

**Issuer:** Micro-Mechanics (Holdings) Ltd.  
**Security:** Micro-Mechanics (Holdings) Ltd.

**Meeting details:**

Date: 28 Oct 2016

Time: 14:00H

Venue: Central Public Library, Level 5, Possibility Room, 100 Victoria Street, Singapore 188064

**Company Description**

Micro-Mechanics (Holdings) Ltd. designs, manufactures, and markets high precision tools, parts, and assemblies for the semiconductor, medical, aerospace, and other high technology industries. The company operates in six segments: Singapore, Malaysia, Philippines, Thailand, USA, and China. It has a portfolio of semiconductor tools for the assembly and test process, including rubber tips (integrated circuits), high-temp plastic tools, tungsten carbide tools, sensor assembly, and vacuum wand tools; dispense nozzle adaptor, dispense nozzle, pen dispense assembly, writing pen nozzle tip, and epoxy stamping tools; and ejector needles, needle holders/pepper pot, and needle holder seals. The company also offers thermosonic bonding products, such as clamps and electronic flame off products; ultrasonic bonding products, including wire clamps, bearing base assembly, anvils, wire cutters, and OE 7200 plus products; and encapsulation products comprising BGA dispensing nozzle, dispensing manifold, pump screw, O-ring, and mylar film/glass slides. In addition, the company manufactures precision parts and assemblies on a contract basis for OEMs. Micro-Mechanics (Holdings) Ltd. was founded in 1983 and is based in Singapore. (Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=5DD](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5DD))

Q1. In the Executive Management Report (page 2 of the annual report), it was disclosed that the group has decided “to align our efforts at MMUS with the Group’s core business of manufacturing process critical parts and tools primarily for the semiconductor industry”.

MMUS is the subsidiary in the USA driving the development of a separate Custom Machining & Assembly (“CMA”) division. With this rationalisation, the group will cease the diversification attempt and focus on the semiconductor/wafer fabrication industry.

- a) **In terms of management structure, will there be a major restructure exercise to refocus the CMA division for the semiconductor industry? If so, will there be significant restructuring costs?**
- b) **With the focus now solely on the semiconductor industry, how confident is management that the division can now turnaround and contribute to the group’s bottom line?**
- c) **As the group ends its diversification strategy into other high-technology industries, would the group be fully dependent on the state of the global semiconductor landscape?**

Q2. The group has had impressive growth in the past few years. With group revenue of \$38 million in financial years 2012 and 2013, the group has steadily increased its revenue to \$51-52 million, up more than a third. Even more impressively, the growth was achieved with increasing profit margin. Since FY2015, the gross profit margin for the core semiconductor tooling business has been in excess of 62% thanks to the strategies implemented by management. **With the current profit margin already at a very impressive level, how much more improvement can be achieved realistically? What are the targeted gross and net profit margins that the board has set for management?**

**The gross profit margin for CMA has been erratic. It can be as high as 27.5% (achieved in 3Q2016) and as low as 6.7% (achieved in 2Q16). Can management help shareholders understand the prospects of the CMA segment now that it will focus on the semiconductor industry?**

Q3. As disclosed in the Corporate Governance Report (page 31), the company’s dividend policy is as follows:

Effective from FY2016, the Company’s dividend policy is to distribute 40% or more of the net profit according to the audited report.

Shareholders appreciate that the company has established such a generous dividend policy. The company’s management and board have an excellent track record of exceptional value creation for all the shareholders. **Can the board tell shareholders if there are potential areas (other than CMA) where the group can leverage its expertise? Going forward, is it a signal that management would be focusing mainly on organic growth? Are there potential acquisitions that would add strategic capabilities to the group?**