

## **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 Thirty-Third Annual General Meeting to be held on 25 July 2022 (the “**AGM**”) by submitting their questions in advance.

Please refer to the questions received from the shareholders and the Company’s responses set out below:-

Question 1. With regards to the Covid situation in China, it is a highly fluid situation with lockdowns and testing implemented wherever cases flare up. Although Suzhou seems to be less affected, can you share what our company is doing to prepare ahead of any lockdowns or closure of factories and whether we have the flexibility to fulfil some orders from Malaysia in the event of contingency.

#### **Company’s Response:**

Despite the land and building being acquired in Q3FY2019, the movement control order, imposed by the Malaysian government, has significantly delayed the setting up of the plant. Lifting of the movement control order, including Covid restrictions such as safe distancing and group size, has allowed the stepping up on procurement of production and testing equipment and recruitment and training of the workforce. We expect the plant to be fully operational in mid-2023.

Currently, the Malaysian plant’s contributions to revenue are not meaningful and the Group continues to rely on its Suzhou plant.

Question 2. Regarding the significant decrease in USA and Asia revenue this year, Chairman has shared that the current chip shortage is one of the main factors. How does the company see the situation currently as it seems that the undersupply situation seems to be getting better?

#### **Company’s Response:**

The conversion of customers’ orders into revenue is highly dependent on the ability to secure the allocation of microchips from foundries/suppliers. In our view, the demand continues to exceed supplies especially so for older generations’ chips. Our efforts, working with customers’ design teams to utilise new generations of microchips has helped us to secure allocations. Despite this, we foresee the shortages to continue into FY2023.

Question 3. From page 60 of the annual report, we can see that a single customer accounted for 31% of FY2022 revenue. What sector of business is this customer from, what type of products and is this customer one of our top revenue contributor for FY2021 as well?

#### **Company’s Response:**

The customer is a European manufacturer of network infrastructure solutions. Its customers are across the spectrum of the private and public sectors, including small and medium-sized enterprises, large diverse corporations, and government agencies based in Germany, Europe, and increasingly worldwide.

The products we supply to this customer are customized enterprise access points. This particular customer has been a key contributor to revenue and profitability for both FY2021 and FY2022. We have orders from this customer to be fulfilled in the current and coming financial year.

Question 4. The company history in page 5 of the annual report shows WiFi 7 in FY2022. Can the company elaborate more on this area? Where we stand in terms of product solutions and industry adoption?

**Company's Response:**

WiFi 7 is the newest WiFi standard. The full standard is not expected to be completed until the end of 2024. It has many improvements over WiFi 6. Such is the speed of technological progress that WiFi 6 has barely established itself and already it will be superseded. Besides speed and latency advances, an important concept that has been introduced in WiFi 7 is multiple AP coordination. This will allow WiFi to cover high usage density over large areas. We have started work on our WiFi 7 router and radio. However, we don't expect immediate market adoption. Volume shipments may not happen until end 2023.

Question 5. Chairman's statement in page 3 of the annual report cited the growth of AI, IoT, AR, VR smart infrastructure is driving our business. Can the company provide some examples of our solutions in these areas?

**Company's Response:**

**Some of our products complement the IoT. Examples:**

**We supply WIFI modules to:**

- a) a renowned, fortune 500 corporation that integrates our products into their end products for smart home security systems; and
- b) a customer who uses our products for the electric car chargers.

Question 6. On pg 60, the AR stated that one customer accounted for 31% of the total revenue. Is this the same customer as one of the top 2 customers the year before? Which sector and region is this customer from?

**Company's Response:**

**Please refer to Company's response to Question 3.**

Question 7. Can the management update shareholders on the operation of the plant at Malaysia? Is its utilization comparable to the plant in China?

**Company's Response:**

**Please refer to Company's response to Question 1.**

Question 8. Did the recent Covid restriction measures in China significantly affect the operation and financial performance of the company?

**Company's Response:**

**To date, the disruptions caused include mandatory swab tests before reporting to work for staff who reside within the vicinity of Covid-19 infected areas, the requirement to dis-infect / quarantine the imported components, and disruption/ delay in shipment logistics.**

**The Suzhou plant is located in an industrial zone. Lockdown to contain the spread of Covid is low.**

Question 9. Has the company made good progress in the development of the WiFi 7 modules and embedded boards?

**Company's Response:**

**Please refer to Company's response to Question 4.**

Question 10. Europe was a major revenue contributor in FY22. However, with the ongoing Ukraine war, what is the level of interests in implementing WIFI solutions in that region so far in FY23 compared to FY22? Does the Group see increasing risks of order cancellation or orders being rescheduled to later date in Europe?

