POWERMATIC DATA SYSTEMS LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No.: 198900414E)

THE PROPOSED DIVIDEND *IN SPECIE* OF ORDINARY SHARES IN HARRISON PTE. LTD. TO ENTITLED SHAREHOLDERS (AS DEFINED HEREIN) ON THE BASIS OF ONE (1) HARRISON SHARE (AS DEFINED HEREIN) FOR EVERY ONE (1) ORDINARY SHARE OF THE COMPANY HELD BY ENTITLED SHAREHOLDERS AS AT THE RECORD DATE (AS DEFINED HEREIN), FRACTIONAL ENTITLEMENTS (WHERE APPLICABLE) TO BE DISREGARDED

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1. INTRODUCTION

The Board of Directors (the "**Board**") of Powermatic Data Systems Limited (the "**Company**", and with its subsidiaries, "**Group**") is pleased to announce that the Company proposes to dispose of its entire interest in all the strata units comprised in the freehold property at 7 and 9 Harrison Road Singapore 369650/1, which are owned by the Company (the "**Investment Property**") by effecting a dividend *in specie* (the "**Proposed DIS**") of all the ordinary shares in the issued share capital of Harrison Pte. Ltd. ("**Harrison**") (the "**Harrison Shares**") held by the Company to shareholders of the Company (the "**Shareholders**"). As at the date of this announcement (the "**Announcement Date**"), the Company holds 100% of the total number of issued Harrison Shares.

The Proposed DIS, which is subject to approval of Shareholders and the conditions as set out in paragraph 5 below, will be effected to Entitled Shareholders (as defined below) in proportion to their respective shareholdings in the Company, on the basis of one (1) Harrison Share for every one (1) ordinary share held by the Entitled Shareholders in the issued share capital of the Company ("**Powermatic Share**") as at the record date to be determined by the directors of the Company (the "**Directors**") for the purpose of determining the entitlement of Shareholders (the "**Record Date**"), fractional entitlements (where applicable) to be disregarded.

Only Shareholders with Singapore addresses at the Record Date will be entitled to the Proposed DIS ("Entitled Shareholders").

In connection with the Proposed DIS, the Company will transfer the Investment Property to Harrison pursuant to the terms of a Put and Call Option Agreement entered into between the Company and Harrison on 11 June 2021 (the "**PCOA**"), and in connection therewith, Entitled Shareholders will receive Harrison Shares, details of which are set out in paragraph 3.1 and paragraph 3.4 respectively below.

2. THE BUSINESS MODEL

2.1 Local Area Networking to Wireless Connectivity Business

The research and development, manufacturing and sale of wireless connectivity products and related services (the "**Wireless Connectivity Business**"), the Company's current core business, is an extension of the Company's previous core business of manufacturing and sale of local area network products and peripherals. Prior thereto, the Group was in the distribution of computer storage devices, which was gradually phased out in the financial year ended 31 March ("**FY**") 2014 due to continuous losses. The rapid developments in radio frequencies technology and its robust capabilities and wider applications had resulted in local area network losing its appeal. As there were a number of pertinent similarities between local area networking and wireless connectivity technology, the Company entered into the Wireless Connectivity Business. Apart from manufacturing its proprietary designed wireless connectivity hardware, the Group also provides original equipment manufacturing (OEM), original design manufacturing (ODM) solutions and other sales related services to customers.

2.2 Investment Property

Initially, the transition from local area networking to the Wireless Connectivity Business, saw the Group incurring operating losses. The acquisition of the Investment Property, which was funded by excess working capital, was then a defensive stance undertaken by the Board to preserve value for Shareholders at a risk level that is tolerable. Such acquisition was never intended to be a diversification into a new business and was purely aimed at earning rental or for capital appreciation or both.

Presently, the Group houses its Singapore operations (accounting and finance, sales and marketing, software research and development and technical support) in one of the units of the Investment Property at No. 9 Harrison Road, #05-01, Singapore 369651, which represents 10% of the total area of lettable space. The remaining units are leased out to third parties. The Investment Property is maintained by the Company.

The manufacturing, hardware research and development and engineering functions are housed in Suzhou, China. An additional manufacturing facility is currently being established in Johor, Malaysia.

2.3 Revenue and Profitability

The Group's revenue and profitability is solely driven by the Wireless Connectivity Business. While the rental income from the Investment Property, derived from third parties, is recognized as other income.

The Investment Property is carried in the balance sheet at its cost of acquisition less accumulated depreciation, subsequent improvements and additions are added to its carrying value. Fair values (gains or losses) related to the Investment Property are not recognized in the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position.

These segregations clearly demarcate the core business, Wireless Connectivity Business from the Investment Property.

The following is the breakdown of the contribution of the Wireless Connectivity Business and the Investment Property to the Group's revenue and profit before tax for the past five (5) financial years:

	FY2021 (unaudited) S$'000	**FY2020 S$'000**	**FY2019 S$'000**	**FY2018 S$'000**	**FY2017 S$'000**
Income from the Investment Property	1,132	1,236	1,222	1,243	1,344
Profit before tax from the Investment Property[1]	436	539	487	540	645
Revenue from the Wireless Connectivity Business	26,251	21,708	20,891	15,986	15,243
Profit before tax from the Wireless Connectivity Business	8,876	9,637	7,479	5,010	4,366

Note:

(1) Given that the Investment Property was acquired as an investment and does not form part of the Group's core business, the net income (income less cost) derived from the Investment Property is classified as other income in the Company's annual report as far back as 2009 as the revenue of the Group is attributed to the Wireless Connectivity Business. Please refer to page 54, paragraph 2A "significant accounting policies" of the Company's annual report 2020.

2.4 Dividends and Return of Capital

Profits generated from the Wireless Connectivity Business contributed to the dividends and return of capital to Shareholders. Tabulated below are the dividends and return of capital to Shareholders in the past five (5) financial years:

	FY2021 S$'000	**FY2020 S$'000**	**FY2019 S$'000**	**FY2018 S$'000**	**FY2017 S$'000**
Dividend	1,748[1]	NIL	2,796	2,447	2,443
Return of capital	9,997[2]	NIL	NIL	NIL	NIL

Notes:

(1) Proposed for FY2021 and subject to Shareholders' approval at the annual general meeting of the Company to be convened on 23 July 2021.

(2) The capital reduction was completed in November 2020.

The Board views the Proposed DIS as an avenue for the Company to return current value of a non-core asset, the Investment Property, to Shareholders. It allows Shareholders to exercise discretion, based on their investment objectives and preferences and risk and return expectations, with regards to the Investment Property.

