RESPONSES TO QUESTIONS RAISED BY SHAREHOLDERS

All capitalised terms used in the responses by Powermatic Data Systems Limited (the "Company") have the meanings given to them in the Company's announcements dated 11 June 2021 and 27 August 2021.

BUSINESS RELATED

Revenue

Questions

1. What was the business lost or delayed because of the components shortage?
2. Do you see any improvement in the sourcing of components for the 2H22? (Noted the company has done a good job in increasing its inventory levels to 5.3m on 30 Sep 2021 from 5.0m on 31 Mar 2021)
3. What was the revenue attributable to new customers, new products or new services?
4. To what extent has Wi-Fi 6 or 6E contributed as a new source of revenue?
5. How was the Company's customers concentration?
6. Is the increase in revenue from European customers sustainable?

Company's responses:

As disclosed in the Company's announcement dated 12 November 2021 (1HFY2022 announcement), which continues to be relevant, "The inability of microchips foundries to meet strong demands from various fast growing industries since 2020 continues into 2021 and expected to continue into 2022. Microchips is a key component to our wireless connectivity products. The efforts of our engineering design team, working with customers, to integrate our wireless connectivity product using newer generation of microprocessors into their end products, which have shorter delivery lead time, have yield positive results. The current delivery lead time is more than 12 months. However, such initiatives are constrained by the bandwidth of our engineering design team. Since FY2021, the Group's revenue is highly dependent on its abilities to secure allocations of microchips from major processor manufacturers. Inevitably certain relationships could not be furthered or reduced significantly due to longer delivery lead time or inability to secure allocations. This poses challenges to the management in maintaining a diversified portfolio of customers to avert concentration risk. The Group currently maintains a healthy order book. However, its abilities to convert customer's orders into revenue is highly dependent on securing allocations of microchips from processor manufacturers at delivery lead time acceptable to customers. Besides this, the volatility in the market prices of other major components, caused by demand exceeding supply, may affect our profitability. The Group mitigates this to a certain extent by maintaining a higher level of inventory of major components."

The Group's revenue is project driven. It supports customers, in terms of design and engineering, in the earlier stage of product development. To-date, the Group's revenue continues to be from orders received in FY2021 and FY2020. Typically, new customers would initially place small orders for evaluation. Bulk orders would only be placed if evaluations are satisfactory. For 1HFY2022, contribution from new customers was insignificant to Group's revenue.

The increase inventory disclosed in the 1HFY2022 financial statement (dated 12 November 2021) relates mainly to secondary components such as antennas, capacitators and resistors.

Continuous efforts have been devoted to develop new business relationships across various industries. However, these efforts will not yield immediate results as customers need "warming up time" (comprehensive evaluation of our products before it is integrated into their products). An example, contribution from the European Union market, was achieved after a few years of closed working contacts.

In relation to Wi-fi 6 or 6E, as disclosed in our announcement dated 23 July 2021 (Response to questions from shareholders and SIAS), which continues to be relevant, "The wireless connectivity business has always been customer centric. It is driven by providing customer with innovative and versatile customise products based on our proprietary know how. Our revenue as such would be driven by customers rather than product classifications such as Wi-fi 6. Currently our products are used across the spectrum of industries such as health care, transportation, education, hospitality and security surveillance. Different customers and industries may require different specifications. Our abilities to customise and meet the stringent performance standards has been our value propositions."

Qualcomm ADC

Questions

7. What was the revenue generated by PM data's position as Qualcomm ADC?
8. Is the company too dependent on Qualcomm ADC status?
9. Any changes in our relation with Qualcomm? Especially with reference to accessibility to latest products developed by Qualcomm?

10. Qualcomm has recently announced ambitious targets (and reported growth) for its IoT division, will this generate new opportunities for the company? Can the company share any new or interesting developments?

Company's response:

The Group's revenue is substantially derived from its customised proprietary wireless connectivity products.

Contribution from Qualcomm ADC service to Group's revenue for 1HFY2022 continues to be insignificant.

