MANAGEMENT DISCUSSION AND ANALYSIS

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 several 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.

MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

Objectives and Strategies

Our Group strives to be a leading strategic partner for precision engineering solutions and integrated designer and manufacturer of industrial automation systems to customers worldwide. It is the Group's objective to build mutually beneficial business relationships with all its shareholders and stakeholders, with a strong focus on sustainability. In meeting the expectations of our shareholders and stakeholders, we are guided by the following principles:-

- To maintain sustainable growth in revenue and profits while minimizing environmental impact and maximizing value for shareholders;
- To adopt a continuous improvement approach towards quality and reliability of our products and services, ensuring that they meet and exceed our customer expectations while minimizing resource consumption and waste generation;
- To cultivate a highly skilled and committed workforce, fostering a culture of sustainability and manufacturing excellence. We trust, empower, and reward our employees, providing them with opportunities for growth and development while promoting responsible resource management and sustainable practices;
- To promote responsibility and respect when dealing with our business partners. We actively seek partnerships with suppliers and vendors who share our commitment to sustainability, ethical practices, and social responsibility.

The Group believes that sustainable growth is essential for business expansion and delivering sustainable returns to shareholders. To achieve this, the Group focuses on constant innovation and development of new revenue streams by expanding its product range and solutions for customers. In recent years, the Group has successfully entered the medical and healthcare industry, particularly in the field of medical gloves. This strategic penetration allows the Group to contribute to healthcare advancements while ensuring sustainable growth and maximizing shareholder value. The Group acknowledges the significance of delivering products and solutions that meet the evolving needs of the medical and healthcare sectors, and is dedicated to providing innovative and sustainable solutions to customers in these industries.

In addition to our focus on growth, we are dedicated to maintaining high standards of quality and customer satisfaction. ATS has obtained ISO 9001 and ISO 13485 certifications, which demonstrate our commitment to complying with industry standards for quality management systems and medical devices. We continuously strive to exceed customer expectations by providing faster responses, better support, and enhanced services to our valued customers.

Through these focus areas, we are confident in our capacity to build mutually beneficial business relationships with all our shareholders and stakeholders.

1. Review of Financial Results and Positions

I. Our Financial Performance for FY2023 ended 31 March 2023

The Group annual revenue for the financial year ended 31 March 2023 ("FY2023") reported at RM60.80 million which was 22% lower than RM78.13 million recorded in financial year ended 31 March 2022 ("FY2022"). The decrease in revenue was mainly due to lower orders from the sales of medical gloves, which were down by RM32.11 million during the period under review as a result of lower average selling price and lower demand from customers. However, the decrease in gloves revenue was offset with the increase in revenue from fabrication and automation segment which was up by RM14.80 million.

The Group's loss before tax came to RM82.70 million during the year compared to the loss before tax of RM124.31 million a year earlier. Meanwhile, loss after tax stood at RM82.75 million in FY2023 against loss after tax of RM124.06 million reported in FY2022. The losses were mainly attributed from glove inventories written-down to net realisable value, higher finance costs, impairment loss on assets in glove business, net impairment loss on investment in associates and loss on dilution of interest in associate.

II. Performance by Segment

The Group's segmental information is organised based on its main operating segments, which are as follows:

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 of which are of a sufficient size to be reported separately

	12 Months Ended 31 March 2023 (RM '000)	12 Months Ended 31 March 2022 (RM '000)	Changes (RM '000)	Variance (%)
Segment Revenue				
Fabrication and Automation	50,325	35,529	14,796	42
Renewable Energy and Property	712	732	(20)	(3)
Gloves	9,761	41,872	(32,111)	(77)
Others	-	-	-	-
Total	**60,798**	**78,133**	**(17,335)**	**(22)**

	12 Months Ended 31 March 2023 (RM '000)	12 Months Ended 31 March 2022 (RM '000)	Changes (RM '000)	Variance (%)
Profit/(Loss) before tax				
Fabrication and Automation	(8,445)	(22,225)	13,780	(62)
Renewable Energy and Property	689	317	372	117
Gloves	(56,305)	(47,150)	(9,155)	19
Others	(18,637)	(55,250)	36,613	(66)
Total	**(82,698)**	**(124,308)**	**41,610**	**(33)**

Fabrication and Automation

The fabrication and automation segment experienced a revenue growth of RM14.80 million, driven by the following factors:

(i) Fabrication business: higher revenue mainly due to higher number of orders received from textile machines maker. However, this was partially offset by a decrease in orders from the contract manufacturers and disk drive manufacturer.

