



MICRO-MECHANICS (HOLDINGS) LTD.

(Incorporated in the Republic of Singapore)
(Company Registration Number: 199604632W)

ANNOUNCEMENT

ANNUAL GENERAL MEETING TO BE HELD ON 29 OCTOBER 2021 – RESPONSES TO QUESTIONS FROM SHAREHOLDERS

The Board of Directors of Micro-Mechanics (Holdings) Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to thank shareholders for submitting their questions in advance of the Company’s Annual General Meeting (“AGM”) to be held on 29 October 2021 at 9.00 a.m. by way of electronic means.

Due to the large number of questions received from shareholders, including quite a few that involve confidential, competitive or other sensitive and restricted areas of disclosure, the Company regrets that it is unable to respond to every question. However, the Company hopes its answers set out in the following pages of this announcement provide additional meaningful information that will help shareholders to better understand the Group’s business, performance and strategies.

For ease of reference, we have categorised and grouped together questions which are related to certain resolutions of the AGM, similar in nature, or pertaining to the same subject matter.

By Order of the Board of Directors

Submitted by Chow Kam Wing,
Company Secretary
27 October 2021

ORDINARY RESOLUTION 1

GENERAL BUSINESS

- Q1. In page 120 of the annual report, it is reported that there are 4 customers contributing to about \$4.6m of revenue or 71% of the total revenue from The Philippines. Is there any particular reason why there is such a high concentration of a few major customers in The Philippines in contrast to other countries serving the semiconductor A&T segment?**

Although we serve nearly all of the 30 or so semiconductor companies in the Philippines, there are four larger companies that make up the majority of the market.

- Q2. There is a strong eco-system in Taiwan for semiconductors manufacturing, assembly and testing. So why not having a manufacturing facility in Taiwan and how do we serve the Taiwan market?**

The Group presently serves the Taiwan market efficiently from our operations in Singapore and Malaysia. At this juncture, we do not see the requirement for a manufacturing facility to serve our customers in Taiwan.

- Q3. Given that the China segment accounted for 36% of the segment result (Shown on page 118 of the Annual Report) will the major changes taking place in regard to Profitable Listed Companies and the concern of foreign Bond Holders particularly property listed companies, is this affecting Micro Mechanics in that market?**

To-date, the Group has not witnessed any impact from these factors on our sales in China. In terms of accounts receivables, our customers in China have been paying on time.

- Q4. From page 29 of your Annual Report, I note the Sustainability Report notes that less than 30% of your employees are younger than 30 years. How is the company dealing with the challenge of securing a constant flow of young engineering talent to replace retiring workers? (At the same time, I note that over 50% of employees have stayed with the company for over 5 years! That is a good reflection of the stability of the company's employee base.)**

At Micro-Mechanics, we believe "*People Make Everything Happen!*". Although we believe our attrition rate of less than 10% is better than the typical rate that we see for our industry, we are always looking to see what more we can do to attract, retain and build a great team of people. To this end, we help our people build good skills and work habits, as well as ensure recognition and reward are accorded to our people for their contributions. The Group has put in place a Performance Bonus Incentive scheme and Sales Incentive scheme. We believe building a conducive environment that promotes personal growth and rewards good performance will also aid us in attracting talents to the Group.

At the same time, we are cognizant that the labour situation remains tight. As such, the Group is also continually working on automating our operations around processes that are repeatable, scalable and cost-effective. This automation also extends to digitalizing our workflows for efficiency and mobility.

- Q5. Of the Group's total revenue, how much of it is considered recurring in nature?**

As many of the tools and parts that Group manufactures are consumable products that need to be replaced on a regular basis, a significant proportion of our revenue is recurring in nature.

Q6. Is the company facing any supply chain issues currently? If so, what is the likely impact on the company's performance in FY21/22?

While the supply chain picture has become more challenging, the Group has to-date not witnessed any significant impact. It is not appropriate for us to comment on the likely impact for FY2022.

Q7. Knowing that the company is serving more than 600 clients, does the company rely on a few clients who are the major contributors to the revenue? Any customers who contribute more than 10% of the company's revenue?

The Group is not reliant on a handful of customers and does not have concentrated exposure to any single customer as none accounted for more than 10% of Group revenue in the last five financial years up to FY2021.

Q8. Semiconductors being a cyclical industry, how will the company maintain good performance during the downtrend of the cycle?

The recurring nature of our consumable products makes the Group less susceptible to the cyclicity of the semiconductor industry. In addition, the Group is continually working on cost and operational improvements, and ensuring a sound financial position to be prepared for any industry downturn.

Q9. What is the effort of the management of the company to develop next-generation leaders for business continuation?

Management is constantly looking to identify employees who may be potential leaders in the organization and provide them with the necessary training programs and mentoring to build their leadership skills.

Q10. What is the company business expansion plan?

We believe the Group needs to have goals, structures and processes in place that make it easier to adapt to changes in the operating environment and ensure business continuity. To this end, we intend to continue focusing on the key fundamentals – maintaining a healthy gross profit margin; becoming a Next-Generation Supplier; controlling overhead expenses; driving performance through good governance; growing without debt; and building our people. Please refer to pages 2 to 4 of our FY2021 Annual Report for further details.

