

# TOP GLOVE CORPORATION BERHAD

(Company No. 474423-X)  
(Incorporated in Malaysia under the Companies Act, 1965)

**INVESTOR WARNING: THE FOLLOWING INFORMATION SUMMARY IS ONLY A SUMMARY OF THE SALIENT INFORMATION RELATING TO THE TOP GLOVE GROUP, AND SHOULD BE READ AND UNDERSTOOD IN CONJUNCTION WITH THE FULL TEXT OF THIS PROSPECTUS. INVESTORS SHOULD READ AND UNDERSTAND THE WHOLE PROSPECTUS PRIOR TO DECIDING WHETHER TO INVEST.**

## 1. INFORMATION SUMMARY

### 1.1 History and Business

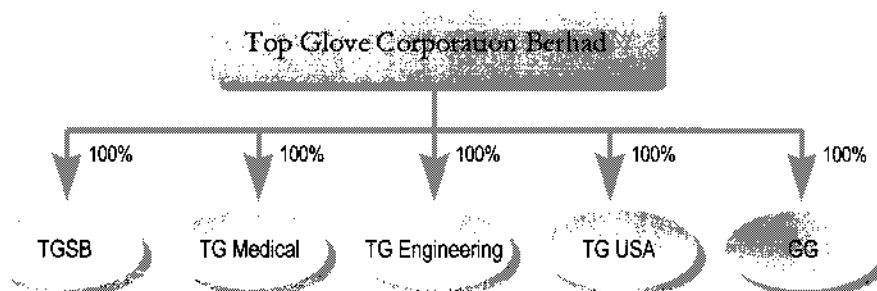
Top Glove was incorporated in Malaysia on 23 December 1998 under the Companies Act, 1965 as a public limited company by the name of Top Glove Corporation Bhd (see Section 4.1). It is principally an investment holding company with its five (5) wholly owned subsidiaries involved substantially in the manufacturing, trading and exporting of latex examination, surgical and nitrile gloves.

Based on MARGMA's membership directory for Year 2000, Top Glove Group is currently one of Malaysia's leading manufacturer of latex examination gloves with 41 production lines. (Source: MARGMA – Membership Directory Year 2000) The other major players in the industry include Latexx Partners Berhad, Kossan Rubber Industries Berhad and Rubberex Corporation Berhad. The Group acts as a one-stop glove sourcing center, manufacturing various types of latex examination gloves, including surgical and nitrile gloves. The Group operates a total of 5 factories with 41 production lines having an annual production capacity of about 2.4 billion pieces of gloves as at 1 September 2000. Accredited with numerous international quality awards for its latex examination gloves, the Group is currently exporting to 103 countries world-wide with special emphasis on countries such as the USA, countries in Europe and the Middle East, Australia and Japan. (See Section 4.5).

For three consecutive years from 1998 to 2000, the Top Glove Group was awarded Andersen Consulting's Top 50 Enterprise achievement award in Malaysia in recognition of its financial and human resources management achievements. The receipt of the award for three years running serves to underline the Group's ability to meet its customers requirements and demands for product quality, reliability in supply and most importantly, price competitiveness in the international market. On 14 September 2000, TGSB was awarded the Selangor State Export Excellence Award 2000 by the Selangor State Government. (See also Section 4.5).

The Top Glove Group strongly believes in the concept and practices of "CONTINUOUSLY STRIVING FOR IMPROVEMENT AND INNOVATION" to stay ahead in the global market for gloves.

The Group's corporate structure is set out below:-



## 1. INFORMATION SUMMARY (Cont'd)

Details of the subsidiary companies of Top Glove are summarised below. (Please refer to Section 4.1 and 4.4 for further details):-

| Subsidiary Companies | Date and place of incorporation | Issued and paid-up share capital | Effective Equity Interest (%) | Principal Activities   |
|----------------------|---------------------------------|----------------------------------|-------------------------------|--|
| TGSB                 | 9.7.1991<br>Malaysia            | RM10,000,000                     | 100.0                         | Manufacturing, trading and exporting of various types of latex gloves.           |
| TG Medical           | 4.12.1993<br>Malaysia           | RM2,000,000                      | 100.0                         | Manufacturing, trading and exporting of examination, surgical and nitrile gloves |
| TG Engineering       | 27.11.1995<br>Malaysia          | RM1,000,000                      | 100.0                         | Property investment  |
| TG USA               | 19.5.1994<br>USA                | USD231,000                       | 100.0                         | Trading of latex gloves  |
| GG                   | 19.2.1998<br>Malaysia           | RM50,000                         | 100.0                         | Trading of latex gloves  |

### 1.2 Shareholdings of Promoters, Major Shareholders, Directors and Key Management of Top Glove

| Final shareholdings after the listing of Top Glove |                                    |            |       |                |       |
|--|------------------------------------|------------|-------|----------------|-------|
|  |                                    | Direct     | %     | Indirect       | %     |
| <b><u>Promoters</u></b>                            |                                    |            |       |                |       |
| Lim Wee Chai                                       | Chairman/Managing Director         | 14,685,813 | 29.37 | 7,621,178 (a)  | 15.24 |
| Tong Siew Bee                                      | Executive Director                 | 913,242    | 1.83  | 21,393,749 (b) | 42.79 |
| <b><u>Major Shareholders</u></b>                   |                                    |            |       |                |       |
| Lim Wee Chai                                       | Chairman/Managing Director         | 14,685,813 | 29.37 | 7,621,178 (a)  | 15.24 |
| Tong Siew Bee                                      | Executive Director                 | 913,242    | 1.83  | 21,393,749 (b) | 42.79 |
| Lim Hooi Sin                                       | Non-Executive Director             | 1,395,366  | 2.79  | 20,911,625 (c) | 41.82 |
| Lim Quee Choo                                      | -                                  | 611,671    | 1.22  | 21,695,320 (d) | 43.39 |
| Top Glove Holding Sdn Bhd                          | -                                  | 4,700,899  | 9.40  | -              | -     |
| United Gloves Sdn Bhd                              | -                                  | 3,095,597  | 6.19  | -              | -     |
| <b><u>Directors</u></b>                            |                                    |            |       |                |       |
| Lim Wee Chai                                       | Chairman/Managing Director         | 14,685,813 | 29.37 | 7,621,178 (a)  | 15.24 |
| Tong Siew Bee                                      | Executive Director                 | 913,242    | 1.83  | 21,393,749 (b) | 42.79 |
| Tan Sri Datuk Arshad Bin Ayub                      | Independent Non-Executive Director | 1,875,000  | 3.75  | -              | -     |
| Lim Hooi Sin                                       | Non-Executive Director             | 1,395,366  | 2.79  | 20,911,625 (c) | 41.82 |
| Lau Boon Ann                                       | Non-Executive Director             | 10,000     | 0.02  | -              | -     |
| Haji Shahadan bin Haji Abd Manas                   | Executive Director                 | 2,510,000  | 5.02  | -              | -     |
| Sekarajasekaran a/l Arasaratnam                    | Independent Non-Executive Director | 2,073,731  | 4.15  | -              | -     |
| <b><u>Key Management of Top Glove</u></b>          |                                    |            |       |                |       |
| Lee Kim Meow                                       | General Manager                    | 195,883    | 0.39  | -              | -     |

#### **Notes:**

\* The above shareholdings include the respective promoters, directors' and key management's pink form allocation of Shares pursuant to the IPO

\*\* Lim Wee Chai and Tong Siew Bee are husband and wife. Lim Hooi Sin and Lim Quee Choo are the brother and sister respectively to Lim Wee Chai. No other Directors and Senior Management of the Top Glove Group are related to each other.