Following the completion of the Proposed DIS, the Wireless Connectivity Business, continues to be the main revenue and profit generator of the Group.

3. THE PROPOSED DIS

3.1 What can Entitled Shareholders expect?

Entitled Shareholders through their shareholdings in the Company are deemed to have an economic interest in the Investment Property.

<u>**As set out in paragraph 3.8 below, Entitled Shareholders do not need to make any further payments to receive Harrison Shares.**</u>

The Proposed DIS will be effected by the distribution by the Company of all the Harrison Shares, which are to be issued by Harrison to the Company in satisfaction of the Consideration (as defined below) as well as all Harrison Shares already held by the Company upon completion of the transfer of the Investment Property to Harrison, to Entitled Shareholders by way of a dividend *in specie* on the basis of one (1) Harrison Share for every one (1) Powermatic Share as at the Record Date.

For illustrative purposes, an Entitled Shareholder who holds:

(a) 1,000 Powermatic Shares as at the Record Date, would receive 1,000 Harrison Shares;

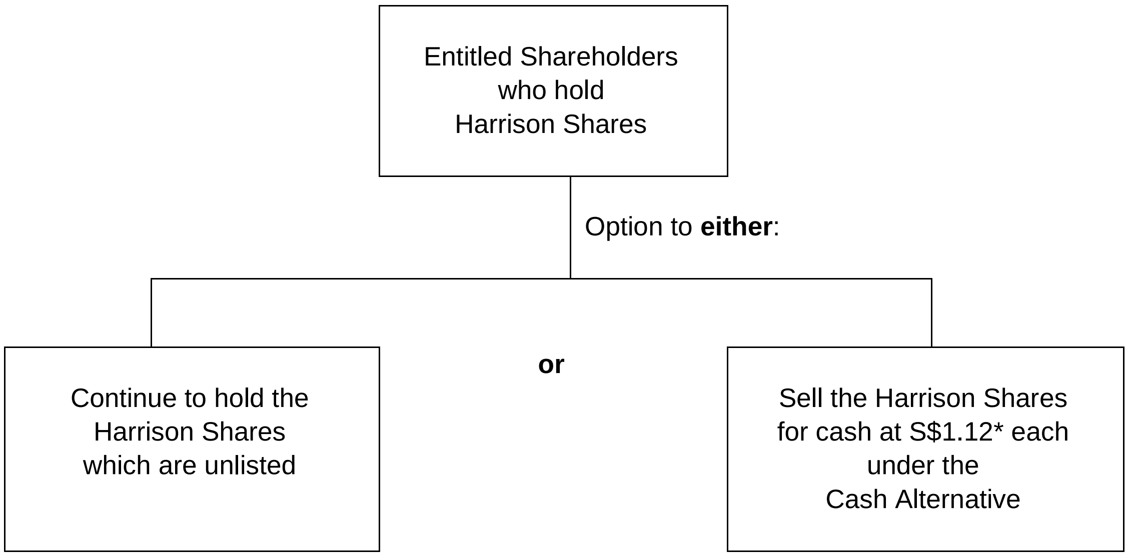
(b) 10,000 Powermatic Shares as at the Record Date, would receive 10,000 Harrison Shares; and

(c) 100,000 Powermatic Shares as at the Record Date, would receive 100,000 Harrison Shares.

The final number of Harrison Shares to be received by an Entitled Shareholder will depend on the total number of Powermatic Shares held by that Entitled Shareholder as at the Record Date.

As at the Announcement Date, the Company has an existing issued share capital (the "**Existing Issued Share Capital**") comprising 34,953,156 Powermatic Shares (excluding 849,640 treasury shares). The Company does not have any outstanding convertible securities (including employee share options) as at the Announcement Date.

As illustrated below, Entitled Shareholders who are issued with Harrison Shares shall have the option to either (i) continue to hold such Harrison Shares; or (ii) if they do not wish to hold shares in an unlisted company, to sell their Harrison Shares for cash under the Cash Alternative (as defined below). Please refer to paragraph 6 below for details of the Cash Alternative.



* For illustration purposes only.

3.2 **Who decides the Proposed DIS?**

The substantial shareholders, Dr Chen Mun, the Chairman and Chief Executive Officer of the Company and Ms Ang Bee Yan, Katherine, the Executive Director of the Company, collectively own approximately 63.8% of the Powermatic Shares. They will abstain from making recommendations or voting on the relevant resolutions relating to the Proposed DIS.

Accordingly, the other Shareholders who collectively hold 36.2% of the Powermatic Shares will decide on the Proposed DIS.

In the event that the resolution relating to the Proposed DIS is not passed at the EGM (as defined below), the Proposed DIS will not be proceeded with. In such event, there will accordingly also be no Cash Alternative.

3.3 **Why the Proposed DIS?**

In assessing the Proposed DIS, the Board took into consideration the following and believes that Shareholders' interest, at large, would be best served:

(a) by focusing on maximizing the full potential of the core Wireless Connectivity Business (as set out in paragraph 2.3 above, paragraph 3.3.1 and paragraph 3.3.3 below);

(b) by aligning the Group's valuation to the core Wireless Connectivity Business (as set out in paragraph 3.3.2 below);

(c) by recognizing that Shareholders have differing investment objectives and preferences, risk tolerance, expected returns and time horizon on their investment (as set out in paragraph 3.3.4 and paragraph 3.3.7 below); and

(d) by managing risks and returns associated to each of the Wireless Connectivity Business and the Investment Property (as set out in paragraph 3.3.5 and paragraph 3.3.6 below).

3.3.1 Future direction of the Group – the Wireless Connectivity Business

The Proposed DIS is undertaken pursuant to a strategic review of the long-term growth and future direction of the Group. Following the completion of the Proposed DIS, the Group will no longer be involved in the ownership, lease and maintenance of the Investment Property and will be focused solely on the growth of the core Wireless Connectivity Business.

Previously, the Company's research and development and engineering design engagement with its customer's product development team was limited. However, in recent years, the Company saw a growing number of customers (especially new customers) seeking its involvement in the early stages of product development. Such customers look toward the Company's research and development and engineering design capabilities to complement their product design teams. This contributes positively to the Wireless Connectivity Business' development, allows the Company to further its reach to new customers and markets, further enhance its value proposition, retains its customer base and keeps the Company abreast with the market.

In FY2021, the Wireless Connectivity Business alone contributed to approximately 98% of the Group's profits before tax. Over the last five (5) financial years, the Wireless Connectivity Business' revenue and profit before tax grew at a compound annual growth rate of 11.5% and 15.2% respectively, during which time the Company's wireless connectivity products continued to enjoy healthy profit margins.

