKH") which was placed under judicial management in May 2019. Ms Lai, together with all the independent directors of RKH, stepped down as its independent director following the judicial management orders made on RKH, where all powers conferred and duties imposed on the directors by the Companies Act of Singapore or the Constitution of the company shall be exercised or performed by the judicial managers.</p> <p>As an independent director of RKH, Ms Lai was not involved in the day-to-day operation of RKH.</p>
(c) Whether there is any unsatisfied judgment against him?	No	No
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No

ADDITIONAL INFORMATION FOR DIRECTORS SEEKING RE-ELECTION

Name of Director	Christopher Reid Borch	Lai Chin Yee
(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:–		
(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No
(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No

ADDITIONAL INFORMATION FOR DIRECTORS SEEKING RE-ELECTION

Name of Director	Christopher Reid Borch	Lai Chin Yee
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or (iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No No	No No
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No

MICRO-MECHANICS (HOLDINGS) LTD.
(Incorporated in the Republic of Singapore)
(Company Registration No: 199604632W)

PROXY FORM

This proxy form has been made available on SGXNET and the Company's website at <https://micromechanics.listedcompany.com/>. A printed copy of the Annual Report 2020 which includes this proxy form will be despatched to members.

IMPORTANT

1. The Annual General Meeting ("AGM") is being convened, and will be held, by electronic means pursuant to the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020.
2. Alternative arrangements relating to attendance at the AGM via electronic means (including arrangements by which the meeting can be electronically accessed via live audio-visual webcast or live audio-only stream), submission of questions to the Chairman of the Meeting in advance of the AGM, addressing of substantial and relevant questions before or at the AGM and voting by appointing the Chairman of the Meeting as proxy at the AGM, are set out in the Notice of AGM dated 1 October 2020 which has been uploaded on SGXNET on the same day. The Notice of AGM may also be assessed at the Company's website at <https://micromechanics.listedcompany.com/>.
3. In view of the current Covid-19 control measures in Singapore, the AGM will be held by electronic means and a member will not be able to attend the AGM in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the AGM if such member wishes to exercise his/her/its voting rights at the AGM. Please read the notes overleaf which contain instructions on, among others, the appointment of the Chairman of the Meeting as a member's proxy to attend, speak and vote on his/her/its behalf at the AGM.
4. For CPF/SRS investors who have used their CPF/SRS monies to buy shares in Micro-Mechanics (Holdings) Ltd., this proxy form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks/SRS Operators to submit their votes by 5.00 p.m. on 20 October 2020.
5. By submitting an instrument appointing the Chairman of the Meeting as proxy, the member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 1 October 2020.

I/We _____ NRIC/Passport/Co. Registration No. _____

of _____
being a member/members of **MICRO-MECHANICS (HOLDINGS) LTD.** hereby appoint:

the Chairman of the Meeting

as my/our proxy to attend, speak and vote for me/us on my/our behalf at the 24th Annual General Meeting of the Company to be held by way of electronic means on Friday, 30 October 2020 at 9.00 a.m. and at any adjournment thereof.

I/We have indicated with an "X" in the appropriate box against each item below how I/we wish the Chairman of the Meeting as my/our proxy to vote, or to abstain from voting.

No.	Resolutions Relating To:	No. of Votes For	No. of Votes Against	No. of Votes Abstain
ORDINARY BUSINESS				
1	Directors' Statement and Audited Financial Statements for the financial year ended 30 June 2020			
2	Payment of final and special dividends			
3	Re-election of Mr Christopher Reid Borch as director			
4	Re-election of Ms Lai Chin Yee as director			
5	Approval of directors' fees			
6	Re-appointment of KPMG LLP as auditors			
SPECIAL BUSINESS				
7	Authority to allot and issue new shares			

Note: Voting will be conducted by poll. If you wish the Chairman of the Meeting as your proxy to exercise all your votes "For" or "Against" the relevant resolution or to abstain from voting on the relevant resolution, please indicate with an "X" in the relevant box provided above. Alternatively, if you wish the Chairman of the Meeting as your proxy to exercise some of your votes "For" or some of your votes "Against" the relevant resolution, and/or to abstain from voting on the relevant resolution, please insert the relevant number of votes in the relevant boxes provided above. **In the absence of specific directions in respect of a resolution, the appointment of the Chairman of the Meeting as your proxy for that resolution will be treated as invalid.**

Dated this _____ day of _____ 2020.

