

POWERMATIC DATA SYSTEMS LIMITED

(Company Registration No.: 198900414E)

(Incorporated in Singapore)

RESPONSE TO QUESTIONS FROM SHAREHOLDERS

The Board of Directors (the “Board”) of Powermatic Data Systems (the “Company” and together with its subsidiaries, the “Group”) would like to thank all shareholders for their interest and active participation in the upcoming Annual General Meeting (the “AGM”) and Extraordinary General Meeting (“EGM”) by submitting their questions in advance.

The Board had reviewed all questions submitted as set-out in Annex A to this Announcement. As some of the questions raised overlaps, we have broadly classified them into “Business Related” and “Capital Reduction”.

BUSINESS RELATED

Production:

The impact from Covid-19 was sharply felt in the last quarter of FY2020 (calendar months between January 2020 and March 2020), our main production facilities in the PRC have to suspend work as part of the PRC government’s effort to stop the further spread of Covid-19. The suspension of work resulted in delays in delivery.

Consequently, the dollar value of inventory as at year-end decreased accordingly, from \$3.039 million in FY2019 to \$1.75 million in FY2020.

The Malaysian manufacturing plant is complementary to our PRC production plant. It will serve customers that have a preference to source their products from South East Asia. The expected investment is S\$5 million. The plant commenced operations in the last quarter of FY2020.

Management continuously reviews its production efficiency and varies its manpower requirements to optimize returns. This has resulted in fluctuation in the number of employees. Product reliability is key to the Group’s success; quality controls would continue to be the main focus and consistent focus of management.

Revenue:

The Group secured a deal to supply products to a high-volume client for a project in 2HFY2019, the project spilt over to 1HFY2020, contributing to the high growth in these two respectively half-year revenue. The project, which is one-off, ended in 1Q FY2020, partially led to the decline in revenue for 2HFY2020

The Group’s revenue exposure to both hospitality and transportation is below 15 per cent in FY 2020. The Group’s business is project-driven and no particular industries would persistently dominate its revenue. In recent years, due to its product reliability and abilities to continue to introduce new products with better features and capabilities, the Group enjoy repeat orders from certain customers.

The main revenue generators are the Group’s proprietary products – products developed by our own research and development’s efforts. For FY2020, research and development costs are approximately 4 per cent of total revenue.

The management will continue to pursue business strategies that would ensure a balanced contribution from various global markets. For FY2020, Asia (including the PRC) contributed to 43 per cent, the USA contributed to 33 per cent, Europe contributed to 20 per cent, other regions contributed 4 per cent.

In FY2020, there were increased sales to Taiwan and Vietnam which are part of the Asia market. It should be noted that sales to both these markets were derived from existing customers based in USA and Europe, supporting their OEM subcontractors in these particular countries.

Qualcomm is a business partner and we had been appointed as its Authorized Design Center in Asia. The Group does benefit from its association with Qualcomm through access to its leading chipsets technology and in some instances, customer referrals. However, the Group will continue to rely on its proprietary products to be the key revenue generator.

The single customer who contributed to 16 per cent of the Group's revenue has dealt with the Group in the past. As at the date of this announcement, there are no indications that there are any significant changes in that business relationship. Do note that the Group's revenue is project-based and also dependent on the life cycle of the end products of its customers. As such, in a certain financial year, a particular customer, with a product at an early to mid-life cycle or launching a new generation of products, will appear to contribute significantly to our revenue.

Profit margins:

Generally, newer products tend to enjoy better margins due to its features and capabilities. However, margins tend to decline over time as newer products with enhanced capabilities are introduced or availability of cheaper alternatives or substitutes. To continuously stay ahead, we have to continuously invest in research and development.

The increase in profit margin in FY 2020 is attributed to sales of products with higher profit margins and service-related income.

Accounts receivables:

The Company reported a \$15.135 million of receivable as at 31 March 2020 of which \$15.0 million is the amount due from a wholly-owned subsidiary.

This amount was upstream dividend from the subsidiary for the purpose of the proposed payment to shareholders via the capital reduction exercise.

Products:

Our products are not easily visible and often is an integral part of a key operating component. For example, in health care, our product provides continuous relay of vital information between monitoring devices, in most instances life-supporting devices, and caregivers.

Beside this, our products are also used by OEM, ODM and JDM as key components to high-performance wireless radio modules, embedded boards, indoor and outdoor access points and wireless antennas.

Alleged IP infringement

The Group is evaluating the purchase of additional, updated software proposed by the software company to enhance our engineering competitiveness.

The evaluation is still on-going. In our opinion, it is not in either party's interest to escalate the dispute.

No litigation was instituted by either party at the date of this announcement.

5G / Wi-Fi 6E (6GHz):

We are witnessing 2 wireless revolutions. One is related to cellular networks, known as 5G (for fifth-generation), or 5G NR. Another is related to WiFi networks commonly used for in-home or in-office networks, known as WiFi 6 and now extended to 6E. 5G NR's impact is much more than the change from 3G to 4G cellular networks. WiFi 6E more than doubles the network speed and provides 1,200 MHz of additional bandwidth to alleviate bandwidth congestion. With such revolutionary changes, a multitude of new applications will come on the market.

While 5G NR and WiFi 6E are often mentioned together, they are slightly different segments of a large wireless market. Our product emphasis is on WiFi 6E. Wireless test and measuring equipment and software tools are very capital intensive. Our investments in this area as well as advanced manufacturing capabilities are our differentiators. We participate in the value-add chain of such new applications, particularly in the WiFi 6E area.

