

MICRO-MECHANICS (HOLDINGS) LTD

Unaudited Third Quarter Financial Statements Announcement for the period ended 31/03/2017

PART I INFORMATION REQUIRED FOR ANNOUNCEMENTS OF THIRD QUARTER RESULTS

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

		Group					
		Q3			Year-to-date (9 months)		
	Note	Jan to Mar 2017 S\$	Jan to Mar 2016 S\$	Change	Jul to Mar 2017 S\$	Jul to Mar 2016 S\$	Change
Revenue	(1)	14,241,672	12,529,565	13.7%	41,781,935	38,322,612	9.0%
Cost of sales	(2)	(6,064,210)	(5,370,404)	12.9%	(18,084,259)	(16,555,913)	9.2%
Gross profit		8,177,462	7,159,161	14.2%	23,697,676	21,766,699	8.9%
Other (expense)/income	(3)	(47,860)	233,809	(120.5%)	619,805	522,350	18.7%
Distribution costs	(4)	(807,865)	(743,274)	8.7%	(2,363,276)	(2,198,113)	7.5%
Administrative expenses	(5)	(2,116,174)	(1,903,100)	11.2%	(6,352,248)	(5,895,213)	7.8%
Other operating expenses	(6)	(886,760)	(1,083,583)	(18.2%)	(2,517,118)	(2,381,000)	5.7%
Profit from operations		4,318,803	3,663,013	17.9%	13,084,839	11,814,723	10.8%
Finance costs		-	-	-	-	-	-
Profit before income tax	(7)	4,318,803	3,663,013	17.9%	13,084,839	11,814,723	10.8%
Income tax expense	(8)	(854,641)	(927,007)	(7.8%)	(2,877,950)	(2,762,327)	4.2%
Profit after tax		3,464,162	2,736,006	26.6%	10,206,889	9,052,396	12.8%
Non-controlling interests		-	-	-	-	-	-
Profit for the period		3,464,162	2,736,006	26.6%	10,206,889	9,052,396	12.8%
Statement of Comprehensive Income							
Profit for the period		3,464,162	2,736,006	26.6%	10,206,889	9,052,396	12.8%
Other comprehensive income:							
Foreign currency translation differences for foreign operations, net of tax		(573,654)	(76,016)	654.6%	(611,503)	(1,107,281)	(44.8%)
Total comprehensive income for the period		2,890,508	2,659,990	8.7%	9,595,386	7,945,115	20.8%

Notes:

- Please refer to section 8 of this announcement for an analysis of the Group's revenue.
- Cost of sales increased in line with the increase in sales. Production headcount increased from 288 in 3Q16 to 308 in 3Q17 mainly from our Singapore plant.

- (3) Other income consists of:

	Q3			Year-to-date (9 months)		
	Jan to Mar 2017 S\$	Jan to Mar 2016 S\$	Change	Jul to Mar 2017 S\$	Jul to Mar 2016 S\$	Change
(Loss)/Gain on disposal of property, plant and equipment	(6,345)	19,884	(131.9%)	53,013	119,017	(55.5%)
Interest income from banks and others	30,495	36,489	(16.4%)	98,743	104,492	(5.5%)
Rental income	28,000	28,639	(2.2%)	85,493	84,605	1.0%
Government grant – Skill Redevelopment, Wage Credit and Capability Development Scheme	55,300	134,859	(59.0%)	90,417	162,532	(44.4%)
Exchange (loss)/gain	(175,270)	-	n.m.	212,131	-	n.m.
Others	19,960	13,938	43.2%	80,008	51,704	54.7%

n.m.: Not meaningful

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

	Q3			Year-to-date (9 months)		
	Jan to Mar 2017 S\$	Jan to Mar 2016 S\$	Change	Jul to Mar 2017 S\$	Jul to Mar 2016 S\$	Change
Trade receivables written off	-	-	-	-	11,365	(100.0%)
Depreciation of property, plant and equipment	1,090,201	1,075,100	1.4%	3,276,189	3,335,133	(1.8%)
Exchange loss	-	366,392	(100.0%)	-	122,657	(100.0%)
Inventories written off	23,497	12,789	83.7%	71,159	50,914	39.8%
Fixed assets written off	3	17	(82.4%)	5,713	337	1595.3%

