



9/15/2020

Replies to Minority Shareholders Watch Group



AT Systematization Berhad
EXTRAORDINARY GENERAL MEETING

Q1. The Group intends to obtain the approvals from the various authorities/regulatory bodies by November 2020 and the production of the rubber gloves is expected to commence by the end of November 2020. (pages 5 and 6 of the Circular).

(a) Why does the Group need to obtain the approvals from the various authorities/ regulatory bodies as PGSB is on existing glove manufacturing plant? The Company would have obtained the approvals from the various authorities/regulatory bodies prior to production of gloves

Pearl Glove Sdn Bhd (PGSB) is principally involved in the research and development, manufacturing, export and sale of work gloves (industrial gloves).

As part of the Group's Proposed Diversification into the Gloves Business, the Group intends to install and commission up to 20 glove-dipping lines within 36 months to manufacture medical grade nitrile rubber gloves.

The license requirements by various authorities for work gloves as compared to medical gloves are different. For information, medical grade nitrile rubber gloves are subject to more stringent requirements and regulations and will require certifications / licenses such as FDA Certifications and CE Marking Certifications.

Since the outbreak of the COVID-19 pandemic, the demand for personal protective equipment to curb the pandemic has boosted the demand for medical gloves. The Group realised that it is important to expedite the process to penetrate the glove industry to capture the market share.

(a) Why does the Group need to obtain the approvals from the various authorities/ regulatory bodies as PGSB is on existing glove manufacturing plant? The Company would have obtained the approvals from the various authorities/regulatory bodies prior to production of gloves (cont'd)

The process of acquiring PGSB requires a detailed due diligence review and it generally will take up few months to complete because the progress will depend on information gathering and findings on due diligence review.

PGSB Facility can only house up to 6 glove-dipping lines in addition to its existing 3 glove-dipping lines. In view of this, the Group has on 27 August 2020 announced to acquire two (2) adjoining parcels of leasehold industrial lands, together with industrial premises located at Chemor, Ipoh (“Chemor Property”) to build the medical glove-dipping line and facility. At the same time, the Group is applying the licenses required for the medical gloves pending completion of due diligence exercise to avoid missed opportunities.

- (a) *Why does the Group need to obtain the approvals from the various authorities/ regulatory bodies as PGSB is on existing glove manufacturing plant? The Company would have obtained the approvals from the various authorities/regulatory bodies prior to production of gloves (cont'd)*

The Group expects to be able to house a total of 18 new glove-dipping lines at the PGSB Facility and Chemor Property as follows:-

| | Existing number of glove-dipping lines | Additional new glove-dipping lines⁽¹⁾ for the proposed Gloves Business | Total glove-dipping lines that the premise is able to accommodate |
|-----------------|---|--|--|
| PGSB Facility | 3 | 6 | 9 |
| Chemor Property | - | 12 | 12 |
| Total | 3 | 18 | 21 |

Note:-

(1) *The exact breakdown for the number of single former/double former glove-dipping line to be housed in which premises cannot be ascertained by the Group at this juncture as the Acquisition of PGSB and Acquisition of Chemor Property are pending completion.*

Subject to the completion of the Acquisition of PGSB and Acquisition of Chemor Property, the Group may identify other suitable locations/premises for the installation of all 20 new glove-dipping lines.

(b) When is the due diligence exercise on PGSB expected to be completed?

The Group and the vendors of PGSB mutually agreed to extend the period to fulfil the conditions precedent as stated in the share sale agreement for a period of 2 months from 27 July 2020 (i.e. by 27 September 2020) as the parties have yet to obtain/fulfil the said conditions precedent. The Group is in the midst of performing the necessary due diligence exercises on PGSB.

The Company will make the necessary announcements on further updates on the Acquisition of PGSB.

(c) What is the Group's contingency plan if the due diligence report on PGSB is unsatisfactory?

As mentioned in Part 1(a), the Group has acquired the Chemor Property in August 2020, for a total cash consideration of RM10.3 million, upon the terms and conditions as stipulated in the SPA.

The Chemor Property is capable of housing up to 12 single or double former glove-dipping lines. If the acquisition of PGSB did not materialise, the Group still can install and commission the glove-dipping lines at the Chemor Property. Based on the agreed delivery schedule, the first single former glove-dipping line is expected to be delivered, installed and commissioned in November 2020. The production is expected to commence by end of Nov / early Dec 2020.

