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

ANNOUNCEMENT

ANNUAL GENERAL MEETING TO BE HELD ON 30 OCTOBER 2020 – RESPONSES TO QUESTIONS FROM SHAREHOLDERS

The Board of Directors of Micro-Mechanics (Holdings) Ltd. (the **"Company**" and together with its subsidiaries, the "**Group**") thank shareholders for submitting their questions in advance of the Company's 24th Annual General Meeting ("AGM") to be held on 30 October 2020 at 9.00 a.m. by way of a live webcast in accordance with the notice published earlier.

For ease of reference, in this publication we have categorised and grouped together the questions received as they may be pertinent to the resolutions to be tabled at the AGM. If more than one question on the same topic was raised, the most representative of these questions has been published.

Shareholders questions and the Company's responses are set out in the following pages of this announcement.

By Order of the Board of Directors

Submitted by Chow Kam Wing,
Company Secretary
29 October 2020

ORDINARY RESOLUTION 1

GENERAL BUSINESS

Q1. Great performance, thank you to the Micro Mechanics team. 10 major customers provided 32% of FY2020 revenue. Does the company see a customer concentration risk here?

The Group has a large base of over 600 active customers. It 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 FY2020.

Q2. Are there new initiatives adopted by the company?

The Group believes it is important to build an organization that is strong, flexible and resilient in order to withstand volatility or downturns in business conditions. To this end, the Group will continue to focus on a number of key initiatives, i.e. maintaining a healthy gross profit margin, keeping tight control of overhead expenses, automation of its manufacturing operations, excellence in corporate governance and continuing to grow the business without taking on debt.

Q3. How many customers do you serve globally? How much does the biggest customer contribute to total revenue? How much does the top 3 customers contribute?

The Group serves more than 600 active customers globally. Please refer to Page 110 of our annual report FY2020 which shows the number of major customers of each reporting segment. However, as a percentage of Group revenue, none of our customers each accounted for over 10% of total sales in FY2020

Q4. Has the Company obtained any new customers?

The Group is continually working to strengthen relationships with existing customers and develop new customers, particularly for our semiconductor tooling business.

Q5. Is SMIC a direct or indirect customer of the company, given the US sanctions against it? If so, how is the company going to mitigate it?

Q6. Has the US China trade war affected sales? Are there any restrictions in selling to Chinese companies?

Reply to Q5 and Q6

We do not comment on names of customers due to commercial confidentiality reasons. However, it should be noted that Semiconductor Manufacturing International Corporation, or SMIC, is a foundry engaged in the front-end production (wafer fabrication) of semiconductors. The Group's customers in the semiconductor industry are primarily involved in two areas: Back-end semiconductor packaging and the manufacture of wafer fabrication equipment.

The Group's strategy has always been to provide local-to-local support to the customers in our primary markets. As such, our factory in Suzhou primarily serves customers in the domestic market and does not export products out of China. However, the Group could be indirectly affected by the USA's restriction as some of our customers export their products out of China. Having said that, the Group's sales in China still grew 9% in FY2020.

Q7. Are any of the factories close to maximum utilization and may require a new facility to cater for future growth or due to the shift in customers' production out of China?

The Group does not presently require a new manufacturing facility as there is sufficient production capacity at its factories in Asia and the USA.

Q8. Will the company operations benefit from the 5G revolution?

Q9. Does the company foresee a huge increase in revenue in 2021 from increased investment in 5G infrastructure, cloud and IoT?

Reply to Q8 and Q9

Yes, the 5G revolution is expected to translate into continued demand for semiconductors which should ultimately benefit Micro-Mechanics. The Group does not have a practice of providing sales forecasts or guidance on its financial results.

Q10. For Micro-Mechanics consumable parts and precision tools for semiconductor assembly and test processes, how long are the average product lifecycles for these consumable parts and precision tools? In an average year, what percentage of consumable parts and precision tools are considered new-to-market (introduced to market for less than 2 years)?

As the Group has a broad range of consumable parts and tools, the replacement cycle of our products is not standardized – it depends on the application of the tool or part, type of chips being manufactured and the individual customer's approach to precision, contamination and other factors. Customers may replace some products as often as every production shift while other products may have useful lives of a few months. The Group is continually working on new materials, designs and products to cater to the changing needs and requirements of its customers.

Q11. Who are your major competitors? Can you describe your competitive edge over other competitors? What is your economic moat?