- (8) The effective tax rate for 3Q17 was 19.8% as compared to 25.3% in 3Q16. The lower effective tax rate in 3Q17 was mainly due to higher tax incentives claimed under the Singapore Productivity and Innovation Credit (PIC) Scheme. Included in the tax expense for the 3Q17 was withholding tax of S\$52k paid in relation to dividends remitted to Singapore from an overseas subsidiary and a provision made of S\$58k in relation to withholding tax on dividends to be remitted to Singapore from various overseas subsidiaries.
- (9) Depreciation expenses in 3Q17 increased marginally by 1.4% to S\$1.1 million due to machine additions.

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

	Note	Group 31 Mar 17 S\$	Group 30 Jun 16 S\$	Company 31 Mar 17 S\$	Company 30 Jun 16 S\$
Non-current assets					
Property, plant and equipment		24,657,103	25,551,395	-	-
Subsidiaries		-	-	18,364,744	18,364,744
Trade and other receivables		448,015	93,387	996,583	961,349
		25,105,118	25,644,782	19,361,327	19,326,093
Current assets					
Inventories		3,299,631	3,279,002	-	-
Trade and other receivables		10,994,559	10,337,194	3,486,512	3,768,101
Cash and cash equivalents		19,369,811	20,075,178	8,596,324	9,595,997
		33,664,001	33,691,374	12,082,836	13,364,098
Total assets		58,769,119	59,336,156	31,444,163	32,690,191
Shareholders' equity					
Share capital		14,782,931	14,782,931	14,782,931	14,782,931
Foreign currency translation reserve	(1)	(5,545,570)	(4,934,067)	-	-
Accumulated profits		40,869,340	40,394,683	16,375,271	17,550,014
		50,106,701	50,243,547	31,158,202	32,332,945
Non-current liabilities					
Deferred tax liabilities		1,439,740	1,307,986	-	-
Other payables		256,581	239,401	-	-
		1,696,321	1,547,387	-	-
Current liabilities					
Trade and other payables		5,560,864	5,948,920	281,676	352,210
Current tax payable		1,405,233	1,596,302	4,285	5,036
		6,966,097	7,545,222	285,961	357,246
Total liabilities		8,662,418	9,092,609	285,961	357,246
Total equity and liabilities		58,769,119	59,336,156	31,444,163	32,690,191

Notes:

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

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

Amount repayable in one year or less or on demand

As at 31 Mar 17		As at 31 Mar 16	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Amount repayable after one year

As at 31 Mar 17		As at 31 Mar 16	
Secured	Unsecured	Secured	Unsecured
Nil	Nil	Nil	Nil