(ii) Sheet metal and automation business: higher number of orders in relation to design and assembly jobs, in particular the delivery of snack and beverage vending machines as well as average 10% increase in selling price of 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 2023 (RM '000)	12 Months Ended 31 March 2022 (RM '000)
Fabrication:		
(i) Fabrication of customised parts	43,964	31,190
(ii) Servicing charges	120	127
Sheet metal and automation:		
(i) Sheet metal fabrication	880	1,309
(ii) Design and assembly	5,361	2,903

Expansion in the Textile Market and Challenges in Semiconductor Industry

The Group took proactive measures in recent years to expand its reach and penetrate the textile market. Further to the Value Contract signed with Rieter Group in February 2022, the Group is currently producing aluminum profiles for Rieter's Card and Ringspin sector amounting to RM27.4 million (FY2022: RM12.9 million), corresponding to a production quantity of approximately 882 sets (FY2022: 556 sets) Ringspin crates and 2,851 pcs (FY2022: 0) card C80 profiles. The Group is currently in talks with Rieter to finalise the details of additional 16 new card profiles and 3 new flat rod profiles for a new model.

On the other hand, the Group witnessed a decline in sales from both contract manufacturers and disk drive manufacturers, primarily driven by a decrease in demand within the semiconductor and electronics industry. This decrease in demand can be attributed to the ongoing global chip shortage, which has caused disruptions in the supply chain for various companies. Furthermore, the restrictions on exports to China have resulted in the cancellation of orders and an accumulation of excess inventory. As a result, both the contract manufacturers and disk drive manufacturers have experienced reduced orders.

Leveraging the Rising Demand for Vending Machines

Generally, there is an increasing demand for vending machines in Malaysia after the coronavirus lockdown and this can be attributed to their convenience, contactless transactions, hygiene and safety measures, variety of options, reduced staffing requirements, and alignment with the grab-and-go culture. The Group is leveraging the rising demand for vending machines, utilising their expertise in automation and sheet metal fabrication facilities to design and manufacture snack and beverage vending machines specifically catered to corporate customers. During FY2023, 220 units (FY2022: 120 units) of vending machines have been successfully delivered.

MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

Loss before tax in the fabrication and automation segment decreased by RM13.78 million primarily because there were no impairment losses recorded on property, plant, and equipment (compared to RM4.66 million in FY2022) and no impairment losses on right-of-use assets (compared to RM3.50 million in FY2022). In addition, there was lower mark-to-market loss on quoted shares of RM3.54 million (compared to RM3.78 million in FY2022) and lower fair value adjustment on share options of RM0.30 million (compared to RM5.80 million in FY2022).

Meanwhile, the segment saw an improvement in loss after tax which came in at RM8.44 million for the year in review, versus loss after tax of RM22.22 million reported in the corresponding period. This was mainly attributed to similar factors as above.

Renewable Energy and Property

In the renewable energy and property segment, sales of solar energy to Tenaga Nasional Berhad remained consistent at RM0.71 million in FY2023 compared to RM0.73 million in FY2022. The segment achieved a profit before tax of RM0.69 million for the year, showing an increase from the RM0.32 million recorded in FY2022. This improvement can be attributed to the segment benefiting from additional rental income from a new tenant, as well as reduction in depreciation and overhead expenses.

Gloves

The Group's glove segment experienced a decrease in revenue primarily attributed to reduced orders for medical gloves, resulting in a decline of RM32.11 million during the year. This decline can be attributed to lower average selling prices and decreased demand from customers.

