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. The Group's 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 al 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. The Group 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 FY2024 ended 31 March 2024

The Group annual revenue for the financial year ended 31 March 2024 ("FY2024") reported at RM32.59 million which was 46% lower than RM60.80 million recorded in financial year ended 31 March 2023 ("FY2023"). The decrease in revenue was mainly due to lower orders from fabrication and automation segment which was down by RM20.09 million, as well as lower orders from sales of medical gloves, which were down by RM8.13 million during the period under review as a result of lower average selling price and lower demand from customers.

MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

The Group's loss before tax came to RM85.47 million during the year compared to the loss before tax of RM82.70 million a year earlier. Meanwhile, loss after tax stood at RM85.81 million in FY2024 against loss after tax of RM82.75 million reported in FY2023. The losses were mainly attributed from mark-to-market loss on quoted investments, impairment loss on assets in glove business, share of losses from investment in associates, offset with one-off gain on deemed disposal of associate of RM10.01 million.

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 2024 (RM '000)	12 Months Ended 31 March 2023 (RM '000)	Changes (RM '000)	Variance (%)
Segment Revenue				
Fabrication and Automation	30,237	50,325	(20,088)	(40)
Renewable Energy and Property	720	712	8	1
Gloves	1,628	9,761	(8,133)	(83)
Others	-	-	-	-
Total	32,585	60,798	(28,213)	(46)

Profit/(Loss) before tax				
Fabrication and Automation	(7,619)	(8,445)	826	10
Renewable Energy and Property	611	689	(78)	(11)
Gloves	(39,417)	(56,305)	16,888	30
Others	(39,048)	(18,637)	(20,411)	(110)
Total	(85,473)	(82,698)	(2,775)	(3)

MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

Fabrication and Automation

The fabrication and automation segment posted lower revenue by RM20.09 million mainly due to lower number of orders from both contract manufacturers and textile machines maker, coupled with declining orders for vending machine business.

Excess inventory in the Textile Market

During the year under review, the Group produces aluminum profiles for Rieter's Card and Ringspin sector amounting to RM17.83 million (FY2023: RM27.4 million), corresponding to a production quantity of approximately 614 sets (FY2023: 882 sets) Ringspin crates and 8,274 pcs (FY2023: 2,851) card C80 profiles. The Group is currently developing 7 card profiles and 4 flat rod profiles. At the same time, the Group is discussing with Rieter on producing 31 new card profiles. Overall, there has been a drop in demand in the textile market. This situation has resulted in excess inventory at Rieter, leading to a postponement of demand fulfilment to FY2025.

Soft Demand for Contract Manufacturers and Hard Disk Drive Manufacturers

The Group continued to face soft demand from both contract manufacturers and hard disk drive manufacturers. This trend persisted from the previous year. The primary contributing factor behind this soft demand is the ongoing global chip shortage that began affecting the industry last year. This shortage has constrained production capabilities and disrupted supply chains, leading to reduce orders from manufacturers reliant on semiconductor components.

Declining Performance in Fabrication for Vending Machines

FY2024 presented unforeseen challenges for our business in the sheet metal fabrication to design and manufacture snack and beverage vending machines, marked by a notable decline in performance compared to previous years. The fabrication for vending machine segment, which had shown promising growth in FY2023, faced a downturn primarily influenced by shifting market dynamics and economic uncertainties by corporate end customers. Factors such as competitive pressures and external economic conditions have collectively contributed to the decline in demand for our vending solutions. As a result of these challenges, there was no vending machine delivered in FY2024, a significant decline from 220 units delivered in FY2023. This decline in unit deliveries directly impacted our revenue streams for the financial year.

Loss before tax in the fabrication and automation segment decreased by RM0.83 million mainly due to lower mark-to-market loss on quoted investments of RM1.81 million (compared to RM3.54 million in FY2023). There were no impairment losses recorded on property, plant, and equipment and right-of-use assets.

Renewable Energy and Property

In the renewable energy and property segment, sales of solar energy to Tenaga Nasional Berhad increased slightly to RM0.72 million in FY2024 from RM0.71 million in FY2023. The segment achieved a profit before tax of RM0.61 million for the year, showing a slight decrease from RM0.69 million recorded in FY2023.

In FY2024, the Group achieved another milestone with the leasing of an established 20,000-sq-ft area to a leading global supplier of equipment and services to the semiconductor industry.

The tenant has utilised the designated area to setup a high-speed digital instrument design center, the first of its kind in Southeast Asia and will focus on advancing their technological initiatives in next generation high-speed digital and analog instrumentation as well as to support its business expansion in its semiconductor test technology.

This initiative not only optimises the utilisation of our established facility but also fosters synergies in innovation and knowledge exchange within the industry. The Group's facility was picked due to the strategic proximity to tenant's business ecosystem, a well-developed infrastructure, skilled workforce and supportive business environment.

Gloves

The Group's glove segment experienced a decrease in revenue primarily attributed to reduced orders for medical gloves, resulting in a decline of RM8.13 million during the year. This decline attributed to lower average selling prices and decreased demand from customers.

The segment reported a loss before tax of RM39.42 million in FY2024, compared to a loss before tax of RM56.31 million in FY2023. This primarily be attributed to a lower gross loss incurred and lower production costs and fixed overhead, coupled with lower inventory write-downs of RM Nil (compared to RM19.3 million in FY2023) and RM2.06 million gain on waiver from settlement with a previous gas supplier.

