MICRO-MECHANICS (HOLDINGS) LTD.
(Incorporated in the Republic of Singapore)
(Company Registration Number: 199604632W)

ANNOUNCEMENT

ANNUAL GENERAL MEETING TO BE HELD AT 2:00PM ON 30 OCTOBER 2024 – 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 ahead of the Company's Annual General Meeting ("**AGM**") to be held on 30 October 2024.

For ease of reference, questions that are similar or pertaining to the same subject matter have been categorised and grouped together.

The Company's responses to questions which were raised by shareholders and that are substantial and relevant to the Company's business and its Annual Report, are set out in the following pages of this announcement.

By Order of the Board of Directors

Submitted by Wendy Tan Wei Lee
Company Secretary
25 October 2024

Media and investor relations contact
Tok Chong Yap / Jonathan Yeoh
Teneo
+ 65 6955 8876 / +65 6955 8873
Email: Micro-mechanics@teneo.com

About Micro-Mechanics

Micro-Mechanics is a leading Next Generation Supplier of high precision tools and parts for process-critical applications in the wafer fabrication and assembly processes of the semiconductor industry. The Group delivers an integrated suite of solutions across the value-chain, from the design and manufacturing of a range of industry-leading consumable tools and parts for the assembly and testing of semiconductors, to the contract manufacturing of precision parts and tools used in process-critical applications for the semiconductor wafer-fabrication industry.

Established since 1983 in Singapore, the Group was publicly listed on the SGX Mainboard (SGX:5DD) in 2003. The Group has grown steadily over the years to be a trusted partner by more than 600 customers globally, with a diversified geographical footprint across five operating facilities in in Singapore, Malaysia, China, the Philippines and the USA.

The Group is committed to executing its 'Five-Star Factory' initiative driven by high-performance teams, operational and innovation excellence, workplace efficiency & safety and fast, effective local support to global customers. This is anchored by the Group's focus on financial discipline and strong governance to deliver sustainable long-term stakeholder returns.

Since listing, Micro-Mechanics has received over 30 awards in recognition of its high standards of corporate governance, quality of disclosure, transparency and investor relations. The Group was also recognised in the 'Forbes Asia Best Under A Billion List' in 2006 and 2022.

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

A. OPERATIONS

1. The management has invested significant time and capital into MMUS, why is MMUS important? What does the management have to show for it? Why is the management optimistic about MMUS?

The Group takes a diversified and efficient approach to its geographic presence and customer base, selling to more than 600 customers globally, with broad penetration across semiconductor manufacturing, assembly and packaging. This decentralised structure provides fast, effective and local support to global customers, which is also part of the 'Five-Star Factory' initiative.

MMUS primarily serves customers in the Wafer Fabrication Equipment ("WFE") industry. During the pandemic years from FY2020 to FY2022, WFE makers increased demand exponentially, due to unprecedented pandemic-related demand for all things digital. This saw industry revenues increase by 41.6% over the 2 years to a record US$600.3 billion. Against this backdrop of strong growth, the Group's revenues also increased 28.4% to a record S$82.5 million in FY2022 from S$64.2 million in FY2020.

The Group entered the financial year faced with a challenging operating environment, as the global semiconductor industry continued to adjust to the effects of a sharp industry downcycle which was an industry-wide phenomenon.

For FY2024, makers of chips and WFE scaled back production and worked through excess inventory in response to the sudden drop in demand for chips the year prior. In line with these market conditions, the Group's revenue decreased 13.6% year-on-year ("YoY") to S$57.9 million for FY2024.

The Group has restructured MMUS for enhanced competitiveness. This includes sharpened engineering focus for the WFE sector involving the strategic calibration of resources with an engineering and product focus and delivering a more competitive and higher-value product mix of process-critical parts for the WFE sector.

The Group also implemented a host of other initiatives to optimise costs and improve efficiency as part of the overarching focus on enhancing operational excellence and accelerating innovation across our facilities. Other operating expenses decreased by 25.7% from S$5.0 million in FY2023 to S$3.7 million in FY2024 with the relevant manpower optimisation initiatives put in place at MMUS. Going forward, the Group expects the completed restructuring plan to be earnings accretive to MMUS and remains focused on sustaining this momentum and returning MMUS to profitability in FY2025.

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2. The larger chipmakers have done very well in terms of revenue growth and share price performance. Please explain why your company's performance has not been as good as these companies.

The Group entered the financial year faced with a challenging operating environment, as the global semiconductor industry continued to adjust to the effects of a sharp downcycle. In the 12 months ended 30 June 2024 ("FY2024"), makers of chips and WFE scaled back production and worked through excess inventory in response to the sudden drop in demand for chips the year prior. In line with these market conditions, the Group's revenue decreased 13.6% YoY to S$57.9 million for FY2024.

