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

RESPONSE TO QUESTIONS FROM SHAREHOLDERS

The following questions were received from Shareholders prior to the Thirty-Fourth Annual General Meeting to be held on 26 July 2023. The Board of Directors has provided the responses however questions that touches on the Group's competitive advantages our responses have been brief.

Our customers expect information such as orders, shipments volume and schedules, description and application of their products and specifications and engineering design be kept in strict confident.

Financial Statement

Inventory impairment

Questions:

1. For impaired inventories due to cancelled orders, are we able to recover the costs involved eventually or re-use the items in another contract? $1.1m is a fairly large sum compared to our net profit.

2. A $1m provision for inventories was made arising from deferment or possible cancellation of orders. What are the outcomes of the orders? In the event of cancellations, will the customers be required to pay in full, and the provision written back?

3. During FY2023, impairments of $1.0 million were made to inventories arising from customers deferring their orders or possibilities of cancellations. Is the write down matched against customer's deposit placed earlier?

4. It is noted that company carries an inventory of 6m (vs 7.5m inventory in 2022). How does the company manage this inventory risk?

5. Management was approached during FY2023 by a number of key clients to cancel and defer their orders. This led to impairment of inventories of $1M. Are you seeing more cancelation or deferment of orders since FY2023? Are there strategies to better manage this?

Response:

In instances that customers have asked for deferment in delivery, management has worked with them to achieve a mutually agreed arrangement. The impairment made to inventories, like all other impairments, is for reason of prudence. It does not preclude the Group from utilising these inventories, if they are not obsolete and in good working order. In the event that they are utilised, it would result in a lower cost of goods sold.

For build-to-order products, we only purchase inventory when an order from customer is confirmed.

Working closing with customers and suppliers has mitigated the financial impact arising from orders cancelations or deferments.

Remuneration

<u>Questions</u>:

6. Under page 60 of AR2023 (NOTES TO THE FINANCIAL STATEMENTS 3A), the remuneration paid to directors totalling $737,000 for FY2023, while fees to directors of the company totalling $75,000.

   Under page 25 of AR2023 (Provision 8.1 of the Code: Remuneration of Directors and key management personnel), the 3 independent directors are paid solely in directors' fees ($75,000) while Chairman Chen Mun/Executive Director Katherine Ang are paid solely in salary/bonus.

   Based on page 60 (NOTES TO THE FINANCIAL STATEMENTS 3A), the total remuneration paid to Chairman Chen Mun/Executive Director Katherine Ang would be 737,000-75,000 = $662,000. From Provision 8.1 of the Code: Remuneration of Directors and key management personnel, each of them falls under the salary bracket "Below S$250,000" and so their total remuneration will not add up to >$500,000.

<u>Response</u>:

Both the remunerations of Dr Chen Mun and Katherine Ang Bee Yan (Executive Directors) should be in the S$250,000 - S$500,000 band. We have since made a corrigendum announcement on the SGX-ST dated 12 July 2023.

The remunerations paid to the Executive Directors, individually and in aggregated, continues to be correct as disclosed in the annual report.

Investment property

<u>Questions:</u>

7. Under the press release dated 6th July 2023 "an appraisal conducted by Knight Frank Pte. Ltd., the Property has a fair value of S$46.3 million as at 31 March 2023 (“Existing Use Property Valuation”) at page 1. At page3, it states that the Existing Use Property Valuation ascribes a valuation to the Property of approximately S$757 per square foot.

   Under page74 of AR2023 (note16 of financial statements), it is stated that the Price per square foot: $1,414, as fair value based on a valuation made by Knight Frank Pte Ltd

   Besides the difference of #05-01 office between the press release 6th July2023 and annual report disclosure, why is there such a big difference in the price per square foot of $757 and $1,414 when they are both done by Knight Frank in March 2023?

8. According to the 6 July 2023 proposed redevelopment announcement, "the Existing Use Property Valuation ascribes a valuation to the Property of approximately S$757 per square foot, while buildings within the vicinity of the Property having approved usage for food production having recent transacted sale prices ranging between S$1,300 to S$1,700 per square foot".

   According to note 16 of 2023 annual report, price per square foot is $1,414

   Assuming 32,800 square foot of lettable space and post-redevelopment sale at $1,700 per square foot, the additional proceeds from the proposed redevelopment is $9.4 million ((1,700 - 1,414) * 32,800)

   Assuming 61,171 square foot of lettable space and post-redevelopment sale at $1,700 per square foot, the additional proceeds from the proposed redevelopment is $17.5 million ((1,700 - 1,414) * 61,171)

   Under both scenarios, the additional proceeds are less than the capex costs of $25 million

   Could you please help us understand why the proposed redevelopment will benefit shareholders? Or where we have made errors in our calculations?