Details of any collateral

Not applicable

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

		GROUP			
		Q3		Year-to-date (9 months)	
	Note	Jan to Mar 2017 S\$	Jan to Mar 2016 S\$	Jul to Mar 2017 S\$	Jul to Mar 2016 S\$
Cash flows from operating activities					
Profit before income tax		4,318,803	3,663,013	13,084,839	11,814,723
Adjustments for:					
Depreciation of property, plant and equipment		1,090,201	1,075,100	3,276,189	3,335,133
Fixed assets written off		3	17	5,713	337
Loss/(Gain) on disposal of property, plant and equipment		6,345	(19,884)	(53,013)	(119,017)
Interest income		(30,495)	(36,489)	(98,743)	(104,492)
Operating profit before changes in working capital		5,384,857	4,681,757	16,214,985	14,926,684
Inventories		(192,492)	(127,468)	(65,142)	127,270
Trade and other receivables		(396,170)	318,520	(1,127,455)	500,276
Trade and other payables		(1,203,616)	673,010	(585,562)	(754,305)
Cash generated from operations		3,592,579	5,545,819	14,436,826	14,799,925
Income tax paid		(993,524)	(856,446)	(2,752,318)	(2,429,821)
Net cash from operating activities		2,599,055	4,689,373	11,684,508	12,370,104
Cash flows from investing activities					
Purchase of property, plant and equipment		(227,880)	(1,782,395)	(2,437,093)	(2,924,384)
Proceeds from disposal of property, plant and equipment		15,793	20,264	100,393	223,465
Interest received		29,961	40,289	97,173	135,281
Net cash used in investing activities		(182,126)	(1,721,842)	(2,239,527)	(2,565,638)
Cash flows from financing activities					
Deposits pledged		-	(7,549)	-	5,925
Dividends paid	(1)	(4,170,957)	(2,780,638)	(9,732,232)	(6,951,594)
Net cash used in financing activities		(4,170,957)	(2,788,187)	(9,732,232)	(6,945,669)
Net (decrease)/ increase in cash and cash equivalents		(1,754,028)	179,344	(287,251)	2,858,797
Cash and cash equivalents at beginning of period		20,827,087	16,475,480	19,907,478	14,983,111
Effect of exchange rate fluctuations		138,852	237,388	(408,316)	(949,696)
Cash and cash equivalents at the end of period	(2)	19,211,911	16,892,212	19,211,911	16,892,212

Notes:

(1) The Company paid an interim dividend of 3.0 cents per ordinary share (one-tier tax exempt) in respect of FY2017.

(2) Cash and cash equivalent is derived from:

	Group 31 Mar 17 S\$	Group 31 Mar 16 S\$
Cash and cash equivalent balances	19,369,811	17,064,460
Less: Pledged cash placed with bank	(157,900)	(172,248)
	19,211,911	16,892,212

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Share Capital S\$	Foreign Currency Translation Reserve S\$	Accumulated Profits S\$	Total S\$
The Group				
As at 1 July 2016	14,782,931	(4,934,067)	40,394,683	50,243,547
Total comprehensive income for the period				
Net profit for the period	-	-	6,742,727	6,742,727
Other comprehensive income				
Foreign currency translation differences, net of tax	-	(37,849)	-	(37,849)
Total comprehensive income for the period	-	(37,849)	6,742,727	6,704,878
Transactions with owners, recorded directly in equity				
Final dividend of 3 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2016	-	-	(5,561,275)	(5,561,275)
Total transactions with owners, recorded directly in equity	-	-	(5,561,275)	(5,561,275)
As at 31 December 2016	14,782,931	(4,971,916)	41,576,135	51,387,150
As at 1 January 2017	14,782,931	(4,971,916)	41,576,135	51,387,150
Total comprehensive income for the period				
Net profit for the period	-	-	3,464,162	3,464,162
Other comprehensive income				
Foreign currency translation differences, net of tax	-	(573,654)	-	(573,654)
Total comprehensive income for the period	-	(573,654)	3,464,162	2,890,508
Transactions with owners, recorded directly in equity				
Interim dividend of 3 cents per share (one-tier tax exempt) in respect of FY2017	-	-	(4,170,957)	(4,170,957)
Total transactions with owners, recorded directly in equity	-	-	(4,170,957)	(4,170,957)
As at 31 March 2017	14,782,931	(5,545,570)	40,869,340	50,106,701

	Share Capital	Foreign Currency Translation Reserve	Accumulated Profits	Total
	S\$	S\$	S\$	S\$
The Company				
As at 1 July 2016	14,782,931	-	17,550,014	32,332,945
Total comprehensive income for the period				
Net profit for the period	-	-	3,188,350	3,188,350
Total comprehensive income for the period	-	-	3,188,350	3,188,350
Transactions with owners, recorded directly in equity				
Final dividend of 3 cents per share and special dividend of 1 cent per share (one-tier tax exempt) in respect of FY2016	-	-	(5,561,275)	(5,561,275)
Total transactions with owners, recorded directly in equity	-	-	(5,561,275)	(5,561,275)
As at 31 December 2016	14,782,931	-	15,177,089	29,960,020
As at 1 January 2017	14,782,931	-	15,177,089	29,960,020
Total comprehensive income for the period				
Net profit for the period	-	-	5,369,139	5,369,139
Total comprehensive income for the period	-	-	5,369,139	5,369,139
Transactions with owners, recorded directly in equity				
Interim dividend of 3 cents per share (one-tier tax exempt) in respect of FY2017	-	-	(4,170,957)	(4,170,957)
Total transactions with owners, recorded directly in equity	-	-	(4,170,957)	(4,170,957)
As at 31 March 2017	14,782,931	-	16,375,271	31,158,202