**Company's Response:**

**Most orders received are between 6 months and 12 months ahead, to date, the Company has not experienced material cancellation of orders. However, there are instances when orders are "pushed back" (deferred) for various reasons, due to customers' delays/deferring launching of their products, technical/engineering hitches, and delays in production due to component shortages.**

**The Company, in many instances, has asked customers to make payments for major components with a long lead time, which are usually procured when their orders are confirmed.**

Question 11. The Group's revenue declined about 29% in Asia in FY22. Which affected sales more – less in-person interactions coming from tighter Covid-19 restrictions in China or the shortage in microchips and essential components?

**Company's Response:**

**Asia has never been a key revenue contributor. Shipments to Asia are mainly to contract manufacturers, for ease of logistics, who manufacture products for our customers. Such customers are domiciled in the United States of America or Europe.**

**The Company has been engaging customers continuously, especially so during the period where there were travelling restrictions, via digital performs. As our products are customised, engaging customers is a continuous norm.**

Question 12. For production in China, what kind business continuity plans are in place in the event of lockdowns imposed by the local government? Is closed-loop arrangement feasible for the production site and already planned for?

**Company's Response:**

**In the event of a lockdown, it is unlikely that any enterprise would be permitted to operate. It is also not feasible to house our workforce on our premises. To mitigate concentration risk (production), the Group has in Q3FY2019 embarked on acquiring land and building, and on establishing an alternative production site in Johor, Malaysia. However, this plan has been delayed by movement control orders imposed by the government.**

**The Suzhou plant is located in an industrial zone. Lockdown to contain the spread of Covid is low.**

Question 13. With clearer plans emerging for the redevelopment of Paya Lebar Air Base (PLAB) and its surrounding areas, including the potential lifting of height restrictions for buildings, the potential value of the Group's investment property (including self-occupied unit) may well be more than the fair value of S\$42 million, which is arrived at based on the highest and best use method. Does the Board see likely that the Group will have to hold the investment property until such redevelopment plans for PLAB are finalised for its value to be realised?

**Company's Response:**

**The Board will continue to appraise the market conditions and any decisions taken will always be in the interest of shareholders.**

Question 14. What are the barriers of entry for new competitors trying to enter the customized wireless connectivity products market? Is the market of customized wireless connectivity products increasingly concentrated in the hands of a few market leaders due to more stringent performance standards required by customers and the technical difficulties of finding the optimal wireless connectivity solutions as more devices are inter-connected (latency issue) and cybersecurity concerns?

**Company's Response:**

**The Group views its relationship with customers as a partnership. Its value proposition centres on its engineering design and research and development capabilities. In recent years, its ability to overcome some of the challenges of the global microchips shortages was to work with customers' design teams to utilise the new generation of microchips. This improves their finished product performance and better access to supplies. The working bond between us and our customers serves as a continuous barrier to entry.**

**During the past 3 financial years, the profile of our largest customer has changed as our products continue to gain recognition (due to performance and quality) and versatility in applications. In FY2021, the largest customer was from the United States of America (security applications) and in FY2022 the largest customer was from Europe (network infrastructure applications).**

Question 15. What is the direction that the company will take moving forward with regards to the freehold property at 7 and 9 Harrison Road in view that the route of setting up a New Co shareholding structure has failed? Will it not be much easier to just do a sale and leaseback on the open market?

**Company's Response:**

**Please refer to Company's response to Question 13.**

Question 16. I notice that the revenue of the company is quite consistent across the past few years. Is the company limited by its manufacturing capacity? Will the Malaysia plant coming online lead to a greater increase in the revenue in the years to come?

**Company's Response:**

**The global microchips shortages have been ongoing for the past 3 years and disruptions (to logistic supply chains) caused by Covid have hampered our ability to increase revenue. Further, the Group has been focusing on maintaining profit margins. Despite these challenges, the Group has achieved a compound annual growth rate of 11.62% over the past 5 years and maintained profit margins within a tight range.**

**The Group is not constrained by production capacity to scale up its revenue. In fact, the Suzhou plant is currently operating on a single shift. The establishment of the Malaysian plant is to mitigate concentration risk.**

Question 17. Has the supply chain constraint been lifted? If not, what are the steps that have been taken to secure supplies?

**Company's Response:**

**The major challenge that the Group faces is the global shortage of microchips. Please refer to Company's response to Question 2.**

**BY ORDER OF THE BOARD**

Dr Chen Mun  
Chairman/Chief Executive Officer

19 July 2022