USA OPERATIONS (MMUS)

Q11. What is management's view on the revenue ceiling of your US segment? Thanks.

The Group is continually building on its business in the USA by working closely with key customers to clinch new programs and orders. Our intention is to pursue growth opportunities for our business in the USA that serves the wafer fabrication equipment (“WFE”) makers.

Q12. Could the management also help to explain why there is also a high concentration of a few key customers in USA, where 4 customers contribute 84% of total sales in USA? Is this unavoidable due to the nature of the wafer-fabrication equipment industry?

In the USA, our manufacturing facility is primarily engaged in the business of contract manufacturing of parts used in process-critical applications for WFE. Our strategy is to focus on a handful of customers in the USA that are major players in the WFE industry. As such, the customer concentration tends to be relatively higher at our USA subsidiary compared to our Asia subsidiaries which on aggregate, serve over 600 active customers.

Q13. The contract manufacturing of wafer-fabrication equipment parts has consistently contributed about 20% of the overall sales from FY 2019 to FY 2021. Going forward, is the management targeting a higher growth rate for the front-end wafer-fabrication business compared to the back-end A&T business so that it would be able to contribute to a higher and more significant proportion of the overall revenue in the future?

Given the current trajectory of the global semiconductor industry and published industry forecasts, we believe that our businesses in tools and parts for front-end WFE and back-end assembly & test processes are positioned to ride on the industry's growth. It is our intention to continue pursuing growth for our USA business.

Q14. For Front End Wafer Fabrication, is this business of the company only conducted in USA?

Yes, the manufacturing of parts for the WFE business is conducted at the Group's factory in the USA.

Q15. On page 118 of the Annual Report, the revenue generated from USA for FY2021 was about 20% of the total revenue. However, the profit made from USA was only about 7% of its revenue (\$1,218,522 of \$16,471,542), what is the reason for the low profit margin? High profit margins were achieved from businesses in Singapore, Malaysia, The Philippines and China.

In Asia, we have been building our tooling business for semiconductor assembly and test since starting our first factory in 1983. Over the past 38 years, we have developed proprietary knowledge, materials and manufacturing processes that enabled Micro-Mechanics to become a leading player in this market segment.

In the USA, we are now working to build similar proprietary processes and knowledge which we believe will ultimately over time result in higher margins for the business we are developing focused on parts needed for critical wafer-fabrication processes.

Q16. Congratulations on the turnaround in your US business! I can appreciate that it has been a long and challenging journey since you 1st made that US acquisition. Could you please share with us what are the key conditions that enabled the breakthrough performance in the US business? Was it new management? Improved market conditions that finally led to product-market fit? What are the key learnings from this episode?

Our USA subsidiary ("MMUS") continues to gain traction and visibility with several key customers that are leaders in the semiconductor equipment industry. We focus on delivering superior quality and cost effective products to gain a competitive edge. Our team in the USA has worked tirelessly to develop MMUS as an elite supplier for critical parts used in semiconductor wafer-fabrication. In the future, we believe there may only be a handful of suppliers capable of meeting the stringent specifications increasingly required by nano-level device geometries.

Q17. How fragmented is the wafer-fabrication tools & parts business? Are there opportunities for consolidation? Would there be scale benefits from consolidation?

For the WFE parts business, there is a range of suppliers from the big global contract manufacturers to small machine shops. At present, the Group is looking at organic growth for our wafer-fabrication business.

Q18. According to the "2021 State of the U.S. Semiconductor Industry" report issued by the Semiconductor Industry Association, the US Congress has passed the CHIPS for America Act to rebuild leading edge manufacturing capacity in the USA and not just leave it to wafer fabricators in Taiwan and Korea. Given that MMH supplies mostly to customers based in Asia, what is the longer term risk to the company related to a re-onshoring by the USA of wafer fab and ATS capacity? Will MMH be able to build a workforce in the USA?

The Group's business of manufacturing parts for WFE is unlikely to be affected as customers are supported by our factory in the USA.

Over the years, the semiconductor assembly & test industry has seen a major shift to Asia, particularly China. With factories located in Singapore, Malaysia, the Philippines and China, we believe the Group is well positioned to continue supporting our customers in Asia.

ORDINARY RESOLUTION 7

TRADING LIQUIDITY

Q19. Can the company help to improve the liquidity of its share as there is very low transactions daily?

Since our listing, we have always believed that our job is to focus on the fundamentals of earnings and other important results, and not to get overly concerned with daily share trading volume or price fluctuations which are determined by market forces. We intend to continue focusing on the fundamentals that we believe drive long-term and sustainable shareholder value.

OTHERS

AGM

Q20. Would the Board consider having live voting and live Q&A and for management to field questions before votes are cast at virtual AGMs?

The Board appreciates your feedback and will assess the feasibility of live Q&A and voting for virtual AGMs in future.

About Micro-Mechanics

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

The Group 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 Europe. Micro-Mechanics' 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 won over 30 awards in recognition of its high standards of corporate governance, quality of disclosure, transparency and investor relations.

For more information, please visit the Group's website at www.micro-mechanics.com

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