However, these positive factors were partially offset by higher impairment loss on property, plant, and equipment of RM34.89 million (compared to RM15.07 million in FY2023).

Business Decision in Response to Market Conditions

Amid challenging market conditions marked by oversupply and intensified competition, the Group made a strategic decision in FY2024 to cease its glove production operations. This decision was driven by a proactive assessment of market dynamics, which indicated unsustainable operating margins and the potential for further financial loss in this segment. The Group has since refocused efforts on optimising its production facilities through rental arrangements. Leveraging advanced manufacturing capabilities and infrastructure, these facilities offer a promising avenue for generating alternative revenue streams while mitigating operational risks associated with glove production.

Others

The Group's other segment experienced a loss before tax of RM39.05 million in FY2024, compared to a loss before tax of RM18.64 million in FY2023. This change was primarily driven by several factors, including a higher mark-to-market loss on quoted investments of RM35.05 million (FY2023: RM Nil), a higher share of losses in associates amounting to RM13.08 million (compared to a share of losses in associates of RM2.75 million in FY2023). However, these negative factors were offset by one-off gain on deemed disposal of associate of RM10.01 million, net reversal of impairment loss on investment in associates of RM1.72 million (compared to net impairment loss on investment in associates of RM6.89 million in FY2023), coupled with lower finance cost of RM 0.74 million (FY2023: RM2.86 million).

I. Liquidity and Capital Resources

As at 31 March 2024, the Group's cash and cash equivalents stood at RM19.15 million compared to RM26.40 million in the past corresponding year. This was due to the net effects of the following:

e) Net cash used of RM8.71 million from operating activities primarily attributable to higher repayments by the Group to its trade and other payables, offset with lower collection from receivables as compared to the corresponding period;

MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

f) Net cash used in investing activities of RM0.98 million mainly due to net effects from:

- Proceeds from disposal of quoted investments of RM2.86 million and interest income received of RM0.75 million;
- Acquisition of RM4.21million quoted investments;
- Acquisition of additional specialised machinery for fabrication of RM0.60 million;

g) Net cash from financing activities of RM1.75 million mainly due to net repayment of the Group's term loans of RM32.41 million, net repayment of lease liabilities of RM3.09 million and interest expenses of RM1.42 million, offset with upliftment of fixed deposits pledged of RM 32.22 million, proceeds raised from private placement of RM5.46 million and exercise of share options of RM1.67 million.

II. Financial Position and Gearing

The Group's total assets stood at RM214.19 million on 31 March 2024, decreased by 40% from RM354.91 million recorded on 31 March 2023. This was mainly due to the impairment of the Group's investment in associates, as well as property, plant and equipment.

Total liabilities of the Group reduced to RM52.30 million in FY2024 from RM97.64 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, 2024, the Group's debt-to-equity ratio, which measures its gearing position, stood at 7.5%, showing a decrease from 17.6% reported on March 31, 2023. This decline was primarily driven by a decrease in term loans and revolving credit. In FY2024, these loans amounted to RM5.72 million, compared to RM38.13 million in the previous year.

III. 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 few years, the textile industry has accounted for a significant portion of the Group's revenue, with FY2024 contributing 54.7%, FY2023 contributing 45.1%, and FY2022 contributing 16.5%. 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%), FY2023 contributing 16.1% and FY2024 contributing 5.0%.

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-

MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

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.

IV. Share Price Performance

The share price of ATS closed at RM0.155 on 31 March 2024, giving the Group a total market capitalisation of RM35.06 million. During the year, the Group completed its share consolidation exercise on the basis of 30 pre-consolidation ordinary shares for 1 post-consolidation shares.

V. Dividend Policy

The present focus of the Group is to create and enhance shareholders' value in the long run. We aim to reinvest 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.

VI. Prospects

The manufacturing sector is projected to grow by 4.2% in 2024 driven by better performance in both export and domestic-oriented industries. Export-oriented industries are expected to benefit from the recovery of external demand, particularly in the Electrical and Electronics segment, driven primarily by memory products, aligning with the resurgence in demand for technologically advanced products. Looking ahead to 2024, inflation is expected to remain moderate, though risks to this outlook are contingent upon changes in domestic policies regarding subsidies and price controls, as well as fluctuations in global commodity prices and financial market dynamics. Malaysian manufacturers are also wary of potential risks such as rising energy costs and fluctuations in the value of the Ringgit currency.

The Group recorded annual revenue of RM30.24 million for FY2024 in its fabrication segment, representing a 40% decrease compared to FY2023's amount revenue of RM50.33 million. In view of this, the Group will maintain a cautious approach to its manufacturing operations, prioritising operational efficiency to reduce costs.

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. Given the normalisation of glove demand, the dropping average selling price of gloves, and the increasing cost structure of manufacturing, the glove business outlook remains difficult in the near future. As a result, the Group has ceased its glove-making operation and is now looking into several options for the future of its glove business.

MANAGEMENT DISCUSSION AND ANALYSIS
(cont'd)

The Group remains committed to our core business of fabrication of industrial and engineering parts. While FY2024 presented significant challenges, we remain cautiously optimistic about the growth prospects of this segment in FY2025 and is committed to ensuring sustainable business growth in the upcoming years. Our strategic realignment efforts are to strengthen our resilience, enhance operational agility and capitalise on future market opportunities as economic conditions stabilise.

Yours sincerely,

Choong Lee Aun
Managing Director
25 July 2024