



# TOP GLOVE CORPORATION BHD.

(Company No. 474423-X)

Public Listed Company on Bursa Malaysia Main Board

The World's Largest Rubber Glove Manufacturer

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 31 MAY 2007

### 1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with FRS 134, Interim Financial Reporting. The interim financial report should be read in conjunction with the audited financial statements for the Group for the financial year ended 31 August 2006.

The accounting policies and methods of computation adopted in the interim financial report are consistent with those adopted in the audited financial statements as at 31 August 2006, except that the Group has adopted the new/revised standards mandatory for annual periods beginning on or after 1 January 2006.

### 2. Auditors' Report

The audited financial statements for the financial year ended 31 August 2006 was not subject to any qualification.

### 3. Seasonal or Cyclical Factors

The operations of the Group were not affected by any seasonal or cyclical factors in view of its well-diversified world markets and the nature of the Company's products being disposable gloves.

### 4. Extraordinary and Exceptional Items

There were no extraordinary and exceptional items of unusual nature affecting assets, liabilities, equity, net income, or cash flows in the interim financial report ended 31 May 2007.

### 5. Changes in Estimates of Amounts Reported Previously

There were no material changes in estimates of amounts reported in prior interim periods or prior financial year that have a material effect in the current financial year to-date.

### 6. Debts and Equity Securities

6.1) The Employee Share Option Scheme ("ESOS") of the Company was officially implemented on 29 April 2003. During the current quarter ended 31 May 2007, a total of 742,000 new ordinary shares of RM0.50 each were issued and allotted pursuant to the exercise of the ESOS. The details of the issued and paid-up capital of the Company as at 31 May 2007 are as follows :-

	No. of shares	RM
As at 28 February 2007	299,506,931	149,753,466
Ordinary shares issued pursuant to the ESOS	742,000	371,000
As at 31 May 2007	300,248,931	150,124,466

Other than the above, there were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current financial year-to-date.

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 31 MAY 2007 (CONTINUED)

### 7. Dividends Paid

For the financial year ended 31 August 2006, the Company :-

- i) On 15 September 2006, paid an interim dividend of 7% (tax exempt) amounting RM6,727,157.
- ii) On 15 March 2007, the Company paid a total dividend of RM14,445,902 consisting of a final dividend of 5% (with tax 27%) amounting RM5,463,994 (after netting off 27% tax) and a final dividend of 6% (tax exempt) amounting RM8,981,908 which were approved in the Company's Annual General Meeting held on 10 January 2007

The total dividend paid by the Company in respect of the financial year ended 31 August 2006 was 18% represented by a net payment of RM21,173,059.

For the financial year ended 31 August 2005, the Company made the following dividend payments :-

- i) On 16 September 2005, an interim dividend of 6% (tax exempt) amounting RM5,654,664 was paid; and
- ii) On 14 March 2006, the Company paid a total dividend of RM8,454,759 consisting of a final dividend of 4% (with tax 28%) amounting RM2,742,084 (after netting off 28% tax) and a final dividend of 6% (tax exempt) amounting RM5,712,675 which were approved in the Company's Annual General Meeting held on 11 January 2006.

The total dividend paid by the Company in respect of the financial year ended 31 August 2005 was 16%, represented by a net payment of RM14,109,423.

### 8. Segmental Reporting

- a. Primary reporting segment – Geographical segments.

The Group operates in three principal geographical areas of the world and is primarily involved in the gloves manufacturing industry.