(c) What is the Group's contingency plan if the due diligence report on PGSB is unsatisfactory? (cont'd)

The Group has also identified Dr Tuan Noraihan Azila binti Tuan Rahim as one of the key personnel to lead the venture into the Gloves Business. Her profile is set out in Section 2.2 of the Circular. The Board is of the view that her job experience, academic background and technical knowledge in polymer composites and polymer engineering is expected to contribute greatly to the Group's venture into the Gloves Business, specifically in new product development, research and development and commercialisation.

Further, the board is of the view that there is sufficient pool of talent for the gloves manufacturing industry to carry out the proposed Gloves Business.

Q2. On the acquisition of PGSB:

(a) Why has the Group decided to acquire PGSB?

- Business location
PGSB is located at Sungai Petani, Kedah. Kedah is a Rubber City where we can tap into the abundant fresh quality natural rubber latex to produce rubber gloves.
- Experience and knowledge
PGSB has more than 10 years of experience and technical know-how in the gloves industry. The Group expects that the skills, expertise and experience of PGSB in the glove industry, its manufacturing facilities and existing operations will ease the Group's segue into the gloves industry.
- Manufacturing facilities
PGSB has gloves manufacturing facilities of approximately 79,000 square feet with 3 installed production lines capable of manufacturing work gloves. The manufacturing facilities is capable of housing another 6 glove-dipping lines which suits the Group's proposed venture into the gloves business.

(b) Is PGSB currently profitable or loss-making?

Based on the audited financial statement as at 31 December 2019, PGSB is having net loss of RM1.18 million.

(c) What is the valuation method used in the acquisition of PGSB's glove business?

The Purchase Consideration was arrived at on a willing-buyer willing-seller basis, after taking into consideration the following:-

- (i) the audited net assets of PGSB as at 31 December 2018 of approximately RM1.22 million;
- (ii) the outlook and prospects of the glove industry. Demand for medical gloves has reached unprecedented levels as the pandemic has spread globally. The use of gloves has also expanded beyond healthcare and frontline workers to also include the general public especially those who are required to wear gloves at work.

In view of the acute surge in demand, the gloves market has turned into a seller's market where sellers of gloves have relatively higher negotiation power in determining pricing as well as allocating capacities; and

(c) What is the valuation method used in the acquisition of PGSB's glove business? (cont'd)

(iii) the synergistic benefits to be derived from the acquisition of PGSB and the future plans of the Group to manufacture medical grade nitrile examination gloves. The Group expects that PGSB's technical know-how and its manufacturing facilities to ease the Group's segue into the gloves industry. As the demand for personal protection equipment surges during the pandemic, the acquisition of PGSB is expected to ease the Group's venture into the gloves industry and expedite the process to put on-stream the manufacturing facilities for medical gloves to capitalise and meet such demand.

(d) Do the vendors of PGSB provide a profit guarantee to the Company? If yes, what is the amount and for what period?

There is no profit guarantee provided by the vendors of PGSB.

Q3. PGSB has 9 glove-dipping lines with 3 single former glove-dipping lines used for the manufacturing of work gloves. (page 11 of Circular)

(a) What is PGSB's current glove production from the 6 glove-dipping lines? Please provide the breakdown by rubber and nitrile gloves by percentages?

For clarification, PGSB's existing manufacturing facilities have a gross build-up area of approximately 79,000 square feet which is capable of housing up to 9 glove-dipping lines. Currently, PGSB's existing manufacturing facilities house 3 single former glove dipping lines which are used for the manufacture of work gloves.

Going forward, the Group intends to install and commission up to 6 glove-dipping lines which are capable to produce natural rubber (NR) and Nitrile rubber (NBR) at PGSB's existing manufacturing facilities.

Depending on the demand of NR and/or NBR, the Group will be able to switch its production schedule and product mix (NR and NBR), in which the exact mix could not be determined at this juncture.

(b) What is the maximum glove production from the 9 glove-dipping lines?

If the Group successful acquired PGSB, and upon completion of the installation and commission of the additional 6 glove-dipping lines, the production capacity per annum is as follows:-

| Type of dipping line | Number of lines | Total pieces per annum ('000) |
|---|-----------------|-------------------------------|
| <u>Existing</u> Single former work gloves dipping line | 3 | 10,000 |
| <u>To be installed and commissioned</u> Single former medical gloves dipping line | 6 | 618,000 |
| Total | | 628,000 |

(c) What is the Group's future plan for the 3 glove-dipping lines that are used for the manufacturing of work gloves?

Subject to the completion of the acquisition of PGSB, the Group intends to continue on PGSB's existing business in the manufacture and sale of work gloves.