The segment reported a loss before tax of RM56.31 million in FY2023, compared to a loss before tax of RM47.15 million in FY2022. This can primarily be attributed to a decrease in gross profit and gross profit margin, which was in line with a decline in sales volume and lower average selling prices of gloves. Additionally, higher depreciation expenses of RM7.09 million (compared to RM3.69 million in FY2022) impacted the segment's performance.

However, these negative factors were partially offset by lower inventory write-downs of RM19.3 million (compared to RM20.38 million in FY2022), a decrease in impairment loss on property, plant, and equipment of RM15.07 million (compared to RM19.84 million in FY2022), and a reduction in impairment loss on right-of-use assets of RM Nil million (compared to RM2.17 million in FY2022). There was no change in loss before and after tax recorded by the segment.

Others

The Group's other segment experienced a loss before tax of RM18.64 million in FY2023, compared to a loss before tax of RM55.25 million in FY2022. This change was primarily driven by several factors, including a lower share of lossess in associates amounting to RM2.75 million (compared to a share of losses in associates of RM31.12 million in FY2022). Additionally, there was a lower net impairment loss on investment in associates of RM6.89 million (compared to RM32.69 million in FY2022). However, these positive factors were offset by the absence of a gain on bargain purchase from investment in associates (which was RM16.25 million in FY2022) and a higher loss on dilution of interest in associates of RM6.10 million (compared to RM4.58 million in FY2022). These combined factors resulted in the segment reporting a loss before tax for FY2023.

III. Liquidity and Capital Resources

As at 31 March 2023, the Group's cash and cash equivalents stood at RM26.40 million compared to RM39.55 million in the past corresponding year. This was due to the net effects of the following:

a) Net cash generated of RM17.12 million from operating activities primarily attributable to lower repayments by the Group to its trade and other payables as compared to the corresponding period.

b) Net cash used in investing activities of RM23.56 million mainly due to net effects from:
- Interest income received of RM1.58 million;
- Investment in quoted shares amounts to RM10.05 million, acquisition of additional industrial land costing RM9.33 million and acquisition of specialised machinery for fabrication of RM1.10million;
- RM4.24 million incurred for completing the remaining works in the glove utilities areas, which includes electrical installations, TNB substation, waste water treatment plant and canteen;
- 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 RM0.11 million in FY2023;

c) Net cash used in financing activities of RM5.62 million mainly due to:
- Proceeds from withdrawal of short-term fixed deposits of RM35.02 million;
- Net repayment of the Group's term loans of RM36.80 million and interest expenses of RM3.54 million;
- Proceeds raised from exercise of share options of RM1.72 million;
- Net repayment of finance lease payables of RM2.02 million;

IV. Financial Position and Gearing

The Group's total assets stood at RM354.91 million on 31 March 2023, decreased by 24% from RM469.61 million recorded on 31 March 2022. This was mainly due to the impairment of the Group's investment in associates, inventories as well as property, plant and equipment.

Total liabilities of the Group reduced to RM97.64 million in FY2023 from RM132.40 million a year ago. The decrease can be attributed to the Group's strategic allocation of funds towards the repayment of its borrowings.

As of March 31, 2023, the Group's debt-to-equity ratio, which measures its gearing position, stood at 17.6%, showing a decrease from 24.0% reported on March 31, 2022. This decline was primarily driven by a decrease in term loans and revolving credit. In FY2023, these loans amounted to RM38.4 million, compared to RM74.8 million in the previous year.

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. Business risks related to glove industry

Pursuant to the diversification into glove business, the Group may be subject to business risks inherent in the glove industry in which the Group has not been involved in the past. These include, amongst others, adverse changes in supply and demand conditions, competition from existing players and entry of new players, introduction of new legal and environmental framework, changes in certification/licencing jurisdiction, adverse development in global and regional trade policy and downturns in regional and/or national economies, changes in law and tax regulations, increase in labour cost as well as and changes in business and credit conditions.

The demand for gloves is dependent on various factors such as the growth in the healthcare services, increase in global industrial production activities and the incidence of the COVID-19 pandemic, where the need for personal protective equipment to curb the spread of infections has stoked the demand for gloves. The development of an effective vaccine and/or alternative forms of treatment is expected to reduce the number of COVID-19 cases, which may in turn affect the demand for gloves.

