

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

Minutes of the Twenty-Second Annual General Meeting of the Company held at NTUC Centre, Level 7, Room 701, No. 1 Marina Boulevard, Singapore 018989 on Monday, 29 October 2018 at 2.00 p.m.

DIRECTORS PRESENT

- Ms Sumitri Mirmalini Menon @ Rabia – Independent Non-Executive Chairman
- Mr Christopher Reid Borch – Executive Director and Chief Executive Officer (“CEO”)
- Mr Low Ming Wah – Executive Director and Chief Operating Officer (“COO”)
- Mr Chow Kam Wing – Executive Director and Chief Financial Officer (“CFO”)
- Mr Girija Prasad Pande – Independent Director
- Ms Lai Chin Yee – Independent Director

OPENING & PRESENTATION

The Chairman, Ms Sumitri Menon noted that it was time for the Annual General Meeting (“AGM”) to commence and that a quorum was present. She called the meeting to order and welcomed all present.

After the directors gave a brief introduction of themselves to the shareholders, the Chairman invited Mr Christopher Reid Borch, the CEO to present the business updates of the Group.

The CEO welcomed the shareholders at the AGM and he was glad to note there were more attendees this year. Besides attending the AGM, the shareholders were also encouraged to read the annual report, in particular, the chairman’s statement and executive management report to understand the salient and important issues faced by the Company and the strategies to bring the Company forward. The CEO together with the COO and CFO delivered the presentation using slides which covered “Business and Industry”, “Financial Review” and “Key Takeaways”. It was noted that the presentation slides would be made available together with the announcement made by the Company after the AGM.

The CEO informed that the Company’s target industry remains the semiconductor or chip industry. The Company designs and manufactures high precision tools and parts for wafer fabrication and assembly processes of the semiconductor industry. The primary aim of the industry is the processing of data, and chips are the building blocks for a host of electronics products from computers to smart phones, to cloud and so on. Within that industry, the Company manufactures precision tools for assembly and test and most of those customers are found in Asia. The Company has another business primarily out of its United States operations where it is working to grow a segment of tools and parts used to fabricate semiconductor wafers.

The strategy of the Company is to focus on key customer outcomes broadly classified under design, delivery, precision, reliability and cost. Requirements of the customers are affected by demands and forces of the market and the big market forces are smart phones, mobility, computing and probably the next big wave is artificial intelligence. Such end-user market demands flow through the semiconductor customers to the Company. The key issues affecting the Company are the same as those affecting the semiconductor industry, such as miniaturization, reliability, precision, flawless quality and scalability. On “Nano Precision”, i.e. semiconductor device geometries getting smaller and smaller with some leading chip fabrication techniques going below 10 nanometers, the CEO invited the COO to share the Company’s latest preparations for the “Nano” world of semiconductor manufacturing.

The COO explained that with semiconductor configurations measuring 10 nanometers and below, stringent controls are required in the areas of cleanliness, contamination and electrostatic discharge requirements as failure to maintain the requisite high standards of machining processes would destroy the chips. The Company has a research and development department which formulated materials free from harmful chemicals e.g. sulphur, and within an electrostatic discharge safe range. The Company is heading in the right direction in these areas that are crucial to operating in the “Nano” world and will continue to make improvements so as to fulfil market needs.

The CEO added that the Company operates a specialty business with relatively high barriers to entry in terms of know-how, high capital and market position. Being in the market for more than 30 years, the Company has a competitive advantage. In addition, the Company has taken a significant lead in the industry and it is becoming more difficult to enter this market. The CEO then moved on to the next slide on “Semiconductor Industry Review” and pointed out that based on the statistics available from the Semiconductor Industry Association (“SEMI”), the global semiconductor industry sales exceeded US\$400 billion for the period of 12 months from July 2017. It is a large industry and although the business is wavy with ups and downs, SEMI’s graph shows a long-term upward trend. This is an important factor for Management who will try to focus on the long-term prospects of the industry and not be too preoccupied with the cyclical dips which can be distracting to Management from planning and implementing the longer term initiatives for the Company. As for the equipment market for semiconductors, SEMI projected worldwide sales of new semiconductor manufacturing equipment to exceed US\$60 billion in 2018. This is also a large industry which is important for the Company as the segment of the business being developed in US caters to the market for equipment that manufactures semiconductors.

