
10. ACCOUNTANTS' REPORT
(Prepared for inclusion in this Prospectus)

Date : 8 February 2001

The Board of Directors
TOP GLOVE CORPORATION BHD.
Level 22, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur

Dear Sirs,

This report has been prepared for inclusion in the Prospectus to be dated 16 February 2001 in connection with the Public Issue of 7,510,000 new ordinary shares of RM1.00 each and Offer For Sale of 14,240,000 ordinary shares of RM1.00 each in TOP GLOVE CORPORATION BHD. (hereinafter referred to as "Top Glove" or "the Company") at an issue/offer price of RM2.70 per share and the listing and quotation of the entire issued and fully paid-up share capital of Top Glove comprising 50,000,000 ordinary shares of RM1.00 each on the Second Board of the Kuala Lumpur Stock Exchange ("KLSE").

A. GENERAL INFORMATION

1. Incorporation

The Company was incorporated in Malaysia on 23 December, 1998 as a public company under its present name.

2. Principal activities

The principal activities of the Company are investment holding and provision of management services to its subsidiaries.

3. Restructuring and flotation scheme

In conjunction with the listing and quotation of the entire issued and paid-up share capital of the Company on the Second Board of the KLSE, the Company undertook the following restructuring scheme :-

- (i) issue of 599,998 new ordinary shares of RM1 each by Top Glove to Liew Chin Khew and Chew Teck Chiang at par for cash before the acquisition as mentioned in 3(ii) below.
- (ii) acquisition of the entire issued and paid-up share capital of the following companies for a total purchase consideration of RM30,131,246 by way of issue of 25,975,213 new ordinary shares in Top Glove at an issue price of approximately RM1.16 per share. The acquisitions are summarised as follows :

10. ACCOUNTANTS' REPORT (Cont'd)

<u>Company</u>	<u>No. of shares acquired</u>	<u>Equity interest acquired %</u>	<u>Purchase consideration RM</u>	<u>No. of new shares in Top Glove issued</u>
Top Glove Sdn. Bhd. ("TGSB")	10,000,000	100	18,016,500	15,531,466
TG Medical Sdn. Bhd. ("TG Medical")	2,000,000	100	10,142,301	8,743,363
Top Glove Engineering Sdn. Bhd. ("TG Engineering")	1,000,000	100	979,693	844,563
Great Glove Sdn. Bhd. ("GG")	50,000	100	58,731	50,630
TG Medical (USA) Inc. ("TG USA")	231,000	100	934,021	805,191
			<u>30,131,246</u>	<u>25,975,213</u>

- (iii) rights issue of 15,914,787 new ordinary shares of RM1 at an issue price of RM1.16 per share.
- (iv) public issue of 7,510,000 new ordinary shares of RM1 each in Top Glove at an issue price of RM2.70 per share and offer for sale by the Company's shareholders of 14,240,000 shares of RM1 each at an offer price of RM2.70 per share.

4. Share capital

The authorised share capital of the Company is RM50,000,000 comprising 50,000,000 ordinary shares of RM1.00 each.

The present issued and paid-up share capital of the Company is RM42,490,000 comprising 42,490,000 ordinary shares of RM1.00 each.

Details of changes in the issued and paid-up share capital of Top Glove since incorporation are as follows :-

<u>Date of Allotment</u>	<u>No. of Ordinary shares of RM1 each</u>	<u>Consideration</u>	<u>Cumulative total paid-up share capital RM</u>
23.12.1998	2	Subscribers' share	2
15.8.2000	599,998	Cash	600,000
1.9.2000	25,975,213	Issued as consideration for the acquisition of TGSB, TG Medical, TG Engineering, GG and TG USA *	26,575,213
8.01.2001	15,914,787	Rights issue **	42,490,000

10. ACCOUNTANTS' REPORT (Cont'd)

* At an issue price of approximately RM1.16 per share.

** At an issue price of RM1.16 per share on the basis of approximately 599 new ordinary shares for every 1,000 existing ordinary shares held.

5. Subsidiaries

The information on the subsidiaries, all of which are private limited companies are as follows :

(i) TGSB

TGSB was incorporated in Malaysia on 9 July, 1991. The authorised and issued paid up share capital of TGSB as at the date of this report is RM10,000,000 divided into 10,000,000 ordinary shares of RM1.00 each.

The principal activities of TGSB are the manufacturing, exporting and trading of various types of latex gloves.

(ii) TG Medical

TG Medical was incorporated in Malaysia on 4 December, 1993. The authorised share capital of TG Medical as at the date of this report is RM5,000,000 divided into 5,000,000 shares of RM1.00 each of which 2,000,000 ordinary shares of RM1.00 each have been issued and fully paid up.

The principal activities of TG Medical are the manufacturing, exporting and trading of examination, surgical and nitrile gloves.

(iii) TG Engineering

TG Engineering was incorporated in Malaysia on 27 November, 1995. The authorised and issued paid up share capital of TG Engineering as at the date of this report is RM1,000,000 divided into 1,000,000 ordinary shares of RM1 each.

The principal activity of TG Engineering is property investment.

(iv) GG

GG was incorporated in Malaysia on 19 February, 1998. The authorised share capital of GG as at the date of this report is RM100,000 divided into 100,000 shares of RM1 each of which 50,000 ordinary shares of RM1 each have been issued and fully paid up.

The principal activity of GG is trading of latex examination gloves.