(a) Deemed interested through Tong Siew Bee, Lim Hooi Sin, Lim Quee Choo and Top Glove Holding Sdn Bhd's direct interest in Top Glove

(b) Deemed interested through Lim Wee Chai, Lim Hooi Sin, Lim Quee Choo and Top Glove Holding Sdn Bhd's direct interest in Top Glove

(c) Deemed interested through Lim Wee Chai, Tong Siew Bee, Lim Quee Choo and Top Glove Holding Sdn Bhd's direct interest in Top Glove

(d) Deemed interested through Lim Wee Chai, Tong Siew Bee, Lim Hooi Sin and Top Glove Holding Sdn Bhd's direct interest in Top Glove

**1. INFORMATION SUMMARY (Cont'd)****1.3 Financial Statistics for the Past Five (5) Financial Years**

The following table has been extracted from the Accountants' Report in Section 10 of this Prospectus and should be read in conjunction with the notes and assumptions thereto.

The summary of the proforma consolidated audited results of the Top Glove Group for the five (5) financial years ended 31 August 1996 to 2000 below has been prepared for illustrative purposes only based on the audited accounts of Top Glove Group and on the assumption that the current structure of the Group has been in existence throughout the period under review:-

|                                      | Financial Year Ended |           |           |           |           |
|--------------------------------------|----------------------|-----------|-----------|-----------|-----------|
|                                      | 31.8.1996            | 31.8.1997 | 31.8.1998 | 31.8.1999 | 31.8.2000 |
|                                      | RM'000               | RM'000    | RM'000    | RM'000    | RM'000    |
| Turnover                             | 29,089               | 35,453    | 48,493    | 70,198    | 103,161   |
| EBIDTA                               | 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)   |
| PBT                                  | 3,244                | 5,173     | 8,131     | 10,137    | 12,636    |
| Taxation                             | (417)                | (882)     | (1,059)   | (313)     | (1,012)   |
| PAT                                  | 2,827                | 4,291     | 7,072     | 9,824     | 11,624    |
| No. of Shares assumed to be in issue | 26,575               | 26,575    | 26,575    | 26,575    | 26,575    |
| Gross EPS (RM)                       | 0.12                 | 0.19      | 0.31      | 0.38      | 0.48      |
| Net EPS (RM)                         | 0.11                 | 0.16      | 0.27      | 0.37      | 0.44      |
| Gross Dividend rate (%)              | 0.56                 | 0.68      | 1.51      | 1.58      | —*        |
| Net Dividend rate (%)                | 0.40                 | 0.49      | 1.08      | 1.58      | —*        |

**Notes:-**

- Top Glove's results are not included as it was incorporated on 23 December 1998 and is currently dormant
- There were no exceptional or extraordinary items in all the financial years under review.
- There were no minority interests in all the financial years under review.
- There were no dividend paid or declared during the financial year ended 31.08.2000
- 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                           | 1997   | 1998   | 1999   | 2000   |
|  | RM'000                         | RM'000 | RM'000 | RM'000 | 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  |

- 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.

- 31 March, 1995 to 1997 for TG Medical;
- 31 December, 1998 and 31 August, 1999 for GG; and
- 31 December, 1995 to 1998 and 31 August, 1999 for TG USA

**1. INFORMATION SUMMARY (Cont'd)**

- vii) *The growth in turnover for the year 1998 was mainly due to favourable exchange rates as 84% of the Group's 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 12% of the current year's sales. As a result of the above and coupled with the drop in average latex prices, the Group achieved higher profit before taxation.*
- viii) *The higher turnover in 1999 was made possible due to 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.*
- ix) *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.*

**1.4 Summary of Proforma Consolidated Balance Sheets of Top Glove as at 31 August 2000**

|  | <b>Audited balance<br/>sheet of Top<br/>Glove as at<br/>31.8.2000<br/>RM</b> | <b>(I)<br/>After<br/>incorporation of<br/>the Acquisitions<br/>RM'000</b> | <b>(II)<br/>After (I) and<br/>Rights Issue<br/>RM'000</b> | <b>(III)<br/>After (II) and<br/>Public Issue<br/>RM'000</b> |
|--|--|---|---|---|
| Current Assets                           | 600  | 33,018  | 51,479  | 70,256  |
| Current Liabilities                      | (11)   | (31,215)  | (31,215)  | (31,215)  |
| <b>NET CURRENT (LIABILITIES) /ASSETS</b> | <b>589</b>   | <b>1,803</b>  | <b>20,264</b>   | <b>39,041</b>   |
| Fixed Assets                             | -  | 62,382  | 62,382  | 62,382  |
| Other Investment                         | -  | 15  | 15  | 15  |
| Intangible Assets                        | 11   | 34  | 34  | 34  |
| Hire Purchase Creditors                  | -  | (911)   | (911)   | (911)   |
| Term Loans                               | -  | (19,619)  | (19,619)  | (19,619)  |
| Deferred Taxation                        | -  | (1,233)   | (1,233)   | (1,233)   |
|  | <b>600</b>   | <b>42,471</b>   | <b>60,932</b>   | <b>79,709</b>   |
| <b>SHAREHOLDERS' FUNDS</b>               |  |   |   |   |
| Share Capital                            | 600  | 26,575  | 42,490  | 50,000  |
| Reserves                                 | -  | 15,896  | 18,442  | 29,709  |
|  | <b>600</b>   | <b>42,471</b>   | <b>60,932</b>   | <b>79,709</b>   |
| NTA per share (RM)                       | 0.98   | 1.60  | 1.43  | 1.59  |

**Notes:-**

*The notes to the proforma consolidated balance sheets as at 31.8.2000 are set out in Section 7.6 of this Prospectus.*

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**1. INFORMATION SUMMARY (Cont'd)**


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**1.5 The Risk Factors**

The following are a list of some of the main risk factors (which may not be exhaustive) as extracted from Section 3 of this Prospectus which applicants for the Public Issue/Offer Shares should carefully consider in addition to other information contained elsewhere in this Prospectus before applying for the Public Issue/Offer Shares :-

- (i) No Prior Market for Top Glove Shares;
- (ii) Forecasts;
- (iii) Competitive Conditions;
- (iv) Business Risks and Availability of Resources;
- (v) Ownership and Control;
- (vi) Foreign Exchange Fluctuations;
- (vii) Continuity of Management;
- (viii) Environmental Concerns
- (ix) Compliance with International Standards /Requirements
- (x) Other Factors

For the details of the risks involved, please refer to Section 3 of this Prospectus.

