

DECEMBER 2021 - QUARTERLY REPORT

ASX: VIP

31 January 2022

HIGHLIGHTS:

- **Production returned to full capacity in Nov 2021 after full compliance with Covid vaccinations**
 - **Reduction of 35% in NBR raw material cost during the December 2021 quarter**
 - **Production lines 7 & 8 targeted for commissioning in late February and late March respectively, adding 24% to current capacity**
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VIP Gloves Limited ('VIP' or the 'Company') presents its operational and activities update along with the attached Appendix 4C cash flow statement for the quarter ended 31 December 2021.

Production output during the December quarter ("Q2 FY2022")

During the December quarter, VIP operated six production lines with a monthly production capacity of approximately 64 million pieces of nitrile gloves (circa 768 million pieces per annum).

Following further relaxation of the Malaysian Government's Enhanced Movement Control Order (EMCO) and with VIP achieving 100% workers' vaccination, the manufacturing facility returned to full operating capacity by mid-November. As such, VIP's total nitrile glove production during Q2 FY2022 was approximately 81 million pieces representing a 65% Q-o-Q increase compared to Q1 FY2022 (July to September 2021). The lower production level in the December quarter was mainly due to the 60% workforce constraint set by the Malaysian Government before the workers achieved a 100% vaccination rate. In addition, the factory experienced insufficient storage space in the warehouse to keep the stocks due to the new lines being installed and simultaneously, slow logistics activities due to shipping port congestion due to Covid restrictions and shortage in vessel capacity to meet clients' orders of nitrile gloves causing clients to delay their shipments.

Sales during Q2 FY2022

Following implementation of the Movement Control Order, VIP achieved total sales revenue of RM9.1 million (approx. A\$3.0 million) during the December quarter, representing a 2% decrease compared to that achieved during Q1 FY2022 due mainly to the normalising of average selling prices (ASPs). In contrast, the December 2020 quarter sales performance experienced a robust demand for gloves in the height of the COVID-19 pandemic resulting in ASPs reaching their peak.

Total gloves sold in Q2 FY2022 was 96.5 million pieces, a 76% increase over the previous quarter. The variability in total gloves sold was due to the Movement Control Order limiting production and flow-on sales activities in Q1 FY2022 which was subsequently lifted in Q2 FY2022 as glove manufacturing was considered an essential health sector and all company employees were fully vaccinated and allowed to return to work.



Average Selling Price (ASP) and Nitrile Latex (NBR) Input Cost

ASPs for Q2 FY2022 has decreased by approximately 44% from Q1, largely due to the normalising effect following mass vaccine rollout on a global scale and increased competition, owing to expansion by existing players and entrance of new players into the glove manufacturing market.

Whilst VIP and other nitrile glove manufacturers are facing downward ASP pressure, VIP benefited from a 35% Q-o-Q reduction in nitrile latex (“NBR”) input cost during the quarter. NBR accounts for almost 60% of VIP’s total Cost of Goods Sold (COGS) during the quarter.

Steadily Rising Demand Trend

Despite the decrease in ASP during the quarter, demand for nitrile gloves has stabilised. In March 2021, the Malaysian Rubber Gloves Manufacturers Association (MARGMA) projects the industry to remain robust with annual growth in glove sales of 12% to 15% (post-pandemic), compared with an annual growth of 8% to 10% (pre-pandemic). This has been based upon an increasing awareness of appropriate sanitation across multiple industries globally as well as for personal hygiene purposes. VIP believes the potential increase in demand is due to better healthcare awareness, in particular amongst emerging economies which have traditionally had lower glove usage per capita. In addition, customers are expected to gradually replenish their stocks in view of normalising ASPs.

In view of the stabilising demand trend for nitrile gloves in the medium to longer term, VIP will proceed with the expansion of new production lines beyond lines 7 and 8 that are near completion. VIP believes that its multiple international accredited certifications will enable exporting to new markets. Additionally, management is accepting more flexible credit payment options to selected long term customers in order to garner an increase in sales orders.

Management is also examining opportunities into producing higher value-added glove products to expand its product range and increase revenue and profit margins.

