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## SEPTEMBER 2022 - QUARTERLY REPORT

**ASX: VIP****28 October 2022****HIGHLIGHTS:**

- **Temporary halt in glove production due to distorted supply and demand in gloves**
  - **Average selling price increased by 7% QoQ**
  - **Salary downward adjustment for directors and C-level executives**
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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 September 2022.

**Production output and sales during the September quarter (Q1 FY2023)**

During the September 2022 quarter, VIP temporarily halted nitrile glove production of its 3.5gm nitrile gloves line whilst it sought to expand into alternative type of glove and create new glove markets. This was to minimise the negative cashflow from operations due to historical low average selling prices (ASP) being offered and across the glove manufacturing industry in Malaysia for the sale of the company's core nitrile glove product which is below cost of production.

Having temporarily halted glove manufacturing, total nitrile gloves sold during the period was 11 million pieces, as VIP cleared the remaining bulk of its stockpile. This has helped free up storage space, and provide additional cashflow. Total sales revenue from nitrile glove sales during the September quarter was RM1 million (approx. A\$0.3 million), which was an 85% Q-o-Q decrease compared to the preceding quarter (June 2022). The decrease in glove delivery was mainly due to factors like demand normalisation, oversupply and excessive stockpiling by the customers which are still in the midst of depleting the stocks in a slower pace. Whilst the ASP will be expected to remain volatile in the near term.

The glove sector faces headwinds of higher electricity and natural gas operating costs as global demand has increased these input costs due to global supply chain disruption as a result of the prolonged Russia-Ukraine conflict, and the ongoing lockdowns in several major cities in China.

Throughout the September quarter, the company managed to clear inventory backlog by selling in-house brand nitrile glove directly into the US market at a higher ASP, as well as securing thicker gloves sales. Key management personnel in VIP also committed to a downward adjustment of their annual salaries until the business is in a position to resume manufacturing and profitable operations.

**Average Selling Price (ASP)**

Average selling price (ASP) of nitrile gloves increased by 7% compared to the previous quarter. The volatile ASP since 2021 is the result of escalation in market competition, demand normalisation and adoption of "wait and see" approach by the customers in anticipation of a further decrease in ASPs. In addition, the company continues to face negotiation from customers to pass through their incremental labour, storage and logistic cost by requesting a lower ASP charge.



## Outlook

VIP expects the glove industry to remain at these current levels until at least early 2023 as nitrile glove inventory is depleted and there is a return to normal operating equilibrium. Although major glove producers have deferred expansion plans and are operating below the efficient utilisation rate, coupled with the closure of smaller players or industry consolidation, there are no regulatory changes or new disruptions to the industry. Gloves remain an essential product for the medical sector with no feasible substitute and are also disposable which means demand is recurring. In the long-term, VIP believes the industry will recover as the cornerstone of the business remains solid.

VIP believes that once demand/supply returns to its previous operating equilibrium, glove demand will also resume to the 12-15% annual growth rate in 2023 which was forecasted by the Malaysian Rubber Gloves Manufacturers Association (MARGMA) in a press conference held on August 2022.

VIP will continue sourcing and identifying new potential clients with better margin opportunity from house brand products, thicker gloves and higher ASP region such as the US, and EU. With regards to cost management, the company is exploring suppliers which offer competitive pricing and increase effort to energy saving without compromising on product quality.

### Business activities during the SEPTEMBER quarter (“Q1 FY2023”)

- **Receipts from Customers** decreased by 97% Q-o-Q to A\$ 0.1 million in the September quarter following an 87% decrease in glove delivery and an increase in credit sales.
- **Net Cash from Operations** presents a deficit of A\$0.5million for the September quarter compared to deficit of A\$0.3million in the June quarter, mainly due to the drop in receipts from customers and increase in administration and corporate costs as production lines ceased to operate. The group received a partial progressive tax refund of A\$0.8million, with the remaining 30% tax refund to be received progressively.
- **Net Cash from financing position** was A\$0.5million million mainly due to increase in proceeds from the term loan facility.

## Material Developments

### a) Capacity Expansion

Installation work for Glove Production Line 7 was completed in the September quarter followed by a successful trial run. On completion of Line 7, total production capacity will increase by 12% to 72 million pieces per month or approximately 860 million pieces per annum. Commissioning will depend on VIP receiving health and safety approvals and the prevailing market supply and demand dynamics.

Installation work and subsequent commissioning for Line 8 is deferred until the demand and supply returns to equilibrium. The 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 ceased due to the current global glove oversupply market conditions.

### b) Legal action update

The legal action brought against the company in 2020 is due to be heard in the Appeals Court on 31 October 2022. VIP continues to defend its position and considers the action as frivolous and vexatious.



### **c) Sale & Leaseback of Land & Building**

Following the mutual revocation of the Sale and Purchase Agreement for the disposal by VIP of its factory land and building, as at end of September 2022 VIP has returned RM5.0 million (A\$1.6 million) with the balance RM4.1 million (A\$1.3 million) payable in the FY23 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")**

SEPTEMBER 2022

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	59	59
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(692)	(692)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(278)	(278)
(f) administration and corporate costs	(229)	(229)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(133)	(133)
1.6 Income taxes refunded (progressive tax refund for the financial year ended 30 June 2021)	766	766
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>(506)</b>	<b>(506)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1)	(1)
(d) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(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>(1)</b>	<b>(1)</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	571	571
3.6	Repayment of borrowings	(38)	(38)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (director's advances)	(4)	(4)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>529</b>	<b>529</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	17	17
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(506)	(506)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1)	(1)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	529	529
4.5	Effect of movement in exchange rates on cash held	1	1
4.6	<b>Cash and cash equivalents at end of period</b>	<b>40</b>	<b>40</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	40	17
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>40</b>	<b>17</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
102
-

**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	1,564	1,564
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)		
- third party	498	496
- shareholder	83	83
7.4 <b>Total financing facilities</b>	<b>2,146</b>	<b>2,146</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\$1.564m) – 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

Third party unsecured loan (A\$0.332m) – 10% - maturing July 2023

Third party unsecured loan (A\$0.166m) – 10% - maturing monthly, renewable

Shareholder unsecured loan (A\$0.083m) – 10% - maturing monthly, renewable

<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)	(506)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	40
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	(466)
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>(0.92)</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?

Net operating cashflows have been impacted by a historical low average selling price (ASP) for normal 3.5gm nitrile gloves across the glove manufacturing industry in Malaysia. The company has temporarily halted glove manufacturing of its 3.5gm nitrile gloves line and is expanding its glove lines and creating new glove markets to counter this drop in ASP 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 has 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 adjoining the factory site.

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 is able to continue operations and 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 October 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.