**1.6 Principal Statistics Relating to the Initial Public Offering**

The following statistics relating to the IPO are derived from the full text of this Prospectus and should be read in conjunction with the text. (Please also refer to Sections 2.1, 7.3 and 7.5)

**AUTHORISED SHARE CAPITAL**

|                   |              |
|-------------------|--------------|
| 50,000,000 Shares | RM50,000,000 |
|-------------------|--------------|

*Issued and fully paid-up share capital :*

|                   |              |
|-------------------|--------------|
| 42,490,000 Shares | RM42,490,000 |
|-------------------|--------------|

**TO BE ISSUED PURSUANT TO THE PUBLIC ISSUE :**

|                  |              |
|------------------|--------------|
| 7,510,000 Shares | RM7,510,000  |
|                  | RM50,000,000 |

**TO BE OFFERED PURSUANT TO THE OFFER FOR SALE**

|                   |              |
|-------------------|--------------|
| 14,240,000 Shares | RM14,240,000 |
|-------------------|--------------|

**IPO PRICE PER SHARE**

RM2.70

**PROFORMA CONSOLIDATED NTA**

|   |              |
|---|--------------|
| Proforma Consolidated NTA as at 31 August 2000 (after taking into account the Rights Issue, Public Issue and estimated listing expenses of RM1,500,000) | RM79,675,000 |
|---|--------------|

|                                     |        |
|-------------------------------------|--------|
| Proforma Consolidated NTA per share | RM1.59 |
|-------------------------------------|--------|

**1. INFORMATION SUMMARY (Cont'd)****CONSOLIDATED PROFIT FORECAST**

|   | <b>Proforma<br/>Consolidated<br/>Profit Forecast<br/>Financial year<br/>ending 31.8.2001</b> |
|---|--|
| Turnover (RM'000)   | 168,222  |
| Consolidated profit before taxation (RM'000)                | 18,531   |
| Consolidated profit after taxation (RM'000)                 | 15,795   |
| Gross EPS (sen)   | 37.06  |
| Net EPS (sen)   | 31.59  |
| Gross PE based on the IPO price of RM2.70 per share (times) | 7.29   |
| Net PE based on the IPO price of RM2.70 per share (times)   | 8.55   |

**FORECAST DIVIDEND**

|   | <b>Financial<br/>year ending<br/>31.8.2001</b> |
|---|--|
| Dividend per share (sen)                                      | 5.0  |
| Dividend yield based on the IPO price of RM2.70 per share (%) | 1.85   |
| Net dividend cover (times)                                    | 6.32   |

**1.7 Basis of Arriving at the Indicative Issue / Offer Price**

The IPO price of RM2.70 per Share was determined and agreed upon by the Company and Arab-Malaysian as Adviser and Managing Underwriter based on various factors including the following:-

- i) the proforma forecast net PE multiple of approximately 8.55 times based on the proforma forecast net EPS of 31.59 sen and the IPO price of RM2.70 per Share;
- ii) the future plans and prospects of the Top Glove Group as outlined in Section 4.10 of this Prospectus; and
- iii) the proforma consolidated NTA per Share of Top Glove as at 31 August 2000 of RM1.59 per Share.

The Directors of Top Glove and Arab Malaysian are of the opinion that the indicative Public Issue/Offer price is fair and reasonable after careful consideration of the abovementioned factors.

However, shareholders should also note that the market price of Top Glove shares upon listing on the KLSE are subject to the vagaries of the market forces and other uncertainties which may affect the price of Top Glove shares being traded.

**1.8 Proceeds of the Public Issue, Offer for Sale and their Utilisation**

The Offer for Sale will raise gross proceeds of approximately RM38.5 million. This amount shall accrue to the Offerors and no part of the proceeds is receivable by Top Glove. The Offerors shall bear all expenses, such as, underwriting commission, brokerage, registration and transfer fees relating to the Offer Shares.

**1. INFORMATION SUMMARY (Cont'd)**

All proceeds of the Public Issue after deducting the relevant listing expenses will accrue to Top Glove. The estimated total gross proceeds of the Public Issue is approximately RM20.3 million. Top Glove will bear all other expenses incidental to the listing and quotation of Top Glove's Shares on the Second Board of the KLSE which include underwriting commission, brokerage, registration fee, professional fees, SC fees, advertising, listing expenses and other fees the aggregate of which is estimated to be approximately RM1.5 million. The proceeds from the Rights Issue and the Public Issue of RM18.461 million and RM20.277 million respectively will be utilised by end of August 2001 as follows:-

|  | RM'000        |
|--|---------------|
| Repayment of bank borrowings                                   | 24,361        |
| Purchase of plant and machinery                                | 4,800         |
| Purchase of Information Technology ("IT") and office equipment | 1,540         |
| Estimated listing expenses                                     | 1,500         |
| Working capital  | 6,537         |
| <b>TOTAL</b>   | <b>38,738</b> |

For a detailed commentary of the above mentioned proceeds, please refer to Section 2.5 of this Prospectus.

**1.9 Summary of All Material Litigation, Commitments and Contingent Liabilities**

As at 8 February 2001 (being the last practicable date prior to the printing of this Prospectus):-

- a) the Group has contingent liabilities of approximately RM1,560,990. Please refer to Section 7.2 for further particulars. Further, TGSB is subject to the litigation suit as set out in paragraph (c) below ; and
- b) the Group has capital commitments of approximately RM150,000 (authorised but not contracted for). Please refer to Section 7.2 for further particulars; and
- c) Save as disclosed below, the Company and its subsidiaries are not engaged in any litigation, either as plaintiff or defendant, which has a material effect on the financial position of the Company and its subsidiaries, and the Directors do not know of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and/or adversely affect the position or business of the Company or subsidiaries:-

Pursuant to Shah Alam High Court Civil Suit No. MT3-22-431-2000, a writ of summons was served by Supermax Glove Manufacturing Sdn Bhd ("SGM") against TGSB on 8 November 2000 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.

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**1. INFORMATION SUMMARY (Cont'd)**


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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.

TGSB's appointed solicitors are of the view that it is premature at this time to ascertain the financial outcome of the civil action.