10. ACCOUNTANTS' REPORT (Cont'd)**(v) TG USA**

TG USA was incorporated in the United States of America on 19 May, 1994. The authorised share capital of TG USA as at the date of this report is USD1,000,000 divided into 1,000,000 shares of USD1 each of which 231,000 ordinary shares of USD1 each have been issued and fully paid up.

The principal activity of TG USA is trading of latex examination gloves.

B. ACCOUNTS AND AUDITORS

We were appointed as auditors of Top Glove with effect from the financial period ended 31 August, 1999. The said accounts were reported on by us without any qualification.

The accounts of TGSB, TG Medical, TG Engineering, GG and TG USA were audited by other firms of public accountants and the reports under review were not subject to any qualification.

C. SUMMARISED PROFIT AND LOSS ACCOUNTS

We set out below the proforma consolidated financial results of Top Glove and its subsidiaries ("the Group") for the past five financial periods/years ended 31 August, 1996 to 31 August, 2000 based on their audited accounts. The proforma consolidated results are provided for illustrative purposes only, based on the assumption that the Group had been in existence throughout the financial years under review and are accounted for under merger method as set out in Malaysia Accounting Standard No. 2.

	← Financial year ended 31 August →				
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000
Turnover	29,089	35,453	48,493	70,198	103,161
Profit before depreciation, interest and taxation	4,203	6,628	10,757	12,790	17,198
Interest expense	(253)	(385)	(860)	(970)	(1,405)
Depreciation	(706)	(1,070)	(1,766)	(1,683)	(3,157)
Profit before taxation	3,244	5,173	8,131	10,137	12,636
Taxation	(417)	(882)	(1,059)	(313)	(1,012)
Profit after taxation	2,827	4,291	7,072	9,824	11,624
Number of ordinary shares of RM 1.00 each assumed to be in issue ('000)	26,575	26,575	26,575	26,575	26,575
Gross earnings per share (sen)	12.21	19.47	30.60	38.14	47.55
Net earnings per share (sen)	10.64	16.15	26.61	36.97	43.74

10. ACCOUNTANTS' REPORT (Cont'd)

- (1) Top Glove's results are not included as it was incorporated on 23 December, 1998 and is currently dormant.
- (2) There were no exceptional or extraordinary items in all the financial years/period under review.
- (3) There were no minority interests in all the financial years under review.
- (4) The gross earnings per share has been calculated based on the profit before taxation divided by the issued and paid up share capital of 26,575,213 ordinary shares before the rights issue and public issue.
- (5) The net earnings per share has been calculated based on the profit after taxation divided by the issued and paid up share capital of 26,575,213 ordinary shares before the rights issue and public issue.
- (6) The taxation have been adjusted to reflect under / over provision in the respective financial years / periods of TGSB, TG Medical and TG USA. The resulting effect of under / over provision of taxation on the proforma consolidated results are as follows:

	← Financial year ended 31 August →				
	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000
Taxation stated in audited accounts	856	608	1,061	247	915
Adjustment to reflect the taxation in the respective years	(439)	274	(2)	66	97
Adjusted taxation as stated in this report	417	882	1,059	313	1,012

- (7) The results of the following subsidiaries have been time apportioned to 31 August in order to be coterminous with the financial year end of the Group.
- (i) 31 March, 1996 to 1997 of TG Medical
- (ii) 31 December, 1998 and 31 August, 1999 of GG
- (iii) 31 December, 1995 to 1998 and 31 August, 1999 of TG USA
- (8) The growth in turnover for the year 1998 was mainly due to the favourable foreign exchange rates as 84% of the sales were for export markets and quoted in US Dollars. In addition, there was an increase in sales order by an importer of latex examination gloves from Holland which comprised of 12% of the current year sales.

As a result of the above and coupled with the drop in average latex prices, the Group achieved a higher profit before taxation.

10. ACCOUNTANTS' REPORT (Cont'd)

- (9) The higher turnover in 1999 was made possible due to the increase in production capacity of TG Medical by additional five production lines. Due to the quality gloves produced by both TGSB and TG Medical, demand from American countries had been overwhelming and achieved a more than 100% growth in this region.
- (10) The turnover for year 2000 increased significantly by RM33 million mainly due to the full commissioning of twelve production lines by TG Medical and the acquisition of twenty additional production lines in Ipoh by TGSB which started production in the month of June, 2000.

TGSB

	← Financial year ended 31 August →				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	28,322	33,682	36,250	61,043	94,115
Profit before depreciation, interest and taxation	4,098	5,413	6,729	6,778	9,344
Interest expense	(232)	(324)	(435)	(442)	(767)
Depreciation	(697)	(964)	(1,131)	(954)	(1,939)
Profit before taxation	3,169	4,125	5,163	5,382	6,638
Taxation	(413)	(749)	(910)	(285)	-
Profit after taxation	2,756	3,376	4,253	5,097	6,638
Number of ordinary shares in issue ('000)	3,000	3,000	3,000	3,000	10,000
Gross earnings per share (sen)	31.69	41.25	51.63	53.82	66.38
Net earnings per share (sen)	27.56	33.76	42.53	50.97	66.38

- (1) There were no exceptional or extraordinary items in all the financial years/period under review.
- (2) The gross earnings per share has been calculated based on the profit before taxation divided by 10,000,000 ordinary shares in issue after incorporating the bonus issue of 7,000,000 ordinary shares during the financial period ended 31 August, 2000.
- (3) The net earnings per share has been calculated based on the profit after taxation divided by 10,000,000 ordinary shares in issue after incorporating the bonus issue of 7,000,000 ordinary shares during the financial period ended 31 August, 2000.