The gross profit margins and profit before tax margins of the Wireless Connectivity Business for the last five (5) financial years are as follows:

	FY2021 (unaudited)	**FY2020**	**FY2019**	**FY2018**	**FY2017**
Gross profit margins	49.3%	54.1%	46.9%	50.6%	45.1%
Profit before tax margins	33.8%	44.4%	35.8%	31.3%	28.6%

For FY2021, based on unaudited financial statements, the breakdown of the Wireless Connectivity Business' revenue (by geographical region) are as follows: Asia 37%, America 29%, Europe 30% and other regions 4%, which is consistent with previous financial years.

The Board also notes that both dividends and return of capital to Shareholders in the last five (5) financial years were derived from profits substantially generated from the Wireless Connectivity Business as set out in paragraph 2.3 above. The average dividend paid by the Company in each of the last five (5) financial years (excluding the return of capital) was S$1.9 million, representing an average dividend yield of between approximately 1.9% and 2.6% (based on the 52-week high and low range of the Company's share price corresponding to between S$2.82 and S$2.07 respectively).

With the aim to achieve capital appreciation, the Company had in 2009 acquired the Investment Property at the purchase price of S$19.5 million. Based on the valuation report dated 1 June 2021, the Investment Property is now valued at S$39.0 million. This represents an annualized return of 1.5%. Accordingly, the Company's abovementioned objective has been achieved. Nonetheless, if the Group elects to pursue further opportunities in the property market by accumulating more property assets (which is, in any event, not the intention of the Company), the capital commitment will be significant. In addition, management lacks the experience and expertise in managing a large portfolio of properties and the return on such portfolio is unlikely to match that generated from the Wireless Connectivity Business, which saw a return of 23.2% (based on total assets employed against its profits before tax for FY2021). As the Company continues to generate stable profits through the Wireless Connectivity Business, the Company finds it appropriate to now re-evaluate its investment strategy in the Investment Property.

In light of the above, the Proposed DIS will enable the Company to dispose of the Investment Property, which is non-core to the Company. Such disposal will allow the management to operate more effectively and better focus on further developing and growing its core Wireless Connectivity Business. Further, with the market for wireless connectivity products rapidly expanding, evident by the growth in both revenue and profitability of the Group, the Board is of the view that management's sole focus on the Wireless Connectivity Business will bring about a greater impetus for future growth and welcome more opportunities for the Group.

3.3.2 <u>More reflective valuation of the Wireless Connectivity Business to provide value for Shareholders</u>

The Wireless Connectivity Business and the Investment Property are distinct, and investors tend to apply different valuation metrics based on the industry.

As at the Announcement Date, the market capitalization of the Company based on the closing price per Powermatic Share on a 52-week high and low basis ranges between S$72.5 million and S$98.6 million corresponding to between approximately S$2.07 and approximately S$2.82 per Powermatic Share respectively. In comparison, the unaudited shareholders' funds as at 31 March 2021 are S$83.8 million (which takes into account the current value of the Investment Property) or a value of approximately S$2.40 per Powermatic Share.

As at the Announcement Date, the Group has no long-term liabilities and current liabilities are substantially trade related and deposits received in advance. Current assets comprise substantially cash and the cash equivalents of S$41.1 million (representing 55.8% of total assets), and the Investment Property (which is free from encumbrances) is valued at S$39.0 million (representing 41.4% of total assets, after taking into consideration the revaluation surplus of the Investment Property).

Further, the difference between the market capitalization (referred to above) of S$72.5 million and S$98.6 million and the unaudited shareholders' funds as at 31 March 2021 of

S$83.8 million ranges between negative S$11.3 million and positive S$14.8 million. The former indicates that the Company's market capitalization is a discount from the unaudited shareholders' funds, while the latter indicates that the core Wireless Connectivity Business is valued at S$14.8 million. This represents a price earnings ratio of only 1.7 times (based on the Group's unaudited profit before tax for FY2021 of S$8.9 million attributed to the Wireless Connectivity Business, for FY2021).

As mentioned above, the Group's revenue and profitability is largely derived from the Wireless Connectivity Business and the net income derived from the Investment Property, which has consistently been classified as other income in the Company's annual report as far back as 2009. Accordingly, the acquisition of the Investment Property and the holding thereof, has no influence on the Group's profitability or dividend payments (including the return of capital undertaken in FY2021). It therefore serves no meaningful value to Shareholders (with respect to the market capitalization) to have the Investment Property co-exist alongside the Wireless Connectivity Business under the umbrella of the Company.

In light of the above, the Group recognizes that, in order to provide value for Shareholders and to allow Shareholders and potential investors to value the Wireless Connectivity Business based on its financial performance, growth potential and underlying value, it is necessary that the Investment Property, which is a non-core asset, be demerged from the Company.

3.3.3 <u>Plans for expansion – availing to merger and acquisition opportunities</u>

The Board is of the view that without attributing the appropriate valuation to the Wireless Connectivity Business (representing both its current and potential financial performance) the Company's ability to grow, expand and forge alliances with synergistic partners through mergers and acquisitions will be impeded. This will accordingly disadvantage Shareholders.

The Group has thus far been relying on organic growth to propel its growth. In order to expedite and further increase its rate of growth, the Group recognizes that it may have to avail itself of merger and acquisition opportunities in order to achieve its objectives. Even though the Group currently has no concrete plans and has not received any approaches for any mergers and acquisitions, depending on the available opportunities, feasibility and market conditions, it may undertake such corporate exercises to enlarge its market share (including its geographical reach) or to enhance the Company's technological reach, or acquire strategic business operating components such as sale and distribution and manufacturing networks.

The Board notes that majority of merger and acquisition transactions involve the issuance of new consideration shares. This is to avoid over financial leveraging and to provide Shareholders with continued enjoyment in the economic benefits of the enlarged group. In the event that the Group decides to undertake any of the aforementioned opportunities (if made available), the Group is of the view that if new Powermatic Shares are to be issued, it would be in the best interests of Shareholders that significant premiums (above that of its net tangible assets ("**NTA**") value) are attached to the new Powermatic Shares. This would also mitigate any dilutive impact on existing Shareholders.

Upon completion of the Proposed DIS, the Wireless Connectivity Business would be valued based on current and prospective earnings. The reduction in asset value following the disposal of the non-core Investment Property would allow the Company to achieve the said premium when issuing Powermatic Shares to support any merger and acquisition initiatives. Furthermore, a lower asset value would consequently increase the rate of return on capital employed. This would make the Group a more attractive candidate for future business propositions from synergistic parties.