The directors are of the opinion that all inter-segment transaction have been entered into the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

	31 May 2007 (9 months)					
	Malaysia RM'000	Thailand RM'000	China RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
<b>Revenue</b>						
External sales	707,983	139,406	31,990	41,836	-	921,215
Inter-segment sales	32,603	46,215	31,837	-	(110,655)	-
Total Revenue	<u>740,586</u>	<u>185,621</u>	<u>63,827</u>	<u>41,836</u>	<u>(110,655)</u>	<u>921,215</u>
	Malaysia RM'000	Thailand RM'000	China RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
<b>Result</b>						
Profit/(loss) from operations	96,572	3,616	(5,485)	1,425	-	96,128
Finance cost, net						(8,723)
Share of loss from associate						(14)
Taxation						(11,289)
Profit after tax						<u>76,102</u>

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	Malaysia RM'000	Thailand RM'000	China RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
<b><u>Assets</u></b>						
Segment assets	737,814	140,564	83,361	41,535		<u>1,003,274</u>
Goodwill arising From consolidation						<u>24,795</u>
<b><u>Liabilities</u></b>						
Segment liabilities	300,310	73,821	40,994	9,758		<u>424,883</u>
<b><u>Other information</u></b>						
Capital expenditure	37,879	21,152	12,631	-		<u>71,662</u>
Depreciation	22,384	6,032	2,572	179		<u>31,167</u>

- b. Secondary reporting segment – Business segments

As the Group is principally involved in gloves manufacturing industry, segment reporting by business segment is not prepared.

#### 9. Valuation of Property and Equipment

There was no revaluation of property, plant and equipment brought forward from the previous audited financial statements, as the Group does not adopt a revaluation policy on its property, plant and equipment.

#### 10. Material Events Subsequent to the End of the Interim Report

There were no significant subsequent events after the end of the interim period to date of this announcement, which will materially affect the earnings or income of the Group.

#### 11. Changes in the Composition of the Group

There were no significant changes in the composition of the Group in the interim financial report, other than the acquisition of 60.06% of Med-Flex Limited, a company listed on the official list of Singapore Exchange Trading Limited Dealing and Automated Quotation System (SGX-SESDAQ), which completed in 16 March 2007.

#### 12. Contingent Liabilities

There were no significant changes in contingent liabilities since the last annual balance sheet date and there were no contingent liabilities pending at the date of this report except, the material litigation as disclosed in note 23 below.

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### **NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 31 MAY 2007 (CONTINUED)**

#### **ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA'S LISTING REQUIREMENTS**

##### **13. Review of Performance**

For the quarter ended 31 May 2007, the Group recorded a 22% increased in sales revenue to RM301.6 million from RM247.8 million registered in the corresponding quarter in the previous financial year. Profit before tax for the quarter increased by 20% to RM29.4 million as compared to RM24.6 million registered in the quarter ended 31 May 2006. As for year-to-date 9 months ended 31 May 2007, the Group sales revenue and profit before tax has increased to RM921.2 million and RM87.4 million compare with RM685.0 million and RM68.9 million for the 9 months ended 31 May 2006, registered an increased of 34% and 27% respectively. The significant achievement in higher sales and profit is in line with the Group's continuous expansion in production capacity, better quality control, improvement in its cost efficiency, and marketing strategy.

Overall, the Group has a positive outlook towards continuous growth and in securing better results in the forthcoming quarters for the financial year ending 31 August 2007 in terms of sales revenue and profitability through its on-going effort in implementing aggressive marketing strategies, increase in production capacity to achieve better economies of scale, as well as, further improvements in quality, cost control and efficiency. The ongoing efforts are expected to enhance the average compounded annual growth rates for revenue of approximately 30% to 40% per annum registered for the past 10 years.

##### **14. Quarterly Profits Before Tax (PBT) Comparison**

On current quarter and preceding quarter comparison, the Group's PBT increased by RM402,000 to registered a PBT of RM29.5 million as compared to RM29.1 million achieved in the previous quarter ended 28 February 2007. While profit after tax for this quarter increase by RM252,000 to RM25.6 million from RM25.4 million recorded in the preceding quarter. The increase in profits was contributed by the continuous expansion and improvement by all the departments.

##### **15. Prospects**

Top Glove, the world's largest rubber glove manufacturer with a vision of "Always Staying At The Top", is continuing to move ahead rapidly with specific efforts undertaken to improve and innovate its glove quality, marketing, productivity and cost efficiency. With the completion of the subscription of new Medi-Flex Limited shares in 16 March 2007, the Group currently has 18 factories, and employed about 8,000 employees and have installed 320 production lines with capacity of 28 billion pieces of gloves per annum. Top Glove has more than 760 customers and exports to more than 180 countries worldwide.

