

Corporate Governance

The Board of Directors and Management of Micro-Mechanics (Holdings) Ltd. are committed to a high standard of corporate governance and transparency and to the protection of shareholders' interests. The Company's corporate governance policies and processes are in line with the revised Code of Corporate Governance (the "**Code**") released by the Council on Corporate Disclosure and Governance in July 2005.

This report describes the Company's corporate governance policies and processes for the financial year ended 30 June 2011 with specific reference to the Code.

HIGHLIGHTS: The Board has:

- approved to outsource the internal audit function
- resolved on voting by poll at the up-coming AGM

BOARD MATTERS

The Board's Conduct on Affairs

Board, Composition and Guidance

The Board comprises seven Directors three of whom are Independent and Non-Executive Directors and four are Executive Directors. The particulars of the Directors are set out on pages 7 and 8. The Directors are not related to one another. With effect from 1 October 2010, Mr. Karl Zurfluh, one of our Executive Directors, became a Non-Executive Director after his resignation from executive positions.

The Board believes that its primary role is to protect and enhance long-term shareholder value. To this end, it sets the overall strategy for the Company and its subsidiaries (collectively, the "**Group**") and oversees management. To fulfill this objective also, the Board takes responsibility for implementing and maintaining sound corporate governance practices for the Group. The Board provides leadership, sets strategic direction, establishes risk policies and procedures and requires goals from management as well as monitors the achievement of those goals.

To assist in the execution of its responsibilities, the Board has established the following committees, namely an Audit Committee, a Nominating Committee and a Remuneration Committee. These committees are chaired by Independent and Non-Executive Directors and function within clearly defined terms of reference and operating procedures. The Board and the Committees meet regularly and, if necessary, on an ad hoc basis. To facilitate the ease, frequency and speed of Board meetings, the Company's Articles of Association allow Board members to attend meetings via any electronic or telegraphic methods of simultaneous communication including via tele-conference.

The Board regularly reviews all matters within its purview including but not limited to business strategies, development plans and the performance of the Group. Reviews are also made of the annual budget, announcements of financial results, annual reports, performance bonus incentives and any acquisition or disposal of material assets.

There are comprehensive internal guidelines on matters that require the Board's approval, such as changes in the Company's constitution and structure, material capital commitments, commencing and defending litigation etc. These guidelines were approved by the Board.

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Continuing Education

The Board recognizes the importance of appropriate orientation training and continuing education for its Directors. Newly appointed Directors are fully briefed as to the business activities of the Group and its strategic directions. Newly-appointed directors receive a formal letter explaining their statutory duties and responsibilities as a director.

The Directors are also updated in a timely manner on regulatory changes which have a bearing on the Company and the Directors' obligations towards the Company.

With effect from 1 July 2010, all directors are encouraged to obtain at least 8 hours continuing education each financial year by way of seminars, courses and other programs relating to the discharge of their duties as directors. As at the end of the financial year, with the exception of Mr Zurfluh, all our directors attained this target.

Attendances and number of meetings

The following table shows the number of meetings held and Directors' attendances during the financial year under review:

	Board	Audit Committee	Remuneration Committee	Nominating Committee	AGM
Number of meetings held	4	6	3	2	1
Directors:	Number of Meetings Attended				
Christopher Reid Borch	4	1*	3*	2*	1
Low Ming Wah	4	6*	1*	NA	1
Chow Kam Wing	4	3*	3**	2**	1
		3**			
Karl Zurfluh	4	NA	NA	NA	1
Ng Beng Tiong	4	6	3	2	1
Sumitri Mirnalini Menon @ Rabia	4	6	3	2	1
Girija Prasad Pande	4	5	3	2	0

NA – not applicable as the director is not a member of the Committee

* – attendance by invitation of the Committee

** – attendance as Secretary of the Committee

Chairman and Chief Executive Officer

On 28 August 2010, the Nominating Committee recommended the appointment of Ms Sumitri Mirnalini Menon @ Rabia as a Non-Executive Chairman of the Board to the Board of Directors. The Board of Directors unanimously approved her appointment. Ms Menon has served our Board as an Independent Director since May 2003.