9. According to the 6 July 2023 proposed redevelopment announcement, the fair value of the investment property is $46.3 million. According to note 16 of 2023 annual report, the fair value is $41.7 million. What caused the difference between these 2 fair values? Is the difference because $41.7 million excludes unit #05-01 currently used as the group's office? If not, please let us know which fair value is the most accurate.

10. The announcement "PROPOSED REDEVELOPMENT OF EXISTING INVESTMENT PROPERTY" states that the Property is carried in the balance sheet of the Company at a net book value of $16.3 million as at 31 March 2023. Is $18.09m, as given in the Chairman's statement, not the value?

11. According to note 16 of 2023 annual report, fair value of investment property (excluding #05-01) is $41.7 million and price per square foot is $1,414. This implies 29,500 square foot of lettable space.

    The rentable area of the existing property is 61,171sqft. What is the rentable area of the new building?

12. According to the 11 June 2021 proposed DIS announcement, #05-01 represents 10% of the total area of lettable space. This implies a total 32,800 square foot of lettable space.

    This is significantly different from the net usable (rentable) area of 61,171 sqft indicated in the 6 July 2023 proposed redevelopment announcement.

    Please help us understand the difference in lettable space (61,171 - 32,800 = 28,371 sqft)

    The same announcement states that buildings within the vicinity of the Property approved for food production were transacted between S$1,300 and S$1,700 per square foot. Are the relevant buildings on freehold land or leasehold land?

13. We did a property enhancement study this year, disclosed in the financial results. Are you able to share in greater detail what these plans are?

14. Are we applying for a change of use for the premise with BCA or URA?

15. It is noted that the company has plans to redevelop the investment property. Why don't the company sell the property outright to realise the value immediately and distribute the proceeds to all shareholders? Is the company restricted by the terms of planning approval given by URA?

16. Is there expertise in the board to execute the redevelopment? (Why divert attention, time and resources to take the risk of redeveloping the property? Are you able to ensure the designs/ plans are going to suit the needs of potential buyers in the F&B industry 2-3 years down the road?

17. What is the reason for selling units in piecemeal fashion instead of the entire building? Is this going to be a prolonged ongoing distraction again from the core Wifi business? Are there plans to rent out some units and/or go into the property management business if the company is unable to sell the units?

18. What is the land area and plot ratio of the combined site? What is the final gross GFA and net GFA of the redeveloped property?

<u>Response</u>:

Knight Frank valuation report dated 31 March 2023 has valued the property at $46.3 million – inclusive of the unit occupied by the Group. Total rentable area of the property is 61,175 square feet or $757 per square feet.

The disclosure in the annual report, required under current accounting standards, has divided the investment property into two parts – units utilised by the Group for its operations and that held for investment (yielding rental from third party tenants). The former, that is utilised by the Group, has been classified under property, plant and equipment having a valuation of S$4.61 million while the latter held for investment having a valuation of $41.69 million. In aggregation a valuation of $46.3 million.

Computation of $1,414 per square feet is based on the $41.69 million and a freehold land area of 29,490 square feet. The computation excludes the valuation attributed to the units utilised by the Group for its operation. <u>In summary, the main difference between the figures S$757 per square foot and S$1,414 per square foot is that the former is per unit rentable floor area and the latter per unit freehold land area.</u>

The carrying value of the investment property (excluding the office unit) and the office unit as at 31 March 2023 was S$16.32 million and S$1.77 million respectively. Please refer to page 71, note 14 and page 74, note 16 of the Annual Report. The aggregation of S$16.32 million and S$1.77 million, S$18.09 million, is the carrying value of the investment property as mentioned in the Chairman's statement.

The floor area of unit #05-01 (which is utilised by the Company) is 6,095 square feet. Comparing this against the total rentable area of 61,175 square feet, the floor area of unit#05-1, in percentage terms, is 10%.

The property was acquired for long term investment purpose. Over the years, its value has arisen along with Singapore's general economy. The management has, on many occasions, been asked by shareholders to dispose of the property for profit. However, in the management's opinion, the true value of the property investment has not yet been realized and will continue to appreciate. In the proposal to redevelop the building, we see an opportunity in land scarce Singapore, to provide specially designed facilities for the food industry and in doing so we can realize a gain equivalent to many years of appreciation. A straight sale of the property has been considered and discussed with potential buyers. However, from our analysis, the potential of maximizing the returns from the investment is substantially higher if we are to undertake the development ourselves.