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

Nil

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

The total number of shares were 139,031,881 ordinary shares as at both 31 March 2017 and 31 March 2016. The Company did not have any treasury shares as at the end of the current financial period or at the end of the immediately preceding year.

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

Not applicable.

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

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

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

Not applicable.

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

Yes.

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

Not applicable.

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

	GROUP			
	Q3		Year-to-date (9 months)	
	Jan to Mar 2017	Jan to Mar 2016	Jul to Mar 2017	Jul to Mar 2016
Earnings per ordinary share for the year based on net profit after tax and non-controlling interest:-				
(i) Based on weighted average number of ordinary shares in issue	2.49 cents	1.97 cents	7.34 cents	6.51 cents
(ii) On a fully diluted basis	2.49 cents	1.97 cents	7.34 cents	6.51 cents

The calculation is based on the weighted average number of shares in issue during the financial year. The weighted average number of shares outstanding during the year was 139,031,881 (31 March 2016: 139,031,881).

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

	Group 31 Mar 17	Group 30 Jun 16	Company 31 Mar 17	Company 30 Jun 16
Net Asset Value per ordinary share (cents)	36.04	36.14	22.41	23.26

The net asset value per ordinary share is calculated based on net assets of S\$50.1 million (30 June 2016: S\$50.2 million) and 139,031,881 (30 June 2016: 139,031,881) shares in issue at the end of the current financial year reported on/immediately preceding financial year.

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

REVIEW OF PROFIT AND LOSS

Semiconductor Industry Review

Based on statistics compiled by the Semiconductor Industry Association (SIA), the global semiconductor industry has witnessed an encouraging start to 2017. After posting record annual sales of US\$338.9 billion in 2016, world-wide chip sales increased 15.2% to US\$61.0 billion in the first two months of 2017 to register its fastest year-on-year (yoy) growth in more than six years.

The SIA said the market's growth is being driven by macroeconomic factors, industry trends, and the ever-increasing amount of semiconductor technology in devices that the world depends on for countless applications. The China market continued to perform strongly with increases of over 20% yoy in the months of January and February 2017 while many other regional markets also posted double-digit growth.

In response to the strong global chip sales, the World Semiconductor Trade Statistics (WSTS) on 23 February 2017 revised its 2017 sales growth forecast to 6.5%, from 3% previously. WSTS expects the largest growth to come from sensors, analog, and memory products.

Group Revenue

REVENUE		1Q	2Q	3Q	4Q	Full Year
	FY2017	S\$13,358,519	S\$14,181,744	S\$14,241,672	NA	NA
	FY2016	S\$13,602,850	S\$12,190,197	S\$12,529,565	S\$12,928,430	S\$51,251,042
	% growth	(1.8%)	16.3%	13.7%	NA	NA

For the three months ended 31 March 2017 (3Q17), the Group's revenue increased 13.7% yoy to reach a quarterly record of S\$14.2 million from S\$12.5 million in 3Q16. This was driven mainly by higher sales in Singapore, Malaysia, Philippines and China. Group revenue in 3Q17 would have been higher if not for the translational impact of the depreciation of the Chinese Renminbi and Malaysian Ringgit by 6% and 3% respectively against the Singapore Dollars, the Group's reporting currency.

For the nine months ended 31 March 2017 (9M17), Group revenue increased 9.0% to S\$41.8 million from S\$38.3 million in 9M16.

