MANAGEMENT DISCUSSION AND ANALYSIS FOR FY2022

1. Business and Operations

AT Systematization Berhad ("ATS" or the "Group") is an investment holding company mainly engaged in the provision of management services to its subsidiary companies.

The Group's subsidiary companies are principally involved in the fabrication of industrial and engineering parts and sheet metal, as well as the design and manufacturing of industrial automation systems and machinery, collectively reported under the Fabrication and Automation segment. The Group owns and operates three (3) manufacturing plants which are strategically located within the area of Bayan Lepas Industrial Park, Penang, serving customers from various sub-sectors including hard disk drive manufacturing, contract manufacturers, textile, medical and other manufacturing industries.

The Group also has a footprint in the renewable energy sector, following the successful bid for renewable energy quota allocations from the Sustainable Energy Development Authority ("SEDA") Malaysia and award of licenses to construct a solar photovoltaic ("PV") plant under the Feed-in-Tariff ("FiT") system, at the Group's manufacturing plants in Penang. We established our maiden solar PV plant with capacity of 425kW in December 2015 and our second solar PV plant with capacity of 300kW in December 2016. We have also optimised our production facility layout for a more efficient production process and let out the excess area to earn recurring rental income. Both the solar renewable energy and property letting businesses are reported under the Renewable Energy and Property segment.

The Group ventured into the glove business in 2020, focusing on the manufacture and sale of medical gloves as reported under the Gloves segment. Our maiden glove manufacturing facility in Chemor, Perak commenced operations in January 2021. Phase 1 comprising six (6) glove dipping production lines and Phase 2 comprising four (4) glove dipping lines have all been completed as of end-March 2022. The Group also completed the acquisition of a few pieces of industrial land in Kamunting, Perak for future expansion of the Group business.

1. Review of Financial Results and Positions

I. Our Financial Performance for FY2022 ended 31 March 2022

Highest-ever Revenue Achieved on the Back of Strong Glove Sales

The Group achieved its highest-ever annual revenue for the financial year ended 31 March 2022 ("FY2022"), with revenue surging more than double year-on-year to RM78.13 million from RM30.93 million recorded in the corresponding year prior. The improved performance was mainly due to higher sales of medical gloves by RM33.8 million during the period. The Group's glove operations at our factory commenced towards the end of 2020 and began contributing to Group earnings in the fourth-quarter of FY2021 ("4QFY2021").

The Group's loss before tax came in at RM128.18 million during the year in focus compared to loss before tax of RM20.61 million a year earlier. Meanwhile, loss after tax stood at RM127.93 million in FY2022 against loss after tax of RM20.53 million reported the year prior. This was largely attributed to reduction of inventories to net realisable value, impairment loss on property, plant and equipment, impairment loss on right-of-use assets, share of losses in associates, net impairment loss on investment in associates and loss on dilution of interest in associates.

MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

II. Performance by Segment

The segmental information of the Group is presented by our main operating segments, namely:

a) Fabrication and automation – Fabrication of industrial and engineering parts and sheet metal; design and manufacturing of industrial automation systems and machinery

b) Renewable energy and property – Renewable energy operator; property letting

c) Gloves – Manufacturing and sale of medical grade nitrile gloves

d) Others – Investment holding and provision of management services to subsidiaries, neither which are of a sufficient size to be reported separately.

	12 Months Ended 31 March 2022 (RM '000)	12 Months Ended 31 March 2021 (RM '000)	Changes (RM '000)	Variance (%)
Segment Revenue				
Fabrication and Automation	35,529	22,077	13,452	61
Renewable Energy and Property	732	759	(27)	(4)
Gloves	41,872	8,092	33,780	417
Others	-	-	-	-
Total	78,133	30,927	47,206	153

Profit/(Loss) before tax				
Fabrication and Automation	(22,225)	(28,916)	6,691	(23)
Renewable Energy and Property	317	1,073	(756)	(70)
Gloves	(47,149)	600	(47,749)	(7,954)
Others	(59,127)	6,637	(65,764)	(991)
Total	(128,184)	(20,606)	(107,578)	522

Fabrication and Automation

The fabrication and automation segment recorded an increase in revenue of RM13.45 million for the year under review, supported by the following:

(i) Fabrication business: higher number of orders from textile machines makers and customers who are contract manufacturers and disk drive manufacturers

(ii) Sheet metal and automation business: higher number of orders in the sheet metal business and for vending machines

Owing to the number of sub-segments within the fabrication and automation segment, we have provided a breakdown of segmental revenue as follows:

Segmental Revenue Breakdown	12 Months Ended 31 March 2022 (RM '000)	12 Months Ended 31 March 2021 (RM '000)
Fabrication:		
(i) Fabrication of customised parts	31,190	19,666
(ii) Servicing charges	127	157
Sheet metal and automation:		
(i) Sheet metal fabrication	1,309	516
(ii) Design and assembly	2,903	1,738

Loss before tax for the fabrication and automation segment decreased by RM6.69 million largely due to lower mark-to-market loss on investment in quoted shares of RM3.78 million (Q4 FY2021: RM10.01 million) and lower fair value adjustment on share options of RM5.80 million (Q4 FY2021: RM13.29 million), coupled with higher reversal of impairment loss on receivables of RM2.60 million (Q4 FY2021: RM1.93 million). However, this was offset by higher impairment loss on property, plant and equipment of RM4.66 million (Q4 FY2021: RM1.09 million) and higher impairment loss on right-of-use-assets of RM3.50 million (Q4 FY2021: RM0.84 million) for the year in focus.

Meanwhile, the segment saw an improvement in loss after tax which came in at RM22.25 million for the year in review, versus loss after tax of RM28.57 million reported in the corresponding period. This was mainly attributed to similar factors as above.

MANAGEMENT DISCUSSION AND ANALYSIS
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Renewable Energy and Property

In the renewable energy segment, sales of solar energy to Tenaga Nasional Berhad were consistent at RM0.73 million in FY2022 compared to RM0.76 million in FY2021. Profit before tax stood at RM0.3 million during the year, supported by additional rental from a new tenant and lower depreciation. A year earlier, the segment's profit before tax of RM1.07 million inclusive of RM0.94 million reversal of impairment loss in respect of the Group's solar PV plants. There was no change in profit before and after tax as reported by the segment.

Gloves

Revenue from the Group's glove segment jumped more than four times to RM41.87 million in FY2022 from RM8.09 million the year prior, driven by higher sales of medical gloves.

Loss before tax for the segment stood at RM47.15 million during FY2022 compared to profit before tax of RM0.6 million recorded in FY2021, mainly attributable to impairment loss on property, plant and equipment of RM19.84 million, impairment loss on right-of-use-assets of RM2.17 million and reduction of inventories to net realisable value by RM20.38 million. There was no change in loss before and after tax recorded by the segment.

Others

The Group's other segment recorded loss before tax of RM59.13 million compared to profit before tax of RM6.64 million the year prior, largely due to higher share of losses in associates of RM33.85 million (FY2021: RM0.41 million), higher net impairment loss on investment in associates of RM33.85 million (Q4 FY2021: RM6.72 million) and loss on dilution of interest in associates of RM4.59 million (FY2021: RM nil). This was offset by a gain on bargain purchase from investment in associates of RM16.25 million (FY2021: RM15 million). There was no change in loss before and after tax as reported by the segment.

III. Liquidity and Capital Resources

As at 31 March 2022, the Group's cash and cash equivalents stood at RM39.55 million compared to RM150.68 million in the past corresponding year. This was due to the net effects of the following:

a) Net cash used of RM24.99 million from operating activities;

b) Net cash used in investing activities of RM166.97 million mainly for:

- RM48.23 million investment in the expansion of the Group's glove manufacturing facility. The Group also made a net investment in associates of RM106.39 million and net investment in marketable securities of RM5.34 million;

- For efficient handling of the Group's cash management, the Group has made placement with money market funds to yield better returns. The Group's distribution income from money market funds stood at RM0.33 million in FY2022;

c) Net cash of RM80.80 million generated from financing activities, mainly arising from proceeds raised from exercise of share options (RM79.44 million), drawdown of term loans and revolving credit (RM75.09 million). This was offset by net placement of deposits with banks (RM68.51 million), net repayment of the Group's term loans of RM1.49 million and hire purchase financing of RM1.68 million.

