

## MARCH 2022 - QUARTERLY REPORT

**ASX: VIP**

**29 April 2022**

### HIGHLIGHTS:

- **Production operating at below 60% capacity due to global supply chain issues and normalising demand for gloves**
  - **Reduction of 44% in NBR raw material cost during the March 2022 quarter**
  - **Glove Production line 7 targeted for commissioning in June quarter, adding 12% volume to current capacity**
  - **VIP Gloves expands distribution network following launch of own brand product**
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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 March 2022.

### Production output during the March quarter (Q3 FY2022)

During the March quarter, VIP's nitrile glove production output was 82 million gloves across six production lines representing 43% of maximum production capacity. March quarter production representing a 1% Q-o-Q increase compared to the December quarter (Q2 FY2022).

Supply chain bottlenecks combined with a shortage of shipping vessels and containers continued to disrupt logistics activities thus impacting completion of sales. As such, VIP elected to reduce production levels to prevent over supply of finished goods in the warehouse. In February 2022, the Malaysian National Shippers' Council (MNSC) reported that slow logistic activities were due to a rapid increase in sea freight rates which forced foreign buyers, who absorb all freight and insurance costs for shipment of gloves, to postpone their orders until these rates decrease.

### Sales during the March quarter

Total gloves sold in the March quarter was 86.6million pieces, a 10% Q-o-Q decrease over the previous quarter. Sales were impacted due to a shortage in shipping vessel capacity to meet clients' orders of nitrile gloves, resulting in clients delaying shipments and thus impacting completion of sales, plus a drop in demand of gloves globally.

VIP achieved total sales revenue of RM7.2 million (approx. A\$2.4 million) during the March quarter, representing a 21% Q-o-Q decrease compared to that achieved during the December quarter.



### Average Selling Price (ASP)

VIP's saw a further normalising of average selling prices (ASPs) which decreased by 13% Q-o-Q when compared to December quarter owing to further competition from both existing and new glove manufacturers entering the market, as well as a transition towards pre-pandemic demand as the COVID-19 pandemic gradually comes under control.

### Nitrile Latex (NBR) Input Cost

VIP has benefited from a 44% Q-o-Q reduction in nitrile latex ("NBR") input cost during the quarter. NBR accounts for almost 40% of VIP's total cost of goods sold during the March quarter.

### Industry outlook

On 31 March 2022, the Malaysian Rubber Gloves Manufacturers Association (MARGMA) issued their annual industry review and projected that glove manufacturing and the export value of gloves in 2022 will decrease as the COVID-19 pandemic becomes endemic. This is despite an anticipated 12% to 15% annual expansion in volume in 2022 due to lower average selling price (ASPs). MARGMA has projected that global supply in 2022 to have a shortage of 5% to 10% as China glove manufacturers face production operation disruption due to the COVID-19 pandemic.

In view of the stabilising demand trend for nitrile gloves in the medium to longer term, VIP remains optimistic and confident that even in the hardest of times, strong growth opportunities still exist. The Company believes that glove demand will continue to grow steadily, albeit not at levels as seen during the COVID-19 pandemic, and hence will complete commissioning of glove production line 7 in the June quarter and continue with construction of glove production line 8 which is due to be completed in September and commissioned in October 2022. VIP will also continue with its plans to expand operations to bring in new production lines in calendar years 2023 and 2024.

### Glove market expansion

VIP has successfully established new international markets in Australia, with a distribution agreement signed and is currently negotiating the first purchase order; and an increase in sales orders from South Korea following the establishment of VIP's own brand product 'VIPGLOVE'. The Company's own brand product establishes VIP's standing as an accredited international manufacturer of nitrile gloves after meeting International AQL Standards, and provides greater control over gross profit margins. The Company aims to expand its own brand product distribution into other international markets over the course of calendar year 2022.

The Company has also expanded its product range to service a niche market with the production of thin nitrile gloves (as against the currently produced medium thickness gloves) which is expected to improve the Company's financial performance in Q4 FY2022.

