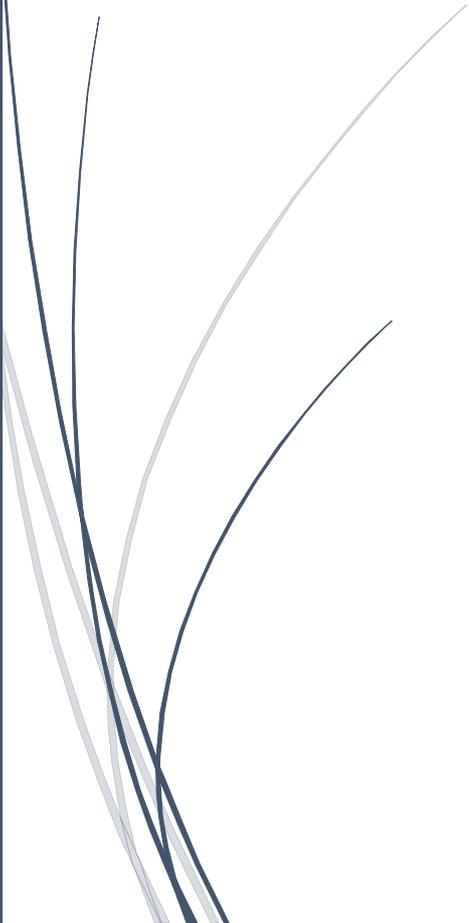




9/28/2020

# Replies to Minority Shareholders Watch Group



AT Systematization Berhad  
16TH ANNUAL GENERAL MEETING

**Q1. The Group has been recording net losses for the last 5 financial years, with the highest loss of RM15.3 million in FY2020. (Page 4 of Annual Report – AR).**

**When is the Group expected to be profitable?**

*The Group expects the coming financial year (FY2021) continue to be challenging because sentiments remain weak due to COVID-19 pandemic.*

*Nevertheless, we never stop and continue to explore new sources of revenue and opportunities. We strive to achieve better performance and sustainable business growth.*

*Barring any unforeseen situation, the Group hopes to be profitable in FY2022 banking on the newly ventured Glove Business.*

**Q2. The Company completed its maiden Solar PV Plant with capacity of 425kW in December 2015 and another Solar PV Plant with capacity of 300kW in December 2016. The Group has also optimised the production facility layout for better production process and let out the excess area to earn recurring rental income. (Page 8 of AR).**

**(a) What are the Group's plans in respect of the Renewable Energy and Property segment?**

*The Group's plan remains at earn recurring income passively from solar and rental.*

**(b) Why was there a drop in the rental income (from RM1.75 million in FY2019 to RM1.20 million in FY2020) from property letting? (Page 10 of the AR)? What is the outlook for FY2021?**

*One of the Group's tenants (Ceedtec, contributed monthly rental income of RM94K) has moved out from the property following their business merger and acquisition, therefore lower rental income in FY2020.*

*The Group is currently using the areas to build and assemble the Company's products, which include vending machines and electronic beer pong tables.*

**Q3. Revenue from medical industry accounted for 9.5% of the Group's FY2020 revenue (FY2019: 13.9%). Revenue has decreased from RM2.86 million in FY2019 to RM1.88 million in FY2020 mainly due to softer demand. (Page 9 of AR).**

**(a) *In view of the COVID-19 pandemic, and increasing awareness of health and sanitation, why did the revenue from medical industry decline? Is the Company able to secure more new prospects?***

*For current product segment that the Group is supplying to the customer, their demand has drop. Demand and supply might be different from segment to segment.*

*The Group have received 25 FA from new customer in August 2020 with expected sales value of RM 162K. At the same time, we are working on 14 RFQ with the other new customer as well.*

**(b) *Moving forward, is the Company planning to grow this segment rapidly?***

*Yes, the Group regard this segment to be very potential and will grow this segment by capitalising the advantage we have on ISO 13485:2016 certification.*

**Q4. Since the commencement of the New BPA with Rieter Group, revenue from the textile parts has increased tremendously. 37 profiles were approved by Rieter. Another 12 profiles are expected to be submitted and approved by Rieter in FY2021. The Group is also negotiating 39 new profiles for new model from Rieter. (Page 12 of AR).**

**Apart from textile parts, to which other business segments does Reiter contribute? Will the outlook for FY2021 be better than FY2020?**

