

Executive Management Report

To all our stakeholders,

The Group achieved a record revenue of S\$45.3 million in FY2011, a 10.6% gain from S\$41.0 million a year ago, driven mainly by increased sales of our semiconductor tooling business. While our gross profit margin in FY2011 eased to 45.9%, the Group's bottom line benefited from our close watch on administrative, distribution and other operating expenses. These overhead costs, after including other income, fell 4.8% to S\$12.2 million in FY2011. As a result, Group net profit outpaced revenue growth to reach S\$6.8 million, 43% higher than S\$4.8 million in our last financial year.

With no bank borrowings to service, we generated S\$8.7 million in cash from operating activities. After investing S\$6.7 million in new plant and equipment, including a new and larger factory in China, and returning S\$4.2 million to our shareholders in dividends, the Group ended FY2011 with S\$7.5 million in cash and no borrowings.

Slow economic growth particularly in the USA and Europe, inflation concerns in Asia, and continued unrest in various parts of the world may impact our industry adversely in the near future. However, we have a clear idea of what we need to do for the Group to remain successful over the long term.

Doing More with the Same

While we have always been careful in our spending, hiring and investing decisions, we need to do even better. At the end of FY2011, we employed about 600 people in six factories around the world. For FY2012, we intend to control our headcount and focus on fuelling growth by investing in equipment and information technology that will speed processing and simplify

difficult or tedious tasks. During FY2011, we invested almost a million dollars in hardware and software, which has brought our cumulative capital spending on information technology to about S\$3 million during the last three years.

We have also begun developing a faster and more flexible process to adjust our manufacturing equipment as we move from making one part to the next. Although this new approach requires the investment of several million dollars over the next few years, we believe the result will be a more productive and responsive manufacturing system. With the economic outlook increasingly uncertain and forecasters calling for a year of modest growth at best, we think FY2012 will be a good time to focus our capital expenditure on systems and equipment that improve efficiency and better utilise our existing equipment. Besides the S\$3 million investment in our plant in the USA that was approved earlier, we plan to invest around S\$6 million in plant and equipment which is about the same as FY2011.

Perfect Parts 24 by 7

One of our most exciting initiatives is our plan to establish a fully-automated system for machining complex parts at our Custom Machining & Assembly ("CMA") factory in the USA. We began installing the new manufacturing line in July 2011 and expect to complete our first part, a complex laser component, in September 2011. At about S\$3 million, this new line is the single biggest investment in our Group's history. Being relatively large and complex, this project will require some time to be fully implemented. But our goal is simple and clear: To manufacture "perfect parts" for our customers and to do so around the clock.

Executive Management Report

While being cost competitive will always be important, we also see the competitive balance shifting over coming years in favour of suppliers that not only can manufacture complex parts quickly, but also easily adjust their production levels up or down without affecting headcount. Together with the financial strength and transparency that Micro-Mechanics represents as a publicly-listed corporation, we are working to build a compelling offering to our customers in the high-technology equipment, medical and aerospace industries.

The Right Things, The Right Way

One of the biggest challenges in running a company is to make sure we are doing not only the “right things”, but also doing them the “right way”. For instance, we believe that semiconductor manufacturing will concentrate in China over the long term. This is a welcome trend for our operation in Suzhou, China, and during FY2011, we completed the outfitting of a larger building there to allow for smooth expansion during the next several years. Although China’s strong growth may affect growth opportunities for the Group’s plants elsewhere in Asia, we believe these plants still have an important role to play in the semiconductor industry. Our aim is to constantly adapt to the changing landscape and ultimately not get caught doing things that are no longer right for the time and market. These adjustments are sometimes painful. After carefully reviewing the semiconductor industry in Europe, which has suffered during the last several years from high costs and outsourcing to Asia, we made the decision to close the Group’s subsidiary in Switzerland at the end of FY2010.

Three years ago, we started our CMA factory in the USA to grow the Group’s business beyond our core semiconductor tooling business which is focused primarily on Asia. We also

wanted to accelerate the growth of our engineering and manufacturing knowhow and capabilities by tapping into the deep knowledge base of California’s Silicon Valley. Although we may have underestimated the time, energy and cost required to develop our USA operations and were set back by the “Great Recession” that followed shortly after, we have achieved three key objectives:

- Diversification. We are now a supplier of complex machined components to equipment manufacturers in four new industries – laser, medical, aerospace and semiconductor-wafer fabrication. In US dollar terms, CMA sales at our plant in the USA increased 43% to US\$6.5 million in FY2011, from US\$4.5 million a year ago.
- Knowhow. We have added significantly and swiftly to our base of knowhow and capabilities. Our people at our CMA operations in the USA have brought skills, experience and knowhow which are new to the Group and not readily available in Asia. To maximize the value of this knowhow, we are working to transfer appropriate elements to our plants in Asia with the goal of building CMA capability in both the USA and Asia.
- On a More Stable Footing and Ready for Big Possibilities. After a few difficult years, our CMA business is now on a more stable footing. Although the CMA division incurred a loss (before depreciation) of US\$130,000 during FY2011, its GP margin has improved significantly to 11.3% from minus 0.4% a year ago. While these results are still short of our expectations, we are in a better position to focus on further upgrading and improving our manufacturing capability.

Executive Management Report

Healthy Financial Position

A strong balance sheet is key to executing our long-term initiatives. Hence, we intend to maintain a steady hand on our finances and a prudent approach to spending.

At the end of FY2011, the Group had S\$7.5 million in cash and no bank borrowings. Together with a close watch on receivables, lean inventory practices and a philosophy of paying suppliers promptly, we remain in a strong financial position and

ready to work towards another year of steady, sustainable and profitable growth.

Christopher Reid Borch

Chief Executive Officer

Low Ming Wah

Chief Operating Officer

Chow Kam Wing

Chief Financial Officer