With regard to the Board's expertise in the redevelopment, our plan is to engage the best professionals to do the job.

As to the plans of selling all units or retaining the unsold units for rental, the Company, apart from its core wireless connectivity business, is also in property management business, profitably managing units not used by the company for rental returns as well as up keeping the property to a high image. It is not a significant part of the company's business but nevertheless an efficient capability that the company can use if there are units that the company will retain for leasing. However, the main objective of the redevelopment is to sell all the developed units.

The land area and plot ratio of the property will remain unchanged from the present plot. However, the GFA will benefit from certain design characteristics of a food production building. It will be larger than the existing GFA. The exact figures are yet to be determined as the design is not finalized, however we hope to achieve a net usable area of near 70,000 square feet.

The investment property is seated on freehold land.

Subsidiary companies

<u>Questions:</u>

19. What proportion of revenue came from the Malaysian factory?
    Is the plant already fully operational? (Malaysia) How much revenue does it contribute compared to Suzhou Plant?

20. Are there any more additional capex plans for this Malaysian plant?

21. Company renewed the lease for additional 2 years, Is the company looking to expand its operation? Will there be additional capex in Suzhou?

<u>Response</u>:

Both Compex (Suzhou) Co. Ltd and Compex Technologies Sdn Bhd, the entity that holds our manufacturing facility in Malaysia, provides manufacturing support and their entire revenue are from related entities within the Group. Sales to customers are accounted by entities within the Group in Singapore.

The Malaysian plant has been operating since late FY2020. It will be further expanded both in manufacturing capacity and product development and testing capabilities. RF testing and measurement equipment and tools for both manufacturing and development use are very expensive and they get even more expensive, sometimes by an order of magnitude, when the frequency of operation goes up. The manpower to take advantage of the equipment/tools does not come easily off the street. Recruitment and immersion are a long process. The capex will be calibrated against the manpower development.

Capex in Suzhou will follow the same strategy as in Malaysia. The manufacturing plant has recently been upgraded with more advanced equipment along with a general revamp of the shop floor environment to enable the incorporation of latest generation of precision and miniaturized components. We continue to recruit and grow the specialized manpower we need. The expansion will be in line with manpower resources growth.

<u>Business</u>

Competitiveness

<u>Questions:</u>

22. The group has the highest net profit margin in 2022/2023 among manufacturers of wireless modules:

    AMPAK Technology Inc (14%)

    Quectel Wireless Solutions Co Ltd (4%)

    Azurewave Technologies Inc (3%)

    Advantech Co Ltd (16%)

    Powermatic Data Systems (31%)

    Please help us understand how the group managed to achieve significantly higher net profit margins compared to peers in the same industry.

23. According to 2023 annual report, two customers accounted for 33% and 12% of 2023 total revenue. Are these new customers? Or are they repeat customers from 2022? In 2022, there is one customer which accounted for 31% of 2022 revenue. Will these two customers continue their purchases beyond FY2023?

24. It is noted that 2 customers accounted for 33% ($10m) and 12% ($3.6m) (Pg 94 of 2023 AR). How does the company manage this customer concentration risk?

25. Is the company able to expand the wallet share of this customer since 2021? How long more can the company retain this customer? Especially since PM data is engaged in specialised one-off projects generally. (E.g. enterprise access points)

26. It is noted that the company created a new segment highlighting new product development and R&D initiatives. Can the company explain how a small company like PM data is able to manage to stay on top of its game and keep pace to develop wifi 7?

27. Who are the group's closest competitors?

28. Last year, management mentioned "the working bond between us and our customers serves as a continuous barrier to entry". We understand that the group's revenue is mostly project-based instead of recurring. Given this fact, it seems to us that working bond as a barrier to entry is likely to be short-lived and will end once the project ends. We would like to clarify our understanding of the group's competitive advantages and the industry's barriers to entry.

29. Does the group have competitive advantages over the competitors? If yes, please help us understand the group's competitive advantages and how durable they are?

30. Since the group entered the wireless modules business in 2017, has competition against the group increased? How competitive is the current environment? What is management's outlook on competition over the next 5 years?

31. I could no longer find Compex under Qualcomm's website:
https://www.qualcomm.com/support/qan/member-directory?facetMemberships=Authorized+Design+Center+Program#member-listing
Was Compex removed as a Qualcomm ADC? If yes, why did Qualcomm remove Compex as an ADC? How has the removal affected the group's business and prospects?

32. Can the company explain the benefits of being a Qualcomm ADC to shareholders? What are the costs and benefits of staying as a Qualcomm ADC? How much business does the company get from being a Qualcomm ADC?