3.3.4 Enhancing Shareholder value – investment flexibility for Shareholders

The Board notes that the Company's current market capitalization is not reflective of the economic value representing the Wireless Connectivity Business and the valuation attributed to the Investment Property. Accordingly, the Proposed DIS would unlock Shareholder value by allowing the Wireless Connectivity Business and the Investment Property to be valued independently based on each of their respective valuation metrics. By doing so, the Company also expects to attract greater investor interest and widen its investor base and thereafter lead to an improvement in the trading liquidity of the Powermatic Shares.

The Wireless Connectivity Business and the Investment Property are distinct and each generates differing returns. The Wireless Connectivity Business is earnings-based, and the bulk of the Company's revenue and profit is derived from its Wireless Connectivity Business. On the other hand, the Investment Property primarily seeks to provide Shareholders with long to medium-term capital appreciation.

Following the Proposed DIS, the Wireless Connectivity Business and the Investment Property will be completely separate. Entitled Shareholders will hold shares in two (2) separate pure-play companies, namely the Company (which will carry on the Wireless Connectivity Business) and Harrison (which will carry on the lease and maintenance of the Investment Property). In this connection, Entitled Shareholders will be able to participate in the ownership of, and enjoy returns from, the shares held in the Company and Harrison without any additional cash outlay. This will enable the Entitled Shareholders to separately manage their portfolio holdings in these companies in accordance with their individual investment objectives and preferences, risk profile and their returns expectations.

Entitled Shareholders holding onto unlisted Harrison Shares will then be able to participate and enjoy the benefits of any liquidity event that may take place in the future. However, any such liquidity event is subject to risks, uncertainties and other factors, and there is no assurance that any such liquidity event will materialize.

In order to provide flexibility for Entitled Shareholders who do not wish to retain their shareholdings in an unlisted company, the provision of the Cash Alternative which will be announced prior to the completion of the Proposed DIS, would give such Entitled Shareholders the opportunity to receive cash from the sale of Harrison Shares in the short term.

The Harrison Shares to be distributed via the Proposed DIS are NOT listed on the Singapore Exchange Securities Trading Limited ("**SGX-ST**"). Accordingly, the transfer and purchase of such shares in Harrison will be subject to, *inter alia*, the Constitution of Harrison and the applicable laws and regulations relating to the transfer and purchase of shares in Singapore.

3.3.5 Differing risks and returns based on capital employed makes valuation of the Company challenging

The Wireless Connectivity Business and the Investment Property are distinct and as such are subject to differing risks and returns based on capital employed. As stated above, investors tend to apply different valuation metrics based on the industry. The Company therefore seeks to address this issue through a disposal of the non-core Investment Property thereby separating the Investment Property from the Wireless Connectivity Business.

In a rapidly advancing and dynamic technology driven business environment, wireless connectivity products, which are substantially defined by its features and capabilities, must remain innovative and is as such reliant on continued research and development and engineering capabilities to propel profit margins and accordingly to generate profits. The Wireless Connectivity Business is also exposed to credit and manufacturing risks. Notwithstanding, the rate of return based on capital employed to support the business against the profits generated is significantly higher than that generated from the Investment Property. As at 31 March 2021, based on the unaudited financial statements, total assets employed for the Wireless Connectivity Business was S$38.2 million and profits before tax was S$8.9 million, which saw a return of 23.2%.

In contrast, the Investment Property is exposed to general macroeconomic factors such as economic cycles, inflation and interest rates. Despite its ability to generate fairly stable returns, the rate of return on the Investment Property is low given significantly higher capital employed. As at 31 March 2021, the fair value of the Investment Property was S$39.0 million and the unaudited profit from rental before tax was S$0.4 million, which saw a return of 1.1%.

3.3.6 Ring-fencing risks associated to each of the Wireless Connectivity Business and the Investment Property

The separation of the Wireless Connectivity Business and the Investment Property into two (2) distinct entities pursuant to the Proposed DIS, would effectively ring-fence the risks associated with the Wireless Connectivity Business and the Investment Property (such risks include business and financial risk). This would contain financial losses arising from the different risk exposures.

The risks associated with the leasing and maintenance of the Investment Property will be set out in the Circular (as defined below).

As the Wireless Connectivity Business grows, it is inevitable that both the business and financial risks associated with it grow in tandem. Business risks associated with the Wireless Connectivity Business include the Group's ability to maintain its research and development and engineering capabilities to stay ahead of its competitors and manufacturing risks. Customer orders to the Company are mainly project driven and are based on end products life cycle. The life cycle of end products is short and typically not more than 12 months. As such, the Company places high reliance on its research and development and engineering capabilities to deliver innovative solutions to its customers so as to stay relevant.

A number of the Group's customers are key players in the respective industries which they serve. Orders from such customers in certain financial years were significant to the Group's revenue and inevitably resulted in elevating concentration risk. The dominance of a single customer or group of customers over the Company's manufacturing capacity may leave an unwanted vacuum in the event of order cancellations. Such order cancellations in addition to manufacturing capacity constraints, could potentially affect the Group's ability to further its relationship with other customers.

The recent global shortage of chipsets presents additional challenges to the Company and places a strain on its ability to complete customer orders in a timely manner while optimizing profit margins. In the event the Company is not able to successfully overcome such challenges, the Company may default on contractual obligations and be exposed to potential contractual liabilities. It is common in the electronic industry that customer orders are on a "just in time" basis. Component suppliers, like the Company, would have to maintain a certain number of finished products at any time pending immediate delivery. As most of the Company's products are customized, key components are built to each customers' specifications and accordingly it would be difficult to switch finished products between customers or re-use key components. This risk can potentially lead to significant financial losses arising from raw materials and finished products obsolescence.

In terms of financial risks, those associated with the Wireless Connectivity Business would include credit risk and financial leveraging. It is likely that the extension of credit terms to customers would be necessary if the revenue of the Wireless Connectivity Business is to grow further. The extension of such credit could expose the Company to potential default risks.

It should be noted that the Group has taken steps to mitigate both financial and business risks. However such risk cannot be eliminated totally. In respect of chipsets shortages, the Group has mitigated such impact through managing its customer's conversions into a newer generation of microchips (which are subject to less supply constrain) via the latest generation of customized proprietary products.

3.3.7 Disposal of the Investment Property in the market is not optimal for the Company

In October 2018, the Company appointed a real estate agency to market the Investment Property but no committed unconditional offer was received at the appraisal value of S$35.0 million. This was despite having three (3) advertisements over the course of over a month, indicating that market interest in the Investment Property was weak. In the circumstances, the Board felt that a quick sale of the Investment Property only for the sake of disposal was not in the interests of the Company and Shareholders, and it would be better for the Company to effect a disposal only when circumstances are more favourable or when a suitable opportunity arises. Given that property prices tend to go in cycles, this will take time and there is no certainty if and when these circumstances or opportunities will materialize.