On the progress of our Factory 14 which is located in Klang, the installation of the new and advanced glove production lines are progressing according to plan with the completion of construction of the factory building in September 2006. 22 advanced glove production lines has been installed and an additional 4 advanced glove production lines will be installed in next quarter.

As for F15, the Group 2<sup>nd</sup> plant in China, the 8 new and advanced vinyl glove production lines has commenced production in May 2007.

The Group second latex concentration plant, Factory 16L, which is located in Hadyai, Thailand, which houses 36 new centrifuge machines was commenced production and operation in early June 2007.

The construction of its latest factory, Factory 19 has commenced in May 2007. The factory building is targeted to be ready by December 2007. Upon completion of the factory building, the factory will be installed with new advanced glove production lines.

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As for Medi-Flex Group, the management is currently incorporating the work culture and management practices of Top Glove. In addition, technical exchanges have also commenced since the beginning of this year to ensure methodologies of operations, efficiency, quality and cost control are maximized to improve the operations of Medi-Flex Group.

With the commitment of the management team and with the continuous improvement of our glove quality, increase in efficiency and production capacity via technology innovation as well as construction of new glove production lines, the marketing of more value added premium glove products and further expansion of the market share, the Company is confident of achieving better results in the current financial year.

#### 16. Variance of Actual Profits from Forecast Profits

Not applicable as no profit forecast was issued.

#### 17. Taxation

	Quarter Ended		Year To Date Ended	
	31 May 2007 RM'000	31 May 2006 RM'000	31 May 2007 RM'000	31 May 2006 RM'000
Income tax during the year	3,440	913	7,014	5,692
Under/(Over) provision in prior year	-	-	-	-
	<u>3,440</u>	<u>913</u>	<u>7,014</u>	<u>5,692</u>
Deferred taxation	403	2,392	4,275	3,235
	<u>3,843</u>	<u>3,305</u>	<u>11,289</u>	<u>8,927</u>

The effective tax rate of the Group is lower than the statutory tax rate due to the availability of reinvestment allowance by certain subsidiaries and the tax-free status of certain overseas subsidiaries during the current financial period.

#### 18. Profit/(Loss) on Sale of Unquoted Investments and/or Properties

There were no sales of unquoted investments and/or properties during the current interim report and financial year-to-date.

#### 19. Purchase and Dispose of Quoted Securities

There was no purchase or disposal of quoted securities by the Group for the current quarter and financial year-to-date.

#### 20. Status of Corporate Proposals Announced

As of 31 May 2007, the status of utilization of the proceeds raised from the Share Placement amounting to RM239.5 million is as below :

	Proposed Utilisation	Actual Utilisation
	RM'mil	RM'mil
Capital expenditure	100.0	14.3
Repayment of borrowings	110.0	79.0
Working capital	25.8	25.8
Defray expenses for Proposed Placement	3.7	3.7
	<u>239.5</u>	<u>122.8</u>

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### NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 31 MAY 2007 (CONTINUED)

#### 21. Group Borrowings

<u>Group Borrowings as at 31 May 2007</u>	<u>RM'000</u>
Export credit Refinancing (ECR) / Bankers' Acceptance (secured)	10,386
Bank Overdraft (secured)	963
Promissory Notes (secured)	4,931
Trust Receipts (secured)	2,959
Term Loan (secured)	115,598
Hire Purchase (secured)	3,220
Medium Term Notes (unsecured)	70,000
Total facilities	208,057
Payable within 12 months	63,748
Payable after 12 months	144,309

#### 22. Off Balance Sheet Financial Instruments

The Group uses derivative financial instruments, mainly forward foreign exchange contracts to hedge its exposure to fluctuations in foreign exchange arising from sales. The Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are not recognized in the financial statements on inception.