Based on the legal opinion from M/s Ranjit Ooi & Robert Low, TGSB's reporting accountants, M/s Arthur Andersen & Co have stated that it is of the opinion that the Suit should not have any material impact on Top Glove's net tangible assets or its profit forecast for the financial year ending 31 August, 2001. However, the full particulars of the Suit, its status and the lawyer's opinion should be adequately disclosed in the Prospectus.

A copy of the letters of opinion from M/s Ranjit Ooi & Robert Low and M/s Arthur Andersen & Co are set out in Section 13 of this Prospectus.

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## 2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE

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This Prospectus is dated 16 February 2001.

A copy of this Prospectus has been registered with the Securities Commission and lodged with the ROC who takes no responsibility for its contents.

**The approval of the SC obtained vide its letters dated 3 July 2000 and 10 January 2001 shall not be taken to indicate that the SC recommends the Public Issue and Offer for Sale, and that investors should rely on their own evaluation to assess the merits and risks of the Public Issue and Offer for Sale.**

Application will be made to the KLSE within three (3) market days of the issuance of this Prospectus for admission to the Official List and for the listing of and quotation for the issued and fully paid-up share capital of Top Glove on the Second Board of the KLSE. These Shares will be admitted to the Official List on the Second Board of the KLSE and official quotation will commence upon receipt of confirmation from MCD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants. Acceptance of applications for the Offer and Public Issue Shares will be conditional upon permission being granted by the KLSE to deal in and for the quotation of the entire enlarged issued and fully paid-up Shares on the Second Board of the KLSE. Accordingly, monies paid in respect of any application accepted from the Offer for Sale and Public Issue will be returned without interest if the said permission for listing is not granted within six(6) weeks from the date of issue of this Prospectus (or such longer period as may be specified by the SC).

**Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991 and Section 39 (1)(j) of the Act, KLSE has prescribed Top Glove as a prescribed security. In consequence thereof, the shares issued/offered through this Prospectus will be deposited directly with the MCD and any dealings in these shares will be carried out in accordance with the aforesaid Acts and the Rules of the MCD.**

An applicant should state his CDS Account number in the space provided in the Application Form if he presently has such an account. Where an applicant does not presently have a CDS Account, he should state in the Application Form his preferred ADA Code.

The KLSE assumes no responsibility for the correctness of any statements made or opinions or report expressed in this Prospectus. Admission to the Official List of the Second Board of the KLSE is not to be taken as an indication of the merits of the Company or of its Shares.

No person is authorised to give any information or to make any representation not contained herein in connection with the Initial Public Offering and if given or made, such information or representation must not be relied upon as having been authorised by Top Glove. Neither the delivery of this Prospectus nor any Initial Public Offering made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Top Glove since the date hereof.

The distribution of this Prospectus and the making of the IPO in certain other jurisdictions outside Malaysia may be restricted by law. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the Public Issue shares or to buy any Offer Shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation

***If you are unsure of any information contained in this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant, or other professional adviser.***

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**2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)**


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**2.1 Share Capital**

|   |                     |
|---|---------------------|
| <i>Authorised:-</i>                                 |                     |
| 50,000,000 Shares                                   | <u>RM50,000,000</u> |
| <i>Issued and fully paid-up :-</i>                  |                     |
| 42,490,000 Shares                                   | RM42,490,000        |
| <i>To be issued pursuant to the Public Issue :-</i> |                     |
| 7,510,000 Shares                                    | <u>RM7,510,000</u>  |
|   | <u>RM50,000,000</u> |
| <i>To be Offered for Sale:-</i>                     |                     |
| 14,240,000 Shares                                   | <u>RM14,240,000</u> |

There is only one class of shares in the Company, namely ordinary shares of RM1.00 each, all of which rank pari passu with one another. The Public Issue Shares to be issued pursuant to this Prospectus will rank pari passu in all respect with the existing Shares of the Company including voting rights and rights to all dividends that may be declared subsequent to the date of this Prospectus.

Subject to any special rights attaching to any Shares which may be issued by the Company in the future, the holders of Shares in the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and the whole of any surplus in the event of the liquidation of the Company.

Each ordinary shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and, on show of hands, every person present who is a shareholder or representatives or proxy or attorney of a shareholder shall have one vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representatives shall have one vote for each Share held.

**2.2 Details of the Initial Public Offering**

The Public Issue and Offer for Sale of 7,510,000 and 14,240,000 Shares respectively at an IPO price of RM2.70 per Share is payable in full on application upon such terms and conditions as set out in this Prospectus.

The 21,750,000 Shares arising from the IPO will be allocated and allotted in the following manner:-

- (i) 4,250,000 of the Public Issue Shares will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputra individuals, companies, societies, co-operatives and institutions;
- (ii) 2,500,000 of the Public Issue Shares have been reserved for eligible employees, Directors, customers and suppliers of the Top Glove Group; and
- (iii) 15,000,000 of the Offer and Public Issue Shares have been reserved for Bumiputra investors approved by MITI.

The Public Issue Shares and Offer Shares represent 15.0% and 28.5% respectively of the enlarged issued and paid-up share capital of Top Glove of 50,000,000 Shares.

## 2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

The Shares in respect of paragraph (i) and (ii) have been fully underwritten. The Shares in respect of paragraph (iii) are not underwritten. Any Shares in respect of paragraph (ii) not subscribed for by the eligible employees, Directors, customers and suppliers of the Top Glove Group will be made available for application by the Malaysian public.

### 2.3 Critical dates of the Public Issue and the Offer for Sale

| Events   | Date                         |
|--|------------------------------|
| Date of Prospectus   | 16 February 2001             |
| Opening and Closing of Application List for the Public Issue/Offer Shares                        | 1 March 2001 *               |
|  | <b><u>Tentative Date</u></b> |
| Balloting of Applications  | 8 March 2001                 |
| Despatch of Notices of Allotment of the Shares of Top Glove to successful applicants             | 20 March 2001                |
| Listing of the Company's entire issued and paid up share capital on the Second Board of the KLSE | 27 March 2001                |

***\*Important Note: The closing date of the Public Issue / Offer for Sale ("Closing Date") may be extended at the absolute discretion of the Board of Directors of Top Glove. Should there be an extension of the Closing Date, the date of Top Glove's listing on the Kuala Lumpur Stock Exchange will be extended***

### 2.4 Purposes of the Public Issue and the Offer for Sale

The purposes of the IPO are as follows:-

- (i) The listing of Top Glove Shares on the Second Board of the KLSE is expected to further enhance the Group's corporate reputation and assist the Group in expanding its customer base both in Malaysia and overseas;
- (ii) To provide an opportunity for Malaysian investors and institutions and the eligible employees, Directors, customers and suppliers of the Top Glove Group to participate in the equity and continuing growth of the Top Glove Group;
- (iii) To enable the Top Glove Group to gain access to the capital markets for funds for its future expansion and growth;
- (iv) To obtain a listing of and quotation for Top Glove's entire issued and paid-up share capital of 50,000,000 Shares on the Second Board of the KLSE; and
- (v) To comply with National Development Policy requirements in respect of Bumiputra equity participation.