On FY2018 Corporate Highlights, the CEO invited the CFO to take over the presentation. The CFO was pleased to announce that the CEO, Mr Christopher Borch received the Best CEO Award at the Singapore Corporate Awards 2018. For SGTI 2018, the Company achieved a score of 97 points to rank 23rd out of 589 companies listed on the SGX. On financial results, revenue was recorded at S\$65.1 million and net profit was S\$17.1 million, both record highs for the Group. With shareholder’s approval of the proposed final and special dividends, the total dividend for FY2018 was another record high of 10.0 cents per share.

At this point, the CEO expressed his gratitude for the wonderful recognition given to the Company for its efforts to practise good governance and transparency. He commended the Board for making good governance as a key part of the Company, and the CFO and his team for doing a great job by putting in place sensible processes and policies that not only fulfil the letter of good governance, but also the spirit of it. The CEO believed that the spirit of good governance is basically fair dealing with all the Company’s stakeholders.

The CFO continued with his presentation and started with his favourite slide, i.e. “Dividend Performance”. Other than the first 2 years, the Company maintained a dividend payout ratio of more than 50% every year and for FY2018, the ratio was 81%. He stressed that besides profits, good cash flow is very important when considering declaration of dividends. With a capex budget of S\$6 million for FY2019 (capex was S\$12 million for FY 2018), it helped in the cash flow for dividend payment this year. He also highlighted some key financial ratios namely revenue growth of 13.8%, net profit growth of 16.1% and return on equity of 28.4%.

In order to furnish shareholders with the latest financial information, the CFO presented the financial results for first quarter ended 30 September 2018 (“1Q2019”) together with the results for FY2018. The Company announced the financial results for 1Q2019 via SGX website that day around 12 noon.

The CFO was pleased to announce that revenue for 1Q2019 was S\$16.9 million (2nd highest record). This was lower than 1Q2018 revenue of S\$17.7 million (highest record) and the difference was mainly due to the depreciation of RMB and Philippines Peso. Nevertheless, 1Q2019 revenue was substantially higher than the 1Q revenue from FY2014 to FY2017. On sales breakdown, revenue from the China market increased from 27% to 33% and the 3 markets which contributed to more than 60% of the total revenue were from China, US and Malaysia.

The gross profit margin (“GPM”) was steady since FY2014 and for 1Q2019, the GPM was 59.5% as compared to 60.9% during last quarter. Despite this decline in GPM, the CFO pointed out that the Company actually performed better in 1Q2019. The lower GPM in 1Q2019 was attributable to the additional depreciation expenses for machines purchased in FY2018 (capex of S\$12.1 million). It was also noted that based on internal guidelines, the gross profit margin is fixed at 50% which is a challenging target and the Company had excelled and achieved a higher margin.

On profitability, the operating expenses to revenue ratio was kept low at 24% and return on equity improved over the years. 1Q2019 net profit of S\$4.5 million was lower than that of S\$5.2 million for 1Q2018 and it was mainly due to depreciation of currency in emerging markets. Nevertheless, 1Q2019 net profits were much better than the earlier years in FY2014 to FY2017.

For the balance sheet, cash and cash equivalents stood at a good figure of S\$23.7 million as at 30 September 2018. There were no bad debts for many years. On trade receivables, the finance department did a good job as amounts owing were on open credit terms and it was not easy to collect payments in the emerging markets. There was minimal writing off of inventory and the inventory to sales ratio was 7.1%. Shareholders' equity stood at a record high of S\$64.2 million.

In conclusion, the CEO summarised some key thoughts. The Company had a good year in FY2018 in that it grew the top line and for the bottom line, it had a strong balance sheet, healthy cash position and no borrowings. The semiconductor industry is cyclical which fits the approach adopted by Management who acts quickly when required but stays focus on the long-term prospects of the growing industry. The lead time for major manufacturing, engineering and research and development initiatives is long. The whole process requires good planning and organizing as well as a good sense of vision. The Company will continue to work hard to grow an even stronger and diversified business. In the US and Asia, the Company is building a portfolio of process critical parts and tools for the chips industry, which is a very large and growing industry.

Q&A on the presentation slides:-

Question: A shareholder thanked the executive directors for their presentation. He also commended on the good corporate governance practices observed by the Company. His query related to the slight dip in the 1Q2019 revenue as compared to 1Q2018. He asked if it was the result of a loss of market share, translation difference or some other reasons. His second question related to trade receivables shown on the slide under "balance sheet" and page 100 of the annual report. He wanted to know more about the increase in aged debts for the various periods, i.e. from 31 to 60 days, more than 60 days and more than 90 days. For 1Q2019, revenue was down but aging went up.