Micro-Mechanics operates in the global semiconductor industry which is keenly competitive and constantly evolving as a result of disruptive technologies and shifts in the business environment.

Our semiconductor tooling business is primarily centred in Asia and serves a world-wide base of customers. While we are not aware of a similar company that is directly comparable to Micro-Mechanics in terms of product range, scale and geographical coverage, we do face a variety of competitors ranging from small local machine shops to a few larger multi-national companies.

In the "nano" world of the semiconductor industry, it has become increasingly challenging to manufacture tools and parts to support the demanding needs of customers for greater precision, flawless quality, reliability and cleanliness. In the future, we think there may only be a handful of suppliers capable of meeting these stringent requirements and our goal is to continually enhance our capabilities to become a leading *Next Generation Supplier* in this specialized market for high precision, process-critical tools in the semiconductor supply chain.

The Group's business in the manufacture of process-critical parts for wafer-fabrication equipment makers faces different competitive challenges. While this space offers a much larger addressable market size, there are also entrenched suppliers including some of the world's biggest contract manufacturers in addition to small machine shops. As a result, we are working to become an elite supplier of critical parts used in semiconductor wafer-fabrication, with competitive advantages so far not seen by others in terms of quality, repeatability and efficiency.

In essence, Micro-Mechanics' key competitive advantages include our proprietary design capabilities and manufacturing know-how; our sound financial position which enables the Group to invest in automation and advanced equipment; as well as our ability to provide fast, effective and local support to our global customers.

At Micro-Mechanics, we have a consistent focus on our gross profit margin which we believe is a key measure of our competitive strength, our focus on customers and the value that we bring to them.

Q12. Only a handful of suppliers in future will be capable of meeting the stringent requirements of the semiconductor industry as chip manufacturing transitions to < 10nm geometries. How many suppliers would there be? How does the company intent to be a/the leading Next Generation Supplier?

While the Group believes that only a small number of suppliers will have the requisite capabilities for below 10nm geometries manufacturing, it cannot provide an exact number.

To achieve Micro-Mechanics' goal of becoming a *Next Generation Supplier*, a key objective is to have a strong and unwavering focus on customers and the value the Group brings to their business. The Group is continually working to improve its operational processes and efficiency to ensure it delivers *Perfect Parts and Tools, On-Time, Every Time*.

Q13. To what extent the most advanced nodes like 5nm or 3nm will impact our clients' requirements and our tool business?

As the semiconductor industry transitions to below 10-nm device geometries, chip fabrication is becoming increasingly more difficult. Customers of our tooling business are placing greater emphasis on factors such as cleanliness, low or zero electrostatic discharge (ESD), high temperature and high-pressure bonding. The Group is working constantly to improve the manufacturing of critical tools and parts required to achieve customers' production goals. Indeed, our R&D team in Singapore has already produced several proprietary materials that are essential for 10nm and below device geometries.

USA OPERATIONS (MMUS)

Q14. How much does the contract manufacturing business contribute to the overall revenue of the company?

The manufacture of process-critical parts for wafer-fabrication equipment is carried out at our plant in the USA. Our USA operations generated revenue of S$13.6 million in FY2020.

Q15. US operations has been in loss making for the past few years. What are the prospects of the US operations going forward?

Q16. In which year would you expect a decent contribution from the US operations to our group net profits?

Q17. Per page 66 of the report, understand that MMUS is at a loss. When can we expect MMUS to be profitable?

Q18. Per page 3 of the report, with the recently received customer qualification by MMUS, can we expect MMUS to be profitable going forward?

Reply to Q15, Q16, Q17 and Q18

Our USA operations (MMUS) continues to gain traction and visibility with several key customers that are leaders in the semiconductor equipment industry. MMUS recently received customer qualification for a family of ultra-critical parts used in the semiconductor wafer-fabrication process. We have developed unique competencies for this project and are focusing on areas that many suppliers are finding increasingly difficult to do. Indeed, our qualification over the customer's long-time incumbent supplier was based on the superior quality and lower cost of our products. This is a significant project and milestone for MMUS, which lends confidence to the prospects for MMUS.

Micro-Mechanics does not have a practice of providing forecasts or guidance on the financial results of the Group or its subsidiaries. The Group has on 29 October 2020 reported its financial performance for the first quarter ended 30 September 2020. Except as required for full-year reporting, the Group does not provide segment reporting on a quarterly or half-yearly basis, due primarily to competitive and customer confidentiality reasons.