10. ACCOUNTANTS' REPORT (Cont'd)

- (4) The taxation have been adjusted to reflect under/over provision in the respective financial years/periods as follows:

	← Financial year ended 31 August →				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Taxation as stated in audited accounts	834	358	910	259	-
Adjustment to reflect the taxation in the respective years	(421)	391	-	26	-
Adjusted taxation as stated in this report	<u>413</u>	<u>749</u>	<u>910</u>	<u>285</u>	<u>-</u>

- (5) The higher turnover in 1999 was made possible due to the increase in production capacity of TG Medical by additional five production lines. During the year, TG Medical sold RM18.6 million of gloves to TGSB who eventually exported them to overseas. Due to the quality gloves produced by both TGSB and TG Medical, demand from American and European countries had been overwhelming and achieved a more than 100% growth in these markets.

Notwithstanding the significant growth in turnover, profit before taxation increased marginally due to the reduction in average selling prices as a result of the Ringgit pegged at RM3.80 : USD1.00.

- (6) The increase in turnover and profit before taxation for the year 2000 were mainly due to the increase in production capacity resulting from the acquisition of twenty additional production lines in Ipoh. In addition, the production growth in TG Medical had contributed the increase in sales of TGSB as TG Medical sold RM36.7 million of gloves to TGSB during the year.

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10. ACCOUNTANTS' REPORT (Cont'd)**TG Medical**

	1.4.1995 to <u>31.3.1996</u> RM'000	1.4.1996 to <u>31.3.1997</u> RM'000	1.4.1997 to <u>31.8.1997</u> RM'000	1.9.1997 to <u>31.8.1998</u> RM'000	1.9.1998 to <u>31.8.1999</u> RM'000	1.9.1999 to <u>31.8.2000</u> RM'000
Turnover	1,132	7,182	5,225	17,476	35,802	57,353
Profit before depreciation, interest and taxation	14	187	1,081	3,964	5,966	7,738
Interest expense	(6)	(40)	(38)	(425)	(528)	(638)
Depreciation	-	(11)	(92)	(621)	(720)	(1,197)
Profit before taxation	8	136	951	2,918	4,718	5,903
Taxation	(2)	-	(130)	(143)	(25)	(964)
Profit after taxation	6	136	821	2,775	4,693	4,939
Weighted average number of issued and paid up share capital (*000 shares)	1,000	1,000	2,000	2,000	2,000	2,000
Gross earnings per share (sen)	0.80	13.60	* 114.12	145.90	235.90	295.15
Net earnings per share (sen)	0.60	13.60	* 98.52	138.75	234.65	246.95

* Annualised

- (1) There were no exceptional or extraordinary items in all the financial years/period under review.
- (2) The gross earnings per share has been calculated based on the profit before taxation divided by the weighted average issued and paid up share capital of the respective years/period.
- (3) The net earnings per share has been calculated based on the profit after taxation divided by the weighted average issued and paid up share capital of the respective years/period.

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10. ACCOUNTANTS' REPORT (Cont'd)

- (4) The taxation have been adjusted to reflect under/over provision in the respective financial periods/ years as follows :

	1.4.1995 to 31.3.1996 RM'000	1.4.1996 to 31.3.1997 RM'000	1.4.1997 to 31.8.1997 RM'000	1.9.1997 to 31.8.1998 RM'000	1.9.1998 to 31.8.1999 RM'000	1.9.1999 to 31.8.2000 RM'000
Taxation stated in audited accounts	2	43	222	145	(15)	867
Adjustment to reflect the taxation in the respective years	-	(43)	(92)	(2)	40	97
Adjusted taxation as stated in this report	2	-	130	143	25	964

- (5) TG Medical commenced its own manufacturing activities in the financial period ended 31 August, 1997. Prior to this, TG Medical only involved in trading of gloves that were produced by TGSB.
- (6) The growth in turnover for the year 1998 was mainly due to increase in sales order by an importer of latex examination gloves from Holland which comprised of 36% of TG Medical's sales for the year.

Profit before taxation was higher in 1998 due to the following :

- (i) improvement in production efficiency since it commenced manufacturing activities in the previous year.
 - (ii) favourable foreign exchange rates as 89% of TG Medical's sale were for export markets and quoted in US Dollars.
 - (iii) latex prices had decreased from an average of RM2.25 per kilogram to RM2.04 per kilogram.
- (7) The higher turnover and profit before taxation for the year 1999 and 2000 was due to the following :
- (i) increase in production capacity by the commission of five and two additional production lines in the year 1999 and 2000 respectively.
 - (ii) economies of scale achieved as TG Medical expanded from one production line as at 31 August, 1997 to a total of twelve production lines as at 31 August, 2000.

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10. ACCOUNTANTS' REPORT (Cont'd)

TG Engineering

The Company was incorporated on 27 November, 1995 and as at 31 August, 2000 the Company has not commenced operations. Thus there are no historical financial results on TG Engineering.

