

## SAM ENGINEERING & EQUIPMENT (M) BERHAD (298188-A)

(Incorporated in Malaysia)

Summary of key discussions at the Twenty-Third Annual General Meeting (“AGM”) of SAM Engineering & Equipment (M) Berhad (“the Company” or “SAM EE”) held at the First Floor, SAM Meerkat (M) Sdn Bhd, Plot 103, Hilir Sungai Keluang Lima, Taman Perindustrian Bayan Lepas 4, 11900 Penang on Thursday, 17 August 2017 at 11.00 am

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Question	Answer
<p>The dividend pay-out for FY2016 was 80% of profit after tax whilst the pay-out this year was only about 47% of profit after tax. Why not fix the dividend rate?</p>	<p>Chairman responded that the Board was of the view that a variable dividend rate would provide more flexibility to support the Company’s growth. The Board would determine an appropriate level of dividend pay-out which balances the Company’s requirements for cash to support business growth with the need to provide equitable returns to shareholders.</p> <p>He emphasised that it had always been the Board’s stand to return excess cash to shareholders whenever feasible and recounted that in FY2016 the then Board had distributed a higher special dividend to shareholders from unutilised excess cash in hand.</p> <p>Chairman added that there was now a need for the cash to support business expansion going forward. Hence, the dividend pay-out for FY17 is more conservative.</p>
<p>Looking at current share capital, was there any intention to split the shares to improve liquidity in the market?</p>	<p>Chairman commented that a share split exercise would not change the proportion of shareholdings nor impact the total value of the ordinary shares held by the shareholders of the Company. The Board had examined this in the past and had decided against implementing it after considering the cost and benefit to shareholders. Nonetheless, it would review the request.</p>
<p>Why did the Board opt to announce the results for the first financial quarter ended 30 June 2017 (“Q1 FY18 Quarterly Results”) later rather than earlier or now? If announced now, at least the shareholders would be able to act on it.</p>	<p>Chairman explained that the AGM was an avenue for the Board to review the recent annual results of the Company and the Group and account to the shareholders for the actions taken to-date. Hence, he opined that the AGM might not be the best avenue to discuss interim financial results.</p>

Question	Answer
	<p>He added that the AGM coincided with the announcement of the Quarterly Results only due to scheduling convenience, as the Board meeting to review and endorse the Quarterly Results was held back-to-back with the 23<sup>rd</sup> AGM.</p> <p>Chairman explained that it had always been the position of the Board and the Company to create shareholder value for the long term, and not focus too much on short term fluctuations in share prices. In addition, it would be inappropriate and in breach of prescribed legislations for the Board to give guidance on the performance of the Company to a selective class of shareholders by discussing the interim financial results before they were released.</p> <p>Chairman shared that quarterly fluctuations in performance would vary due to different factors influencing the performance of the 2 divisions: Aerospace and Equipment. The outlook for Aerospace business tended to be long term as the contracts spanned a few years. On the other hand, Equipment business served the semi-conductor industry which had shorter order cycles and could experience dynamic and wide fluctuations from time to time.</p> <p>At all times, the Board focus was on making the right decisions at the right time for the greater good of the Group and not just seeking to achieve short term appreciation of its share price. He cited that the Board would not hesitate to undertake capital investments if warranted by the business, although such decisions could impact profits in the short term.</p>
<p>Would the Board consider DRP (Dividend Reinvestment Program) going forward as a means for minority shareholders to grow their shareholding?</p>	<p>Chairman agreed that the Board could look into the feasibility of a DRP, but noted the overall dilution effect due to the increase in the number of issued shares. He commented that in the meantime, shareholders who wished to reinvest their dividends could still purchase shares from the open market.</p>

Question	Answer
<p>To provide more details of the aerospace business, in particular the use of space at the factory site on the mainland in Bukit Minyak, Pulau Pinang.</p>	<p>Mr Jeffrey Goh explained that two-thirds of the floor space at the mainland plant had been earmarked for manufacturing of various aerospace parts. The remaining one-third floor space would be available for future business expansion.</p>
<p>90% of the planned capital expenditure (“capex”) was for the Aerospace business. Given the small investment in Equipment business, was there a plan to hive off this business segment, similar to other investment initiatives of Temasek? The question was raised since Temasek is the ultimate shareholder of the Company.</p>	<p>Mr Jeffrey Goh explained that the Equipment segment was doing well and would typically not require significant investments, unlike the aerospace business. Notwithstanding that Temasek was the ultimate majority shareholder, he noted that the Board and management had to act in the best interest of the Group at all times. Any decisions with regard to investment and business strategies within the Group would be made by him in consultation with the Board and he did not envision a sale of this segment presently.</p> <p>Chairman noted that SAM EE, as a listed issuer, must abide by listing rules and securities legislations in conducting its activities. He reiterated that the Board would always act in the best interest of all shareholders. As an institutional investor, Temasek would have the right to adjust its shareholdings according to its own investment strategy.</p>
<p>How then is these two segments linked and is there synergy?</p>	<p>Mr Jeffrey Goh shared that there was synergy as the segments are complementary. The Equipment business segment was involved in assembly activities for the semiconductor industry. As the Aerospace business grew, there could be opportunities for the Group to participate in assembly of aerospace parts. If this happens, the Group would be able to adapt its experience and existing skill sets garnered from the Equipment business to carry out similar activities for Aerospace business thereby minimising the learning curve.</p>
<p>With Boeing going into the parts distribution business, will this have any impact to SAM’s business?</p>	<p>Mr Jeffrey Goh said that SAM EE could not speak for Boeing on this matter and explained that SAM EE manufactures various major critical aerospace parts for suppliers of Boeing as well as other airframe makers.</p>

Question	Answer
How many manufacturers are there for casings?	Mr Jeffrey Goh explained that it was the norm for customers to have more than 2 sources of supply as part of their risk mitigation measure. This was especially so if sales of the relevant aircraft was expected to be high and a disruption in supply would have a significant impact.
What was percentage of the Group's market share of parts manufactured?	Mr Jeffrey Goh said that the percentage of market share would depend on the overall aircraft program volume and the terms and conditions agreed with the customer.
What are the barriers to entry into the aviation industry?	Mr Jeffrey Goh explained that one important barrier to market entry was the high capital investment required. He added that the industry required high initial capital investment with low or no return for the first 2 to 3 years. Payment terms from the customers would normally be long (90 days or 120 days). Any interested party would need to have the capital to fund such ventures.
Would it be possible for Management to share thoughts on the after-market supply of aerospace parts?	<p>Mr Jeffrey Goh informed that the Group manufactured new parts only, which were sold and delivered to the customers. The customers could choose to either install the parts on aircrafts or sell them as spares.</p> <p>Chairman concluded with comments that the aerospace supply chain was a huge and complex one. The manufacturing of each aircraft part could involve a different set of players. Taking the manufacturing of engines as an example, Chairman noted that the key players in this space would be engine makers like GE, Pratt or Rolls Royce, rather than the airframe makers like Boeing or Airbus. Although the Group's business was growing, it was still not considered a major player considering the significant size of the global aerospace business at USD300B. Nonetheless, the Group had been able to penetrate and sustain its participation in the industry successfully because of its relevant skill sets, investment capacity as well as technical competency.</p>