Q19. For FY2019 MMUS reported sales of S$13.6 million at a loss of almost S$150K, despite comments at page 3 of the Annual Report that "we have never felt more positive about MMUS prospects" So from revenue of S$12.3 million and profit of S$0.5 million in 2018 the operation has increased revenue in 2019 by S$1.3 million but at a significant loss. There is no explanation of this in the annual report which is disappointing.

Can the Board please enlighten us in respect of the MMUS FY2019 loss making operation and advise (a) what is the reason for this, (b) what is being done to address this and (c) what are MMUS prospects for the current financial year with perhaps an update on its Q1 performance?

Q20. It is unfortunate that MMUS had been losing money. What could be the main reason for the losses? Given that the businesses other than MMUS generating more than 50% gross profit margin, what could be the main reason for MMUS to be in the loss?

Reply to Q19a and Q20

Firstly, MMUS reported revenue of S$13.6 million and a loss of S$0.1 million for FY2020, not FY2019 as stated in the question.

For FY2020, MMUS has in fact improved its performance compared to FY2019 as revenue improved 20.3% to S$13.6 million from S$11.3 million in FY2019. MMUS also narrowed its segment loss in FY2020 to S$0.1 million from a loss of S$1.0 million in FY2019.

As stated in the Company's results announcement issued on 28 August 2020, MMUS' small loss in FY2020 was a consequence of depreciation expenses of S$2.3 million, engineering expenses of S$2.2 million as well as reduced production capacity in 4Q20 due to the COVID-19 pandemic.

In FY2019, the unexpected downturn in the semiconductor industry, coupled with depreciation expenses of S$2.2 million and engineering expenses of S$1.6 million, led to MMUS recording a loss of S$1.0 million. Depreciation expenses of MMUS in FY2019 was higher compared to S$1.9 million in FY2018 due to a S$6.0 million investment on state-of-the-art equipment during FY2018 and FY2019 to strengthen MMUS' capabilities based on its growth and encouraging engagement with customers.

Reply to Q19b and Q19c

Our team in the USA has been working tirelessly to develop MMUS as an elite supplier for critical parts used in semiconductor wafer-fabrication. As a result of these efforts, we recently received customer qualification for a family of ultra-critical parts used in the semiconductor wafer-fabrication process. This is a significant project and milestone for MMUS. 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.

The Group has on 29 October 2020 reported its financial performance for the first quarter ended 30 September 2020. Except as required for full-year reporting, the Group does not provide segment reporting on a quarterly or half-yearly basis, due primarily to competitive and customer confidentiality reasons.

Q21. Thanks to Management in managing our company really really well. It seems to me that finally MMUS had a breakthrough, can share more on the long/term outook for MMUS?

Q22. MM has disclosed that MMUS has received customer qualification for a family of ultra-critical parts used in the wafer-fabrication process. Has production of these parts commenced/delivered? Are these just initial small batches of trial production units before more regular orders?

Q23. Great performance, thank you to the Micro Mechanics team. How significant is the wafer fab qualification biz breakthrough in US, is the company able to disclose the potential size that it can achieve?

Q24. In your annual report you said that MMUS received customer qualification from a client. When can we expect to see orders from this new customer?

Reply to Q21, Q22, Q23 and Q24

MMUS is continuing to gain traction and visibility with several key customers that are leaders in the semiconductor equipment industry. After a lengthy development and testing period, MMUS recently received customer qualification for a family of ultra-critical parts used in the semiconductor wafer-fabrication process. This is a significant project and milestone for MMUS. Our qualification from the customer over its long-time incumbent supplier was based on the superior quality and lower cost of our products. During 1Q21, MMUS began receiving various initial orders and has commenced production and delivery.

Although there will always be more engineering and operational enhancements to make, the Group has never felt more positive about the prospects for MMUS. Ultimately, our aim is for MMUS to become an elite supplier for critical parts used in semiconductor wafer-fabrication.

Q25. With the wafer fab qualification breakthrough in US, what are the pre-requisites and timeframe for the company to be able to provide similar parts to its Asian semiconductor wafer fab companies?

At present, the main focus of the Group's USA operations (MMUS) is to make further inroads with key customers in the USA by ensuring high quality production and on-time delivery of ultra-critical parts.

Q26. Currently, do MMUS exports the products to other countries other than the US? Are there potential customers located in Asia such as Taiwan & Korea?

MMUS does, from time to time, ship products to customers' facilities in Singapore, depending on the customers' requirements. While there are potential customers in Asia, MMUS is presently focused on realizing its growth potential with customers in the USA.