This option is even less attractive taking into consideration that (i) the Group is already in a healthy cash position; (ii) the Company had in FY2021 carried out a capital reduction exercise and returned cash to the Shareholders while retaining sufficient capital for business and operational needs; and (iii) the rental income from the Investment Property continues to generate cash at a satisfactory rate. The Company will also have to put the excess cash to productive use.

The Board notes that the Investment Property, which was acquired for investment purposes, is for light industrial usage and has limited appeal. The Company has for this reason, adopted in its financial statements the cost approach method of valuation for the Investment Property. The cost approach method does not recognize the appreciation in market value as other income, and the Investment Property has been carried in the balance sheet at its cost of acquisition (which includes costs of upgrading undertaken) less accumulated depreciation. The fair market value of the Investment Property was only disclosed as a note to the financial statements on the investment property.

Accordingly, the Proposed DIS will, allow for the Company to dispose the Investment Property without prejudicing Shareholder interests while providing Entitled Shareholders with the opportunity to continue to participate in long-term investment returns from the Investment Property, subject to the risk factors set out in the Circular. Nonetheless, the provision of the Cash Alternative, will provide Entitled Shareholders who do not wish to have an interest in the Investment Property or to hold shares in an unlisted company, the opportunity to receive cash from the sale of Harrison Shares.

3.4 **Transfer of the Investment Property to Harrison**

In connection with the Proposed DIS, the Company has incorporated Harrison, a wholly-owned special purpose vehicle. As at the Announcement Date, Harrison has an issued share capital of S$200,000 comprising 200,000 ordinary shares. Subject to Shareholders' approval being obtained for the Proposed DIS, the Company will, pursuant to the PCOA, the details of which are set out in paragraph 4 below, effect a disposal of the Investment Property by transferring the Investment Property to Harrison such that the Investment Property would be held entirely by Harrison. The consideration for the transfer (the "**Consideration**") will be satisfied by Harrison issuing such number of new Harrison Shares to the Company that, when added to the number of Harrison Shares held by the Company immediately prior to the completion of the transfer of the Investment Property, will amount to the aggregate number of Powermatic Shares held by Entitled Shareholders as at the Record Date.

The quantum of the Consideration was arrived at taking into account the value of the Investment Property as determined by an independent valuer to be appointed. For the purposes of illustration, assuming that, as at the Record Date, there are 34,953,156 Powermatic Shares held by Entitled Shareholders and the Company holds 200,000 Harrison Shares, the number of new Harrison Shares to be issued shall be 34,753,153 (being 34,953,156 less 200,000).

3.5 **Conversion**

In conjunction with the Proposed DIS, Harrison will be converted from a private limited company to a public limited company. Following the completion of the Proposed DIS, Entitled Shareholders will hold shares in Harrison, which will be a public Singapore company whose shares are not listed or quoted on the Official List of the SGX-ST or any securities exchange or any other regulated markets, and Entitled Shareholders will therefore not be able to easily trade in such Harrison Shares.

3.6 **Group Structures before and after the Proposed DIS**

The Group structures (1) before the Proposed DIS; and (2) immediately after completion of the Proposed DIS are set out in the **Appendix** to this Announcement.

3.7 **Valuation of the Investment Property**

In connection with the Proposed DIS, the Company has commissioned Colliers International Consultancy and Valuation (Singapore) Pte Ltd to undertake an updated valuation of the Investment Property as at 31 May 2021. The valuation report will be attached to the Circular to be issued by the Company to Shareholders. Colliers International Consultancy and Valuation (Singapore) Pte Ltd had also carried out the valuation of the Investment Property as at 31 March 2021 in connection with the Company's preparation of its financial statements for FY2021.

By way of background, independent valuations conducted by independent professional valuers commissioned by the Company were performed on the Investment Property for the period from 31 March 2014 to 31 March 2021. The table below sets out a summary of the respective historical valuation amounts:

Address	**Property Description**	**Valuation Date**	**Independent Valuation (S$ '000)**
7 and 9 Harrison Road Singapore 369650/1	Two-adjoining six-storey semi- detached industrial building	31 March 2021	39,000
7 and 9 Harrison Road Singapore 369650/1	Two-adjoining six-storey semi- detached industrial building	31 March 2020	33,700
7 and 9 Harrison Road Singapore 369650/1	Two-adjoining six-storey semi- detached industrial building	31 March 2019	35,000
7 and 9 Harrison Road Singapore 369650/1	Two-adjoining six-storey semi- detached industrial building	31 March 2018	33,650
7 and 9 Harrison Road Singapore 369650/1	Two-adjoining six-storey semi- detached industrial building	31 March 2017	33,500
7 and 9 Harrison Road Singapore 369650/1	Two-adjoining six-storey semi- detached industrial building	31 March 2016	34,000
7 and 9 Harrison Road Singapore 369650/1	Two-adjoining six-storey semi- detached industrial building	31 March 2015	35,000
7 and 9 Harrison Road Singapore 369650/1	Two-adjoining six-storey semi- detached industrial building	31 March 2014	35,000

3.8 **No Payment Required**

Entitled Shareholders will not be required to pay for any Harrison Share received pursuant to the Proposed DIS. The Harrison Shares will be distributed free of encumbrances and together with all rights attached thereto on and from the date of completion of the Proposed DIS, to be determined by Directors and announced by the Company, being the date the Harrison Shares are distributed to Entitled Shareholders (the "**Date of Completion**").

3.9 **Dividend Distribution**

The pro forma NTA of Harrison as at 31 March 2021 is S$39.2 million, which is equivalent to the value of the Investment Property of S$39.0 million as at 31 May 2021 and the paid-up share capital of Harrison of S$200,000. While the amount of the dividend to be paid under the Proposed DIS will be based on the NTA of Harrison as at a date closer to the completion of the Proposed DIS, for illustration purposes, based solely on the value of the Investment Property of S$39.0 million as at 31 May 2021, the dividend to be declared for each Powermatic Share is expected to be approximately S$1.12, to be satisfied by the distribution of one (1) Harrison Share for every one (1) Powermatic Share held by Entitled Shareholder. On this illustrative basis, to effect the Proposed DIS as a dividend *in specie*, the Company will appropriate an amount of S$39.0 million out of the retained profits of the Company to meet the amount of dividend to be declared.