### 2.5 Proceeds of the Public Issue, Offer for Sale and their Utilisation

#### *Proceeds of the Public Issue*

All proceeds of the Public Issue after deducting the related expenses will accrue to Top Glove. The estimated total gross proceeds of the Public Issue is RM20.3 million. Top Glove will bear all other expenses incidental to the listing and quotation of Top Glove's shares on the Second Board of the KLSE which include underwriting commission, brokerage, registration fee, professional fees, SC fees, advertising and listing expenses and other fees the aggregate of which is estimated to be RM1.5 million.

## 2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

The gross proceeds of approximately RM38.738 million accruing to the Top Glove Group from the Public Issue and the Rights Issue will be utilised as follows:-

|                                 | Notes | RM'000        |
|---------------------------------|-------|---------------|
| Repayment of bank borrowings    | (a)   | 24,361        |
| Purchase of plant and machinery | (b)   | 4,800         |
| IT and office equipment         | (c)   | 1,540         |
| Estimated listing expenses      |       | 1,500         |
| Working capital                 |       | 6,537         |
| <b>TOTAL</b>                    |       | <b>38,738</b> |

### Notes:-

#### (a) Proposed Repayment of Bank Borrowings

It is expected that RM24.4 million from the listing proceeds will be utilised to repay the Group's bank borrowings. The Group will upon receipt of the listing proceeds repay the outstanding bank borrowings in the most appropriate way to maximise interest cost savings. A large part of the estimated outstanding bank borrowings as at 8 February 2001 will be due to the loan drawn down for the purchase of a factory in Ipoh and for the fourth factory which is outlined under Section 4.10 under future plans for the Group. Interest savings to the Group arising from the repayment of borrowings will be about RM1.3 million annually. The interest savings are derived from bank borrowings consisting of mainly term loan, export credit refinancing and banker's acceptances which amounts to RM24.361 million charging interest rates ranging from 4.25% to 7.75%. Total borrowings as at 8 February 2001 is RM33.55 million.

#### (b) Purchase of Plant and Machinery

The purchase of plant and machinery comprising 6 production lines at RM800,000 per line to be installed in the Group's fourth factory. The Company has started with installation for two lines in December 2000 which is expected to be completed in March 2001.

#### (c) IT and office equipment. This equipment comprises the Enterprise Resource Planning system, hardware and accessories and some furniture and fittings for the Group.

#### (d) Estimated Listing Expenses

The listing expenses is estimated to amount to RM1.5 million, consisting of the following:-

| Major cost items   | RM               |
|--|------------------|
| Estimated Professional fees                                | 700,000          |
| Underwriting commission                                    | 320,000          |
| Brokerage  | 185,000          |
| Printing of Prospectus and Application forms and envelopes | 130,000          |
| Advertising of Prospectus                                  | 45,000           |
| Securities Commission fees                                 | 55,000           |
| Registration of Prospectus                                 | 5,500            |
| Miscellaneous  | 59,500           |
| <b>TOTAL</b>   | <b>1,500,000</b> |

## 2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

The utilisation of the proceeds by the Group is expected to have a financial impact on the Group as follows:-

| Financial Year Ending<br>31.8.2001 | Without Listing Proceeds<br>(RM'000) | With Listing Proceeds<br>(RM'000) |
|------------------------------------|--------------------------------------|-----------------------------------|
| Consolidated PBT                   | 17,313                               | 18,531                            |
| Consolidated PAT                   | 14,722                               | 15,795                            |

The proceeds from the Public Issue and the Offer For Sale are expected to be fully utilised by August 2001.

### *Proceeds of the Offer for Sale*

The gross proceeds of the Offer for Sale of RM38,448,000 shall accrue to the Offerors and no part of the proceeds of the Offer for Sale is receivable by Top Glove. The Offerors shall bear all expenses such as brokerage, stamp duty (if any) and share transfer fees relating to the Offer Shares estimated at approximately RM400,000.

### **2.6 Brokerage and Underwriting Commission**

The Underwriters mentioned earlier in this Prospectus have agreed to underwrite the 6,750,000 Public Issue Shares to be offered to the Malaysian public, employees, Directors, customers and suppliers of the Top Glove Group. Underwriting commission is payable by the Company at 2.15% of the IPO price of RM2.70 per Share. Management fees of 0.25% of the IPO price of RM2.70 per Share is payable by the Company to the Managing Underwriter based on the value of the shares underwritten by the Managing Underwriter.

Brokerage is payable in respect of the IPO Shares by the Company and the Offerors at the rate of 1% of the IPO price of RM2.70 per Share in respect of successful applications which bear the stamp of Arab-Malaysian, member companies of the KLSE, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIH.

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## 2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

### 2.7 *Salient terms of the Underwriting Agreement*

- (a) The following are some of the Clauses extracted from the Underwriting Agreement dated 15 September 2000 between Top Glove and the Underwriters stating the events which may affect the underwriting of the Top Glove Shares:-

#### 9.1 Events affecting the issue

- (i) Subject to prior consultation, any of the Underwriters (who have agreed herein to underwrite at least 50% of the Underwritten Shares as indicated in the Third Column of the First Schedule) or any one of them acting through the Managing Underwriter shall be entitled to terminate this Agreement by notice in writing delivered to Top Glove prior to the Closing Date if the success of the Issue is in the opinion of such Underwriter(s) (who have agreed herein to underwrite at least 50% of the Underwritten Shares as indicated in the Third Column of the First Schedule) or any one of them acting through the Managing Underwriter giving the aforesaid notice seriously jeopardised by:-
- the coming into force of any laws or Governmental regulations or directives which seriously affects or will seriously affect the business of the Group; or
  - any material breach by Top Glove of any of its representations, warranties, obligations or undertakings under this Agreement; or
  - any material and adverse change in the condition (financial or otherwise) of the Group from that described in the Prospectus.
- (ii) On delivery of such a notice this Agreement shall become void and each Party's rights and obligations hereunder shall cease and none of the Parties (except for liability of the Company in respect of payments of costs and expenses referred to in Clause 13 incurred prior to or in connection with such termination) shall have any claim against each other. Thereafter the Underwriters and the Company shall confer with a view to deferring the Issue or amending its terms and/or entering into a new Underwriting Agreement PROVIDED THAT the Company or the Underwriters shall not be under any obligation to enter into such new agreement.