The Group has customers at both the front and back-end of the semiconductor value chain.

The high-performance chips from leading players in the sector make up a relatively small percentage of the total chip volume. Although the Group continues to enhance its solutions and develop the tools needed for these advanced packaging applications, the Group's revenue correlates more with the total volume of chip manufactured. In other words, the demand for more chips translates into demand for more tools. Some of the less complex chips, such as LEDs and discrete devices, can drive more tool demand given the high volume of production.

B. <u>Financials</u>

3. Could you share some quantifiable financial metrics that indicate that the 'Five-Star Factory' initiatives are moving in the right direction?

Revenue has improved on a quarter-on-quarter ("QoQ") basis, Group revenue increased 9.7% from 3QFY2024 to S$14.9 million in 4QFY2024. The encouraging QoQ performance was a validation of the positive momentum in sales recovery and positive impact from the 'Five-Star Factory' initiative.

The Group continues to exercise vigilance on cost management. Distribution expenses remained stable at S$2.9 million in both FY2024 and FY2023. Administrative expenses decreased by 8.8% from S$10.0 million in FY2023 to S$9.1 million in FY2024 due to the lower staff expenses because of a decrease in overall headcount. Similarly, other operating expenses decreased by 25.7% from S$5.0 million in FY2023 to S$3.7 million in FY2024 with the relevant manpower optimization initiatives put in place at MMUS. Overall, the Group's overhead expenses, net of finance and other income, have decreased by 10.9% from 17.6 million in FY2023 to S$15.7 million in FY2024.

Gross profit margin has also remained healthy, improving from 46.5% for FY2023 to 47.0% for FY2024, attributed mainly to a change in sales mix and financial discipline efforts to control costs.

The Group also saw an increase in EBITDA margin from 30.6% in FY2023 to 31.7% in FY2024. Net profit for 4QFY2024 increased by 4.5% YoY to S$2.1 million, bringing net profit for FY2024 to S$8.0 million.

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4. What value does the Group offer to long-term shareholders?

The Group is committed to enhancing long-term total shareholder value. Total shareholder returns ("TSR") from the Group's listing to date is over 2800%, according to Bloomberg data and assuming dividends are reinvested into buying more of the security.

Cumulative dividends alone represented a 700% shareholder returns with 128.9 cents per share paid out since listing.

The Group sees dividends as an important component of total returns to shareholders. The Group has a formal dividend policy to distribute 40% or more of its after-tax annual earnings, after taking into consideration financial performance, projected cash flow and capital requirements for business growth and general economic conditions among other relevant factors. The Group's dividend threshold has consistently exceeded its policy of paying out 40% of earnings. This has been underpinned by continued cost management and financial discipline resulting in strong cashflow and returns on equity. At the same time, the Group is focused on preserving cash to ride out industry uncertainties, as well as to capture opportunities ahead.

C. Corporate Governance

5. How does the Group ensure management and board remuneration are aligned with the Group's performance?

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 the director's own remuneration.

The Group 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.

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 Group.

The remuneration package for employees including executive directors, is made up of fixed and variable components. The fixed component is the base salary and the variable components are the Performance Bonus Incentive ("PBI") Scheme and the Sales Incentive scheme.

The Remuneration Committee ("RC") reviews the remuneration packages of executive directors and key management personnel yearly in line with the performance of the Group and the individual. The total remuneration is made up of fixed base salary and variable bonuses so as to align the performance of executive directors and key management personnel with the Group's goals and objectives. Many of the key management personnel have served the Group for long periods of time, some of them since IPO, and many are long-term shareholders.

The Group discloses fully the remuneration of executive directors, independent and non-executive directors and any employee related to the substantial shareholder, CEO or directors.

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6. Has the Group continued to refresh its Board to bring in new perspectives?

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.

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 Board sees value in and encourages diversity of its members in terms of their competency, expertise, background, race, gender and nationality so that members can contribute with different perspectives and insights.

Consideration is also given to a range of diverse characteristics, including but not limited to gender, nationality and ethnicity, skills and experience and age. The Group 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 Group welcomed Mr. Kazuo Takeda and Ms. Chua Siew Hwi, who joined the Board as Independent Non-executive Directors in FY24. They add extensive experience and deep expertise in operations and industrial engineering, IT, HR, enterprise risk management and audit to the leadership bench.

These appointments also reinforce the Group's commitment to maintaining the highest standards of governance and diversification of board expertise.

Ms. Chua has a proven track record in leadership across multiple finance and corporate functions including operations, information technology, human resources, enterprise risk management and internal audit. She has extensive experience running and working with diverse teams across various industries, jurisdictions and organisations that include government agencies, aviation, financial institutions, real estate and hospitality, and shipping groups listed on the Main Board of the SGX.