Revenue breakdown by Geographical Market

Country	Group											
	2Q17		3Q17		3Q16		%	9M17		9M16		%
	S\$	S\$	%	S\$	%	change	S\$	%	S\$	%	change	
	m	m		m			m		m			
Singapore	1.1	1.2	8%	0.6	5%	94.5%	3.3	8%	2.0	5%	57.3%	
Malaysia	3.1	2.8	19%	2.6	21%	8.0%	8.9	21%	7.8	20%	14.0%	
Philippines	1.2	1.2	9%	1.0	9%	13.6%	3.6	9%	3.5	9%	4.6%	
Thailand	0.4	0.4	3%	0.3	2%	59.5%	1.2	3%	0.7	2%	65.9%	
China	3.6	3.7	26%	3.3	26%	12.9%	10.8	26%	10.9	28%	(1.0%)	
USA	2.2	2.4	17%	2.4	19%	0.7%	6.4	15%	6.0	16%	6.8%	
Europe	0.6	0.6	4%	0.6	5%	(5.5%)	1.7	4%	1.9	5%	(8.7%)	
Japan	0.3	0.2	2%	0.2	2%	17.9%	0.8	2%	0.7	2%	25.7%	
Taiwan	1.2	1.3	9%	1.2	9%	8.0%	3.8	9%	3.8	10%	0.4%	
Rest of world	0.5	0.4	3%	0.3	2%	18.7%	1.3	3%	1.0	3%	20.5%	
Total	14.2	14.2	100%	12.5	100%	13.7%	41.8	100%	38.3	100%	9.0%	

In 3Q17, the Group recorded yoy increases in sales across all our geographical markets with the exception of Europe. Sales in China increased 12.9% to S\$3.7 million to remain as our largest geographical market with a 26% contribution to Group revenue in 3Q17.

Malaysia, our second largest market, registered a sales increase of 8.0% to S\$2.8 million in 3Q17 to account for 19% of Group revenue. Sales in Singapore increased 94.5% to S\$1.2 million while our third largest market in the USA posted stable sales of S\$2.4 million in 3Q17.

Capacity Utilisation

Capacity Utilisation		1Q	2Q	3Q	4Q	Full Year
	FY2017	56%	56%	59%	NA	NA
	FY2016	54%	50%	55%	56%	54%

Our average capacity utilisation rate in 3Q17 increased to 59% from 55% in 3Q16, in tandem with the increase in Group sales.

Gross Profit (GP) Margin

Group GP Margin		1Q	2Q	3Q	4Q	Full Year
	FY2017	57.3%	55.4%	57.4%	NA	NA
	FY2016	57.3%	55.9%	57.1%	57.0%	56.9%

The Group's gross profit increased 14.2% to S\$8.2 million in 3Q17, which was in line with the 13.7% increase in revenue during the quarter. The Group's gross profit margin held steady at 57.4% in 3Q17 as compared to 57.1% in 3Q16.

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

Admin, Distribution and Other Operating Expenses (net of other income)		1Q	2Q	3Q	4Q	Full Year
	FY2017 % of sales	S\$3,156,679 23.6%	S\$3,597,499 25.4%	S\$3,858,659 27.1%	NA	NA
	FY2016 % of sales	S\$3,142,405 23.1%	S\$3,313,423 27.2%	S\$3,496,148 27.9%	S\$3,493,269 27.0%	S\$13,445,246 26.2%

Our total administrative, distribution and other operating expenses (net of other income) increased 10.4% to S\$3.9 million in 3Q17, from S\$3.5 million in 3Q16. As a percentage of sales however, these overhead expenses decreased to 27.1% in 3Q17 from 27.9% in the same quarter a year ago.

Distribution costs rose 8.7% to S\$808k due mainly to higher sales incentive payments. Administrative expenses increased 11.2% to S\$2.1 million due mainly to an increase in salary and performance bonus expenses. Other operating expenses decreased 18.2% to S\$887k in 3Q17. Although the Group recorded a foreign exchange loss of S\$175k during 3Q17, we registered a net exchange gain of S\$212k in 9M17 as a result of our currency hedging and other operational practices in place to mitigate the effect of foreign exchange fluctuations.