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**2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)**


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**10 Withdrawal or non-procurement of approval for listing by the KLSE**

- (i) The Underwriters shall have the right to terminate this Agreement by notice in writing served by the Managing Underwriter on behalf of the Underwriters on the Company in the event that the approval in principle of the KLSE for the admission of the Company to the Official List of the KLSE or for the listing of and quotation for the entire issued and paid-up share capital of the Company on the Second Board of the KLSE is withdrawn or not procured and upon such termination the liabilities hereto of the Company and the Underwriters shall become null and void and none of the Parties shall have a claim against each other save that each Party shall return any moneys paid to the other or others under this Agreement within forty-eight (48) hours of the receipt of such notice.

**11 Change in circumstances**

- (i) Notwithstanding anything herein contained the Underwriters (who have agreed herein to underwrite at least 50% of the Underwritten Shares as indicated in the Third Column of the First Schedule) or any of them acting through the Managing Underwriter may at any time before the Closing Date, by notice in writing to Top Glove, propose to terminate its obligations under this Agreement if in its reasonable opinion there shall have been such a change in national or international monetary, financial, political or economic conditions or exchange control legislation or regulations or currency exchange rates or an occurrence as a result of an acts of God as would in its reasonable opinion materially prejudice the success of the offering the Underwritten Shares and their distribution or sale (whether in the primary market or in respect of dealings in the secondary market) or in the event of national disorder, outbreak of war or the declaration of a state of national emergency.
- (ii) Upon such notice being given, and subject always to the concurrence of Top Glove, which concurrence shall not be unreasonably withheld, the Underwriter(s) concerned and Top Glove shall (except for the liability of Top Glove in the payment of costs and expenses referred to in Clause 13 incurred prior to or in connection with such termination) be released and discharged from their respective obligations hereunder.

**2.8 Moratorium on Shares**

The SC, in approving the flotation of the Company has imposed a moratorium on the disposal of Shares held by the major shareholders/promoters of Top Glove.

Accordingly, the major shareholders/promoters of Top Glove as listed in the table below will not be allowed to sell, transfer or assign their respective portions of Shares in Top Glove representing 45% of the enlarged share capital of 50,000,000 Shares within one (1) year from the date of admission of the Company to the Official List of the Second Board of the KLSE. Thereafter, they are permitted to sell, transfer or assign their shares in Top Glove subject to a maximum of one third (1/3) per annum (on a straight line basis) of their respective shareholdings in the Company which are under the moratorium.

## 2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

The shareholdings of the major shareholders after the IPO which are under moratorium as imposed by the SC are set out below:-

|                                 | Shareholding<br>after IPO | % of the<br>enlarged issued<br>and paid-up<br>share capital | No. of Shares<br>under<br>moratorium | % of the<br>enlarged issued<br>and paid-up<br>share capital |
|---------------------------------|---------------------------|---|--------------------------------------|---|
| Lim Wee Chai                    | 14,685,813                | 29.37   | 11,958,690                           | 23.92   |
| Tong Siew Bee                   | 913,242                   | 1.83  | 736,014                              | 1.47  |
| Lim Hooi Sin                    | 1,395,366                 | 2.79  | 1,128,876                            | 2.26  |
| United Gloves Sdn Bhd           | 3,095,597                 | 6.19  | 2,522,469                            | 5.05  |
| Sekarajasckaran a/l Arasarafnam | 2,073,731                 | 4.15  | 1,681,646                            | 3.36  |
| Lim Quee Choo                   | 611,671                   | 1.22  | 490,276                              | 0.98  |
| Lee Kim Meow                    | 195,883                   | 0.39  | 151,468                              | 0.30  |
| TG Holding Sdn Bhd              | 4,700,899                 | 9.40  | 3,830,561                            | 7.66  |
| <b>TOTAL</b>                    | <b>27,672,202</b>         | <b>55.30</b>  | <b>22,500,000</b>                    | <b>45.00</b>  |

*Note : The above shareholdings includes the Directors and key managements' pink form allocation.*

The restriction, which is fully accepted by the aforesaid shareholders, is specifically endorsed on the share certificates representing the shareholders' respective shareholdings which are under moratorium to ensure that Top Glove's registrars do not register any transfer not in compliance with the restriction imposed by the SC.

The endorsement which will be affixed in the certificates of the securities under moratorium is as follows:-

"The shares comprised herein are not capable of being sold, transferred or assigned for a period as determined by the Securities Commission (the "**Moratorium Period**"). The shares comprised herein will not constitute good delivery pursuant to the Rules of the Exchange during the Moratorium Period. No share certificate or certificates will be issued to replace this certificate during the Moratorium Period unless the same shall be endorsed with this restriction".

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## 2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)

### 2.9 Approvals and Conditions from Authorities

SC on 3 July 2000, MITI on 2 March 2000 and FIC on 14 March 2000 approved the listing of Top Glove. The approvals from the aforesaid authorities were subjected to, inter alia, the following conditions:-

| Authority | Details of Conditions Imposed   | Status of Compliance                 |
|-----------|---|--------------------------------------|
| SC        | The utilisation of proceeds raised from the Rights Issue and Public Issue are subject to the following :-   | To be complied by Company            |
|           | (i) Approval from the SC should be sought for any changes to the utilisation of proceeds other than for the core business purposes of Top Glove;  | To be complied by Company            |
|           | (ii) Shareholders' approval is required for changes of equal or more than twenty five percent (25%) of the total utilisation of proceeds already determined. However, should these changes be less than twenty five percent (25%), appropriate announcement should be made to all the shareholders of Top Glove;  | To be complied by Company            |
|           | (iii) Any extension of time from the date fixed by Top Glove for the utilisation of proceeds from the rights issue and public issue needs to be approved by a clear resolution by the Board of Directors of Top Glove and disclosed fully to the KLSE.  | To be complied by Company            |
|           | (iv) Necessary disclosures on the status of utilisation of proceeds needs to be made in Top Glove's quarterly reports and annual reports until all the proceeds have been fully utilised.   | To be complied by Company            |
|           | (v) The substantial shareholders of Top Glove are not allowed to sell, transfer or assign the moratorium shares of 22,500,000 within one year from the date of admission of the Company's Shares on the KLSE. In subsequent years, the substantial shareholders are allowed to sell the maximum of one-third per year;  | See Section 2.8 of this Prospectus   |
|           | (vi) Top Glove will not be permitted to involve itself in any business other than its core activities for a period of three (3) years after listing.  | To be complied by Company            |
|           | (vii) To comply with the guidelines on the Company's obligations as stated in the Policies and Guidelines on Issue/ Offer of Securities particularly in Chapter 7, 10 and 25 of the Guidelines.   | To be complied by Company            |
|           | (viii) Arab-Malaysian and Top Glove will be required to disclose in detail in the listing prospectus of all the transactions between Top Glove Group and Titi Latex Sdn. Bhd., a company related to the promoters/ substantial shareholders. Top Glove is also reminded that all the above transactions need to be done at arm's length and that there shall not be any favourable terms in excess of ordinary commercial terms which will be detrimental to Top Glove Group. In relation to this, Top Glove's Audit Committee is required to supervise and Top Glove's directors will be required to report such transactions in the company's financial report. | See Section 4.12. of this Prospectus |