GG

	19.2.1998 to <u>31.12.1998</u> RM'000	1.1.1999 to <u>31.8.1999</u> RM'000	1.9.1999 to <u>31.8.2000</u> RM'000
Turnover	54	56	134
Profit before depreciation, interest and taxation	2	7	24
Interest expense	-	-	-
Depreciation	-	-	-
Profit before taxation	2	7	24
Taxation	-	-	(7)
Profit after taxation	2	7	17
Weighted average number of issued and paid up share capital ('000 shares)	*	50	50
Gross earnings per share (RM) **	1,090.91**	0.21**	0.48
Net earnings per share (RM) **	1,090.91**	0.21**	0.34

* This represents paid-up capital of RM2

** Annualised

- 1) GG was incorporated on 19 February, 1998 and the first set of accounts was for the period ended 31 December, 1998.
- 2) There were no exceptional or extraordinary items in all the financial periods under review.
- 3) The gross earnings per share has been calculated based on the profit before taxation divided by the weighted average issued and paid up share capital of the respective years/period.
- 4) The net earnings per share has been calculated based on the profit after taxation divided by the weighted average issued and paid up share capital of the respective years/period.

10. ACCOUNTANTS' REPORT (Cont'd)**TG USA**

	←—Financial year ended 31December—→				1.1.1999 to	1.9.1999 to
	<u>1995</u> RM'000	<u>1996</u> RM'000	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>31.8.1999</u> RM'000	<u>31.8.2000</u> RM'000
Turnover	93	45	90	324	243	437
Profit before depreciation, interest and taxation	25	15	27	82	11	92
Interest expense	-	-	-	-	-	-
Depreciation	(3)	(5)	(9)	(16)	(4)	(21)
Profit before taxation	22	10	18	66	7	71
Taxation	(3)	(3)	(3)	(8)	-	(41)
Profit after taxation	19	7	15	58	7	30
Weighted average number of issued and paid up share capital ('000 shares)	25	100	100	100	231	231
Gross earnings per share (sen)	88.00	10.00	18.00	66.00	* 4.55	* 30.74
Net earnings per share (sen)	76.00	7.00	15.00	58.00	* 4.55	* 12.99

* Annualised

- 1) There were no exceptional or extraordinary items in all the financial years/periods under review.
- 2) The gross earnings per share has been calculated based on the profit before taxation divided by the weighted average issued and paid up share capital of the respective years/periods.
- 3) The net earnings per share has been calculated based on the profit after taxation divided by the weighted average issued and paid up share capital of the respective years/periods.
- 4) The profit track record of TG USA reported in United States Dollar ("USD") are translated into Ringgit Malaysia ("RM") at average rate of exchange as at the end of the respective years/periods as follows :

<u>Financial year</u>	<u>Exchange Rate</u>
31.12.1995 to 1996	RM2.50 = USD1.00
31.12.1997	RM2.90 = USD1.00
31.12.1998	RM3.90 = USD1.00
31.8.1999 to 2000	RM3.80 = USD1.00

10. ACCOUNTANTS' REPORT (Cont'd)

D. DIVIDENDS

The Company has not paid or declared any dividend since the date of incorporation.

The details of dividends declared or paid by the subsidiaries, TGSB and TG Medical, in respect of all the financial years under review are as follows :-

<u>Year/Period Ended</u>	<u>Issued and Paid-up Share Capital</u> RM'000	<u>Dividend</u>	<u>Gross Dividend Rate</u> %	<u>Tax Rate</u> %	<u>Net Dividend</u> RM'000
<i>TGSB</i>					
31.8.1996	3,000	Final	5	30	105
31.8.1997	3,000	Final	6	28	130
31.8.1998	3,000	Final	10	28	216
31.8.1999	3,000	Final	10	-	300
<i>TG Medical</i>					
31.8.1998	2,000	Final	5	28	72
31.8.1999	2,000	Final	6	-	120

Except for the above, no dividend has been paid or declared by the other subsidiaries during all the financial years under review.

10. ACCOUNTANTS' REPORT (Cont'd)**E. SUMMARISED BALANCE SHEETS**

The audited balance sheets of the Company and its subsidiaries based on their respective financial year/period ends are summarised as follows :-

The Company

	As at <u>31.8.1999</u> RM	As at <u>31.8.2000</u> RM
CURRENT ASSETS		
Cash and bank balances	2	994
Other debtors	-	598,998
	<u>2</u>	<u>599,992</u>
CURRENT LIABILITIES		
Other creditors and accruals	<u>4,542</u>	<u>11,081</u>
NET CURRENT (LIABILITIES)/ASSETS	(4,540)	588,911
INTANGIBLE ASSETS	<u>4,542</u>	<u>11,089</u>
	<u>2</u>	<u>600,000</u>
SHAREHOLDERS' FUNDS		
Share capital	<u>2</u>	<u>600,000</u>
Net tangible assets (NTA) per ordinary share (RM)	<u>(2,270.00)</u>	<u>0.98</u>

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10. ACCOUNTANTS' REPORT (Cont'd)**TGSB**

The audited balance sheets of TGSB for the past six (6) financial years/period are as follows:

	-----As at 31 August----->					
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
CURRENT ASSETS						
Cash and bank balances	47	11	109	79	763	322
Fixed deposits with licensed banks	450	850	1,750	1,600	3,367	1,105
Trade debtors	1,592	4,096	6,578	6,054	7,825	11,574
Stocks	455	1,023	1,052	3,951	2,690	11,985
Other debtors, deposits and prepayments	381	313	188	268	213	421
	<u>2,925</u>	<u>6,293</u>	<u>9,677</u>	<u>11,952</u>	<u>14,858</u>	<u>25,407</u>
CURRENT LIABILITIES						
Short term borrowings	974	1,028	1,326	185	34	4,755
Trade creditors	850	1,701	1,899	2,516	4,132	12,672
Other creditors and accruals	515	765	1,229	1,664	2,179	6,485
Hire purchase creditors	146	656	690	516	32	295
Term loans	83	72	60	70	126	1,648
Taxation	65	228	951	1,426	183	183
Proposed dividend	105	105	130	216	300	-
	<u>2,738</u>	<u>4,555</u>	<u>6,285</u>	<u>6,593</u>	<u>6,986</u>	<u>26,038</u>
NET CURRENT ASSETS/(LIABILITIES)						
	187	1,738	3,392	5,359	7,872	(631)
FIXED ASSETS						
	4,191	6,356	7,342	9,208	11,583	42,564
OTHER INVESTMENT						
	-	-	-	-	-	15
HIRE PURCHASE CREDITORS						
	(321)	(1,138)	(564)	(48)	(16)	(509)
TERM LOANS						
	(715)	(820)	(770)	(1,082)	(920)	(16,282)
DEFERRED TAXATION						
	(57)	(200)	(218)	(218)	(503)	(503)
	<u>3,285</u>	<u>5,936</u>	<u>9,182</u>	<u>13,219</u>	<u>18,016</u>	<u>24,654</u>
REPRESENTED BY :						
Share capital	3,000	3,000	3,000	3,000	3,000	10,000
Retained profits	285	2,936	6,182	10,219	15,016	14,654
	<u>3,285</u>	<u>5,936</u>	<u>9,182</u>	<u>13,219</u>	<u>18,016</u>	<u>24,654</u>
NTA per ordinary share (RM)	1.10	1.98	3.06	4.41	6.01	2.47

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10. ACCOUNTANTS' REPORT (Cont'd)**TG Medical**

The audited balance sheets of TG Medical for the past six (6) financial periods/years are as follows:-

	<----As at 31 March---->		<-----As at 31 August----->			
	1996 RM'000	1997 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000
CURRENT ASSETS						
Cash and bank balances	196	2	13	22	529	265
Fixed deposits with licensed banks	200	414	414	444	605	833
Trade debtors	364	867	2,108	2,758	3,849	11,222
Stocks	209	77	465	1,471	1,357	2,312
Other debtors, deposits and prepayments	-	45	47	116	138	164
	969	1,405	3,047	4,811	6,478	14,796
CURRENT LIABILITIES						
Short term borrowings	455	43	827	2,590	1,955	4,348
Trade creditors	516	2,285	3,383	2,758	2,344	5,445
Other creditors and accruals	271	246	768	953	1,233	953
Due to holding company	-	-	2	1	-	-
Hire purchase creditors	-	15	164	295	1,038	880
Term loans	-	87	84	63	266	389
Taxation	2	2	5	146	142	382
Proposed dividend	-	-	-	72	120	-
	1,244	2,678	5,233	6,878	7,098	12,397
NET CURRENT (LIABILITIES)/ASSETS	(275)	(1,273)	(2,186)	(2,067)	(620)	2,399
FIXED ASSETS	1,873	4,491	7,090	9,703	14,229	17,249
INTANGIBLE ASSETS	2	-	-	-	-	-
HIRE PURCHASE CREDITORS	-	(30)	(301)	(281)	(1,012)	(402)
TERM LOANS	(594)	(1,546)	(1,514)	(1,563)	(2,207)	(3,338)
DEFERRED TAXATION	-	-	(126)	(126)	(151)	(730)
	1,006	1,642	2,963	5,666	10,239	15,178
REPRESENTED BY :						
Share capital	1,000	1,000	2,000	2,000	2,000	2,000
Share application monies	-	500	-	-	-	-
Retained profits	6	142	963	3,666	8,239	13,178
	1,006	1,642	2,963	5,666	10,239	15,178
NTA per ordinary share (RM)	1.00	1.64	1.48	2.78	5.07	7.59

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10. ACCOUNTANTS' REPORT (Cont'd)**TG Engineering**

The audited balance sheets of TG Engineering for the past five (5) financial periods/years are as follows:

	← As at 31 March →			← As at →	
	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>31.8.1999</u> RM'000	<u>31.8.2000</u> RM'000
CURRENT ASSETS					
Cash at bank	-	-	-	-	1
Sundry debtors	1	-	-	-	-
	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
CURRENT LIABILITIES					
Bank overdraft	180	410	449	543	-
Accruals	1	1	1	2	2
Amount due to a director	-	-	140	90	1,128
Term loan	16	15	39	52	-
	<u>197</u>	<u>426</u>	<u>629</u>	<u>687</u>	<u>1,130</u>
NET CURRENT LIABILITIES	(196)	(426)	(629)	(687)	(1,129)
FIXED ASSET	1,707	1,905	2,053	2,079	2,107
INTANGIBLE ASSETS	12	17	19	20	22
TERM LOAN	(523)	(496)	(443)	(412)	-
	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
SHARE CAPITAL	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
NTA per ordinary share (RM)	<u>0.99</u>	<u>0.98</u>	<u>0.98</u>	<u>0.98</u>	<u>0.98</u>

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10. ACCOUNTANTS' REPORT (Cont'd)**GG**

The audited balance sheets of GG for the past three (3) financial years/periods are as follows :

	← As at →		
	<u>31.12.1998</u> RM'000	<u>31.8.1999</u> RM'000	<u>31.8.2000</u> RM'000
CURRENT ASSETS			
Cash and bank balances	24	57	79
Trade debtor	-	-	1
Stocks	3	5	4
	27	62	84
CURRENT LIABILITIES			
Accruals	2	2	1
Amount due to a director	22	-	-
Taxation	1	1	7
	25	3	8
NET CURRENT ASSETS	2	59	76
REPRESENTED BY :			
Share capital	*	50	50
Retained profits	2	9	26
	2	59	76
NTA per ordinary share (RM)	1,000.00	1.18	1.52

* This represent paid up capital of RM2.