With this appointment, Mr. Borch ceased to be Chairman of the Board. The separation of the roles of Chairman and the Chief Executive Director is part of the Group's continuing efforts to enhance the standards of its corporate governance.

The major responsibilities of our Non-Executive Chairman are:

- to ensure that Board meetings are held when necessary to enable the Board to perform its duties and facilitate the Company's operations;

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- to set Board meeting agendas in consultation with the Company Secretary and the Executive Directors;
- to review all Board papers;
- to provide adequate, timely and relevant materials and Board papers to the Board members to help to ensure the quality, quantity and timeliness of the flow of information between management and the Board; and
- to assist in ensuring compliance with the Company's guidelines on corporate governance.

As the Chief Executive Officer, Mr. Borch has overall responsibility for the management and daily operation of the Group and is supported by the Executive Directors and executive officers. The separation of roles enables Mr. Borch to focus on his executive duties including the Group's strategic planning and operations.

Mr. Borch and the Executive Directors and executive officers are not related to one another.

Board Membership and Performance

The Nominating Committee ("**NC**") has three members, all of whom are Independent and Non-Executive Directors. The members are:

Chairman : Sumitri Mirnalini Menon @ Rabia

Member : Ng Beng Tiong

Member : Girija Pande

The NC makes recommendations to the Board on all board appointments and re-appointments. The NC aids the Board in obtaining an appropriate mix of relevant knowledge and experience among Board appointees.

The NC's process for identifying and selecting candidates for the Board (whether in the event of a vacancy or to add to the Board) has been and continues as follows. The Board sets a 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 NC shall have recourse to both internal sources as well as external sources to draw up a list of potential candidates. Internal sources include the Company's own Directors and Management. External sources include the Company's Auditors, its Secretarial Services Providers, its Human Resource Consultants, the Singapore Institute of Directors, the Register of Women Directors etc. Interviews shall be conducted by the NC and short-listed candidates are recommended to the Board for consideration.

The NC is charged with carrying out an annual Board Appraisal. Briefly, the process followed is for each Board Member (executive and non-executive) to complete an evaluation form within a stipulated period. The completed form is returned by each member to the Chairman of the NC who compiles a consolidated report after discussion with the NC members. The NC's report and any recommendations are then tabled for discussion by the whole Board. The Board takes this evaluation process seriously. The evaluation form and process have been designed to obtain constructive feedback and initiate dialogue among Board Members with a view to enhancing shareholder value, the effectiveness of the Board as a whole and the discharge of each Member's duties. The evaluation tracks and reviews quantitative as well as qualitative indicators to measure the Board's performance. Objective quantitative indicators include standard ones such as the performance of the Company's share price measured against the STI and its peers, dividend rates and capital efficiency indicators such as ROI etc. Qualitative governance indicators regarded cover the composition of the Board, its independence, processes, functioning, advisory and oversight functions, risk and crisis management protocols, compliance record and protocols, the discharge of its duties towards shareholders and its corporate social responsibilities and the sufficiency and effectiveness of its committees.

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The contribution of each Director to the effectiveness of the Board is tracked via their attendance at Board and Committee meetings.

The NC's written terms of reference, which describe its major responsibilities, are:

- to make recommendations to the Board on the re-nomination of retiring Directors standing for re-election at the Company's Annual General Meeting ("AGM"), having regard to the Directors' contribution and performance;
- to determine annually whether or not a Director is independent;
- to determine whether a Director is able to and has been adequately carrying out his duties as a Director of the Company;
- to ensure that disclosure of key information relating to Directors is in the Annual Reports as required by the Code of Corporate Governance; and
- to decide how the Board's performance may periodically be evaluated against objective criteria.