The details of the open foreign exchange forward contracts agreement as at 31 May 2007 are as follows:-

	Notional Amount As At 31 May 2007 RM'000
Foreign exchange forward contracts :	<u>185,866</u>
Within 17 months	

The above instruments are executed with credit worthy financial institutions in Malaysia. The Directors are of the view that the possibility of non-performance by these financial institutions is remote on the basis of its financial strength.

#### 23. Material Litigation

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 to any proceedings which might materially and/or adversely affect the position or business of the Company or subsidiaries.

A.i. On 8 November 2000, Top Glove Sdn Bhd ("TGSB"), a subsidiary of the Company, was served a writ of summons by Supermax Glove Manufacturing Sdn. Bhd. (SGM) claiming damages for alleged passing off by TGSB of certain coloured boxes bearing the device of a glove containing gloves manufactured by TGSB under the OEM customer's brand name "Safemax" as boxes containing gloves manufactured by SGM under the brand name "Supermax". TGSB's appointed solicitors, M/s Ranjit Ooi & Robert Low, have opined that SGM's case against TGSB is weak and unlikely to succeed.

The full particulars of the Suit, its status and the lawyer's opinion have been adequately disclosed in the Prospectus dated 16 February 2001.

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- ii. TGSB, in relation to the suit above, has filed its defence and has also filed a counterclaim in the same suit against SGM seeking general damages for the abuse of process and/or unlawful interference with trade or business and/or the commission of deliberate and positive acts designed to injure Top Glove.

To date, the learned Judge was not in favor of fixing trial dates until all pre-trial directions have been complied with including, inter alia, the filing of the relevant bundles of documents. The pre-trial case management was fixed for 6 July 2004 for parties to file all relevant documents for purposes of trial. This date has been extended to 26 September 2005 for mention for pre-trial case management. This date has been further extended to 15 November 2005 and subsequently to 17 January 2006, 22 February 2006, 30 June 2006, 6 September 2006, 13 March 2007 and to 20 July 2007 pending a decision on an application for Further and Better Particulars on this suit by TGSB, as detailed in (iii) below.

- iii The court had also fixed 16 May 2005 for hearing of an application by TGSB for Further and Better Particulars on the above suit. This date has been extended to 2 August 2005 and subsequently heard on 13 September 2005 and a decision was to be given on 23 September 2005 which was extended to 11 October 2005. The matter was not listed on 11 October 2005 as the file could not be located. The file was subsequently located and on 22 February 2006 the Court fixed 31 March 2006 for a decision which was given on 3 April 2006. On that date the court allowed TGSB's application for Further and Better Particulars on the above suit and SGM was given one month to comply with the said order. SGM appealed against this decision on 12 April 2006 and also applied for a stay of execution of the order dated 3 April 2006 which was fixed to be heard on 6 September 2006 and extended to 13 March 2007. Here the court directed written submissions and fixed 20 July 2007 for clarification and/or a decision.

- B.i. TGSB, had commenced legal proceedings against SGM, pursuant to a writ filed at the Shah Alam High Court on 10 November 2004.

TGSB, among others are claiming for general, aggravated and exemplary damages for maliciously distributing and publishing defamatory words contained in documents relating to Summon No.22-431-2000 filed by SGM at the Shah Alam High Court. TGSB, among others avers that SGM had with mala fide distributed the said documents with intent to lower TGSB's reputation. SGM had also published defamatory words in its Quarterly Reports announced by its holding company, Supermax Corporation Berhad to Bursa Malaysia Securities Berhad in years 2000 and 2001. The commencement of legal proceeding was announced to Bursa Securities on 20 December 2004. SGM has filed a statement of defence on the above suit on 17 January 2005 and TGSB has filed the reply to defence on 14 February 2005.

The court had fixed 6 July 2005 for hearing of an application by TGSB to amend the Statement of Claim to include Top Glove Corporation Bhd. as an additional Plaintiff and Supermax Corporation Bhd. as an additional Defendant. The court heard this case on 28 September 2005 and a decision was to be given on 14 October 2005 but this was deferred to 18 November 2005 where the court allowed TGSB's application to amend the Statement of Claim and instructed SMG to file its amended Statement of Defence.