Reply: To the first question on the slight dip in revenue, the CFO replied that there was no loss of customer. There was no change in credit terms given to the customers and there was no sign of any customer in financial difficulty. The aging trend was consistent. It was noted that presentation of the aged debt figures could be affected by the timing of the billings. In summary, the CEO informed that the balance sheet is in a healthy position.

The segment on presentation by Management ended and the formal meeting in accordance with the Agenda began.

Before proceeding to the formal business of the AGM, the Chairman informed that as required under the Listing Rules, all resolutions put to the vote at this AGM would be voted on by way of a poll. She explained the polling procedures and also announced that TS Tay Public Accounting Corporation was appointed the scrutineers for the purpose of the poll.

The meeting then proceeded to discuss the formal business of the AGM. With permission from the members, the Notice of AGM was taken as read.

ORDINARY BUSINESS

1. Adoption of Directors' Statement and Audited Financial Statements

1.1 The following Ordinary Resolution No. 1 was duly proposed by Mr Choo Pow Yong and seconded by Mr Sanford Chee:-

"It was resolved that the Directors' Statement and Audited Financial Statements for the financial year ended 30 June 2018 and the Auditors' Report thereon be received and adopted."

1.2 Q&A on Ordinary Resolution 1:

Question: A shareholder made reference to the second page of the executive management report and the paragraph on R&D work which stated that “in 4Q2018, our engineers in California completed the development of a critical part used in the wafer-fabrication process while our R&D team in Singapore produced several proprietary materials we believe are essential to the industry at 10 nanometer and below device geometries”. He requested the Management to share on these breakthroughs.

Reply: The CEO thanked the shareholder for his question and spoke in generalities about the technologies and products being developed by the Group. The main theme is higher precision, greater cleanliness and much more control over the processes and materials. In the wafer-fabrication arena, for the fabrication process to be successful, every little thing matters more and more. One of the areas that the Company has been working on, is to create new approaches to manufacturing the parts and tools.

Question: This shareholder also wanted to know, going forward, would Management have the confidence to keep up with the trends and develop materials and processes that meet customers’ requirements.

Reply: The COO replied that the Company’s R&D work started a few years ago because Management knew that it must follow the market, understand the needs of customers and try to stay a step ahead. For example, the Company started research work on 10 nano technologies 2 or 3 years ago when the general public might not have heard of it as yet. When more customers requested for 10 nano technologies now, the Company is already in position to meet customers’ requirements. The market takes time to react. It is a continuous journey of hard work as customers become more demanding and their requirements become more complex. The Company will continue to work with the customers very closely.

Question: The same shareholder then referred to the US operations under “segment reporting” on page 107 of the annual report. He congratulated the Company for turning around the US operations from a loss of S\$609,006 in FY2017 to a profit of S\$514,297 in FY2018. He also noted that the revenue of S\$12.3 million was rather low compared to the segment assets of S\$16.8 million which was relatively high. He would like to know the prospects of this aspect of the business in the US.

Reply: The CEO believed the US segment business will pick up. He added that on one hand, Management is very careful and judicious when making decisions on investments. On the other, Management is not afraid to decide on investments in areas that will propel growth. The core business of the Company is semiconductor tools which is a wonderful business. It is a very high margin business but it requires lots of efforts in order to bring the Company to where it is today. Everyone in the Group has put in a lot of hard work. The CEO also opined that there is more potential than the present state of the Company which will stay focus to realise that potential.

Question: A shareholder pointed out the trade conflict between China and US. He would like to know if the impact will be positive or negative on the Group and the resulting effects on the Group.

Reply: Mr Pande, the CEO and CFO shared their thoughts on this question. On the overall level, there will be a disruption in trade pattern to some extent in the long term. In any event, should global trade slow down, the impact may not be significant as the semiconductor is a growing industry. On the semiconductor industry in China, the China market is too large and important and taking into account the extent of commitments made by the players, it is not expected that many of them will move out substantially. Should some players move out of China to Philippines for example, the Group has facilities in the Philippines. Further, there is no direct impact on the Company’s business operations in China as it only supplies to the manufacturers in China, be they Chinese companies or multinational companies based in China. Perhaps there is a direct “financial impact” in terms of any depreciation in RMB as the Company receives dividends from the China subsidiary to pay dividends here.