The NC also reviewed and was satisfied that any director who has multiple Board representations is able to and has been adequately carrying out effectively the duties as a Director and ensured that internal guidelines adopted to address the competing time commitments are relevant and being followed. All Directors are required to declare their other Board representations. On 1 May 2010, the Board resolved to limit each director to holding not more than 4 directorships in listed companies including the Company. At the end of the financial year end, this criterion was met.

The independence, as defined by the Code, of each Director is reviewed annually by the NC. A formal assessment of such independence was carried out to confirm the same in respect of each of the Company's Independent Directors. A Declaration of Independence, in a form required by the NC, was signed by each of the Independent Directors and reviewed by the NC. In future the third-party internal auditor will carry out this assessment.

The Company's Articles of Association require one-third of our Directors to retire and subject themselves to re-election by shareholders at every AGM. At the forthcoming AGM, Mr. Christopher Borch and Mr. Karl Zurfluh will retire by rotation. Mr Borch will be standing for re-election. After taking into account his contribution and performance the NC has recommended to the Board that Mr Christopher Borch be re-nominated for re-appointment at the forthcoming AGM. Mr Zurfluh will not be standing for re-election.

Each member of the NC abstains from voting on any resolutions and making any recommendation and/or participating in respect of matters in which he or she is interested.

ACCESS TO INFORMATION

The Board and the Committees are furnished with complete, adequate and reliable Board papers and information in a timely manner prior to any meeting so as to facilitate Directors in the proper and effective discharge of their duties. The Directors have separate, unfettered and direct access to the management team, the company secretary, the internal auditor and the external auditors at all times. Detailed Board papers are prepared for each meeting of the Board and are normally circulated one week in advance of each meeting. The Board papers include sufficient information from Management on financial, business and corporate issues to enable the Directors to properly consider those issues at Board meetings.

The company secretary attends and minutes all Board meetings. He assists with proper procedure and compliance with the Companies Act, the Company's Memorandum and Articles of Association and other applicable rules and regulations.

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REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Level and Mix of Remuneration

The Remuneration Committee (“RC”) has three members, all of whom are Independent and Non-Executive Directors.

On 28 August 2010, the Nominating Committee recommended the appointment of Mr. Pande as Chairman of the Remuneration Committee to the Board of Directors. The Board of Directors unanimously approved his appointment.

The members are:

Chairman : Girija Pande (appointed to be Chairman on 28 August 2010)

Member : Ng Beng Tiong

Member : Sumitri Mirnalini Menon @ Rabia

The RC’s written terms of reference which describe its major responsibilities, are:

- to make recommendations to the Board on the framework of remuneration, including but not limited to directors’ fees, salaries, allowances, bonuses, options and benefits in kind for the Board and key executives and to determine specific remuneration packages for each Executive Director;
- to review all benefits and long-term incentive schemes (including share schemes), whether Directors should be eligible for benefits under long-term incentive schemes and compensation/remuneration packages for the Board and key executives;
- to review service contracts of the Executive Directors; and
- to review remuneration packages of employees who are related to any Director or substantial shareholders.

The Company adopts a remuneration package for employees including Executive Directors, which is made up of a fixed and a variable component. The fixed component is the basic salary and the variable component is the Performance Bonus Incentive (“PBI”) scheme that is linked to the Group’s performance and the accomplishment of established targets such as profitability, sales turnover, assets management, human resource management, delivery time etc. The total amount of PBI is capped at 15% of the adjusted group net profit before taxation and PBI; these adjustments are in respect of non-recurring items not directly linked to the performance of the employees such as revaluation gain or loss, impairment expense, etc. Details of the PBI scheme can be found in the Company’s prospectus issued in relation to its initial public offering.

The Company also has a sales incentive scheme for its sales and marketing teams and facility heads structured on pre-defined targets. In the financial year under review, the sales incentive payment was about 0.6% of group sales. Executive directors do not participate in this scheme.