Profit before Tax and Net Profit

Net Profit after tax		1Q	2Q	3Q	4Q	Full Year
	FY2017	S\$3,380,488	S\$3,362,239	S\$3,464,162	NA	NA
	FY2016	S\$3,593,738	S\$2,722,652	S\$2,736,006	S\$2,831,013	S\$11,883,409
	% growth	(5.9%)	23.5%	26.6%	NA	NA

As a result of the above factors, the Group's profit before tax rose 17.9% to S\$4.3 million in 3Q17 from S\$3.7 million in 3Q16. After deducting income tax of S\$0.9 million in 3Q17, the Group reported a 26.6% increase in net profit to S\$3.5 million from S\$2.7 million in 3Q16. Net profit margin improved to 24.3% in 3Q17 as compared to 21.8% in 3Q16 and 23.7% in 2Q17.

The effective tax rate for 3Q17 was 19.8% as compared to 25.3% for 3Q16. The lower tax rate was mainly due to increased tax offsets for innovation and equipment investments made at our plant in Singapore and tax adjustments made for prior year.

For 9M17, the Group's net profit increased 12.8% to S\$10.2 million from S\$9.1 million in 9M16. Net profit margin improved to 24.4% in 9M17 as compared to 23.6% in 9M16. Correspondingly, the Group's earnings per share grew to 7.34 cents in 9M17 from 6.51 cents in 9M16.

Balance Sheet

As at 31 March 2017, the Group remained in a sound financial position with a balance sheet that had total assets of S\$58.8 million, shareholders' equity of S\$50.1 million, cash and cash equivalents of S\$19.4 million and no bank borrowings.

Long Term Assets

Non-current assets stood at S\$25.1 million as at 31 March 2017 as compared to S\$25.6 million as at 30 June 2016.

Trade Receivables

Trade Receivables		As at end of 1Q	As at end of 1H	As at end of 3Q	As at end of 2H
	FY2017	S\$9,298,863	S\$10,247,177	S\$10,153,208	NA
	≥ 90 days	0.8%	0.2%	0.2%	NA
	Write-off	-	-	-	NA
	FY2016	S\$9,906,118	S\$9,013,953	S\$8,731,332	S\$9,418,624
	≥ 90 days	0.2%	0.8%	1.3%	0.1%
	Write-off	-	0.1%	0.1%	0.1%

Total trade receivables as at 31 March 2017 increased to S\$10.2 million as compared to S\$9.4 million at the end of FY2016, in tandem with higher sales in 3Q17. Of this, 0.2% was outstanding for 90 days or more (0.1% at end of 30 June 2016). No bad debts were written off during the nine month period (0.1% during FY2016).

Trade & Other Payables

As at 31 March 2017, our trade payables totaled S\$0.9 million, of which S\$84k was outstanding for 30 days or more. Non-trade payables totaled S\$1.0 million. Other accrued expenses stood at S\$3.6 million.

Deferred Tax Liabilities

Deferred tax liabilities as at 31 March 2017 amounted to S\$1.4 million, as compared to S\$1.3 million as at 30 June 2016.

Inventory

As a percentage of annualised sales, our inventory of S\$3.3 million as at 31 March 2017 (S\$3.3 million as at 30 June 2016) was 5.9% (6.4% at end of FY2016). Inventory written off during 9M17 totaled S\$71k, as compared to S\$51k in corresponding nine months.

Capital Expenditure

Capital Expenditure		1Q	2Q	3Q	4Q	Full Year
	FY2017	S\$889,904	S\$1,319,309	S\$227,880	NA	NA
	% of sales					
	FY2016	S\$769,584	S\$372,405	S\$1,782,395	S\$1,171,437	S\$4,095,821
	% of sales					8.0%

The Group had capital expenditure totaling S\$0.2 million in 3Q17. This was mainly related to the purchase of equipment and machine accessories for our plant in Singapore. For 9M17, our capital expenditure amounted to S\$2.4 million.