4 THE PCOA AND THE SALE AGREEMENT

4.1 **The PCOA**

(a) Put and Call Options

Pursuant to the PCOA:

(i) in consideration of S$1.00 and the mutual covenants in the PCOA, the Company offers to sell the Investment Property to Harrison and grants to Harrison the right for Harrison, subject to the terms and conditions of the PCOA to accept the offer by the Company to sell the Investment Property at the Consideration and on the Sale Conditions (as defined below) (the "**Call Option**") which, if exercised by Harrison in accordance with the terms of the PCOA, shall constitute a binding contract for the sale and purchase of the Investment Property between the Company and Harrison, on the date of exercise of the Call Option by Harrison; and

(ii) in consideration of the mutual covenants in the PCOA, Harrison offers to purchase the Investment Property from the Company and grants to the Company the right for the Company, subject to the terms and conditions of the PCOA, to accept the offer by Harrison to purchase the Investment Property at the Consideration and on the Sale Conditions (the "**Put Option**") which, if exercised by the Company in accordance with terms of the PCOA, shall constitute a binding contract for the sale and purchase of the Investment Property between the Company and Harrison, on the date of exercise of the Put Option by the Company.

(b) Conditions Precedent

The principal terms of the PCOA include the following conditions precedent which must be fulfilled before Harrison can serve the Call Option notice on the Company, or before the Company can serve the Put Option notice on Harrison:

(i) the Proposed DIS being approved by Shareholders by way of an ordinary resolution at the EGM;

(ii) there being a Cash Alternative;

(iii) there being an opinion by an independent financial adviser that the terms of the Cash Alternative are fair and reasonable;

(iv) Harrison approving the results of the due diligence investigations on the Investment Property;

(v) there being no unsatisfactory replies to any of Harrison's legal requisitions to the Relevant Authorities (as defined in the PCOA);

(vi) the Company not being in breach of any provision of the PCOA, and none of the Company's representations and warranties therein, being unfulfilled, untrue or incorrect;

(vii) there being no Material Damage (as defined in the PCOA) to the whole or any part of the Investment Property; and

(viii) there being no compulsory acquisition or notice of compulsory acquisition affecting the whole or any part of the Investment Property.

The PCOA shall cease and determine in the event that any of the conditions precedent as set out above are not fulfilled or waived as at the expiry of the period within which the Put Option and the Call Option may be exercised pursuant to the terms of the PCOA. Neither the Company or Harrison shall thereafter have any claim against the other for costs, damages, compensation or otherwise arising out of or in connection with the PCOA.

(c) Exercise of Call Option or Put Option

Upon the exercise of the Call Option or the Put Option as the case may be, the Company and Harrison shall be deemed to have entered into a sale and purchase agreement ("**Sale Agreement**") for the sale and purchase of the Investment Property at the Consideration and subject to certain terms and conditions of the sale ("**Sale Conditions**"). The form of the Sale Agreement is attached to the PCOA.

4.2 **The Sale Agreement**

4.2.1 The principal Sale Conditions of the Sale Agreement are as follows:

(a) Harrison is required to purchase from the Company, free from all encumbrances, the whole Investment Property, which comprises all (but not some only) of the strata units comprised in No. 7 and No. 9 Harrison Road Singapore 369650/1;

(b) the Consideration payable by Harrison for the acquisition of the Investment Property is S$39.0 million which is based on the updated valuation report dated 1 June 2021. The valuation report will be attached to the Circular. The Consideration shall be satisfied by Harrison as described in paragraph 3.4 above;

(c) the sale and purchase of the Investment Property is subject to the conditions precedent in the Sale Agreement which are similar in substance to the conditions precedent in the PCOA;

(d) the Company shall assign all its rights, title and interests in and to all lease agreements in or relating to the Investment Property to Harrison on completion of the sale and purchase of the Investment Property;

(e) Harrison is not obliged to, and will not (unless otherwise agreed) take over and assume the rights and obligations of the Company for other contracts relating to the maintenance and/or upkeep of the Investment Property or any part thereof including (but not limited to) structure, lifts, mechanical ventilation, air-conditioning, and plumbing and sanitary installations, which have been entered into by or on behalf of the Company with other parties (if any)*;

*_The Company intends to terminate all such contracts, if any, after completion of the sale and purchase of the Investment Property to the extent that they are not taken over by Harrison._

(f) the Company shall be responsible to pay the stamp duty on the Sale Agreement; and

(g) the Consideration payable by Harrison does not include any applicable goods and services tax ("**GST**"). Notwithstanding that the Company, being a GST-registered business, is a "taxable person" as set out in Section 8(2) of the Goods and Services Tax Act (Chapter 117A) of Singapore, the Company has determined that the sale and purchase of the Investment Property pursuant to the Proposed DIS constitutes a transfer of assets made under an agreement for the transfer of business as a going concern which qualifies as an excluded transaction under paragraph 2 of the Goods and Services Tax (Excluded Transactions) Order. Accordingly, the sale of the Investment Property is not subjected to GST. Nonetheless, in the event any GST is imposed on or levied upon the Consideration (whether on completion of the sale and purchase of the Investment Property or retrospectively after completion of the sale and purchase of the Investment Property or otherwise), Harrison undertakes to pay over the GST and indemnify the Company against such payment if the Company is required by law or the Comptroller of GST to collect and make payment in respect thereof.

4.2.2 The Company has engaged with the Inland Revenue Authority of Singapore ("**IRAS**") as to whether the sale and purchase of the Investment Property pursuant to the Proposed DIS is an excluded transaction under paragraph 2 of the Goods and Services Tax (Excluded Transactions) Order. In light of the responses from IRAS (which were given based on the Company's representations) and the related self-assessment carried out by the Company, the Company is of the view that the conditions for qualifying as an excluded transaction do appear to be met. Nevertheless, in the event that Harrison is required to pay over the GST to the Company, the Company may extend a loan to Harrison for the payment of the GST.

Such loan, if extended, may constitute an interested person transaction (as defined in the Listing Manual of the SGX-ST (the "**Listing Manual**")) and will be negotiated on an arm's length basis, with any interested Directors recusing themselves. The loan may also be subject to Shareholders' approval and any conditions imposed by the SGX-ST where required.

4.2.3 The Company and Harrison have also agreed in the Sale Agreement that they shall endeavor to enter into a lease agreement in respect of the unit in which the Company's current premises are located for a term of three (3) years immediately after completion of the sale and purchase of the Investment Property at a monthly rental to be agreed between Harrison and the Company taking into consideration the rental for the premises as determined by an independent valuation. In this connection, the Company will negotiate the terms of the lease on an arm's length basis, with any interested Directors recusing themselves. The lease may also be subject to Shareholders' approval and any conditions imposed by the SGX-ST where required.