Service contracts with the CEO, COO and CFO who are also Executive Directors are for a fixed appointment period and the notice period in each of the service contracts is three months. There are no onerous clauses or ‘golden handshake’ provisions in connection with termination. These service contracts are subject to the review and approval of the Remuneration Committee.

An over-riding principle of our remuneration policy is that no Director is involved in deciding his own remuneration.

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Disclosure of Remuneration

The breakdown of the level and mix of remuneration of each Director and the key executives in FY2011 is as follows:

Remuneration of Directors

Remuneration band & name of Director	Director's fee	Salary	Bonus	Allowances/ Benefits	Total
<u>S\$250,000 to S\$499,999</u>					
Christopher R. Borch	5%	63%	32%	0%	100%
Low Ming Wah	4%	61%	30%	5%	100%
Chow Kam Wing	4%	59%	32%	5%	100%
<u>Below S\$250,000</u>					
Ng Beng Tiong	100%	–	–	–	100%
Sumitri Mirnalini Menon @ Rabia	100%	–	–	–	100%
Girija Prasad Pande	100%	–	–	–	100%
Karl Zurfluh	100%	–	–	–	100%

The Independent and Non-Executive Directors receive directors' fees in line with the level of contribution, time spent, efforts and responsibilities of each Independent and Non-Executive Director. The calculation of director's fees for Independent and Non-Executive Directors is as follows:

- the base director's fee + 10% for each Committee Chairperson;
- the base director's fee + 20% for Audit Committee Chairperson;
- the base director's fee + 50% for Board Chairperson.

The director's fees are subject to shareholders' approval at the Annual General Meeting.

Remuneration of executive officers

Remuneration band & name of executive officer	Director's fee	Salary	Bonus	Allowances/ Benefits	Total
<u>S\$250,000 – S\$499,999</u>					
Tan Teck Hoe	–	44%	19%	37%#	100%
<u>Below S\$250,000</u>					
Teerasak Phuacklay	–	52%	40%	8%	100%
Tan Beng Lim	–	58%	26%	16%	100%
Abdul Samad bin Ahmad	–	64%	21%	15%	100%
Richie Cajili Manuel	–	77%	22%	1%	100%

Mr. Tan Teck Hoe is Singaporean who is based in China. The percentages shown under Allowances and Benefits are inclusive of tax equalization compensation, overseas allowances, accommodations and transportation allowance.

With the exception of our CEO, Mr Borch, no employee of the Group is an immediate family member of the substantial shareholders, a Director or the CEO in the financial year under review.

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ACCOUNTABILITY AND AUDIT

Accountability

The Board is accountable to the shareholders while the management is accountable to the Board. The Board is mindful of its obligation to provide timely, reliable and fair disclosure of material information in compliance with the SGX-ST Listing Manual and present the financial results quarterly, half yearly and yearly to the public. The management announced the quarterly and the half yearly financial results within 30 days from the relevant financial period. The CEO and CFO certify all such financial results.

In presenting the financial results, the Board has sought to provide a balanced and reader friendly assessment of the Company's performance and position.

To help continually ensure the accountability of management to the Board, the management provides all members of the Board with a useful and balanced summary of the Company's performance and financial position such as Profit & Loss Accounts, Balance Sheets and other management reports on a monthly basis.

Audit Committee

The Audit Committee ("AC") comprises three members, all of whom are Independent and Non-Executive Directors.

Chairman : Ng Beng Tiong

Member : Sumitri Mirnalini Menon @ Rabia

Member : Girija Pande

All the members have had many years of experience in senior positions in financial, legal and/or commercial sectors. They have sufficient financial expertise and experience to discharge the AC's functions. The Chairman, who is a Chartered Financial Analyst, has many years of finance, banking and listed company experience.