Q27. Do the process-critical parts manufactured by MMUS constitute a small proportion of the total cost of the wafer-fabrication equipment? Do these parts need to be replaced regularly?

Q28. For Micro-Mechanics ultra-critical parts and tools for front end semiconductor industry, how long is the average product lifecycle and how often do the parts and tools need to be replaced?

Reply to Q27 and Q28

These ultra-critical parts are located in the wafer processing area and subjected to harsh environments, ie. vacuum, high temperatures and pressure, chemicals. Hence, they have to be replaced periodically due to wear and tear.

Q29. The semiconductor industry, particularly for TSMC and Samsung, is on the threshold of using extreme ultraviolet (EUV) lithography machines in high volume manufacturing (HVM). How will the adoption of EUV benefit Micro-Mechanics? Will Micro-Mechanics be developing stand-alone tools for EUV exposure, resist, pellicle, mask blank and mask characterization?

As the industry develops enhanced or new processing methods for wafer fabrication, it will need suppliers capable of producing parts that can meet ever higher standards for precision, repeatability, reliability and cleanliness. In general, we believe the Group will benefit from all new adoptions of technology, such as EUV or other processing methods.

Q30. Per page 61 of the report, how does the company ensure no conflict of interest in the interested person transaction involving MMUS and Sarcadia LLC?

The Company has adopted a policy in respect of any transactions with interested persons and requires that all such transactions be at arm's length and reviewed by the Audit Committee quarterly. The rental rate and electrical services payments paid to Sarcadia LLC are reviewed and benchmarked periodically against market rates for similar properties and published electricity tariffs, respectively. For FY2020, these payments made up about 1.2% of the Group's net tangible assets as at 30 June 2020.

BUSINESS OUTLOOK

Q31. What are the major challenges faced by the company for the next financial year?

Q32. What could be the biggest risk that will affect the company's performance in FY2021?

Q33. What is the management outlook for the company in the next 3 to 5 years?

Reply to Q31, Q32 and Q33

While demand for our high precision parts and tools has been surprisingly resilient, it remains difficult to accurately predict the Group's business outlook in FY2021 due to rapidly changing market conditions, measures by governments around the world to combat the COVID-19 pandemic, ongoing global trade tensions and the possibility that production at any of our plants may be suspended due to quarantine or other measures designed to deal with the pandemic.

In the long term, the Group continues to believe the industry is poised for a prolonged period of solid growth. According to a recent forecast from VLSI Research, global semiconductor sales could double to nearly US$1 trillion by 2030 from about US$450 billion in 2020. Hence, the key to the Group's success lies in its continuing ability to seize long-term opportunities and correctly identify the initiatives and investments that bring value to customers.

Q34. Is the company actively looking for possible synergetic merger and acquisition?

The Group is currently focused on growing its business through organic initiatives.

Q35. What is the future outlook of the semiconductor industry given the never ending US China Trade/Tech war?

In the near term, the outlook for the semiconductor industry remains difficult to accurately predict due to trade tensions, rapidly changing market conditions and ongoing government measures to combat COVID-19. In the long term however, the Group believes the industry remains poised for a prolonged period of solid growth as chips become increasingly embedded in nearly every aspect of modern life, from today's smart phones to tomorrow's driverless cars.

ORDINARY RESOLUTION 2

DIVIDEND

Q36. I am very pleased that the company has done very well. Congrats. But the dividend payout ratio has been more than 100% these few years. Not that I am complaining, but the question is whether this is sustainable. What would be the sustainable dividend, given the current run-rate of the business right now?

Q37. Noticed that the dividend payout ratio is above 100% of EPS. Is it sustainable for the long-term?

Reply to Q36 and Q37

Since its public listing in 2003, the Group has had a consistent practice of rewarding shareholders through regular dividend payments every year despite the ups and downs of the business cycle. We are unable to comment on the amount of dividends going forward as it is subject to business performance and working capital requirements among other factors. However, the Group currently has a dividend policy to pay annual dividends of not less than 40% of the consolidated net profit, subject to the Group's retained earnings, financial position, capital expenditure requirements, future expansion, investment plans, and other relevant factors.

ORDINARY RESOLUTION 8

STOCK SPLIT

Q38. Is there intention for the company to do a stock split to enhance the liquidity of shares?

The Group currently does not have plans to do a stock split. The Board will keep your suggestion in mind and consider it at an appropriate time.

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 Taiwan and 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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