*Apart from textile parts, the Group also supply sheet metal and machining parts to Rieter. We have just received new RFQ for 238 parts from Rieter on 24 September 2020.*

*Based on the current forecast, FY2021 will be better than FY2020, sale is expected to increase by 30%.*

**Q5. The Group expects continuous orders from medical customers following the Group's accreditation with ISO 13485:2016 certification. Besides, the Group is constantly exploring new sources of revenue and opportunities due to COVID-19 pandemic. (Page 12 of AR)**

**(a) Is the current customer inventory level sufficient to meet demand? Is industry demand expected to exceed supply in FY2021?**

*Yes, current inventory level is sufficient to meet demand.*

**(b) Has the Company managed to secure new customers?**

*Yes, we received 25 FA from new customer in August 2020 with the sales value expected to be RM 162K; The Group will be submitting all the FA in September 2020.*

*At the same time, we are working with the other new customer on 14 parts' RFQ with the estimated annual sales of RM 2.7M.*

**Q6. Recently, the Group has announced its plans to venture into the glove industry. The Group's view is that the current market conditions favour glove manufacturers and the gloves market outlook is expected to remain positive for the next few years. (Page 13 of AR)**

**When does the Board expect the rubber glove segment to generate significant contribution?**

*Based on the current projection, the Group will commence its maiden glove dipping line by November / December 2020. Contribution to sales shall increase progressively in line with the completion of more glove dipping lines. The Group expect the Glove Business to start contributing profit in Oct 2021 (FY2022).*

**Q7. Total costs incurred for the outsourced internal audit function of the Group for FY2020 is RM16,000 (FY2019: RM16,000). (Page 35 of AR)**

**Given that the fee is rather small (approximately RM1,300 per month), how does the Audit Committee assure itself that there would be adequate coverage and an effective audit function? What are the areas covered by internal audit during the year? How many internal audit reports were issued during the year?**

*The Audit and Risk Management Committee ensures that internal audit plan has been developed based on the risk profile of the Group. The Internal Audit will focus its resources on areas of high risks which will be audited more frequently than low risk areas.*

*For purpose of identifying and prioritising risks, the Internal Audit will refer to the Risk Management Reports, discussion with the Management, and reference to the financial statements as well as learning from previous audit experience.*

*The Audit and Risk Management Committee also ensures that the Internal Auditors are duly qualified.*

*In FY2020, areas covered by internal audit are: (i) budgetary control; (ii) sales and collections. Hence, 2 reports issued during FY2020 as follows:*

- Budgetary Control – August 2019*
- Sales and Collections – February 2020*

**Q8. Administrative and general expenses rose significantly from RM12.4 million in FY2019 to RM17.0 million in FY2020. (Page 51 of AR). Impairment loss on property, plant and equipment also increased sharply from RM345,722 to RM1.3 million. (Page 86 of AR)**

**What were the reasons for the increase? Are these expenses expected to increase in FY2021?**

*Main reasons for the increase are:*

- (i) Higher depreciation charge for property, plant & equipment and right-of-use assets.*
- (ii) RM1.07 million mark-to-market loss on quoted investment in Trive Property Group Berhad.*
- (iii) RM1.64 million impairment loss on buildings and solar plants.*
- (iv) Impairment loss on other receivables as mentioned in Question 9.*

*Depreciation charge is expected to increase in FY2021 in view of the commencement of glove manufacturing facilities and commissioning of new machineries invested mainly for Rieter.*

*Mark-to-market loss and impairment loss are items that cannot be estimated because it depends on:*

- movement in the market price of quoted shares (Trive Property Group Berhad)*
- indication for impairment such as financial performance of the business segments, significant decline in market value and adverse effect due to market environment.*

**Q9. There was a sharp rise in impairment loss on receivables from RM1.6 million in FY2019 to RM5.9 million in FY2020. (Page 86 of AR)**

**(a) What accounted for the sharp increase? What is the probability of recovery? How much of the impairment loss has been recovered to-date?**

*The increase was due to impairment loss provided on projects temporarily suspended pending completion because of COVID-19 impact. As the COVID-19 pandemic situation continues to evolve, no impairment loss has been recovered to-date and the Group is still assessing the options moving forwards.*

**(b) The Board should review and enhance the credit risk management policies and procedures to mitigate such credit risks.**

*Noted.*