**2. DETAILS OF THE PUBLIC ISSUE AND OFFER FOR SALE (Cont'd)**

| <b>Authority</b> | <b>Details of Conditions Imposed</b>  | <b>Status of Compliance</b>   |
|------------------|---|---|
|                  | <p>(ix) Arab-Malaysian and Top Glove are required to make reasonable disclosure in its listing prospectus regarding the rules and regulations laid down by the American Food &amp; Drugs Administration, USA.</p> <p>(x) For assurance of the continuity in the Group's management, Top Glove is required to arrange for an effective succession plan and implement the said plan. Top Glove is also required to make disclosure with regards to its succession plan in its listing prospectus.</p> <p>(xi) Top Glove and all related parties are required to provide a written confirmation of all compliance with all the terms and conditions in connection with the approval of the above proposals at the end of each financial year of the Company until the proposals have been fully implemented and all conditions stated are met.</p> | <p>Disclosed in Section 4.5 of this Prospectus</p> <p>Met</p> <p>To be complied by Company</p>            |
| MITI             | <p>(i) Top Glove should have at least 30% Bumiputera equity interest upon listing; and</p> <p>(ii) To obtain approval from FIC for the listing</p> <p>(iii) To obtain approval from SC for the listing</p> <p>(iv) A total of 15,000,000 Shares are to be allocated by MITI upon approval by the SC</p> <p>(v) TGSB and TG Medical respectively are imposed the following equity condition in their manufacturing licenses: "All shares in the company are required to be purchased and held by Top Glove".</p>   | <p>To be met upon listing</p> <p>Met</p> <p>Met</p> <p>To be met upon listing of Top Glove</p> <p>Met</p> |
| FIC              | <p>(i) Top Glove should have at least 30% Bumiputera equity interest upon listing; and</p> <p>(ii) To obtain approval from MITI</p>   | <p>To be met upon listing</p> <p>Met</p>  |

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### 3. THE RISK FACTORS

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In evaluating an investment in the IPO Shares, prospective applicants should carefully consider all information contained in this Prospectus including but not limited to the general and specific risks of the following investment considerations:-

i) No Prior Market for Top Glove Shares

Prior to the IPO, there has been no public market for Top Glove's shares. There can be no assurance that an active market for Top Glove's shares will develop upon its listing on the Second Board of the KLSE or, if developed, that such market will be sustained. The IPO price of RM2.70 for the IPO Shares has been determined after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and conditions, its prospects and the prospects of the industry in which the Group operates, the management of the Group, the market prices for shares of companies involved in businesses similar to that of the Group and the prevailing market. There can be no assurance that the IPO price will correspond to the price at which Top Glove's shares will trade on the Second Board of the KLSE upon or subsequent to its listing or that an active market for Top Glove's shares will develop and continue upon or subsequent to its listing.

ii) Forecasts

This Prospectus contains certain forecasts for Top Glove that are based on assumptions, which the Directors deem to be reasonable, but nevertheless are subject to uncertainties and contingencies. Because of the subjective judgements and inherent uncertainties of forecasts and because events and circumstances frequently do not occur as predicted, there can be no assurance that the forecasts contained herein will be realised. Actual results may be materially different than results forecasted resulting from events such as changes in sales prices, raw material prices (such as latex, fuel and labour costs), sales mix and the global and local economic conditions. In addition, disruptions to the factory operations of the Top Glove Group may also result in production forecasts not being achieved.

Investors will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forecasts that are contained herein.

iii) Competitive Conditions

The Group faces competition from various competitors including local and foreign companies in the glove manufacturing industry. The main industry players in the local scene include listed companies such as, Latexx Partners Berhad, Kossan Rubber Industries Berhad and Rubberex Corporation Berhad. The glove manufacturing industry is expected to continue to consolidate in view of several challenges facing industry players which include price undercutting, labour shortages and tighter quality standards. The consolidation phase may adversely affect manufacturers with high cost structures. It is also expected that competition from Thailand will intensify since there are various tax incentives granted by the Thai government. However, the Directors of the Group believes that the Top Glove Group with its established business track record as a one-stop glove manufacturing sourcing centre, strong profit growth record as well as sound future plans will be able to strengthen itself against competition through active product diversification to higher margin gloves (such as surgical and nitrile gloves), substantial capacity expansion resulting in cost efficiency through economies of scale, increased marketing campaign, human resource development, adherence to strict quality assurance, investment in information technology and research and development is ready to face the challenges ahead.

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**3. THE RISK FACTORS (Cont'd)**


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**iv) Business Risks and Availability of Resources**

The growth of the Group is subject to inherent risks in the manufacturing industry such as volatility in supply and prices of raw materials such as latex and fuel costs. Other factors important to glove manufacturing include supply of labour and water and control over bad debts. The glove manufacturing industry also faces inherent risks such as negative publicity on protein allergy affecting certain groups of users.

A brief discussion of the relevant business risks is set out below:-

□ ***Latex Supplies***

The adequate supply of quality latex is a pre-requisite for the development of the rubber-based industry in Malaysia. The industry will not be stable and viable if basic raw materials are of insufficient and irregular supply. As at 8 February 2001, all of the Group's latex supplies are sourced locally.

Part of Top Glove Group's Quality Assurance department has been to ensure that all incoming latex are of acceptable quality and a constant supply of premium latex is secured from its many long term suppliers. This helps the Group to maintain the quality standards requirements in order for it to remain competitive.

□ ***Price of Energy***

Energy is one of the major cost components in the production of latex gloves. Hence, the local latex glove industry can remain competitive if the cost of gas and other heating fuel are competitive with the region. Since, the price of energy is dependent on the global supply and demand forces, the players in the industry are subject to fluctuations in energy prices.

Given this, the Top Glove Group have continued to upgrade their operations by adopting equipment and processes which would result in energy cost savings. To a certain extent, the Group is able to pass some of the costs to customers by increasing prices in the event of energy cost increases. The Group can also capitalise on economies of scale arising from its capacity size in securing long term contracts for the supply of fuel.

□ ***Ensuring Adequate Supply of Labour***

The glove industry relies quite substantially on labour, in areas such as stripping, quality control and packing. As such, glove manufacturing are subject to risk of labour shortages. The Top Glove Group is constantly reviewing its processes to reduce its dependence on manual labour to reduce the risk of labour shortages. As at the end of year 2000, approximately 35% of its factory workers consists of foreign workers from Bangladesh and Indonesia. This has been a reduction when compared against previous years. This is a result of a number of its processes having been automated to reduce reliance on manual labour such as automatic stripping. The Group is continuously exploring and developing other means to automate its processes.

