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UEN No: S99SS0111B

GST Reg No: M90367530Y

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

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

**Meeting details:**

Date: 29 October 2018

Time: 2.00 .m.

Venue: NTUC Centre, Level 7, Room 701, No. 1 Marina Boulevard, Singapore 018989

**Company Description**

Micro-Mechanics (Holdings) Ltd. designs, manufactures, and markets high precision parts and tools for use in semiconductor, aerospace, laser, and other high-technology industries. The company operates in five segments: Singapore, Malaysia, The Philippines, USA, and China. It offers die attach - pick-up products, such as rubber tips, high-temp plastic tools, tungsten carbide tools, sensor assemblies, and vacuum wand tools; die attach - dispensing products, including dispense nozzle adaptors, dispense nozzles, pen dispense assemblies, writing pen nozzle tips, and epoxy stamping tools; and die attach - die ejection products comprising ejector needles, needle holders/pepper pots, and needle holder seals. The company also offers thermosonic bonding products that include clamps and electronic flame off products; ultrasonic bonding products comprising clamps, bearing base assemblies, anvils, and wire cutters; and encapsulation products consisting of BGA dispensing nozzles, dispensing manifolds, pump screws, and O-rings. In addition, it manufactures precision parts and assemblies on a contract basis for OEMs. The company 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))

1. The group reported record revenue and profit in FY2018, with the top line increasing by 13.8% and the bottom line improving 16.1%.

In the Executive management report, the company explained that the group's performance could be taken as a leading indicator to the semiconductor industry as the group's products (tools and parts) are typically purchased before the sale of the finished chip is recorded. Industrial estimates are also projecting a slower growth going into 2019.

Management stressed that cyclical and short term fluctuations in demand are expected of the semiconductor industry. The company has taken a view that the industry is poised for a prolonged period of solid growth as chips are becoming increasingly embedded in nearly every aspect of modern life, from today's smart phones to tomorrow's driverless cars.

In terms of the strategic direction, what are the group's long term plans for:

- (i) **Korea:** In the company's FY2018 Results Presentation (dated 27 August 2018), it was referenced that SEMI had projected that South Korea will remain the largest equipment market for the second year in a row. **Is the group currently serving the South Korean market? If not, are there plans to do so in the near future?**
- (ii) **China:** Similarly, SEMI had projected that China will rise up the rankings to claim second position for the first time in FY2018 and become the leader in FY2019. China is already the group's largest market, accounting for 27% in revenue. **Can management help shareholders understand the market dynamics of the Chinese semiconductor industry? Is the growth sustainable? How is the group positioning itself in China to capture the growth?**
- (iii) **USA:** With MMUS focusing on the semiconductor industry, the segment posted a net profit of \$0.5 million. Based on Note 20 (page 107 – Segment reporting), the non-current asset in the USA is the highest amongst all 5 countries, at \$12.2 million. **Can management help shareholders understand if the US plant is technologically the most advanced? Is it operating at a level that is even more cost-efficient than the rest of the group?**
- (iv) **Trade wars:** **Has the group experienced any negative impact due to the trade conflicts between the USA and China? With 5 plants in its network, will the impact of the group be minimal?**
- (v) **10 nanometer:** **What are the major opportunities as the industry moves towards 10 nanometer? Does the group have first mover advantage in this development?**

2. Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

- (i) Utilisation: Would management help shareholders understand the utilisation rate of its 5 plants? What was the increase in capacity following the high capital expenditure in FY2018?**
- (ii) Capital expenditure: With \$12.1 million in capital expenditure in FY2018 and a projected \$6.0 million in FY2019, is the heavy investment phase completed? In FY2014-FY2017, the average capital expenditure was \$5.2 million. Is the capital expenditure for FY2020 likely to return to the same level?**
- (iii) New plant: Are there plans for a new manufacturing site?**
- (iv) Market risk – foreign exchange rates: As disclosed in Note 19 (page 100 – Financial risk management: Market risk), the group has no formal hedging policy. As at 30 June 2018, the group had outstanding foreign exchange contracts with notional amounts of approximately \$4,238,709 (2017: \$9,886,225) to manage exposure to foreign currency fluctuation. Can management help shareholders understand in greater detail how it determines the level of hedging?**

3. At the 22<sup>nd</sup> Annual General Meeting scheduled to be held on 29 October 2018, Ms Sumitri Mirnalini Menon @ Rabia, who retires by rotation pursuant to Regulation 97 of the company's Constitution, is seeking her re-election as a director of the company.

As detailed in the explanatory notes to the resolution, if re-elected, Ms Sumitri Mirnalini Menon @ Rabia, will 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 will be considered as an independent director.

As noted in the Corporate Information section, Ms Sumitri Mirnalini Menon @ Rabia was first appointed to the board on 16 May 2003. As such, Ms Sumitri Mirnalini Menon @ Rabia has served on the board for more than 15 years.

Similarly, Mr Girija Prasad Pande, being first appointed to the board on 10 September 2009, would have served on the board for more than 9 years.

Guideline 2.4 of the 2012 Code of Corporate Governance recommends that the independence of any director who has served on the board beyond nine years from the date of his/her first appointment should be subject to particularly rigorous review.

- (i) Can the board help shareholders understand how it had subjected the independence of Ms Sumitri Mirnalini Menon @ Rabia and Mr Girija Prasad Pande to particularly rigorous review?**
- (ii) If so, please describe in detail how the “particularly rigorous” review was carried out.**

- (iii) **Notwithstanding that board committee is confident that Ms Sumitri Mirnalini Menon @ Rabia has “the ability to continue exercising strong independent judgment in the discharge of her duties”, what are the board’s near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?**
- (iv) **Has the board evaluated the board’s succession plan, in particular, the roles of chairman and CEO?**

Further, in August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“2018 Code”). As a consequence of the revised 2018 Code, the Singapore Exchange will be making amendments to its Listing Rules. The Listing Rule changes will come into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

- (v) **Has the company evaluated the impact of the 2018 Code and the amendments to the Listing Rules on the board?**

**[Additional comments: The group has presented a comprehensive Sustainability Report on pages 11 to 35 in the annual report. Based on the eight material ESG factors that were determined following a materiality assessment, can the company explain in greater detail how its strategy has been impacted by each one of these factors?]**

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

[https://sias.org.sg/qa-on-annual-reports/?company=Micro-Mechanics%20\(Holdings\)%20Ltd](https://sias.org.sg/qa-on-annual-reports/?company=Micro-Mechanics%20(Holdings)%20Ltd)

The company’s response could be found here: -----