5. CONDITIONS PRECEDENT TO THE PROPOSED DIS

The Proposed DIS and the completion thereof are subject to:

(a) the approval of Shareholders by way of an ordinary resolution at an extraordinary general meeting of the Company (the "**EGM**") to be convened;

(b) there being a Cash Alternative;

(c) there being an opinion by an independent financial adviser that the terms of the Cash Alternative are fair and reasonable; and

(d) the completion of the due diligence investigations relating to the Investment Property conducted by Harrison and the results of such due diligence being satisfactory in Harrison's sole discretion provided that Harrison shall not deem the outcome of the due diligence investigations unsatisfactory without reasonable cause and without first giving the Company a reasonable period to resolve such unsatisfactory results, after the EGM.

The Company shall announce or cause to be announced the Cash Alternative no later than seven (7) market days from the Record Date and, in this connection, an independent financial adviser will be appointed to opine on whether the financial terms of the Cash Alternative are fair and reasonable. The opinion of the independent financial adviser will be made publicly available to the shareholders of Harrison (the "**Harrison Shareholders**") in due course. **In any event, the Proposed DIS shall not be effected and accordingly the dividend shall not be paid if there is no fair and reasonable Cash Alternative (as opined by an independent financial adviser).**

6. UNLISTED HARRISON SHARES

Following the Date of Completion, Entitled Shareholders will hold shares in Harrison, a public Singapore company whose shares are not quoted on the Official List of the SGX-ST, any securities exchange or any regulated markets. In order to provide flexibility for Harrison Shareholders who do not wish to hold shares in an unlisted company, the Company is currently exploring options to provide an exit alternative in the form of cash to Harrison Shareholders so that they may choose to receive cash in consideration for all (and not only part of) their Harrison Shares following the Proposed DIS (the “**Cash Alternative**”).

Pursuant to the requirement from the SGX-ST that a fair and reasonable Cash Alternative be provided:

(a) completion of the Proposed DIS shall not be effected without the Cash Alternative having been announced; and

(b) the Company shall announce or cause to be announced the Cash Alternative no later than seven (7) market days from the Record Date and, in this connection, an independent financial adviser will be appointed to opine on whether the financial terms of the Cash Alternative are fair and reasonable. The opinion of the independent financial adviser will be made publicly available to the Harrison Shareholders in due course.

For the avoidance of doubt, the Proposed DIS will not take place and accordingly the dividend shall not be paid if there is no fair and reasonable Cash Alternative (as opined by an independent financial adviser).

The aggregate amount of the Cash Alternative will be no less than the amount of the dividend to be distributed under the Proposed DIS, and the cash amount which Harrison Shareholders shall receive in respect of each Harrison Share pursuant to the Cash Alternative shall be no less than the aggregate amount of the Cash Alternative divided by the total number of Harrison Shares to be distributed to the Entitled Shareholders (which shall be equivalent to the number of Powermatic Shares held by Entitled Shareholders as at the Record Date).

In view of the Cash Alternative, no share certificate in respect of the Harrison Shares will be posted to Harrison Shareholders pending the finalization and implementation of the Cash Alternative arrangements. Share certificates will be posted to Harrison Shareholders within ten (10) market days after the conclusion of the Cash Alternative or such other date as may be announced. **Nonetheless, any Harrison Shareholder who wishes to receive his share certificate during this interim period may make a written request to the share registrar of Harrison for his share certificate to be posted to him within five (5) market days from the receipt of such written request.**

It is intended that upon completion of the Proposed DIS, the names of the Harrison Shareholders (being the Shareholders as reflected in the Register of Members or Depository Register, as the case may be, as at the Record Date) shall be entered into the electronic register of members of Harrison maintained by the share registrar of Harrison. At the same time, each Harrison Shareholder will be sent a statement of holdings showing the number of Harrison Shares that such Harrison Shareholder has received (such number of Harrison Shares being equivalent to the number of Powermatic Shares in the relevant Shareholder’s Securities Account as at 5.00 p.m. on the Record Date).

After the Date of Completion, any Harrison Shareholder who decides not to continue to hold the unlisted Harrison Shares, may choose to sell all or such numbers of Harrison Shares as he may, in his absolute discretion decide, to ANY willing purchaser(s) at any time, subject to all applicable laws. Depending on the structure of the Cash Alternative, the Harrison Shares held by Entitled Shareholders may be subject to compulsory acquisition under Section 215(1) of the Companies Act (Chapter 50) of Singapore.

For the avoidance of doubt, The Central Depository (Pte) Limited will **NOT** custodise the Harrison Shares received by Entitled Shareholders upon completion of the Proposed DIS and all ownership of Harrison Shares will be represented by physical share certificate(s).

Shareholders should also note that any transfer or sale of unlisted or unquoted shares represented by share certificates will be subject to a stamp duty of S$0.20 for every S$100.00 or part thereof of the consideration or the net asset value of the shares transferred based on the latest available financial statements, whichever is higher.

Any Harrison Shareholder who intends to sell all or such numbers of his Harrison Shares may wish to seek independent legal and other advice to ensure compliance with applicable laws and other requirements.

7. FINANCIAL EFFECTS OF THE PROPOSED DIS

The pro forma financial effects of the Proposed DIS on the share capital, earnings, NTA and gearing of the Group have been prepared based on the unaudited consolidated financial results of the Group for FY2021, the Company's Existing Issued Share Capital and taking into account, *inter alia*, the following bases and assumptions:

(a) the financial effects on the Group's earnings and earnings per Share are computed assuming that the Proposed DIS was completed on 1 April 2020;

(b) the financial effects on the Group's share capital, NTA and gearing are computed assuming that the Proposed DIS was completed on 31 March 2021; and

(c) except for the cost of stamp duty payable on the transfer of the Investment Property by the Company, other estimated incremental transaction costs incurred in relation to the Proposed DIS are insignificant and are disregarded for computational purposes.

The pro forma financial effects of the Proposed DIS are for illustrative purposes only and do not necessarily reflect the actual future results and financial position of the Group following the completion of the Proposed DIS.

7.1 Share Capital

	Before the disposal of the Investment Property and the Proposed DIS	**After the disposal of the Investment Property and the Proposed DIS**
Issued and paid up share capital (S$'000)[1]	24,562	24,562
Number of Powermatic Shares in issue	34,953,156	34,953,156

Note:

(1) Excluding amount represented by treasury shares of S$790,237.

There will be no change in the number of issued Powermatic Shares as a result of the Proposed DIS.

