COMFORT GLOVES BERHAD (193701000006 (852-D))
Lot 821, Jalan Matang, 34750 Matang, Taiping, Perak Darul Ridzuan.
Tel: 05-8472777 / 05-8472888
Fax: 05-8479 108

22 May 2023

Minority Shareholders Watch Group
Level 23, Unit 23-2,
Menara AIA Sentral,
No. 30, Jalan Sultan Ismail,
50250 Kuala Lumpur.

Attn: Chief Executive Officer

Re: 82nd Annual General Meeting (AGM) of Comfort Gloves Berhad (Comfort) to be held on Monday, 22 May 2023.

With reference to your letter dated 8 May 2023, please find below responses to your queries: -

Operational & Financial Matters

1. The Company faced multiple headwinds during FYE 2022, in particular, the oversupply of gloves resulting from increased capacity by major gloves companies, new competitors entering the glove industry, coupled with slower buying trend from our customers as a result of the excessive stockpiling during the Covid-19 pandemic phase. Collectively, these resulted in a temporary but substantial slowdown in demand which ultimately led to the declining average selling prices ("ASP") of our glove products. (Page 14 of AR 2022)

(a) Is the oversupply of gloves still acute? What is the current situation of supply versus demand?

(b) Has the ASP stabilized or nearing the point of recovery? What is Comfort's ASP as compared to the industry average?

Our Response

(a) The oversupply of gloves situation still exist.

(b) The pace of reduction of ASP was slower during Q1 of FYE 2023. Comfort's ASP is competitive when compared to local manufacturers but less aggressive than oversea manufacturers.

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2. As compared to the previous financial period, Comfort's sales volume has decreased by 14% while its ASP eased by 51% year on year. (Page 31 of AR 2022) Are sales expected to decline further or improve in FY 2023? What is the outlook for FY 2023? What is the outlook for ASP in FY 2023?

   Our Response

   The overall sales for FYE2023 expected to be lower than FYE2022. However, the Group is expecting the sales to maintain at the same level as Q4 FYE2022 on a quarter to quarter basis. We are expecting the same trend through out FYE2023.

3. The Group was also affected by an escalating cost structure on the back of supply chain disruptions and global inflationary pressures which resulted in higher cost of industrial chemicals used in its production, freight cost and packaging materials. Its overall manufacturing cost was also further escalated due to the hike in natural gas tariff which increased by approximately 59% during FYE 2022 as well as higher labour cost. (Page 31 of AR 2022)

   Have supply chain disruptions, higher cost of industrial chemicals, freight cost and packaging materials and natural gas tariff worsened? How does the Group manage and mitigate these problems?

   Our Response
   The cost of industrial chemicals, freight cost and packaging materials has stabilized since second half of FYE2022. However, the natural gas tariff has increased by another 15% in Q1 FYE2023 but decreased by 17% in Q2 FYE2023.In order to mitigate the impact of supply chain disruption, higher cost of industrial chemicals, freight cost and packaging materials, the Group has taken steps to develop additional suppliers and will continue seeking equivalent substitute(s) to take cost out of the equation. The Group has also taken steps to reduce employees' headcount, reduce overtime working hours and looking for "machine automation opportunity".

4. The declining sales volume and ASP of Comfort's glove products has led to the write down of its inventory value to its net realisable value and a provision for slow-moving inventories amounting to RM 5.81 million and RM4.68 million respectively. (Page 31 of AR 2022) Has the Group instituted measures to enhance its inventory management policy to minimize write-down of its inventory value or provision for slowmoving inventories? Please explain.

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Our Response

The Group has implemented the "Make to Order" (MTO) policy during FYE2022 and taking steps to sell the slow moving inventories. The MTO policy will enable production to start producing the products only after the customers placed the order. The Group also took steps to utilize the slow moving inventories for new customer orders as long as the product is able to meet customer's requirements.

5. Revenue generated from all countries except from United States of America and Canada has declined in FY 2022. Revenue from United States of America and Canada increased from RM295.340 million in FP 2021 to RM421.191 million in FY 2022. (Page 118 of AR 2022) Is revenue from United States of America and Canada expected to continue growing strongly in FY 2023?

Our Response

The Group does not expect the sales in North America to continue growing strongly in FYE 2023 mainly due to the lower ASP and consistent order quantity expected in FY2023. The Group will continue to develop business opportunity in different regions around the world (including North America) as long as business opportunity arise.

Thank you.

Yours sincerely,

Lau Joo Yong
Group Chief Executive Officer