

POWERMATIC DATA SYSTEMS LIMITED

(Company Registration No.: 198900414E)

(Incorporated in Singapore)

RESPONSE TO QUESTIONS FROM SHAREHOLDERS AND SIAS

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**”) by submitting their questions in advance.

The Board had reviewed all questions submitted as set-out in Annex A to this Announcement as well as some questions received from SIAS (Securities Investors Association Singapore, Annex B). As some of the questions raised overlaps, we have broadly grouped them into the respective headers in providing our answers.

Questions relating to impact of wifi 6 on the Company’s business

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 WiFi 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 always been our value propositions.

Questions relating to dividend policies

The Board will continue to review its financial position with regards to dividend policies. The Proposed Dividend in Specie, the result from the Board’s review, sees the return of current value of a non-core assets to shareholders. As disclosed in our announcement dated 11 June 2021, in relation to the Proposed Dividend in Specie, the Group may consider the mergers and acquisitions avenue to grow the wireless connectivity business. Such opportunities if arises may see the needs for cash.

Questions relating to customers’ contribution to growth

We would like to clarify that the annual report states “This is evident by *our customers in United States and European Union* integrating our latest WiFi 6 (11ax) products into their end products”.

The Company will continue to develop new relationships both geographically and across various industries. The increase in contribution from Europe is the result of those efforts.

As disclosed in our full year financial statement announcement dated 24 May 2021, the Company, do give preferential pricing to customers that places higher volume. This may affect our profit margins.

The Group’s sales, or revenue, are project driven. It is dependent on the customer’s end product life cycle. As such customer’s contribution to revenue varies from financial year to financial year. To avert concentration risk, both customers and industries, the Company continues further its design capabilities (through features and performance) to attract new customers from various industries.

With regards to major customers, the customer that contributed to 16% of revenue in FY2020 continues to be a significant customer of the Group in FY2021.

A number of the Group’s key customers have been working with us for a number of years. To avoid over concentration, customers or industries, the Company has continued to develop new relationships from various industries. These new relationships, in certain circumstances, are leaders in their industries. Been customers centric, providing customise solutions, would allow the Company to avoid customers, geographical and industries concentration.

Both customizing our products and involvement in our customer’s product developments at an early are valuable strategy to retain relationships. This is a proven strategy.

Questions relating to product pricing

The Group needs to achieve greater presence in the wireless connectivity market. In order to increase its market share, its product must be price competitive. Besides pricing, customization of features and performances is key in attracting and retaining customers. It would continue to adopt this proven strategy. The wireless connectivity business is fast evolving with continuous increasing expectations on performance and features. In order to sustain profitability, research and development and engineering must stay ahead of changes.

The Company's pricing model is based on its cost structure – including financial risk – notably default risk and payment terms. It also values each relationship and takes a longer term view. If the relationship can be furthered, e.g. higher volumes, the Company may apply flexibility in its pricing.

Questions relating to R&D

The expenditure on research and development is budgeted at 6% of revenue. We do not capitalise (or amortise) research and development cost. As technology for wireless connectivity products are fast evolving, the Company for reason of conservatism, do not carry research and development cost as an asset.

Questions relating to valuation of property situated at 7 & 9 Harrison Road

The valuation exercise conducted by the Company values both 7 and 9 Harrison Road as a completed building, given that we own the entire property (two blocks), without the exclusion of any units. The Company has been advised by its auditors that the units currently utilised by the Group be classified as property, plant and equipment.

The valuer is an international property valuation firm. We believe that, among other factors taken into considerations, the increase in value is due to completed transactions at the vicinity of Harrison Road.

Questions relating to inventories and microchips supply issues

Based on our observations, due to the limited production capacity of foundries, the newer generations of microchips, which are much sought after (due to the growing demand of its end products) and consequently attracting high profit margins, are prioritised in productions. As our products since 2020, uses the newer microchips, this has provided us slight leeway in securing supplies. The Company will only place orders for microchips if there is a confirmed order – as most of our products are customised.