- ii. SGM has filed an application to strike out certain paragraphs of TGSB's Statement Of claim and this was also heard on 28 September 2005. A decision on this issue was also to be given on 14 October 2005 and this was also deferred to 18 November 2005 when the court dismissed SGM's application to Strike Out with costs to be paid by SGM. SGM filed a Notice of Appeal against both the decisions given by the Senior Assistant Registrar on 18 November 2005 above. Appeals against both these decisions were allowed and they were to be heard on 12 & 29 June 2006 and subsequently adjourned to 2 November 2006, 17 April 2007 and now extended to 25 August 2007.
- iii. SGM had also on 14 December 2005 filed an application to Stay the above proceedings until the disposal of SGM's appeal. This application was allowed on 7 March 2006.

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### NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED 31 MAY 2007 (CONTINUED)

#### 24. Dividend

The Board of Directors has declared an interim dividend of 8% (tax exempt), amounting to approximately RM12.01 million, for the quarter ended 31 May 2007. The interim entitlement date is on 23 August 2007 and payable on 13 September 2007.

##### Record of dividends paid in respect of financial year ended 31 August 2006

Date approved	Type of dividend	Dividend Rate	Amount Paid ( RM )	Payment date
4/7/2006	Interim dividend	7% (tax exempt)	6,727,157	15/9/2006
10/1/2007	Final dividend	6% (tax exempt)	8,981,908	15/3/2007
10/1/2007	Final dividend	5% (with 27% tax)	5,463,994	15/3/2007
	<b>Total dividend for financial year ended 31/8/2006</b>	<b>18%</b>	<b>21,173,059</b>	

##### Record of dividends paid in respect of financial year ended 31 August 2005

Date approved	Type of dividend	Dividend Rate	Amount Paid ( RM )	Payment date
4/7/2005	Interim dividend	6% (tax exempt)	5,654,664	16/9/2005
11/1/2006	Final dividend	6% (tax exempt)	5,712,675	14/3/2006
11/1/2006	Final dividend	4% (with 28% tax)	2,742,084	14/3/2006
	<b>Total dividend for financial year ended 31/8/2005</b>	<b>16%</b>	<b>14,109,423.</b>	

#### 25. Earnings Per Share

	Quarter Ended		Year To Date Ended	
	31 May 2007	31 May 2006	31 May 2007	31 May 2006
Net profit attributable to ordinary shareholders (RM'000)	<u>25,902</u>	<u>21,238</u>	<u>76,115</u>	<u>59,598</u>
<b>Basic</b>				
Total number of ordinary shares ('000)	<u>300,249</u>	<u>268,529*</u>	<u>300,249</u>	<u>268,529*</u>
Adjusted weighted average number of ordinary shares ('000)	<u>299,808</u>	<u>267,665*</u>	<u>282,519</u>	<u>266,181*</u>
<b>Basic earnings per ordinary share (sen)</b>	<u>8.64</u>	<u>7.93</u>	<u>26.94</u>	<u>22.39</u>
<b>Diluted</b>				
Adjusted weighted average number of ordinary shares ('000)	299,808	267,665*	282,519	266,181*
<b>ESOS :</b>				
No. of unissued shares	4,008	3,335*	4,008	3,335*
No. of shares that would have been issued at fair value	(3,016)	(1,670)*	(3,016)	(1,670)*
Diluted weighted average number of ordinary shares ('000)	<u>300,800</u>	<u>269,330</u>	<u>283,511</u>	<u>267,846</u>
<b>Diluted earnings per ordinary share (sen)</b>	<u>8.61</u>	<u>7.89</u>	<u>26.85</u>	<u>22.25</u>

For comparative purpose the number of ordinary shares issued as at 31 May 2006 had been adjusted to reflect the shares bonus issue of 2 for every 5 existing ordinary shares of par value RM0.50 each.