We position ourselves as role of a consultant in the area of WiFi6E. If you would imagine a huge irrigation project to turn a desert into farmland. Imagine us not as the contractor to build the irrigation system. We will work out the engineering and supply the parts to enable the system. We can benefit from the 5G NR and WiFi 6E revolution simply because a lot of work needs to be done and we have the right skills and resources to be in the thick of the action.

We are currently supplying equipment used in cars, buses and trains where passengers obtain Internet access through WiFi connections to our equipment and the data is backhauled through the 4G LTE network. This is an example of combining cellular and WiFi technologies. The next generation 5G NR networks are faster, more versatile and potentially cheaper in terms of price per megabit. This will benefit transportation's WiFi users immediately. However, 5G NR brings more benefits than that. Your 5G NR provider can, for example, sell you a guaranteed latency, which means that you return (virtual) fire before your (virtual) enemy. Many cloud-edge services need the low latency. You don't just need to be mobile to enjoy 5G NR + WiFi 6E.

Aside from our usual bread and butter business, Wi-Fi 6E allows us to venture deeper into the ODM business, whereby we do not just supply a radio module to our customers, but instead, design and manufacture the entire equipment/product for our customers.

This is a new growth segment for the Company from 2021 onwards albeit the full potential could only be observed as more countries approve the availability of the proposed extra spectrum. Our Wi-Fi 6E product will be ready by 2021 to the mass market.

COVID-19 situation:

As the pandemic strikes the world without much warning and worsening at a rate most countries' current healthcare systems fail to react, people are forced to work from home. As Company intellectual properties are now handled out of the office, companies are finding ways to safeguard their IP from being tampered with. Such need is what off-the-shelves router in retail stores fails to deliver. Instead, the Group throughout the pandemic work very closely with cybersecurity companies in integrating our products with their software, creating a cost-effective yet secured cybersecurity router for work from home activities.

Business Outlook:

The Group will be announcing its 6 months financial statements for FY2021 in November 2020 on the SGX-ST. If there are events or developments which have a material impact on the Group's outlook, the Company, in compliance with the SGX-ST Listing Guidelines, will make the necessary announcements promptly to update shareholders accordingly.

Business Continuity:

It is a work in progress. The Company is still small but geographically diverse. The progressive nature of our business attracted a number of capable and energetic young people and they are demonstrating their value. However, it will still take a bit more time for them to mature to allow the old timers to retire.

CAPITAL REDUCTION AND INVESTMENTS

Review of the Group's capital structure:

It should be noted that the review of the Company's capital structure (including those of its subsidiaries) was undertaken internally. The members of the Board of Directors are well qualified to undertake this task, two of the board members are qualified accountants. The professionals engaged (legal and financial advisors) were tasked to advise the Board of Directors on compliance matters – the Listing Guidelines of the SGX-ST, Securities and Futures Act and Companies Act. They were also tasked to continuously engage the relevant authorities including the RegCo SGX-ST on Listing Guidelines related matters – clearance of the circular to shareholders in relation to the proposed capital reduction exercise.

Acquisitions:

The management is always opened to acquiring businesses that support or enhance its technology know-how or sales distribution capabilities. We believe that the uncertainty and volatile market conditions caused by Covid-19 may provide opportunities for the Group to acquire assets (including businesses) at attractive valuations.

The property at Harrison Road:

The said property was acquired in 2009 at S\$19.5 million. The objectives are to achieve capital appreciation and generate investment income. These objectives continue to be achieved and have served shareholders' interest at large. As of 31 March 2020, the appraised value is S\$33.7 million.

Prior to the announcement dated 31 October 2020 on the SGX-ST, a property consulting company was engaged to solicit interest. For several months, there was no written expression of interest. As at the date of this announcement, the Company has yet to receive any expression of interest.

Following the outbreak of Covid-19 in Singapore in early 2020 and it's widespread globally, the Singapore government issued a number of dire warnings on its impact to both the Singapore economy and major global economies. To date, major global economies continue to experience the resurgence of Covid-19. The Board of Directors, together with management, will focus on the Group's core businesses, as this will protect, sustain and enhance shareholders value in the Group.

The Board of Directors is of the view that it is not prudent to collateralize or sell the Harrison Road property at below appraised value and return funds to shareholders.

Investments in quoted Thailand shares

The investments are quoted shares listed on the Thailand Stock Exchange. Fair value changes are through comprehensive income as prescribed by the accounting standards. The Board of Directors will monitor and if opportunities arise, the Company will realize these investments.

Liquidity in the trading of the Company's shares

The Company's free float is approximately 12.4 million shares or 35.47 per cent of its shares outstanding. The continuing profitability growth of the Group (as evident in its financial performance); it's market share price trading below its net asset value (if taken into consideration the fair value of the investment property) and payment of dividends over the years has resulted in many current shareholders unwilling to dispose part or their entire shareholdings.

The Board of Directors believes that before it considers any corporate action such as bonus issue (or share splits), the profitability of Group must be sustainable. This is to ensure that the market price of its shares can sustain in the near term. The Board of Director will continue to monitor the liquidity of the Company's share and when appropriate the necessary corporate action will be considered and undertaken.

BY ORDER OF THE BOARD

Dr Chen Mun
Chairman/Chief Executive Officer

29 September 2020