Business activities during the December quarter (“Q2 FY2022”)

A\$ million	Q2 FY2022	Q1 FY2022	Q-o-Q
Operating Activities			
Receipts from Customers	3.4	3.1	+10%
Less Payment to:			
Manufacturing & Operating Costs	-2.6	-2.2	+18%
Other Costs ¹	-1.1	-1.2	-8%
Net Cash	-0.3	-0.4	+25%
Investing Activities			
Acquisition of Plant & Machinery	-0.1	-0.1	0%
Other (refund of Land & Bldg disposal)	-	-	n/m
Net Cash	-0.1	-0.1	0%
Financing Activities			
Dividends paid	-0.4	-	n/m
Net Cash	-0.4	-	n/m
Change in Cash & Cash Equivalent	-0.8	-0.5	-60%



Note : ¹ Other Costs comprise A&P, leased assets, staff, administration and corporate costs, interest & finance charges.
The figures above are derived from Unaudited Management Accounts.

- **Receipts from Customers** increased by 10% Q-o-Q to A\$3.4 million in Q2 FY2022 following a 76% increase in glove delivery as VIP fulfilled the backlog of orders committed during the previous quarter (Jul to Sept 2021) despite a 44% drop in ASP during the same period.
- **Net Cash from Operations** presents a deficit of A\$0.3 million compared to a larger deficit of A\$0.4 million in Q1 FY2022 mainly due to its improved receipts from customers. Despite a 35% drop in nitrile latex cost in the December quarter, the increase in manufacturing and operating costs were mainly due to the 21% increase of the natural gas cost from RM30.03/mmbtu to RM36.42/mmbtu over Q-o-Q and increase in factory overheads as production levels were normalised. The deficit in operating cash flow was also due to the lower ASP and slow logistics activities due to shipping port congestion due to Covid restrictions and shortage in vessel capacity to meet clients' orders of nitrile gloves causing clients to delay their shipments.
- **Net Cash from Investing position** was A\$0.1 million in payment to machinery suppliers during the period as part of the Line 7 & 8 capacity expansion project.
- **Payments to related parties and their associates** comprise payment for directors' salaries and fees amounting to A\$0.2 million (RM0.6 million) during Q2 FY2022.
- **Cash & cash equivalents At End of Quarter** of A\$0.452 million, down from A\$1.174 million for Q1 FY2022, a 61% reduction due mainly to increased manufacturing costs and the final dividend paid in November 2021.

Material Developments

a) Capacity Expansion

Commissioning of glove production line 7 is anticipated for late February 2022 while production line 8 will be commissioned in March 2022. Construction and subsequent commissioning delays were mainly due to the extensive compliance set by the Department Occupational Safety Health (DOSH).

Once both production lines are commissioned, VIP's nitrile glove production capacity will increase by a further 22% to 78 million pieces per month, or 936 million pieces per annum. This signifies the last instalment of VIP's capex initiative for the six lines (lines 3 to 8) commenced in calendar year 2020 at a total budget of about RM33 million (A\$11 million), fully funded from internal generated working capital.

Construction of the second factory and production lines on adjacent land is still awaiting regulatory approval from the local municipal council and fire department. The budget for this initiative is estimated at A\$30 million, with funding to be a mixture of internally generated working capital and bank financing. Whilst the pandemic lockdown has caused some delay in the expansion schedule, management projects rolling-in of new capacity in stages commencing in calendar year 2023; with revenue reflected in FY2023 to FY2024.

b) Pandemic Alert

For the majority of calendar year 2021, glove production operations were impacted by the pandemic lockdown which was lifted when the Malaysian Government recognised nitrile gloves as personal protective equipment and deemed an essential health sector. The completion and commissioning of production lines 7 and 8 will increase capacity to meet demand in Q3 FY2022.



c) Legal action update

Following the Malaysian High Court allowing VIP's application to strike-out the lawsuit by the plaintiff, ACE Solutions Investment Ltd on 25 October 2021, the plaintiff has since filed an appeal against the court's decision. VIP will continue to defend against the Plaintiff's action.

d) Sale & Leaseback of Land & Building

Following the mutual revocation of the Sale and Purchase Agreement ("SPA") for the disposal by VIP of its factory land and building, VIP has returned RM5.0 million (A\$1.6 million) as at end of Q2 FY2022, with the balance RM4.1 million (A\$1.3 million) payable. The Company did not make any cash repayments for the revocation of the sale & leaseback of Land and Building during the December quarter. The Company has already set aside the funds, and hence will not disrupt the financial position and operations of the Company.

e) Dividend

On 30 November 2021, VIP paid its second and final dividend of A\$0.005. Together with the earlier \$0.018 cent dividend paid on 31 March 2021, total dividend paid for FY2021 was A\$0.023 per share, representing a dividend payout ratio of 37%.