The AC's written terms of reference which describe its major responsibilities are:

- to review with the external auditors the audit plan and the results of the external auditor's examination and evaluation of the Group's system of internal controls;
- to review (i) the quarterly, half yearly and yearly announcement of financial results, and (ii) the consolidated financial statements, balance sheets and statements of profit & loss accounts, and the external auditor's reports on those financial statements, before submission to the Board for approval;
- to review and discuss with external auditors any suspected fraud or irregularities, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on the Company's operating results and/or financial position;
- to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor;
- to review the independence of the external auditors annually including the nature and extent of non-audit services provided by the external auditors;
- to review interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual;

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- to review the adequacy and effectiveness of the internal control framework and risk management processes and help ensure adequate measures are in place;
- to review the compliance with the Code of Best Practice on Security Transactions;
- to undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual.

In the financial year under review, the AC met with the external auditor without the presence of Executive Directors and senior management. All AC meetings were run without the presence of Executive Directors and senior management unless invited by the AC to attend for any particular reason.

The AC has reviewed the non-audit services performed by the external auditors and is satisfied that the provision of such services has not affected the independence of the external auditors. The AC has recommended their re-appointment at the forthcoming AGM.

Some of the subsidiaries in the Group are being audited by external auditors other than those of the Company. The AC is satisfied that there are sound internal controls applied in these subsidiaries and the scope of audit performed by these other external auditors is adequate. Furthermore, the external auditor of the Company visited these subsidiaries and did review their accounts.

Whistle Blowing Policy

The Board has formulated a written and comprehensive Whistle Blowing policy which has been disseminated throughout the Group and is an integral part of the company handbook. The Board believes that this policy will, inter alia, act as a deterrent to malpractice and wrongdoing, encourage openness, promote transparency and underpin the risk management systems of the Group.

The Whistle Blowing Officers are the members of the Board. Any Whistle Blowing Officer to whom a concern has been raised is obliged to make a report to the Audit Committee of the substance of the concern without breaching employee confidentiality. The Audit Committee is obliged to review all reports received and take or approve appropriate action.

The policy requires that the Whistle Blowing Officer shall consider any concern raised seriously even if the whistle blower does not reveal his/her name..

The policy covers all and any improprieties and wrongdoings:

- affecting the financial position of the company;
- relating to the honesty and integrity of the company's dealings;
- relating to the honesty and integrity of any employee or director in the course of his or her employment or dealing with or on behalf of the company.

A whistle blower can choose to raise his/her concern by any means convenient including sending a letter or email or by telephone to any Whistle Blowing officer directly. Within 10 working days, the Whistle Blowing officer will acknowledge concern with an explanation of how the matter is being handled if the informant's name is known. The concern may thereafter be referred to the police, our external auditor or an independent investigator depending on the nature and seriousness of the concern.

All concerns raised must be referred to the Audit Committee in a timely manner.

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INTERNAL CONTROLS AND INTERNAL AUDIT

We maintain a sound internal control and internal audit system to ensure the integrity and reliability of our financial information, as well as to safeguard shareholder value and the Group's assets. It is strengthened and reinforced by the Group's internal auditor who carries out regular internal audits to ensure compliance with stipulated internal controls, applicable laws and regulations.

The internal auditor reports directly to the Audit Committee. The internal auditor meets with the Audit Committee quarterly to present his internal audit reports. The Audit Committee approves the internal audit schedule and plan and reviews the activities of the internal auditor on a regular basis. In August 2011, the Audit Committee appointed Nexia TS Risk Advisory Pte Ltd as the internal auditor of the Group. Outsourcing the internal audit function enhances continuity, objectivity and independence and thus good corporate governance. The internal audit shall be carried out in accordance with the IIA standards.

The recruitment, selection and appointment of the internal auditor was made by the Audit Committee after reviewing suitable candidates identified by internal and external parties including the external auditor, company secretary and others. The internal auditor is independent and is not associated with or related to the substantial shareholders, Directors or the CEO and the CFO.