IV. Financial Position and Gearing

The Group's total assets stood at RM465.74 million on 31 March 2022, up 18.5% from RM393.0 million recorded on 31 March 2021. This was largely spurred by the additional investment in associates, namely AE Multi Holdings Berhad and D'nonce Technology Berhad. The Group has also been actively expanding the glove manufacturing business, as a result of which the Group's inventories, property, plant and equipment as well as right-of-use assets have increased.

Total liabilities of the Group rose to RM132.40 million in FY2022 from RM23.23 million a year ago. The increase was largely due to higher borrowings as a result of drawdown of revolving credit to finance the initial investment in one of the associated companies and drawn down of term loans to finance the Group working capital.

The Group's gearing position as measured by the debt-to-equity ratio came in at 24.0% as at 31 March 2022, compared to 1.7% as at 31 March 2021. This was mostly the result of an increase in term loans and revolving credit which totalled RM74.8 million in FY2022 compared to RM1.21 million the year before.

V. Anticipated and Known Risks

1. Business risks

The Group may be subject to risks inherent in the industries in which the Group operates. These include shortages of raw materials, constraints in labour supply, increase in labour costs, changes in law and tax legislation affecting the industry, increase in costs of new machinery, changes in business and credit conditions, equipment failure and factory accidents.

The Group seeks to mitigate these risks through prudent management policies, maintaining good business relationships with customers and suppliers, diligent cost controls, expansion of customer base and business by increasing the range of products and services offered as well as the range of markets or industries served, stringent quality controls, close production and capacity supervision as well as careful planning, effective human resources management and regular equipment maintenance and renewal.

2. Dependency on selected industries

The Group designs and manufactures precision components and fabricates precision tools, moulds, dies, jigs and fixtures for use in precision engineering applications primarily for the hard-disk drive, medical industry and contract manufacturers. During FY2022, revenue from the Group's fabrication and automation segment contributed RM35.53 million or 45.5% to group revenue. Revenue from the segment comprised RM31.19 million from the fabrication of customised parts and RM0.13 million from servicing charges.

MANAGEMENT DISCUSSION AND ANALYSIS
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To avoid concentration risk arising from dependency on particular key industries, the Group continues to strive towards increasing our customer base by expanding the scope of solutions and range of products we can offer. One of the Group's efforts towards achieving this has been to enter into a strategic partnership with Rieter Group, the world's leading supplier of systems for short-staple fibre spinning. This partnership has enabled the Group to secure more fabrication job orders from the textile industry. For the FY2022, 16.5% (FY2021:10.9%) of the Group's revenue was contributed by the textile industry.

The Group has also successfully diversified its business by venturing into the glove manufacturing business. The Group's glove manufacturing operations commenced towards the end of 2020 and accounted for over half of group revenue in FY2022. Strong sales of medical gloves were the key driver behind the Group's achievement of its highest-ever total revenue for the cumulative 12 months ended 31 March 2022.

3. **Dependency on experienced management and key personnel**

The Group's continued success depends, to a significant extent, on the abilities and continuing efforts of the key management and key technical personnel. The loss of any key management and/or key technical personnel could adversely affect the Group's continued ability to manage operations effectively and competitively. The Group's future success will also depend upon the ability to attract and retain skilled personnel.

As such, the Group has made continuous efforts to develop a dynamic management team and groom younger management personnel to ensure continuity of the quality and dynamism in the management team. Efforts have been made by the Group to promote opportunities and develop programmes in all key functions of the Group's operations. The Group also continuously reviews the remuneration packages to ensure competitiveness and takes appropriate measures and implement programmes for talent acquisition as well as to retain existing staff. Such programmes implemented are incentives-based with the aim of rewarding staff for their ability to improve efficiency and effectiveness. However, there is no assurance that the above measures will be successful in attracting and retaining key management personnel or ensuring a smooth transition should changes occur.