Notwithstanding the above, the Group seeks to mitigate these risks through several measures including keeping abreast with the latest development in the glove industry and general economic conditions; conduct thorough planning, budgetary control and product development; maintain global glove quality standards and adopt new technologies to increase productivity and maintain cost competitiveness; ensure compliance with rules, regulations, and policies, and adopt prudent financial management and monitor budgets. There can be no assurance that any changes to the abovementioned factors, which are beyond the control of the Group, will not adversely affect the Group's glove business segment.

3. Dependency on selected industries and key customers

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 contract manufacturers, hard-disk drive manufacturer and medical industry. In an effort to proactively address the concentration risk arising from the 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. The successful partnership has led to notable favorable outcomes, driving the rise in fabrication job orders from the textile sector. Over the past three years, the textile industry has accounted for a significant portion of the Group's revenue, with FY2023 contributing 35.1%, FY2022 contributing 16.5%, and FY2021 contributing 10.9%. In recent years, the Group has also successfully diversified into the glove manufacturing business. The Group's glove manufacturing operations commenced towards the end of 2020 and has accounted for a major portion of the Group's revenue, with FY2021 contributing 26.2%, FY2022 accounted for over half of the Group's revenue (53.6%) and FY2023 contributing 12.5%.

Notwithstanding the above, any adverse development in the above-mentioned industries, or any adverse development in our relationship with the key customer or the business performance of the key customer, may adversely affect the Group's revenue and earnings.

4. 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 implements 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.

5. 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 2023, giving the Group a total market capitalisation of RM30 million. Over the course of the cumulative 12 months, the share price of ATS reached a high of RM0.025 on 5 April 2022 and fell to a low of RM0.005 on 27 March 2023.

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 manufacturing sector is projected to increase by 3.9% in 2023, owing to the expansion in all sub-sectors despite moderating economic activities. However, there are indications of a gradual moderation in the manufacturing sector, as businesses prepare for ongoing challenges in the months ahead. Malaysian manufacturers are particularly concerned about risks that could impede their recovery and growth in 2023. These risks include pressures on input costs, increased energy expenses, and fluctuations in the value of the Ringgit currency.

MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

The Group recorded annual revenue of RM50.33 million for FY2023, representing a significant 42% increase compared to FY2022's RM35.53 million. Moving forward, the Group will maintain a cautious approach to its manufacturing operations, prioritising operational efficiency to reduce costs and sustain its growth trajectory. In light of the unexpected earthquake in Turkey in February 2023, one of the Group's key customers, who operates in Turkey, is expected to postpone some of their orders. The Group is committed to closely collaborating with the customer to manage the necessary adjustments to the order and shipment processes. Notwithstanding this, as of to-date, the Group's unaudited revenue for 3 months ended June 2023 plus backlog orders to be delivered recorded at RM20.61 million, representing approximate 40.96% of the audited annual revenue achieved in FY2023. The Group expects the coming FY2024 annual revenue from this segment will be better than FY2023.

Since venturing into glove-making business in 2020, the Group has set up 10 production lines in its glove manufacturing plant at Chemor, Perak. The Group has also obtained relevant qualifications and certifications including CE marking certification, US FDA 510(k) certification and Halal certificate to be able to compete in the glove market. In the near team, the glove business outlook continues to be challenging in view of the normalisation of gloves demand, declining glove average selling prices and rising production cost structure. The Group has faced challenges in securing adequate number of orders from customers to sustain its operations. In view of this, the Group is scaling down its glove-making operation and currently exploring different possibilities for the future direction of the glove business. One option under consideration is leasing out the glove-making facilities to generate rental income.

The Group remains focused on our core business of fabrication of industrial and engineering parts as well as sheet metal and automation. Barring any unforeseen circumstances, the Group is cautiously optimistic of an improved financial performance in FY2024 and is committed to ensuring sustainable business growth in the coming years.

Yours sincerely,

Choong Lee Aun
Managing Director
25 July 2023