RISK MANAGEMENT

The Company has put in place internal controls necessary to identify and manage significant business risks. The Company's internal audit function provides an independent resource and perspective to the Audit Committee by highlighting any areas of concern discovered during the course of performing such internal audit process.

Management regularly reviews the Company's business and operational activities to identify areas of significant business and operational risk as well as measures to control these risks. These include detailed financial and management reporting and detailed operational manuals and reports. Targets are set to measure and monitor the performance of operations periodically, such as growth, profit margins, inventory efficiency, management of receivables, personnel attendance, cycle time and housekeeping.

The Company's assets and our employees are insured under a comprehensive insurance program which is reviewed annually. These also include product liability insurance and directors and officers liability insurance.

Financial risk management is discussed in Note 18 of the financial statements set out on pages 51 to 54.

COMMUNICATION WITH SHAREHOLDERS

Greater Shareholder Participation

The Company makes announcements of its financial results and provides material information as required under the SGX-ST Listing Manual via SGXNET. Annual reports and notices of AGMs are sent to all shareholders. Such notices are also published in the local newspapers and announced via SGXNET. Shareholders are encouraged to attend the Company's AGMs. At AGMs, shareholders have the opportunity to share with and communicate their views to the Board. The Chairpersons of the Audit, Nominating and Remuneration Committees as well as the external auditors are requested to be present and available to address any queries by shareholders.

The Board has resolved that with effect from the up-coming annual general meeting, voting on AGM resolutions will be by Poll.

The Board takes note that there should be a separate resolution at general meetings on each substantially separate issue and will provide reasons and material implications where resolutions are interlinked.

Regular media and analyst briefings are organized to enable a better appreciation of the Group's performance and developments. After the results announcement, the Company holds investor briefings on the financial results inviting the media and analysts.

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Shareholders can also visit our website at www.micro-mechanics.com to find out more about the Company and its latest developments. Under the Investor Relation section, Shareholders can see the updated financial highlights, announcements and Frequently Asked Questions (FAQs) from the public.

To enhance and encourage communication with our shareholders and the public, the Company provides an email address for the investors at investor@micro-mechanics.com. During the year, the Company received a number of questions and the FAQs were posted on our website for the shareholders and the public to share and know more about the Company.

The Company publishes the minutes of the AGM via SGXnet with the results of the voting on the resolutions tabled.

SECURITIES TRADING CODE

The Company has adopted an internal compliance code which is applicable to all officers in relation to dealings in the Company's securities. Its officers are not allowed to deal in the Company's shares during the period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year, or one month before half year or financial year, as the case may be, and ending on the date of announcement of the relevant results or if they are in possession of unpublished material price-sensitive information pertaining to the Group.

All Directors and all employees of the Group have been instructed to observe the internal compliance code and all applicable insider trading laws at all times even when dealing in securities within permitted trading periods. In this connection all Directors and employees are requested to sign a Declaration of Compliance with the internal compliance code annually and submit the same to the Company Secretary who in turn tables the duly signed declarations to the Audit Committee for inspection.

INTERESTED PERSON TRANSACTIONS

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.

During the financial year under review, there were no interested person transactions relating to any Director, substantial shareholders and their immediate family members according to the SGX Listing Manual – Chapter 9A "Interested Person Transactions".

DIRECTORSHIPS

The following lists the present and past directorships of our Directors in listed companies other than directorships held in our Company.

<u>Name</u>	<u>Present Directorships</u>	<u>Past Directorships (preceding 3 years)</u>
Christopher Borch	NIL	NIL
Low Ming Wah	NIL	NIL
Chow Kam Wing	NIL	NIL
Karl Zurfluh	NIL	NIL
Ng Beng Tiong	NIL	NIL
Sumitri Mirnalini Menon @ Rabia	NIL	NIL
Girija Pande	NIL	NIL