4. **Inconsistent production of solar energy**

The amount of solar energy that can be produced by the group's solar PV plants is dependent on the availability of sunlight, which in turn is dependent on various factors such as weather conditions that can be unpredictable throughout the year. Prolonged cloudy or rainy days may lead to fewer hours of sunlight being received. There is no assurance that the changes in the amount of sunlight received due to erratic weather conditions will not materially affect the production of electricity by the Group's solar PV plants, or that the solar PV plants will be able to generate a consistent amount of electricity all year round.

VI. Share Price Performance

The share price of ATS closed at RM0.02 on 31 March 2022, giving the Group a total market capitalisation of RM118 million. Over the course of the cumulative 12 months, the share price of ATS reached a high of RM0.13 on 12 March 2021 and fell to a low of RM0.02 on 24 February 2022.

VII. Dividend Policy

The present focus of the Group is to create and enhance shareholders' value in the long run. We aim to re-invest our earnings to fund the Group's business growth. As such, the Group does not adopt any dividend policy for the short term but will consider distributing excess profits once we have stable earnings, after taking into consideration working capital requirements and planned capital expenditure in the future.

VIII. Prospects

The Group expects the coming financial year to remain challenging amid the ongoing impact of the COVID-19 pandemic. The number of COVID-19 cases in Malaysia has been rising of late, likely due to the emergence of new virus variants and the gradual reopening of the economy as well as lifting of border restrictions globally.

The Malaysian Rubber Glove Manufacturers Association ("MARGMA") is projecting a 5% to 10% shortfall in the global supply of gloves in 2022 as manufacturing operations in China, the second-largest glove manufacturer worldwide, continue to be affected by the pandemic and labour supply. This bodes well for Malaysia and subsequently, for the Group. According to MARGMA, global glove volumes are set to expand by between 12% to 15% in 2022, with total rubber glove demand reaching 452 billion pieces – of which the association sees Malaysia manufacturing the majority at 65%, China producing 20%, Thailand providing 10% and Indonesia supplying 3%. Moving forward, demand is likely to slowly stabilize post pandemic.

The Group has completed the commissioning of 3 production lines in Chemor Plant in the previous FY2021. During the current FY2022, the Group has further completed additional 7 production lines, bringing the Group's total production to 10 glove dipping lines, which are capable of producing annual capacity of 2 billion pieces of gloves. The Group has also acquired few pieces of industrial lands located in Kamunting, Perak for long term growth planning.

Thus far, the Group has obtained relevant certifications, licenses and qualifications, including CE marking certification, EN374 test standard, Medical Device Authority license and ISO9001 & ISO13485 certifications. The Group has further received green light from the Food and Drug Administration of the United States ("US") in December 2021 for its 510(k) market clearance, representing a significant milestone to market the Group's medical gloves in the US market.

With the required qualifications in place, the Group intends to focus more on targeted and effective marketing strategies to expand its geographical market and increase the sales generation gradually. Looking forward, the Group is cautiously optimistic on the performance of our gloves segment in view of sustainable market demand.

MANAGEMENT DISCUSSION AND ANALYSIS
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The manufacturing sector is also projected to rebound by 61% in 2022 on the back of steady improvement in both the export and domestic-oriented industries as global economies are recovering from the COVID-19 pandemic. The Group continues to adopt a prudent approach towards our manufacturing operations, with a focus on operational efficiency to lower cost and sustain growth momentum. Boosted by the recent award of a USD10 million contract in February 2022 from Rieter Group, the Group's existing key customer, we are committed and confident in our ability to work towards becoming one of the world's key suppliers, supporting 17 manufacturing locations of Rieter Group across 10 countries. We expect the strategic business relationship with Rieter Group to continue contributing positively to the Group's earnings. To date, the Group has recorded RM24.13 million in backlog orders to be delivered. Coupled with the contract worth USD10 million awarded to the Group by Rieter Group, we anticipate FY2023 revenue from the fabrication and automation segment to be higher than that of the RM35.53 million in segmental revenue achieved in FY2022.

The Group remains focused on our core business of fabrication of industrial and engineering parts as well as sheet metal and automation, in addition to our venture into the glove business. Barring any unforeseen circumstances, the Group is cautiously optimistic of an improved financial performance in FY2023 and is committed to ensuring sustainable business growth in the coming years.

Yours sincerely,

Choong Lee Aun
Managing Director
27 July 2022