Response:

The capital and cost structure for each of these companies are likely to vary. Other major determinant of profit margins are target markets (volume or specialists), performance, features, reliability level and engineering contents of the products. Therefore, without reliable information, we are unable to perform any meaningful comparison.

The two major customers accounted for 33% and 12% of the FY2023's revenue are existing customers. Every business relationship is valuable and it is our interest that they be preserved and further advanced where possible. To avert concentration risk, the Group has increased its customers' base.

We are a niche player in the vast space of wireless products, we provide a unique product and service. We have imitators but not real competitors.

Our customers are mostly renowned corporation or distributors. The "project-based" refer to the customers' projects. Our business with these "project-based" customers is recurring in that the customers will work closely with us to evaluate our products when they embark on new projects.

The Group has its own production facilities, hardware and software R&D teams to continually improve and innovate its proprietary products. Apart from offering off the shelf proprietary products, it also provides leading Original Design Manufacturing for a wide range of wireless networking products to cater to the customers' needs.

The wireless businesses have always been competitive with players vying to increase their market share through innovative products – including ourselves. Like any other competitive markets, there are attrition and new entrants.

We have just renewed ADC agreement with Qualcomm on 22 December 2022. We note your observation on the Qualcomm website and have since contacted them. The Group's revenue and profit are substantially driven by its own products.

The Company has worked with Qualcomm since 2014 when it was first appointed as an ADC. It has been both rewarding economically and keeping us abreast with changes in technology and market.

Operating environment

Questions:

33. I would like to ask to what extent are sales affected by the US/ China trade sanctions? Specifically, will Powermatic be banned from dealing with China and/or ex-China given your partnership with Qualcomm? What is the mitigating plan?

34. How does the Malaysia plant complement the company's Suzhou plant? In terms of manufacturing capability (i.e. complexity of manufacturing, worker competency etc), how does this plant compare to Suzhou plant?

35. Are these contract manufacturers mostly situated in China? With the ongoing geopolitical situation, will there be issues if USA and European customers decide to use contract manufacturers elsewhere? Is the Johor facility enough to handle these?

36. Can Powermatic use chips not produce by Qualcomm?

37. For wireless business, Europe and Asia has done very well this year, contributing 80% of our total revenue. With recession already probably in some major economies, what is the business outlook for USA, Europe and Asia markets?

38. How do you see the development of Internet of Vehicles network or 5G URLLC? What are the opportunities or growth for our customers in the next few years in this area?

39. How do you see the development of Artificial Intelligence technology? With respect to our business and employees.

40. Are we in the qualification stage for other chipset makers such as Broadcom or Skyworks? If not, any plans to do so as I see it as a diversification from just Qualcomm.

41. Recent Apple-Broadcom deal seems to suggest buy-American movement is accelerating. What is our strategy in supporting the business of USA customers?

42. Apart from research and development (R&D) efforts put into developing new WiFi products, has the Company invested in R&D for developing capabilities in other technologies which may eventually help to capture new markets or extract more value from the growing customer base?

43. While WiFi technology continues to advance and is likely to be used widely for the foreseeable future, how closely is the Board monitoring new or evolving technologies (e.g. 5G) which may encroach into or have potential to replace WiFi technology and its applications in various industries?

44. The Chairman's Statement in the annual report highlighted that key markets of the Company are the US and Europe, and that there is heightened demand for the Company's technical expertise with the increasing complexity of WiFi technology. In this case, does the Company or its subsidiaries see potential value in establishing offices in the US and/or Europe to better serve customers in the same time zone as well as to strengthen presence in those markets for further business growth?

Response:

We see a general decline in global economy, largely due to 3 years of Covid restrictions. During this period, huge sums of money were pumped into the monetary system to keep the economy going. While this policy worked in avoiding hardships, it has inevitably resulted in huge inflations, which are being addressed with rising interest rates. In a way, the world has lived on borrowed money and now we have to pay it back. So, there is less money to spend. We see our projected orders to be able to sustain us for the current FY. Going beyond that, we will see contractions if the world economy does not recover in time.

Geopolitics are very complex. It is hard to predict what will happen. From 4 years ago, we have invested in a manufacturing facility in Johor, Malaysia. It was more a move to open up access to available human resources, as the worldwide supply was getting tight. This also helped to mitigate the risk of a single manufacturing location. We intent the Malaysian plant to have similar manufacturing capabilities as the one in Suzhou.

The semiconductor companies are seeing contractions in orders right after the boom during chips shortage. We also have order cancellations, but so far we have been able to work with our customers and vendor to largely reduce the damage. The next financial year will be more difficult, but we see it as a business cycle. We are pressing on with new product developments to catch the next upswing.