7.2 **NTA**

	Before the disposal of the Investment Property and the Proposed DIS	After the disposal of the Investment Property and the Proposed DIS
NTA (S$'000)[1]	61,506	41,823
Number of Powermatic Shares in issue	34,953,156	34,953,156
NTA per Powermatic Share (S$)	1.76	1.20

Note:

(1) After adjustment for dividends of S$1.7 million declared in FY2021 and stamp duty payable of S$1.2 million respectively arising from the transfer of the Investment Property.

7.3 **Earnings**

	Before the disposal of the Investment Property and the Proposed DIS	After the disposal of the Investment Property and the Proposed DIS
Profit attributable to Shareholders (S$'000)	6,249	5,813
Number of Powermatic Shares in issue	34,953,156	34,953,156
Earnings per Powermatic Share (cents)	17.88	16.63

Note:

(1) After adjustment for stamp duty payable by the Company for the transfer of the Investment Property.

7.4 **Gearing**

The Company and the Group do not have any borrowings. Accordingly, there are no financial effects of the Proposed DIS on the gearing ratio of the Company and the Group for the financial year ended 31 March 2021.

7.5 **Relative Figures**

Based on the unaudited consolidated financial statements of the Group for FY2021, the relative figures in relation to the Proposed DIS computed using the applicable bases set out in Rule 1006 of the Listing Manual of SGX-ST are as follows:

Rule 1006	**Bases**	**Relative Figures (%)**
(a)	Net asset value of the assets to be disposed of, compared with the Group's net asset value	29.3
(b)	Net profits attributable to the assets acquired or disposed of, compared with the Group's net profits	5.9
(c)	Aggregate value of the consideration given or received, compared with the Company's market capitalization based on the total number of issued shares excluding treasury shares	43.6
(d)	Number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable
(e)	Aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves	Not applicable

As the relative figures computed on the bases set out in Rule 1006(a) and Rule 1006(c) of the Listing Manual exceed 20%, the Proposed DIS would constitute a major transaction as defined in Chapter 10 of the Listing Manual and is therefore subject to the approval of Shareholders. The Company is convening the EGM to seek Shareholders' approval for the Proposed DIS.

8. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed in this Announcement, none of the Directors or substantial shareholders has any interest, direct or indirect, in the Proposed DIS other than through their respective shareholdings in the Company.

9. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 9 Harrison Road #05-01 Singapore 369651 during normal business hours for a period of three (3) months from the Announcement Date:

(a) the PCOA; and

(b) the valuation report dated 1 June 2021 on the Investment Property.

In light of the prevailing safe distancing measures due to the COVID-19 situation, Shareholders should provide their names, contact number, proposed date and time of inspection to the Finance Manager of the Company, Ms Molly Chua, at molly_chua@powermatic.com.sg at least three (3) working days in advance to make a prior appointment to attend at the registered office of the Company to inspect the documents.

10. CIRCULAR AND NOTICE OF EGM

An electronic copy of the circular to Shareholders (the "**Circular**") containing further information in relation to the Proposed DIS, together with a Notice of EGM will be made available on the Company's website at https://powermatic.com.sg/ and on the SGX-ST website at https://www.sgx.com/securities/company-announcements in due course.

11. CAUTIONARY STATEMENT

The Proposed DIS is subject to the relevant regulatory approvals and Shareholders' approval at the EGM to be convened. It is also conditional upon there being *inter alia* a Cash Alternative, opined by an independent financial adviser to be fair and reasonable, being made available to Entitled Shareholders. As at the Announcement Date, the Company has not obtained any of the required approvals.

Shareholders are advised to refrain from taking any action in relation to their Powermatic Shares which may be prejudicial to their interests until they or their advisers have considered the information in the Circular, as well as the recommendations set out therein.

BY ORDER OF THE BOARD

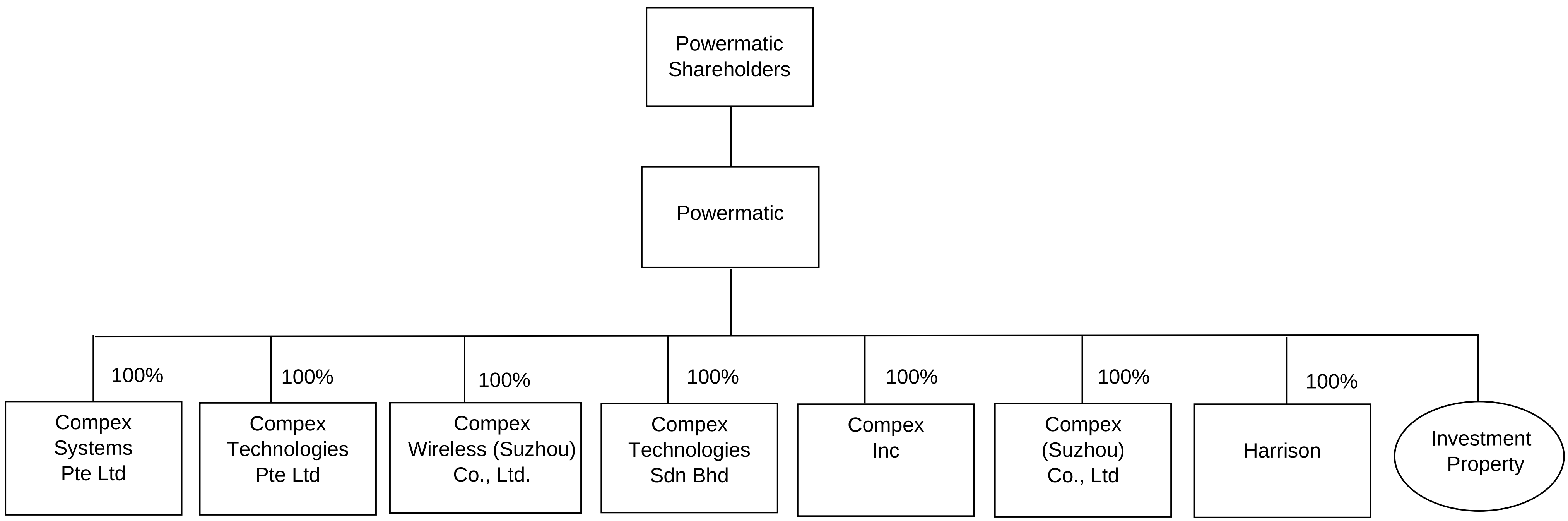
Dr Chen Mun
Chairman/Chief Executive Officer
11 June 2021

APPENDIX

GROUP STRUCTURES

The corporate structures set out in this Appendix are for illustrative purposes only and are not exhaustive and are based on information available as at the Announcement Date.

(1) Before the Proposed DIS



(2) Immediately after completion of the Proposed DIS