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10. ACCOUNTANTS' REPORT (Cont'd)**TG USA**

The audited balance sheets of TG USA for the past six (6) financial periods/years are as follows:

	← As at 31 December →				← As at →	
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>31.8.1999</u>	<u>31.8.2000</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
CURRENT ASSETS						
Cash and bank balances	30	53	117	23	34	125
Trade debtors	8	-	12	68	34	21
Stocks	33	8	12	361	319	257
Other debtors, deposits and prepayments	3	-	-	-	73	189
	<u>74</u>	<u>61</u>	<u>141</u>	<u>452</u>	<u>460</u>	<u>592</u>
CURRENT LIABILITIES						
Trade creditors	18	-	12	-	-	77
Other creditors and accruals	-	3	8	11	1	13
Taxation	-	-	-	-	-	1
	<u>18</u>	<u>3</u>	<u>20</u>	<u>11</u>	<u>1</u>	<u>91</u>
NET CURRENT ASSETS	56	58	121	441	459	501
FIXED ASSETS	8	328	495	486	475	462
LOANS FROM SHAREHOLDERS	(25)	(3)	-	-	-	-
	<u>39</u>	<u>383</u>	<u>616</u>	<u>927</u>	<u>934</u>	<u>963</u>
REPRESENTED BY :						
Share capital	63	250	250	250	670	670
Share application monies	-	150	150	420	-	-
Exchange fluctuation reserve	-	-	219	202	202	202
Profit and loss account	(24)	(17)	(3)	55	62	91
	<u>39</u>	<u>383</u>	<u>616</u>	<u>927</u>	<u>934</u>	<u>963</u>
NTA per ordinary share (RM)	<u>1.56</u>	<u>2.33</u>	<u>4.66</u>	<u>5.07</u>	<u>4.04</u>	<u>4.16</u>

The balance sheets of TG USA reported in United States Dollar ("USD") are translated into Ringgit Malaysia ("RM") at the rate of exchange ruling at the end of the respective periods/years as follows:

As at	Exchange Rate
31.12.1995 to 1996	RM2.50 = USD1.00
31.12.1997	RM3.90 = USD1.00
31.12.1998 to 31.8.2000	RM3.80 = USD1.00

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10. ACCOUNTANTS' REPORT (Cont'd)**F. STATEMENT OF ASSETS AND LIABILITIES**

The following statement of assets and liabilities of the Proforma Group has been prepared based on the audited balance sheets of the Company, TGSB, TG Medical, TG Engineering, GG and TG USA as at 31 August, 2000 and on the assumption that the subscription of shares, acquisitions of subsidiaries and rights issue had been effected as at 31 August 2000.

	<u>Note</u>	<u>The Company RM'000</u>	<u>Proforma Group RM'000</u>
CURRENT ASSETS			
Cash and bank balances	2	1	21,193
Debtors	3	599	15,729
Stocks	4	-	14,557
		<u>600</u>	<u>51,479</u>
CURRENT LIABILITIES			
Short term borrowings	5	-	9,104
Creditors	6	11	20,410
Due to a director	7	-	1,128
Taxation		-	573
		<u>11</u>	<u>31,215</u>
NET CURRENT ASSETS		589	20,264
FIXED ASSETS	8	-	62,382
OTHER INVESTMENT		-	15
INTANGIBLE ASSETS		11	34
HIRE PURCHASE CREDITORS	9	-	(911)
TERM LOANS	10	-	(19,619)
DEFERRED TAXATION	11	-	(1,233)
		<u>600</u>	<u>60,932</u>
SHAREHOLDERS' FUNDS			
Share capital	12	600	42,490
Reserves	13	-	18,442
		<u>600</u>	<u>60,932</u>
Net Tangible Assets Per Ordinary Share (RM)		<u>0.98</u>	<u>1.43</u>

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10. ACCOUNTANTS' REPORT (Cont'd)

G. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES**I. SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of Accounting**

The accounts are prepared under the historical cost convention and comply with applicable approved accounting standards in Malaysia.

(b) Basis of Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to the end of the financial year. The accounts of the subsidiaries are consolidated using merger accounting according to the provisions of Malaysian Accounting Standard No. 2.

Under the merger method of accounting, the results of the subsidiaries for the full financial year are included in the consolidated profit and loss account. The difference between the carrying value of the investment in the Company (nominal value of shares issued by the Company as consideration) and the nominal value of shares acquired represents merger deficit which is set off against reserves of the Group.

Related company transactions are eliminated on consolidation and the consolidated accounts reflect external transactions only.

(c) Currency Conversion and Translation

Transactions in foreign currencies during the period are converted into Ringgit Malaysia at rates of exchange approximating those ruling at the transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated into Ringgit Malaysia at rates of exchange approximating those ruling at that date. All exchange gains or losses are dealt with in the profit and loss account.

In translating the accounts of foreign subsidiaries into Ringgit Malaysia, the following procedures are adopted :

- (a) assets and liabilities are translated at the closing rate;
- (b) income and expense items are translated at the average rate for the period;
- (c) all resulting exchange differences are taken to exchange equalisation reserve.

