



## **JUNE 2022 - QUARTERLY REPORT**

**ASX: VIP****28 July 2022**

### **HIGHLIGHTS:**

- **Production at 32% of rated capacity during the quarter due to logistics and supply chain issues.**
- **NBR raw material prices reduced by 28% during the quarter, however production costs impacted by higher labour cost following the 25% national wage increase from 1 May 2022**

VIP Gloves Limited ('VIP' or the 'Company') presents its operation and activity update along with the attached Appendix 4C cash flow statement for the quarter ended 30 June 2022.

### **Production output and sales during the June quarter (Q4 FY2022)**

During the June 2022 quarter, VIP's nitrile glove production output was 63 million gloves across six production lines, representing a 24% Q-o-Q reduction compared to the March 2022 quarter (Q3 FY2022). Total glove production accounted for approximately 32% of total rated capacity.

Total nitrile gloves sold during the period was 80 million pieces, as VIP managed to clear the bulk of its stockpile. This has helped free up storage space, and provide additional cashflow. Total sales revenue during the June quarter was RM7 million (approx. A\$2.3 million), which was a 3% Q-o-Q decrease compared to the preceding quarter (March 2022).

The prolonged global logistics disruption has resulted in rising shipping costs. These cost increases commenced during the pandemic. The supply chain crisis was also impacted by the Russian-Ukraine war and a 70-day-long lockdown of Shanghai seaport interlink. As a consequence of container shortage and rapidly increasing shipping vessel costs charged to customers' orders, most customers have chosen to delay their gloves shipments thus impacting completion of sales.

Throughout the quarter, the company initiated a new market product for thicker size gloves which could generate a circa 30% higher ASP when compared to the standard thickness gloves the company has been producing in the past.

### **Average Selling Price (ASP)**

Average selling price (ASP) of nitrile gloves continues in the range of US\$20 to US\$22 / 1000 pieces, but somewhat stabilised during the quarter with only a 3% price drop compared to the previous quarter. The gradual decline in ASP since 2021 is the result of new competitors entered the market while demand normalises. In addition, customers incurring rapidly rising logistics costs have also put pressure on glove producers to reduce their ASPs. This predicament is faced by all glove producers across Malaysia, including VIP.



Nonetheless, as major glove producers have deferred expansion plans, coupled with the closure of smaller players, the demand-supply scenario for nitrile gloves is gradually improving and ASPs are expected to stabilise and return to stronger levels.

## Outlook

Despite facing multiple challenges in the near term, VIP remains cautiously optimistic in the nitrile glove industry and its long-term prospects. VIP believes that the pandemic will continue to create the awareness of hygiene in public areas. Demand for gloves from the emerging markets will continue to see stronger growth prospects where glove consumption base is generally low. VIP continues to carefully manage its raw material costs however a natural gas price increased by 13.5% effective from July 2022 exerts additional pressure for the new financial year.

VIP continues to minimise margin compression impact by expanding its house brand products into higher margin regions such as the US, and EU. It will continue to introduce niche market products, such as those with customised sizes and thickness for specific customers. VIP believes it is well positioned to seize market opportunities and continue to develop new products into new markets.

## Business activities during the June quarter ("Q4 FY2022")

- **Receipts from Customers** decreased by 28% Q-o-Q to A\$2.1 million in the June quarter following an 8% decrease in glove delivery and a 3% decrease in ASP due to normalisation of demand in gloves, extended global supply chain issues and partial glove oversupply challenge.
- **Net Cash from Operations** presents a deficit of A\$0.3 million for the June quarter compared to surplus of A\$0.1 million in the March quarter, mainly due to the 28% Q-o-Q decrease on receipts from customers and a 24% increase on natural gas price, partially offset by a 28% decrease in Nitrile latex cost and a significant 94% drop in administration and corporate cost.
- **Net Cash from Investing position** was A\$0.1 million for payment to machinery suppliers during the period as part of the Glove Production Lines 7 & 8 capacity expansion project.



## Material Developments

### a) Capacity Expansion

Installation work for Glove Production Line 7 has been completed followed by a successful trial run. On completion of Line 7, total production capacity has increased by 12% to 72 million pieces per month or approximately 860 million pieces per annum. Commissioning is anticipated in Q2 FY23 following Department of Occupational Safety and Health (DOSH)'s review and approval.

Installation work and subsequent commissioning for Line 8 is delayed to Q3FY23 due to the oversupply conditions in the glove market, hence VIP Board has agreed that there is no urgency to complete works as previously scheduled. 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 has been halted due to the current and unprecedented global glove oversupply market conditions.

### b) Legal action update

Following the Malaysian High Court allowing VIP's application to strike-out the lawsuit by the plaintiff, ACE Solutions Investment Ltd, the plaintiff has since filed an appeal against the court's decision, which will be set for hearing in August 2022. VIP will continue to defend vigorously the Plaintiff's action.

### c) 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 June 2022 VIP has returned RM5.0 million (A\$1.6 million) with the balance RM4.1 million (A\$1.3 million) payable in the new financial year.

**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")**

JUNE 2022

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	2,094	11,478
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,025)	(9,147)
(c) advertising and marketing	(2)	(4)
(d) leased assets	-	(1)
(e) staff costs	(303)	(1,206)
(f) administration and corporate costs	(11)	(405)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(24)	(100)
1.6 Income taxes paid	(10)	(1,475)
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>(281)</b>	<b>(860)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(55)	(455)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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>(55)</b>	<b>(453)</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	96	96
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	(38)	(158)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	(347)
3.9	Other (director's advances)	13	15
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>71</b>	<b>(394)</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	279	1,695
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(281)	(860)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(55)	(453)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	71	(394)
4.5	Effect of movement in exchange rates on cash held	3	29
4.6	<b>Cash and cash equivalents at end of period</b>	<b>17</b>	<b>17</b>

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	17	279
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>17</b>	<b>279</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

Current quarter \$A'000
139
-

**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.*

	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities	1,537	1,537
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 <b>Total financing facilities</b>	1,537	1,537

**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\$1.537m) – 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)	(185)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	17
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	17
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	0.92

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?

Net operating cashflows have been impacted by a lower average selling price for normal 3.5gm nitrile gloves across the industry. The company is expanding its glove lines and creating new glove markets to counter this as well as introducing cost reductions where possible.

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?

The company is in regular discussion with its bank to establish a line of credit; it expects to raise funds further funds via the issue of convertible notes and has also received a letter of support from a major shareholder in the event that funds are required at short notice. The company is also investigating the sale of vacant land.

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, with the steps instigated by the company in point 1 + 2 above, the company still expects to meet its business objectives.

## 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: 28 July 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.