This announcement has been approved by the Board of VIP Gloves Limited.

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About VIP Gloves Limited

VIP Gloves Limited (VIP) is an Australian public company whose securities are listed for quotation on the Australian Securities Exchange (ASX code: VIP). VIP's Malaysian subsidiary companies manufacture nitrile disposable gloves from a plant located in Selangor, Malaysia. Nitrile gloves can be used in the medical, health, dental and numerous other industrial and commercial sectors. VIP currently produces and supplies gloves on an original equipment manufacturer (OEM) basis.

VIP's products:

- International AQL Standards
- CE Mark EU Standard
- US FDA 510(k) Standard
- Australian TGA Medical Device Included Class 1
- ASTM D6319 and EN455 Standards; and
- meet ISO 13485 and ISO 9001 Standards

Forward Looking Statements

Certain statements in this document are or maybe "forward-looking statements" and represent VIP's intentions, projections, expectations, or beliefs concerning among other things, timing of activities. The projections, estimates and beliefs contained in such forward-looking statements necessarily involve uncertainties and other factors, many of which are beyond the control of VIP, and which may cause VIP's actual performance in future periods to differ materially from any express or implied estimates or projections. Nothing in this document is a promise or representation as to the future. Statements or assumptions in this document as to future matters may prove to be incorrect and differences may be material. VIP does not make any representation or warranty as to the accuracy of such statements or assumptions.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

VIP GLOVES LIMITED

ABN

83 057 884 876

Quarter ended ("current quarter")

DECEMBER 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,360	6,467
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,594)	(4,810)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(381)	(626)
(f) administration and corporate costs	(71)	(207)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(26)	(52)
1.6 Income taxes paid	(538)	(1,436)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(250)	(664)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(82)	(187)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	2	2
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (refund of proceeds from disposal of property, plant and equipment)	-	-
2.6	Net cash from / (used in) investing activities	(80)	(185)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(42)	(81)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	(347)	(347)
3.9	Other (director's advances)	-	-
3.10	Net cash from / (used in) financing activities	(389)	(428)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,174	1,695
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(250)	(664)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(80)	(185)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(389)	(428)
4.5	Effect of movement in exchange rates on cash held	(3)	34
4.6	Cash and cash equivalents at end of period	452	452

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	452	1,174
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	452	1,174

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
238
-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	1,674	1,674
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	1,674	1,674

7.5 Unused financing facilities available at quarter end

Nil

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Term loan (secured) – Al Rajhi Bank 1.25% above the bank's BLR (A\$1.674m) – maturing September 2025

BLR – Base lending rate

The credit facilities are secured by way of:

1. Legal charge over a subsidiary, KLE Products Sdn. Bhd.'s vacant leasehold land;
2. Debenture over fixed and floating assets of a subsidiary, VIP Glove Sdn. Bhd., present and future;
3. Jointly and severally guaranteed by Directors of subsidiary companies; and Jointly and severally guaranteed by VIP Gloves Limited and a subsidiary, KLE Products Sdn. Bhd

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(250)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	452
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	452
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	1.81

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

No - Net cash outflows in the December quarter includes payment of income taxes based upon estimation in accordance with Malaysian tax ruling; any payment revision can only be reflected in the March 2022 quarter. The Company also paid out its final dividend on the quarter which reduced cash holdings at end of the quarter.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Yes - The company's cash inflows are expected to improve in the March 2022 quarter following revision of tax estimate, a further tightening of costs and commissioning of production lines 7 & 8.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Yes - from increased cash inflows from current production orders and sales and new production orders and sales from increase production capacity following commissioning lines 7 & 8

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

This Appendix 4C cashflow report has been approved by the board of VIP Gloves Limited

Date: 31 January 2022

Authorised by: The Board of VIP Gloves Ltd
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.