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10. ACCOUNTANTS' REPORT (Cont'd)**(d) Fixed Assets and Depreciation**

Fixed assets are stated at cost less accumulated depreciation. Freehold land is not depreciated and leasehold land is amortised over the period of the lease. Depreciation of other fixed assets is provided on the straight line basis calculated to write off the cost of each asset over its estimated useful life.

The principal annual rates of depreciation are:-

Long term leasehold land	Over 99 years
Buildings	2%
Motor vehicles	20%
Plant and machinery	10%
Factory equipment	10%
Office equipment, furniture and fittings	10%

(e) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis. Cost of finished goods and work-in-progress include raw materials, direct labour and production overheads.

(f) Deferred Taxation

Deferred taxation is provided under the liability method for all material timing differences except where there is reasonable evidence that these timing differences will not reverse in the foreseeable future.

(g) Hire Purchase

Assets held under hire purchase are treated as if they had been purchased at cost at the commencement of the hire purchase agreements. These cost are included under fixed assets and depreciation is provided accordingly. The corresponding obligations under hire purchases are included under liabilities. The finance charges of installments payable are charged to the profit and loss account over the period of the hire purchase agreements.

(h) Investments

Investments are stated at cost less provision for any permanent diminution in value.

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10. ACCOUNTANTS' REPORT (Cont'd)

2. CASH AND BANK BALANCES

	<u>The Company</u> RM'000	<u>Proforma Group</u> RM'000
Cash in hand and at banks	1	19,254
Fixed deposits with licensed banks	-	1,939
	<u>1</u>	<u>21,193</u>

The fixed deposits amounting to RM1,510,000 have been pledged to the banks for banking facilities granted to the subsidiaries.

3. DEBTORS

	<u>Proforma Group</u> RM'000
Trade debtors	14,831
Less : Provision for doubtful debts	(7)
	<u>14,824</u>
Other debtors, deposits and prepayments	905
	<u>15,729</u>

4. STOCKS

	<u>Proforma Group</u> RM'000
Raw materials	2,380
Work-in-progress	1,692
Finished goods	9,496
Others	989
	<u>14,557</u>

5. SHORT TERM BORROWINGS

	<u>Proforma Group</u> RM'000
Overdrafts	2,876
Bills payable	4,109
Export Credit Refinancing	2,119
	<u>9,104</u>

The short term borrowings bear interest of between 4.0% to 8.8% per annum and are secured against:

- (a) Legal charges over certain land and buildings of subsidiaries.
- (b) Debenture covering fixed and floating charges over the assets of subsidiaries.
- (c) Joint and several guarantee by the directors of subsidiaries.

10. ACCOUNTANTS' REPORT (Cont'd)**6. CREDITORS**

	The Company RM'000	Proforma Group RM'000
Trade creditors	-	10,201
Hire purchase creditors (Note 9)	-	1,174
Term loans (Note 10)	-	2,038
Other creditors and accruals	11	6,997
	<u>11</u>	<u>20,410</u>

7. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest free and has no fixed terms of repayment.

8. FIXED ASSETS**Proforma Group**

	** Land and buildings RM'000	Motor vehicles RM'000	Plant and machinery, tools and equipment RM'000	*Other assets RM'000	Total RM'000
Cost	32,767	2,742	32,640	2,616	70,765
Accumulated depreciation	943	593	6,517	330	8,383
Net book value	<u>31,824</u>	<u>2,148</u>	<u>26,122</u>	<u>2,287</u>	<u>62,382</u>

* Other assets comprise office equipment, furniture, fixtures, air conditioners and renovation.

** The details of land and buildings are as follows:

	<u>Freehold land</u> RM'000	<u>Long term leasehold land</u> RM'000	<u>Freehold buildings</u> RM'000	<u>Long term leasehold building</u> RM'000	Total RM'000
Cost	7,040	2,900	15,175	7,651	32,767
Accumulated depreciation	-	14	842	87	943
Net book value	<u>7,040</u>	<u>2,886</u>	<u>14,333</u>	<u>7,565</u>	<u>31,824</u>

10. ACCOUNTANTS' REPORT (Cont'd)

Fixed assets of the Group have been pledged to financial institutions for term loans and banking facilities obtained by the Group.

Plant and machinery and motor vehicles with net book value of RM3,296,000 and RM1,726,000 respectively are acquired under hire purchase.

9. HIRE PURCHASE CREDITORS

	Proforma Group RM'000
Hire purchase payments due:	
Within one year	1,379
Within two to five years	1,089
	<u>2,468</u>
Interest in suspense	(383)
	<u>2,085</u>
Repayment due within 12 months included in creditors	(1,174)
	<u>911</u>

10. TERM LOANS

	Proforma Group RM'000
Term loans	21,657
Repayments due within 12 months included in creditors	(2,038)
	<u>19,619</u>

The term loans are repayable by 60 to 120 instalments, bear interest of between 7.5% to 8.8% per annum and are secured by way of fixed charges over land and buildings of the subsidiaries.

11. DEFERRED TAXATION**Proforma Group**

The deferred taxation provided in the accounts is mainly in respect of timing differences between depreciation and corresponding capital allowances.