Cash Flow Analysis

The Group generated net cash from operations of S\$2.6 million in 3Q17 (S\$4.7 million in 3Q16). Net cash used for investing activities amounted to S\$182k which was mainly in relation to capital expenditure. After distributing an interim dividend of S\$4.2 million during the quarter, we closed the period with cash and cash equivalents of S\$19.4 million, including S\$158k in pledged deposits.

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

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

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

Strategic, Operating and Financial Review

At the release of our full-year results for FY2016, we announced a major shift in the Group's strategy. Instead of working to build a separate business division at our plant in the USA to serve multiple industry segments, we decided to focus the engineering, development and investment efforts of the Group's five factories on serving the semiconductor industry. We believe this industry specific focus and dedication to developing and manufacturing parts and tools used in process-critical applications for semiconductor wafer-fabrication and assembly is the right strategy for the Group.

During 3Q17, Group revenue increased 13.7% to reach a record of S\$14.2 million from S\$12.5 million during the same quarter a year ago. Group profit before tax during the quarter also hit a record of S\$4.3 million, an increase of 17.9% from S\$3.7 million during 3Q16.

While growing the Group's top line and the value we create for our customers remains a key priority, we have also been working tirelessly to enhance our manufacturing processes, productivity and cost structure by focusing on various strategies, such as *24/7 Machining*, IT automation and department integration. In spite of ongoing cost and selling-price pressures, our GP margin in 3Q17 held steady at 57.4% compared to 57.1% in the same period a year ago.

We are also continuing to work diligently to keep a tight rein on overhead expenses. Despite ongoing cost pressures, we managed to keep the total increase in distribution, administrative and other expenses including other income during 3Q17 to just S\$0.36 million. As a result, our total overhead expenses of S\$3.9 million, when measured as a percentage of sales, declined to 27.1% from 27.9% during the same quarter a year ago. After deducting taxes of S\$0.85 million (S\$0.93 million in 3Q16), the Group reported a net profit of S\$3.5 million in 3Q17, an increase of 26.6% from S\$2.7 million in the same quarter a year ago.

As a by-product of our many improvement initiatives, we have gradually seen our manpower requirement decline about 25% from a headcount of 601 four years ago to 431 people at the end of FY2016. Although we have added 19 people during FY17 to bring our total workforce to 450, these personnel additions are mainly in non-supervisory and production roles aimed at strengthening our core manufacturing and delivery responsiveness. As we move forward, we intend to continue automating our operations and building improved processes.

With no bank borrowings to service and a careful watch over inventory and receivables, net cash generated from operating activities in 3Q17 totaled S\$2.6 million (S\$4.7 million for 3Q16). After net investing activities of S\$0.2 million primarily for new equipment and an interim dividend payment of S\$4.2 million, the Group ended the quarter in a strong financial position with S\$19.4 million in cash (including S\$0.2 million held as security deposits) and no bank borrowings.

Market, Industry and Competitive Conditions

On a short-term basis, business forecasting and planning will remain difficult. Visibility continues to be clouded by a host of political and economic uncertainties while continued unrest in various parts of the world coupled with rapid technological change and the effects of globalization make markets unpredictable, volatile and cost-competitive.

According to statistics compiled by the SIA, world-wide chip sales increased about 4.5% during the six-month period from July through December 2016 before growing at a faster pace of 15.2% in the first 2 months of 2017. Although the WSTS recently revised its growth forecast for world-wide semiconductor sales to 6.5% from its previous prediction of 3% growth, we believe the robust start to the year may foreshadow a prolonged period of stronger industry growth as chips become increasingly used in nearly every aspect of modern life. While this would be a welcome change from the sluggish industry conditions witnessed during 2016, the semiconductor industry is being increasingly driven by price-sensitive consumer applications. As such we expect to see

continued price and cycle-time pressures from our customers. Together with rising costs and a shortage of skilled workers, the operating environment for the Group is expected to remain challenging.