The Group's association with Qualcomm keeps it abreast with latest developments in the wireless technology arena.

Based on publicly available information, we are aware of Qualcomm plans in IoT. However, it is difficult at this stage, for the Group to assess the benefits this development would have on the Group.

Flooding In Malaysia / Malaysia Ops

Questions

11. Does the recent flooding in Malaysia has any major impact on the company's production and operations there?

12. What are the benefits of the new facility in Malaysia?
13. Has the company resumed its expansion plans in Malaysia currently? (in terms of number of workers and production lines?)

Company's response:

Recent flooding in Malaysia has not impacted the Group's factory in Kulai (Johor).

Locating the new plant outside China primarily allows the Group to substantially reduce its operating (production) risks and provide customers an option for finished products manufactured outside of China.

The Kulai (Johor) plant only commenced operations in FY2020. Movement Control Order, and its gradual lifting, imposed by the Malaysian government has slowed the recruitment and training of production staff.

China Ops

Questions

14. Has the rationalization of electricity usage and current covid situation (including possible lock downs) affected its China operations?

Company's response:

The disruption caused is minimal.

DISTRIBUTION IN SPECIE (THE "DIS")

Questions

15. With regards to the DIS, what are the key regulatory issues that cannot be addressed?

16. What were the initial plans for the Cash Alternative (did the board expect someone / or banks to provide the Cash Alternative in the first place or they are hoping somehow someone will be there to provide one)?

17. From the announcement dated 11 Jun 2021, I believe that it is clear to the Board that the investment property is masking the return on invested capital of

the Group which led to the market penalizing its true intrinsic valuation. Kudos to the board for initiating the DIS.

The sum of the parts are indeed much greater than the current market cap.

One way to determine Powermatic's value:

Investment property: $39M

Cash / liquid investments: $44M

Core biz (assuming PE of only 10 times and core earnings of just $6.5M): $65M

Total: $148M ($42M above current market cap)

In the past, I understand that the Group had tried to sell the investment property (we only see one advertisement for sale some years back) but this did not happen.

One of the key reasons explained was that the price being offered was low compared to the then valuation and this would have been unfair to shareholders. The investment property's return (especially since it is unleveraged) is absolutely mediocre when compared to our core business and it is clear that we do not have the expertise nor economies of scale in that area to extract proper returns for shareholders. It may seem unfair to shareholders to sell the property a few million below valuation, but it is even more unfair to them if the market cap is $42M below its true value.

Would the board kindly consider putting the investment property in the market again, sell it and distribute the proceeds?

18. In the announcement dated 30 Dec 2021, the board stated that it will "continue to explore options relating to the Group's capital and asset structure in order to maximise shareholder value."

    The group has about ~$44M in cash & liquid assets (after recent payment of interim dividends).

    What does the Board have in mind to maximize shareholder value?

    Some thoughts on this matter with regards to deployment of capital to maximize shareholder value:

    a. Pay down debt (not applicable)

b. Investing in existing operations

Since FY2014 (when the company began to scale down its distribution business), capex for the core business has been below $1M (except for FY2020 at $2.3M). It is very clear that little capital is required for existing operations.

c. Distribution of capital

With no debt, less than $10M liabilities, minimal capex (~$1M yearly) required to maintain existing operations and a cashflow generative core operation, it is clear the Group is still holding far more capital ($44M) than it needed. This corporate obesity weighs down the company and dilutes return on equity. It makes perfect sense to return excess capital to shareholders so that they can invest it themselves and Powermatic's return on equity can be improved. For a start, the Group should payout 100% of its earnings. A one-time special distribution should be considered again.

d. Share buyback

With excess capital, it also makes sense to buy back shares when the company is selling significantly below its true value. From the looks of it, this could be the most effective way in deploying excess capital as not only earnings per share and ROE can be enhanced, a 'fairer' valuation can be achieved for Powermatic without much cash required as well.

e. Acquiring other businesses

While this can add value to shareholders, it can go the other way as well. The group has zero to little track record of acquiring businesses and there doesn't seem to be concrete plans to conduct M&A anytime soon. In the meantime, surplus capital is earning near zero returns in the balance sheet. It probably is a better idea to conduct points c and d first. A better share price can be used as an effective currency for acquisitions or to raise equity when it is needed in future for expansion or acquisition plans.