Among consumer products, currently the only bright spark of growth is in electric cars. 5G technology will find its way into electric cars. However, 5G applications are in general lagging behind the technology. 5G devices are still expensive and without apps that are enabled by 5G, consumers do not have the urge to convert to 5G.

We are very impressed with ChatGPT and we are looking into ways to integrate it to our products and services. We are not sure if it will cause unemployment as what it replaces is the man-power we have great difficulties in hiring in the first place. The power of AI can indeed be hijacked for all the wrong purposes. We have to know it better before we can control it.

Skyworks and Qorvo are radio frequency frontend companies. We work closely with them. We also worked with several WiFi chip companies other than Qualcomm for their unique offerings, but they have mostly gone out of business, such is the competition in this space. On the other hand, dominant companies like Qualcomm and Broadcom demand large resources and commitments from their customers. So, it is more efficient for a company our size to work with one.

Such geopolitics will place restrictions on what components we can use and where we can sell to. We need to cater to our customers' needs. It is not so complicated as our customer base tends to be on the western side.

We are a radio frequency focused engineering and manufacturing company. The bulk of our products happen to involve WiFi. We are also into antennas and 5G/LTE routers. In general, we help to enable the radio frequency related portion of our customer's products, not restricted to specific technologies.

We agree with the market assessment. We are not restricting ourselves to WiFi technology, although this is a fertile area that we shall continue to tap.

The management note the comment on establishing offices in key markets. However, the current structure where various support functions are located in Singapore, has proved to be cost effective. Despite differences in time zone, our customers have generally found our support both responsive and efficient. Nevertheless, we will continue to evaluate this need.

Corporate

Questions:

45. There is a new share ownership scheme for key employees mentioned. From AR2022, we have 849,640 treasury shares. Will this be used in this scheme or will it involve the issue of new shares? Or will Company introduce a share buyback resolution for this scheme as some other public-listed companies to purchase undervalued shares and avoid dilution?

46. According to the 25 May 2023 FY2023 results announcement, "the group will be introducing a new share ownership scheme to key employees. This would align their interest with shareholders', giving them access to distributions and value appreciations"
Given our understanding that the group's success in wireless modules depend on intellectual property, we also think that a properly designed share ownership scheme will benefit the group by retaining key employees. Our concern is: has the group lost key employees or will be losing key employees?

47. Any plans for a bonus issue to improve liquidity, now that SGX has removed the minimum trading price rule since 2020. Our NAV has also hit a new high of $2.11.

48. Given the high interest rate environment (5%), can the company consider giving a dividend that exceeds 5% to demonstrate that the company is able to provide a good and tangible rate of return to loyal shareholders that at least exceeds inflation and current high cost of living?

49. In order to right value the company, can the company consider a more generous dividend policy? E.g. payout of excess cash that the company generates above its operational need? Can the board explain its thinking behind keeping the current amount of cash in its balance sheet? How much cash does the company really need for its current operations?

50. It is noted that Prof Cham is now 84 years old. Can the company or Prof Cham explain his potential contribution to the company? Would he be able to help the company scale up in its technological expertise / clientele through his networks?

Response:

The new share ownership scheme will use only the treasury shares. It does not increase the total number of shares issued by the Company but it will increase the number of shares in circulation. We have currently no plan to do further share buy-back.

The current share ownership scheme (The Employees' Share Option Scheme) approved by shareholders on 25 July 2013, has expired on 30 June 2023. The proposed scheme is not a replacement of the Employees' Share Option Scheme. We have added a number of noticeable new features in the proposed scheme. It will be tabled for shareholders' consideration and approval once SGX Regco's clearance is obtained. We are in an industry that is highly competitive for talent resources. We constantly look into rewarding high performance employees as well as growing our talent pool.

The proposed property redevelopment and sale will open up many possibilities to improve liquidity, which is one of our long-term goals.

The proposed dividend of 10 cents, comprising 5 cents ordinary and 5 cents special dividend, amounts to S$ 3.495 million or 30% of FY2023 profit before taxation.

The cash holdings have allowed the Group flexibility in managing its businesses. For example, the redevelopment of the investment property will be funded by internal financial resources.

Professor Cham Tao Soon has been on the board of directors of several Singapore Government linked and private owned companies and organisation (both public and private). He brings to the Company more than 4 decades of business management experience. Anybody who has an issue with age should look at Warren Buffett. At 92 years old, he is in active management running one of the world's most influential investment company.

BY ORDER OF THE BOARD

Dr. Chen Mun
Chairman and Chief Executive Officer

20 July 2023