Key Operating Strategies

Despite these market and business conditions, we understand what is required for the Group to sustain its growth over the long term. We are continuing to focus on our customers and the value we bring to their businesses. Whether we design and manufacture a tool for a delicate semiconductor assembly process or machine a part used in a critical wafer-processing application, our mission is to deliver *Perfect Parts and Tools, On Time, Every Time* based on repeatable, scalable and cost-effective processes.

At Micro-Mechanics, we are fond of saying that *People Make Everything Happen*. Dealing with relentless cost pressures, adapting to rapid change and implementing new initiatives to improve key outcomes requires an effective culture. We define this as *the way our people make decisions and work together*. To be successful over the long-term, it is essential for our people at all levels to understand, embrace and act in ways that are consistent with our vision, mission, goals, strategies and core values. We want to keep learning how to better harness the enormous potential that every person at Micro-Mechanics has to make better decisions, be more effective and thereby enhance the value we create for our customers and other stakeholders.

To support this aim we began a training program several years ago called *MM University*. Beginning with a series of workshops on *Customer Value*, *Business Planning*, *24/7 Machining*, and *The Fundamentals of Value-Driven Decision Making*, our initial goal was to help our people understand the need to have a shared framework for making more informed and aligned decisions.

During the last few years, we have learned that it takes more than a series of workshops to build an effective decision-making framework and culture. Additionally, the training material needs to be easy for our people at all levels to understand and reference in their daily work and decision making. To this end, we recently completed the Group's second textbook designed to clearly explain the fundamentals of our repeatable, scalable and cost-effective methodology which we refer to as *24/7 Machining*. Ultimately, we want everyone at Micro-Mechanics to have the tools they can refer to and use every day as they make decisions, take actions and help us build a great company.

Transparency and Governance

Since listing in 2003, the Group has received recognition 21 times for our good corporate governance, transparency and investor relations practices. Transparency within an organisation - accurate, complete and timely information - is the foundation for sound decision making. We intend to continue working to build a strong corporate culture based on transparency, clear metrics of performance, stakeholder accountability and an unwavering commitment to good governance.

Appreciation and Stakeholder Value

Since our listing we have also maintained a consistent practice of rewarding shareholders for their continuous support of Micro-Mechanics. During the quarter, the Group paid an interim dividend of 3 cents per ordinary share (one-tier tax exempt) for the half year ended 31 December 2016 compared to an interim dividend of 2 cents per ordinary share paid for the same period a year ago. Including this latest interim dividend for 1H17, we have distributed a total of 48.9 cents per share to our shareholders since 2003. Based on dividends alone, this translates into a return of more than 265% for our shareholders who bought Micro-Mechanics shares at our Initial Public Offer.

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

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

Nil

(b) Corresponding Period of the Immediately Preceding Financial Year

Nil

(c) Date payable

Not applicable

(d) Books closure date

Not applicable

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

Not applicable

13. Interested Persons Transactions

The Group does not have a general mandate from shareholders for interested person transactions pursuant to Rule 920 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

For the financial period 9 months ended 31 March 2017, the Group has made rental payment of US\$261,000 (31 March 2016: US\$252,000) to Sarcadia LLC, a controlling shareholder of the Company and a family company set up by Mr. Christopher Reid Borch, the CEO of the Company.

Except for the above, there was no other interested person transaction relating to any director, controlling shareholders and their associates as defined in Chapter 9 of the Listing Manual.

14. Confirmation pursuant to Rule 705(5) of the Listing Manual

To the best of the Board of Directors' knowledge, nothing has come to their attention which may render the financial results of the Group and of the Company for the financial period ended 31 March 2017 to be false or misleading in any material aspect.

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

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

PART II ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

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

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

Not applicable

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

Not applicable

- 18. A breakdown of sales.**

Not applicable

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

Not applicable

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

Not applicable

BY ORDER OF THE BOARD

CHOW KAM WING
Company Secretary
28 April 2017