The global microchip shortage will likely continue into 2022. Since FY2019, the Company has accepted orders from customers on a confirm basis but subject to microchips availability (confirmed shipping of microchips). The typical manufacturing turnaround time is between 4 weeks and 6 weeks, while microchip supply lead-times are now running at 100 weeks and beyond. To minimizing cancellations, we have got customers to place deposits with us. This allows us to plan our production schedules. In FY2020, deposits placed by customers with us was S\$3.3 million and FY2021 the amount was S\$2.4 million.

Questions relating to the use of Qualcomm chips in China and ADC

The Company value proposition to its customers is its proprietary customise products. Currently we understand that there are no restrictions on the use of Qualcomm chips in China.

The Company is unable to comment on Qualcomm's business strategy and accurately assess their market share in the smartphone chip in China.

The Board will continue to be sensitive towards the relationship between China and its trading partners.

Qualcomm's appointed of Compex as an Authorised Design Centre (ADC) in South East Asia is not exclusive. It is subjected to renewal. The Group relies substantially on its customised proprietary products to secure business relationship.

Questions relating to the Group's Suzhou and Kulai, Johore production facilities.

The Malaysian plant (located in Kulai – Johor) commenced operations in FY2020 to allow us to mitigate over reliance on the Suzhou plant and provide flexibility to customers who may wish to have components supplied from sources other than the PRC. The Suzhou and Kulai plants have approximately 3,700 square meters and 1,577 square meters respectively. Currently, the bulk of the finished products are produced from the Suzhou plant. Due to the movement control orders, imposed by the Malaysian government, our output from the Kulai plant is low.

Questions relating to the Group's competitors and market share

The Group's competitors are from China, Taiwan, North America and Europe. Besides competitive pricing, other critical factors such as features, reliability and performance are key retaining customers and securing orders.

Our products support our customers' end products. The life cycle of our products is a function of our customer's end products.

The Company has not conducted any market study to assess our market share.

Questions relating to human resource

The Group continues to build its human resource capital through training and providing exposures. As research and development and engineering are key to its success, it will not be in its commercial interest, to provide in-depth information.

Questions relating to products development, future growth directions and patents

The Company has not started working on WiFi 7 products.

Mobility and communications without being tethered to wires have been a major trend for perhaps the last century. So are higher speeds from kilo-bits to giga-bits and beyond. The growth is a certainty but the Company does not own the growth. Such developments present constant new challenges. Being able to stay on top of the challenges and contribute to the development allows the Company to share in the growth.

The Company does not target exponential growth and as such is always looking at strengthening its technological capabilities. In same way as semiconductor industries constantly move towards smaller geometries, the wireless industry moves towards higher frequencies. Each new generation of products requires new and much more expensive equipment for testing and manufacturing, and new skills to use them. The Company is looking at both upstream (component level) and downstream (application level) partnerships.

The Company does not limit itself to any particular application market, but part of the Company's successful marketing strategy is to identify the growth applications and approach leading companies in these markets to collaborate in developing products needed for their markets. As the company becomes better known in the industry, we have customers coming to us with the products they want to develop.

Not all of these are successes, but we invest our resources as long as we deem the risks acceptable.

Our comment on 2021 Annual Report page 3 Chairman's statement on new trends of technologies that have enabled the extension of corporate networks to homes was referring to a technology known generally as SDWAN (Software Defined Wide Area Network). It has many applications. In one of the applications, it allows the corporate network manager to extend the security and confidentiality requirements/setups for the corporate network to employees working from home. He does not need to setup separate Firewalls and Access Control Servers for each home. The same rules apply throughout the local and remote network. The employee brings one box home to replace the home router to work from home and he can still enjoy the Netflix and social media. Our contribution is merely to help WiFi it.

The Company owns several design patents primarily to protect its Intellectual Properties. The patterns do not generate revenue in terms of licensing costs.

Questions relating to negative comments on Compex's Facebook.

We are aware of this matter. As service is a large part of the Company activities, service quality is highly important to us. The allegation is related to Company not willing to supply SDK (Software Development Kit) to this particular customer. SDKs contain a lot of proprietary information and IP. As such we are selective in its dissemination. The Company has taken a view that it would not be in its commercial interest that SDK are made known in this instance. Shareholders or investors would agree that the Company's proprietary know how have to be closely guarded.

BY ORDER OF THE BOARD

Dr Chen Mun
Chairman/Chief Executive Officer

23 July 2021