Mr. Takeda has a strong background in industrial engineering and engineering leadership development and an extensive career covering customer experience, logistics, supply chain management, and process implementation. He held senior managerial positions at Fortune 500 companies and technology start-ups in the USA and was an industry lecturer in the University of Southern California Industrial and Systems Engineering Master's program. Mr. Takeda has also conducted leadership training for technical/engineering audiences and led multiple business processes and system improvement efforts.

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7. What are your plans to engage with shareholders over the next 1 – 3 years?

The Group 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 Group gives shareholders a balanced and understandable assessment of its performance, position and prospects.

The Group's primary communication platforms are its annual report, announcements posted on the SGXNet and website, and AGM. The Group maintains an open and active dialogue with existing and potential shareholders and augments its communications with regular analyst / media briefings, one-on-one meetings and conference calls when required.

The Group also announces its financial results via SGXNet and strives to provide material information beyond the mandatory regulatory requirements of the SGX-ST Listing Manual.

D. <u>Growth and Outlook</u>

8. What strategy does the company have in mind to avoid or exit the current slump in its business?

The Group has been focused on three main areas. This includes rejuvenating the leadership bench for a new chapter of growth, restructuring MMUS for enhanced competitiveness, and launching its 'Five-Star Factory' initiative for sustainable success.

In an effort to practice effective management and ensure diversified Board expertise and disciplined processes, the Group welcomed Mr. Kazuo Takeda and Ms. Chua Siew Hwi, who joined the Board as Independent Non-executive Directors in FY24. They add extensive experience and deep expertise in operations and industrial engineering, IT, HR, enterprise risk management and audit to the leadership bench.

The Group's Deputy CEO also relocated to the Singapore HQ to oversee and spearhead the Group's commitment to excellence.

In 2H2024, the Group completed a restructuring plan at MMUS, where it strategically recalibrated the engineering and product mix to create a more compelling, competitive, and higher-value proposition within the WFE industry. The Group also implemented a host of other initiatives to optimise costs and improve efficiency as part of its overarching focus on enhancing operational excellence and accelerating innovation across its facilities. Other operating expenses decreased by 25.7% from S$5.0 million in FY2023 to S$3.7 million in FY2024 with the relevant manpower optimisation initiatives put in place at MMUS. Going forward, the Group expects the completed restructuring plan to be earnings accretive to MMUS.

The “Five-Star Factory” initiative was introduced with the aim of strengthening five fundamentals or “pillars” of excellence across the Group’s factories. These include:

- Fast, Effective & Local Support to Global Customers
- Operational Excellence
- Innovation Excellence
- High-Performance Teams
- Workplace Efficiency, Health, and Safety

The ‘Five-Star Factory’ initiative has yielded positive impact across its operations and the Group remains focused on improving operational processes and practices across its operations to achieve the objectives set out under the initiative. The initiative also includes a detailed audit and scoring system for each factory’s attainment of operational excellence.

More recently, the Group’s revenue saw positive momentum validated by an encouraging 9.7% quarter-on-quarter QoQ increase to S$14.9 million for 4QFY2024. This represents two consecutive quarters of increased revenue on a QoQ basis.

Going forward, the Group remains focused on sustaining this momentum and returning MMUS to profitability in FY2025.

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9. Where does the Group see growth opportunities and how will it capture them?

The Group believes that the key driver for recovery in the semiconductor industry is the proliferation of chips utilised in nearly every conceivable market. In the last few years, there has been a rapid build-out of data centres to support cloud-based storage, mobile computing and artificial intelligence tools. Together with growing adoption of EVs and IOT applications, the demand for chips is unlikely to abate in the long term and it will likely continue to trend upwards. In the mid-term, however, the semiconductor industry continues to be volatile and not easy to predict. Therefore, it’s important to be prepared for periods of growth followed by periods of slower or negative growth.

MMUS is primarily engaged in the business of contract manufacturing of parts used in process-critical applications for WFE. The strategy is to focus on a handful of customers in the U.S. that are major players in the WFE industry, which is easily ten times the size of the tooling market.

The Group’s aspiration is to become a larger and more valuable supplier within this large market, which has required the investment of effort and time to restructure MMUS. This includes sharpened engineering focus to deliver a more competitive and higher-value product mix of process-critical parts for the sector. The restructuring also optimised the cost structure for efficiency, leading to annual operating cost savings on an ongoing basis, aligned with the Group’s overarching focus on operational excellence. The above initiatives have collectively contributed to lifting core operating performance at MMUS, and we are well-positioned to capitalise on the recovery and rebound in orders.