Question: A shareholder sought the views of the board on the new listing rule relating to the cap of a 9-year term for an independent director, which takes effect on 1 January 2022.

Reply: The CEO commented that it would be extremely difficult to find another independent director with the commitment, integrity and passion for the Company like Ms Menon. The board would have to consider carefully before making a decision in connection with this new regulation. He stressed that the board has the unshakable view that “doing the right things for the stakeholders will lead to really good results”.

Question: A shareholder commended the board for doing a good job and in particular, achieving a high return on equity of 28.4%. He noted that the Company has been paying good dividends regularly over the years and on the assumption that profits from overseas group entities were brought back to Singapore, he wanted to know if tax was incurred in doing so. He also asked whether it would be better to deploy some profits in growing the business in countries with growth potential.

Reply: The CFO replied that there was dividend withholding tax payable in the Philippines and China for remitting profits back to Singapore. He recalled that this same question was raised some years ago. If profits were to be retained in the operating countries then, big losses in currency depreciation would have been incurred by the Group. The CFO opined that it would be better to keep cash in Singapore dollars which is the functional currency of the Company and more stable than those currencies in emerging markets.

Question and Reply: In reply to a shareholder on his questions regarding the US subsidiary, the CEO informed that the Company had already invested a major part of the requisite investment and thus, the US subsidiary is in the phase of executing on the goals and strategies. In terms of margin, it is not as high as some of the work for assembly and test. However, the US subsidiary has unique product and material capabilities and the aim is to find and develop products in the gross profit margin range of 40% to 50%.

Question and Reply: In response to the same shareholder, the CEO advised that there is differentiation between contract manufacturing and what is done in Asia where the Company produces its own products. For the operations in Asia, the overhead position tends to be higher. There are more developments, higher sales and more field service contents than contract manufacturing. The lower gross margin in the US operations is however compensated by lower overheads.

- 1.3 The Chairman called for a poll on the resolution. The shareholders were requested to exercise their votes on Ordinary Resolution No. 1 by completing the poll voting slips.

2. Declaration of Final and Special Dividends

- 2.1 The following Ordinary Resolution No. 2 was duly proposed by Mr Phua Cheng Swee Herman and seconded by Mr Yeow Meng Quee:-

“It was resolved that a final dividend of 5.0 cents per ordinary share tax exempt (one-tier) and a special dividend of 1.0 cent per ordinary share tax exempt (one-tier) for the financial year ended 30 June 2018 be paid on 20 November 2018 to members registered in the books of the Company on 7 November 2018.”

- 2.2 The Chairman called for a poll on the resolution. The shareholders were requested to exercise their votes on Ordinary Resolution No. 2 by completing the poll voting slips.

3. Re-election of Director – Mr Chow Kam Wing

- 3.1 The following Ordinary Resolution No. 3 was proposed by Mr Karl Zurfluh and seconded by Mr Horner Michael William:-

“It was resolved that Mr Chow Kam Wing retiring by rotation pursuant to Regulation 97 of the Company’s Constitution, but being eligible and offering himself for re-election, be re-elected as director of the Company.”

- 3.2 The Chairman called for a poll on the resolution. The shareholders were requested to exercise their votes on Ordinary Resolution No. 3 by completing the poll voting slips.

4. Re-election of Director – Ms Sumitri Mirnalini Menon @ Rabia

- 4.1 The Chairman requested the CEO, Mr Christopher Borch to conduct agenda item 4 which related to her own re-election as director. The CEO informed the shareholders that Ms Sumitri retired by rotation as director under Regulation 97 of the Company’s Constitution but was eligible for re-election and had offered herself accordingly. Ms Sumitri, would upon re-election as a director of the Company, remain as the non-executive Chairman of the Board, Chairman of the Nominating Committee and a member of the Audit Committee, Risk Management Committee and Remuneration Committee and would be considered as an independent director.

The following Ordinary Resolution No. 4 was proposed by Mr Horner Michael William and seconded by Mr Karl Zurfluh :-

“It was resolved that Ms Sumitri Mirnalini Menon @ Rabia retiring by rotation pursuant to Regulation 97 of the Company’s Constitution, but being eligible and offering herself for re-election, be re-elected as director of the Company.”