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10. ACCOUNTANTS' REPORT (Cont'd)**12. SHARE CAPITAL**

	The Company RM'000	Proforma Group RM'000
Ordinary shares of RM1.00 each		
Authorised	<u>50,000</u>	<u>50,000</u>
Issued and fully paid-up	<u>600</u>	<u>42,490</u>

13. RESERVES

	Proforma Group RM'000
(a) Non-distributable :	
Exchange fluctuation reserve	202
Set off against merger deficit	<u>(202)</u>
	-
Share premium	<u>2,546</u>
	<u>2,546</u>
(b) Distributable :	
Retained profits	27,949
Set off against merger deficit	<u>(12,053)</u>
	<u>15,896</u>
At 31 August, 2000	<u><u>18,442</u></u>

14. CAPITAL COMMITMENT

	Proforma Group RM'000
In respect of capital expenditure contracted but not provided for	<u><u>1,950,000</u></u>

15. CONTINGENT LIABILITY

On 8 November 2000, Top Glove Sdn Bhd ("TGSB"), a subsidiary, was served a writ of summons (Shah Alam High Court Civil Suit No. MT3-22-431-2000) by Supermax Glove Manufacturing Sdn Bhd ("SGM") claiming damages in the region of USD 2 million. The claim alleges passing off by TGSB of certain coloured boxes bearing the device of a glove containing gloves manufactured by TGSB under the brand name "SAFEMAX" as boxes containing gloves manufactured by SGM under the brand name "SUPERMAX". The alleged infringing boxes are also alleged to carry notations of the various certifications of quality/accreditation belonging to SGM. Apart from damages, SGM have, *inter alia*, sought by way of relief injunctions preventing TGSB from carrying on certain acts relating to the alleged infringement and an order for the delivery up or destruction of the infringing goods.

10. ACCOUNTANTS' REPORT (Cont'd)

SGM also applied to the Courts for interlocutory relief pending final disposal of the claim. It was initially fixed for hearing on 20 November 2000 but was adjourned to 16 April 2001. Certain limited undertakings were given by TGSB to the courts pending final disposal of the application, including that TGSB by itself or its officers shall not (i) manufacture or sell gloves under the brand name "SAFEMAX" packaged in boxes bearing certain designs, and (ii) reproduce on any packaging material produced by TGSB any registration or other identification number peculiar to SGM in respect of any certificates of quality/accreditation.

TGSB, through its appointed solicitors, M/s Ranjit Ooi & Robert Low, entered an appearance to the suit on 9 November 2000. A statement of defence to the claim was filed on 5 December 2000. TGSB also filed a counter claim against SGM on 5 December 2000 for general damages for the tort of abuse of process and/or unlawful interference with trade or business and/or the commission of positive and deliberate acts designed to injure TGSB on, *inter alia*, the alleged basis that SGM had commenced the suit with the collateral and dominant purpose of interfering with and adversely affecting the pending listing exercise of TGSB's holding company, Top Glove.

TGSB's appointed solicitors have opined that SGM's case against TGSB is weak and unlikely to succeed on the grounds, *inter alia*, that (i) the alleged infringing goods were manufactured for, and at the request of, one of TGSB's customers in Brazil in accordance with its normal trade practice with respect to "original equipment manufacturing" customers, and was never packaged for circulation or sale in Malaysia. Further, SGM's holding company has, since cessation of supply of gloves to the customer in August 2000, entered into a joint venture with the same customer, (ii) the customer had provided for adoption by TGSB, and expressly required exact reproduction by TGSB of, the complete artwork and specifications for the packaging of the gloves and (iii) after 2 initial shipments shipped out in early July and early August 2000, respectively, no further orders were received from the customer and TGSB accordingly ceased supplying the packaging of gloves under the "SAFEMAX" branding for the customer, (iv) the quality logos appearing on the alleged infringing packaging are not peculiar to SGM as TGSB itself has obtained all the quality certifications and/or accreditations associated with the quality logos, and (v) TGSB itself is a reputable and one of the leading glove manufacturers and worldwide exporters with its own established in-house brand name (including "Top Glove") having a production capacity of over 2.4 billion gloves per year. Consequently, TGSB has no reason to want or intend to pass off its goods as that of SGM's.

16. CURRENCY

All amounts are stated in Ringgit Malaysia (RM), unless otherwise stated.

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10. ACCOUNTANTS' REPORT (Cont'd)**H. PROFORMA NET TANGIBLE ASSETS COVER**

Based on the statement of assets and liabilities of the Proforma Group as at 31 August, 2000, the proforma net tangible assets (NTA) per ordinary share after incorporating the adjustments for public issue and estimated cost of flotation will be as follows :

(i) Net Tangible Assets

	RM'000
NTA of the Proforma Group as at 31 August, 2000	60,898
Proceeds from public issue	20,277
	<u>81,175</u>
Less : Estimated cost of flotation	(1,500)
Proforma NTA	<u><u>79,675</u></u>

(ii) Share Capital

	Number of ordinary shares of <u>RM1.00 each</u>
As at 31 August, 2000	600,000
Issued as consideration for the acquisition of subsidiaries	25,975,213
	<u>26,575,213</u>
Add : Rights issue	15,914,787
Public issue	7,510,000
Enlarged issued and paid-up share capital	<u><u>50,000,000</u></u>
Proforma NTA per ordinary share of RM1.00 each (RM)	<u><u>1.59</u></u>

I. AUDITED ACCOUNTS

No audited accounts have been prepared in respect of any period subsequent to 31 August, 2000.

Yours faithfully,

ARTHUR ANDERSEN & CO.

No. AF 0103

Public Accountants

BALA KRISHNAN A/L PONNIAH

No. 1394/7/01(J)

Partner of the Firm