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**3. THE RISK FACTORS (Cont'd)**


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□ ***Ensuring Adequate Supply of Water***

It is important that clean water is easily available for glove manufacturing operations such as cleaning of formers and washing of chemicals and protein from gloves during the manufacturing process. Thus, a shortage of water supply may affect the quality of gloves. The previous water shortage affecting the country in 1999 could have affected the operations of many glove manufacturers. The production of the Top Glove Group was not affected previously during the water shortage crisis as the Company had alternative water sources. However, no assurance can be given that the Group will be completely sheltered against such crisis in the future, or that fluctuations in supply will not adversely affect the Group's performance.

□ ***Financial Risks***

The Group's future revenues and cashflows from existing and future sales are dependent on the progress of its sales and payment by the Group's debtors. In the past, bad debts represented only a small percentage of sales and the directors of the Group are confident that collection problems will not be a major threat for the Group. Part of the Group's methods of mitigating collection risks is by conducting its own checking on the credit rating of customers before accepting an order from a new customer.

However no assurance can be given that the Group's other present and future clients will be able to meet their commitments to the Group.

□ ***Protein Allergy Risk***

A business risk which is existing within the glove manufacturing industry is the protein allergy issue. Protein allergy risk refers to the effects caused by the sensitivity of the user to the protein content in natural rubber latex gloves. Over the past few years, the increased use of latex gloves has resulted in many reports of skin reactions to latex overseas. As a result, the Company also has to comply with the requirements of the importing countries with regard to the protein level of these gloves. Presently, to the knowledge of the Directors of Top Glove, the FDA is the only regulatory body that has come up with proposals on the protein level for latex examination gloves. The FDA's proposal is expected to be implemented in 2002.

Due to the widely publicised negative reports on natural rubber latex gloves, some manufacturers have ventured into alternative materials. However, gloves made from non-natural materials may not possess the unique mix of properties of natural latex gloves such as high elasticity and tensile strength. As such, the demand for natural rubber latex gloves remain.

The presence of protein allergy risk issue has prompted the Minister of Primary Industry together with the Malaysian Rubber Gloves Manufacturers' Association to set up the Malaysian Rubber Exports Promotion Council to counter the negative publicity caused by the issue.

### 3. THE RISK FACTORS (Cont'd)

Although the demand for natural rubber gloves is expected to increase, there can be no assurance that the demand for the gloves produced by the Group will remain unaffected by changes in demand caused by the incidents of protein allergy. However, the Group has diversified its product base by increasing the production of nitrile and low protein gloves to meet the demand arising from users who wish to avoid the protein allergy risks. Furthermore, there is further capacity and capability for the Group to increase production to a higher level for nitrile and low protein gloves, should the need arise.

v) Ownership and Control

After completion of the IPO, approximately 44.6% of Top Glove's equity will be controlled by the promoters, Lim Wee Chai, Tong Siew Bee, the major shareholders, Lim Hooi Sin and Lim Quee Choo as well as TG Holding, which is ultimately held and controlled by the promoters.

The promoters and TG Holding will be able to exercise the voting rights attached to its shares in respect of matters requiring shareholders' approval including election of directors. Depending on how they choose to vote and because of the size of their shareholdings, the controlling shareholders will have a significant influence over matters that require the passing of ordinary resolutions from Top Glove's shareholders, unless they are required to abstain from voting by law and/or the relevant authorities.

vi) Foreign Exchange Fluctuations

For the period ended 31 August 2000, over 90% of the Group's gloves were exported and approximately 10-20% of the Group's raw materials were imported. Hence, the Group is exposed to foreign exchange fluctuation risks.

The imposition of currency controls in 1998 and the setting of the Ringgit peg at RM3.80:USD1.00 has, to certain extent, stabilised many glove manufacturers' risks to the fluctuations of foreign exchange. However there can be no assurance that the currency controls will remain and that future foreign exchange fluctuations arising from the lifting of the currency controls or the adjustment of the Ringgit peg will not adversely impact the Top Glove Group. In view of this, the management of the Top Glove Group are constantly monitoring the Group's Ringgit exposure and hedging foreign exchange risks, whenever deemed appropriate.

vii) Continuity of Management

As in any other business, the Board of Directors believes that the continued success of Top Glove will depend on the ability and dedication of each of the Directors and management team members. The loss of any key members of the Company could adversely affect the Company's continued ability to compete. However, the Company has made efforts to train its staff and enjoy the support of long term management staff. The Company's future success will also depend upon its ability to attract and retain skilled personnel. Investors should refer to Section 5.7 on the issue of continuity of Top Glove's management team.

### 3. THE RISK FACTORS (Cont'd)

#### viii) Environmental Concerns

There were stringent standards on environmental protection set by the Malaysian government for the latex glove industry, which were much higher than the standards in other South-East Asian countries. As a result, the latex glove manufacturers in Malaysia are experiencing higher operational costs to meet these standards.

To remain competitive, Top Glove has installed modern waste processing plants in its factories to treat hazardous wastes before discharging into drains in the most efficient and effective method. Top Glove continuously undertakes research to improve on the factory waste management system in line with the increasing global awareness for environment conservation and will continue to work in close co-operation with requirements of the governmental environmental enforcement and regulatory agencies.

#### ix) Compliance with International Standards/Requirements

Since most of the gloves manufactured by Top Glove are targeted at overseas markets in particular the US market, the company's turnover and smooth business operations might be disrupted in the event that Top Glove fails to comply with various international standards such as that of the US FDA regulations, The American Society for Testing and Materials ("ASTM D3578-99") and The European Standard EN455 ("EN 455"). However, the management of Top Glove has strived to ensure that these standards and requirements set out by the FDA, ASTM D3578-99 and EN 455 are fully complied with by liaising with the respective officials through various meetings, seminars and conventions so as to keep abreast with the latest developments in standards and requirements.

#### x) Other Factors

TGSB is the registered owner of all that piece of freehold industrial land together with the factory building erected thereon known as Lot 4968 Jalan Teratai, Batu 6, off Jalan Meru, Klang ("Factory 2"). Factory 2, which is one of Top Glove's 5 factories, operates 6 of Top Glove's 41 production lines and has a monthly optimum production capacity of about 30 million pieces of gloves per month (as at 8 February 2001). Hence, Factory 2 contributes about 15% of Top Glove's monthly optimum production capacity of 200 million pieces of gloves.

TGSB has submitted an application for the certificate of fitness for occupation ("CF") for Factory 2 from the Majlis Perbandaran Kelang ("Authority") in October 1999. However, as at the date of this Prospectus, the Authority is still processing TGSB's application for the CF.

The Directors of Top Glove are of the opinion that the CF for Factory 2 will eventually be granted and they will take the necessary steps to meet with the Authority's conditions for the expeditious grant of the CF.

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