Total Number of Shares held	
(a) CDP Register	
(b) Register of Members	

Signature(s) of Member(s) or
Common Seal of Corporate Member

IMPORTANT
PLEASE READ NOTES OVERLEAF



Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (maintained by The Central Depository (Pte) Limited), you should insert that number of shares. If you have shares registered in your name in the Register of Members (maintained by or on behalf of the Company), you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If the number of shares is not inserted, this form of proxy will be deemed to relate to all the shares held by you.
2. In view of the current Covid-19 control measures in Singapore, the AGM will be held by electronic means and a member will not be able to attend the AGM in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the AGM if such member wishes to exercise his/her/its voting rights at the AGM. In appointing the Chairman of the Meeting as proxy, a member (whether individual or corporate) must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the form of proxy, failing which the appointment of the Chairman of the Meeting as proxy for that resolution will be treated as invalid.

CPF or SRS investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes by 5.00 p.m. on 20 October 2020.
3. The Chairman of the Meeting, as proxy, need not be a member of the Company.
4. The instrument appointing the Chairman of the Meeting as proxy must be submitted to the Company in the following manner:
 - if submitted electronically, be submitted via email to the Company's Share Registrar, M & C Services Private Limited at GPD@mncsingapore.com; or
 - if submitted by post, be deposited at M & C Services Private Limited at 112 Robinson Road, #05-01, Singapore 068902,in either case, by 9.00 a.m. on 27 October 2020.

A member who wishes to submit an instrument of proxy must complete and sign the proxy form, before submitting it by post to the address provided above, or before scanning and sending it by email to the email address provided above.

5. The instrument appointing the Chairman of the Meeting as proxy shall be signed by the appointor or his attorney. Where the instrument appointing the Chairman of the Meeting as proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid. In the case of a corporation, the instrument appointing the Chairman of the Meeting as proxy shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.
6. The Company shall be entitled to reject the instrument appointing the Chairman of the Meeting as proxy if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company shall be entitled to reject an instrument appointing the Chairman of the Meeting as proxy if the member, being the appointor, is not shown to have any shares entered against his name in the Depository Register as at 72 hours before the time of the AGM, as certified by The Central Depository (Pte) Limited to the Company.

This page has been intentionally left blank

This page has been intentionally left blank

CORPORATE DIRECTORY

SUBSIDIARIES

SINGAPORE

Micro-Mechanics Pte Ltd

No. 31 Kaki Bukit Place
Eunos Techpark
Singapore 416209
Tel: 65-6746-8800
Fax: 65-6746-7700
Mmsingapore@micro-mechanics.com

MALAYSIA

Micro-Mechanics Technology Sdn. Bhd.

Lot P22, Phase 4
Free Industrial Zone
Bayan Lepas, 11900
Penang
Malaysia
Tel: 604-643-4648
Fax: 604-643-4628
Mmmalaysia@micro-mechanics.com

PHILIPPINES

Micro-Mechanics Technology International Inc.

Lot B2-1 C Carmelray Industrial Park II
Brgy Tulo, Calamba City, Laguna,
Philippines
Tel: 63-49-545-7718
Fax: 63-49-545-7719
Mmphilippines@micro-mechanics.com

CHINA

Suzhou Factory

Micro-Mechanics Technology (Suzhou) Co., Ltd

8A Suchun Industrial Square
No 428 Xing Long Street
Suzhou Industrial Park
P.R. China 215126
Tel: 86-512-8716-8800
Fax: 86-512-8716-7700
Mmsuzhou@micro-mechanics.com

USA

Micro-Mechanics, Inc.

465 Woodview Drive
Morgan Hill, California 95037
Tel: 408-779-2927
Fax: 408-779-9189
Mmusa@micro-mechanics.com

TAIWAN

Micro-Mechanics Taiwan

Representative Office
13F-8, No. 295, Sec 2
Kuan-Fu Road, Hsin Chu 300
Taiwan, R.O.C
Tel: 886-03-572-4835
Fax: 886-03-572-4845
Mmtaiwan@micro-mechanics.com



No. 31 Kaki Bukit Place
Eunos Techpark
Singapore 416209
T +65 6746 8800
F +65 6746 7700
www.micro-mechanics.com