- 4.2 The CEO called for a poll on the resolution under Regulation 65 of the Company’s Constitution. The shareholders were requested to exercise their votes on Ordinary Resolution No. 4 by completing the poll voting slips.

5. Approval of Directors’ Fees

- 5.1 The Chairman continued with the proceedings of the meeting. The following Ordinary Resolution No. 5 was proposed by Ms Liu Yun and seconded by Ms Wendy Tan Wei Lee:-

“It was resolved that a sum of S\$290,000/- be approved for payment as directors’ fees for the financial year ended 30 June 2018.”

- 5.2 The Chairman called for a poll on the resolution. The shareholders were requested to exercise their votes on Ordinary Resolution No. 5 by completing the poll voting slips.

6. Re-appointment of Auditors

- 6.1 The following Ordinary Resolution No. 6 was proposed by Ms Ting Hui Ling and seconded by Mr Alain Neo Say Chow:-

“It was resolved that KPMG LLP be re-appointed Auditors of the Company to hold office until the conclusion of the next Annual General Meeting and that the directors be authorised to fix their remuneration.”

- 6.2 Q&A on Ordinary Resolution 6:

Question: A shareholder wondered why the audit fee was increased for FY2018 given that there was no audit risk as the Company has been strong in corporate governance with easy to read financial statements.

Reply: The CFO informed that he had a long discussion with the auditors regarding their increase in audit fee for FY2018.

- 6.3 The Chairman called for a poll on the resolution. The shareholders were requested to exercise their votes on Ordinary Resolution No. 6 by completing the poll voting slips.

SPECIAL BUSINESS

7. Authority to allot and issue shares in the capital of the Company

- 7.1 The following Ordinary Resolution No. 7 was duly proposed by Ms Heng Li Shih Lisa and seconded by Mr Phua Cheng Swee Herman:-

“It was resolved 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

- (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;
- (b) new Shares arising from the exercise of share options or vesting of share awards 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
- (c) 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.”

7.2 The Chairman called for a poll on the resolution. The shareholders were requested to exercise their votes on Ordinary Resolution No. 7 by completing the poll voting slips. Thereafter, the scrutineers collected all the poll voting slips for counting.

8. Results of the Poll

8.1 While waiting for the poll results, there was a public announcement for an immediate evacuation from the meeting venue. The Chairman informed the shareholders that the results of poll would be posted on SGXNET in the evening and the meeting was closed at 3.30 pm. After the meeting, the scrutineers submitted their report to the Company. Based on the scrutineers’ report, the results of the poll were posted on SGXNET as follows:-

Resolution number and details	Total number of shares represented by votes for and against the relevant resolution	For		Against		
		Number of shares	As a percentage of total number of votes for and against the resolution (%)	Number of shares	As a percentage of total number of votes for and against the resolution (%)	
Ordinary Business						
1. Adoption of directors’ statement and audited financial statements for the financial year ended 30 June 2018	81,065,404	81,065,404	100	-	0	
2. Payment of final and special dividends	81,067,404	81,067,404	100	-	0	
3. Re-election of Mr Chow Kam Wing as director	78,241,404	78,224,604	99.98	16,800	0.02	
4. Re-election of Ms Sumitri Mirnalini Menon @ Rabia as director	80,867,404	80,855,604	99.99	11,800	0.01	
5. Approval of directors’ fees	81,067,404	81,067,404	100	-	0	
6. Re-appointment of KPMG LLP as auditors	81,067,404	80,993,404	99.91	74,000	0.09	

Special Business						
7.	Authority to allot and issue new shares	81,065,404	80,908,304	99.81	157,100	0.19

8.2 Based on the above results of the poll, it was noted that the following resolutions were passed:-

- 8.2.1 Ordinary Resolution No. 1 carried unanimously.
- 8.2.2 Ordinary Resolution No. 2 carried unanimously.
- 8.2.3 Ordinary Resolution No. 3 carried by the requisite majority.
- 8.2.4 Ordinary Resolution No. 4 carried by the requisite majority.
- 8.2.5 Ordinary Resolution No. 5 carried unanimously.
- 8.2.6 Ordinary Resolution No. 6 carried by the requisite majority.
- 8.2.7 Ordinary Resolution No. 7 carried by the requisite majority.

SUMITRI MENON
CHAIRMAN