Company's response:

The Proposed DIS

The Proposed DIS structure requires compliance with, inter alia, SGX-ST listing rules (Chapters 9 and 10) and the Singapore Code on Takeovers and Mergers (Cash Alternative). These are administered by independent regulatory bodies.

As stated in the Company's announcement dated 30 December 2021: "As disclosed in the Announcement (11 June 2021), the Proposed DIS and the completion thereof are subject to, inter alia, there being a Cash Alternative. As further disclosed in the announcement dated 27 August 2021, to address certain key regulatory issues, alternative options or structures in relation to the Cash Alternative and/or the proposed transaction were being evaluated. The Board wishes to inform Shareholders that having considered alternative options and structures to effect the Proposed DIS (including the Cash Alternative), the Cash Alternative (which is a key component of the Proposed DIS) is not feasible and it is accordingly not possible to proceed with the Proposed DIS."

As regulatory clearance on the Cash Alternative under the original structure contemplated could not be obtained (and given that the Cash Alternative was a key component of the Proposed DIS), the Proposed DIS had to be aborted.

It had been contemplated then that Dr Chen Mun and Ms Katherine Ang Bee Yan (substantial shareholders and executive directors of the Company) would provide the Cash Alternative.

As stated in the announcement of 11 June 2021, the Proposed DIS was to have provided shareholders an option to elect either receiving shares in the paid-up share capital of the entity holding the Investment Property (Harrison Pte. Ltd.) or receiving cash (based on the valuation of the Investment Property) under the Cash Alternative.

Following the announcement of 27 August 2021, the Company considered other options. However, property market volatility especially in the latter half of 2021 has created significant uncertainties in the determination, acceptance and recommendation of a fair transaction price thereby affecting the feasibility of options considered by the Company. On the other hand, the Group being in a healthy cash surplus position also argues against disposing the Investment Property haphazardly in a volatile market. Hence, the Board decided that the Shareholders will be better served by holding off the exercise.

However, leaving an apparently appreciating asset in the Company will continue to exacerbate the under-valuation of the operating part of the Company which, as can be seen from the Group's financial results, is performing well. The Board is aware of this and shall continue to explore means of returning profits/capital to the Shareholders.

Interim Dividend / Dividend Policy

Questions

19. The first ever and most recent interim dividends declared is not listed as 'special'. Can shareholders reasonably expect this "interim dividend" to continue going forward?

20. Will the board formulate a proper dividend policy to provide more clarity to shareholders?

Company Response

The Company currently does not have a dividend policy.

We refer to Company's the announcement dated 11 June 2021 (Proposed DIS), Dividends and Return of Capital (paragraph 2.4),

Abstract of the paragraph as below:

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 declared	1,748	NIL	2,796	2,447	2,443
Return of capital (capital reduction)	9,997	NIL	NIL	NIL	NIL

The Board viewed 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. It was contemplated that following the completion of the Proposed DIS, the Wireless Connectivity Business, would continue to be the main revenue and profit generator of the Group.

Comparing the dividend payments for the period between FY 2017 and FY2021 (past 5 financial years) to the Group's profit before taxation during that period, the percentages are:

	FY2021 S$'000	FY2020 S$'000	FY2019 S$'000	FY2018 S$'000	FY2017 S$'000
Profit before tax	9,075	9,860	7,728	5,305	4,679
Dividend declared	1,748	NIL	2,796	2,447	2,443
Dividend declared as % of profit before tax	19	NIL	36	46	52

It should be noted that the Company completed a capital reduction (return of capital to Shareholders) in FY 2021 amounting to S$10.0 million.

BY ORDER OF THE BOARD

Dr. Chen Mun
Chairman/Chief Executive Officer

24 January 2022