### Business activities during the March quarter ("Q3 FY2022")

A\$ million	Q3 FY2022	Q2 FY2022	Q-o-Q
<b>Operating Activities</b>			
Receipts from Customers	2.9	3.4	-15%
Less Payment to:			
Manufacturing & Operating Costs	-2.3	-2.6	-12%



Other Costs <sup>1</sup>	-0.5	-1.1	-55%
<b>Net Cash</b>	<b>0.1</b>	<b>-0.3</b>	<b>+133%</b>
<b>Investing Activities</b>			
Acquisition of Plant & Machinery	-0.2	-0.1	+100%
Other (refund of Land & Bldg disposal)	-	-	n/m
<b>Net Cash</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-100%</b>
<b>Financing Activities</b>			
Dividends paid	-	-0.4	n/m
<b>Net Cash</b>	<b>-</b>	<b>-0.4</b>	<b>n/m</b>
<b>Change in Cash &amp; Cash Equivalent</b>	<b>-0.1</b>	<b>-0.8</b>	<b>+700%</b>

Note : <sup>1</sup> 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** decreased by 15% Q-o-Q to A\$2.9 million in the March quarter following a 10% decrease in glove delivery and a 13% decrease in ASP due to normalisation of demand in gloves as well as the continued global supply chain issues.
- **Net Cash from Operations** presents a surplus of A\$0.1 million for the March quarter compared to deficit of A\$0.3 million in the December quarter, mainly due to a 44% decrease in Nitrile latex costs in the March quarter, partially offset by a 32% increase in natural gas cost. The Company further benefited from a 55% Q-o-Q decrease in other operating costs such as staff costs and lower tax estimation for tax instalments.
- **Net Cash from Investing position** was A\$0.2 million for payment to machinery suppliers during the period as part of the production line 7 & 8 capacity expansion project.

## Material Developments

### a) Capacity Expansion

Commissioning of glove production line 7 is anticipated for the June quarter following Department of Occupational Safety and Health (DOSH) review and approval. Construction and subsequent commissioning of line 8 is anticipated to be in September and October respectively and was delayed from the original projection due to the COVID-19 outbreak within the line contractors as well as the delay of shipment of machinery components.

Following commissioning of Line 7, maximum production capacity across all lines will increase by 12% to 71 million pieces per month or 852 million pieces per annum.

The construction of line 7 and 8 signifies the last instalment of VIP's capex initiative at a total budget of about RM33 million (A\$11 million) for glove production lines 3 to 8.

Construction of the second factory and glove production lines on adjacent land to the current factory is still awaiting regulatory approval from the local municipal council and fire department. Whilst the pandemic lockdown has caused 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



In the March 2022 quarter, glove production operations were not impacted by the pandemic lockdown as the Malaysian Government recognised nitrile gloves as personal protective equipment and deemed VIP an essential health sector company. The government also announced that Malaysia begins transitioning to the endemic phase from 1 April 2022 resulting in a further relaxing of standard operating procedures (SOPs).

#### **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. The appeal hearing is set for August 2022 and 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, as at end of March 2022 VIP has returned RM5.0 million (A\$1.6 million) with the balance RM4.1 million (A\$1.3 million) payable during calendar year 2022.

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

For further information:

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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")**

MARCH 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	2,926	9,397
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,320)	(7,129)
(c) advertising and marketing	(1)	(1)
(d) leased assets	-	(1)
(e) staff costs	(284)	(903)
(f) administration and corporate costs	(176)	(395)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(24)	(76)
1.6 Income taxes paid	(30)	(1,470)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>91</b>	<b>(578)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(216)	(402)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(216)</b>	<b>(400)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
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	(39)	(120)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	(347)
3.9	Other (director's advances)	2	2
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(37)</b>	<b>(465)</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	452	1,695
4.2	Net cash from / (used in) operating activities (item 1.9 above)	91	(578)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(216)	(400)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(37)	(465)
4.5	Effect of movement in exchange rates on cash held	(11)	27
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>279</b>	<b>279</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	279	452
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>279</b>	<b>452</b>

**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

<b>Current quarter \$A'000</b>
-
-

**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**

**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	1,574	1,574
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
<b>7.4 Total financing facilities</b>	<b>1,574</b>	<b>1,574</b>

**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\$1.574m) – 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

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	91
8.2 Cash and cash equivalents at quarter end (Item 4.6)	279
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	370
<b>8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>4.07</b>

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?

Not applicable.

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?

Not applicable.

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

Not applicable.

## 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: 29 April 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.