



# 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 QUARTER ENDED 30 NOVEMBER 2005

### 1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with MASB 26, 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 2005.

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 2005.

### 2. Auditors' Report

The audited financial statements for the financial year ended 31 August 2005 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 mainly 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 30 November 2005.

### 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

The Employee Share Option Scheme ("ESOS") of the Company was officially implemented on 29 April 2003. During the current quarter ended 30 November 2005, a total of 1,031,600 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 30 November 2005 are as follows :-

	No. of shares	RM
As at 31 August 2005	188,638,600	94,319,300
Ordinary shares issued pursuant to the ESOS	1,031,600	515,800
As at 30 November 2005	189,670,200	94,835,100

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 QUARTER ENDED 30 NOVEMBER 2005 (CONTINUED)

### 7. Dividends Paid

For the financial year ended 31 August 2005, the Company :-

- i) On 16 September 2005, paid an interim dividend of 6% (tax exempt) amounting RM5,654,664; and
- ii) On 18 October 2005, a dividend of 10% was proposed, consisting of a final dividend of 4% (with tax 28%) amounting RM2,719,672 (after netting off 28% tax) and a final dividend of 6% (tax exempt) amounting RM5,665,983 for the financial year ended 31 August 2005. The proposed final dividend (totaling 10% and amounting to RM8,385,655) is subject to the shareholders' approval in the forthcoming Annual General Meeting.

The total dividend paid and proposed by the Company in respect of the financial year ended 31 August 2005 is 16%, represented by a net payment of approximately RM14,040,319.

For the financial year ended 31 August 2004, the Company made the following dividend payments :-

- i) On 6 September 2004, an interim dividend of 5% (tax exempt) totaling RM4,651,200 was paid; and
- ii) On 15 March 2005, the Company paid a total dividend of RM7,644,250 consisting of a final dividend of 3% (with tax 28%) amounting RM2,023,480. (after netting off 28% tax) and a final dividend of 6% (tax exempt) amounting RM5,620,770 which were approved in the Company's Annual General Meeting held on 11 January 2005.

The total dividend paid by the Company in respect of the financial year ended 31 August 2004 was 14% represented by a net payment of RM12,295,450.

### 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.

#### 30 November 2005

	Malaysia RM'000	Thailand RM'000	China RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
<b>Revenue</b>						
External sales	159,651	25,724	13,718	9,594	-	208,687
Inter-segment sales	16,606	9,096	11,821	-	(37,523)	-
Total Revenue	<u>176,257</u>	<u>34,820</u>	<u>25,539</u>	<u>9,594</u>	<u>(37,523)</u>	<u>208,687</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	18,551	868	2,766	352		22,537
Finance cost, net						(1,587)
Taxation						(2,404)
Profit after tax						<u>18,546</u>
Minority interests						(187)
Net profit for the period						<u>18,359</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	379,836	87,991	50,894	24,176		<u>542,897</u>
Goodwill arising From consolidation						<u>5,325</u>
<b><u>Liabilities</u></b>						
Segment liabilities	209,975	52,969	39,168	7,783		<u>309,895</u>
<b><u>Other information</u></b>						
Capital expenditure	12,913	2,435	2,258	-		<u>17,606</u>
Depreciation	4,747	815	421	50		<u>6,033</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 Reported

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, including business combination, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

#### 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.

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

#### 13. Review of Performance

For the first quarter ended 30 November 2005, the Group recorded a 50% increased in sales revenue to RM208.7 million against RM139.1 million registered in the corresponding period in the previous financial year. The profit before tax for the first quarter increased by 40% to RM20.95 million as compared to RM14.96 million registered in the first quarter ended 30 November 2004. 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.

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### **NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED 30 NOVEMBER 2005 (CONTINUED)**

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 2006 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 44% per annum registered for the past 9 years.

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

On a current quarter and preceding quarter comparison, the Group's PBT increased by 19.3%, registering a PBT of RM20.95 million for this quarter as compared to RM17.6 million achieved in the previous quarter ended 31 August 2005. Whilst profit after tax for the first quarter increased by 11.5% from RM16.5 million recorded in the preceding quarter to RM18.4 million in this quarter. The increase in profits was contributed by the continuous expansion and improvement in the Group's production capacity, cost control, quality improvement and aggressive marketing strategy implemented by the marketing team.

#### **15. Prospects**

Top Glove, the largest rubber glove manufacturer in the world with the vision of "Always Staying At The Top", is continuing to move ahead rapidly and particular efforts are being undertaken to improve and innovate its glove quality, marketing, productivity and cost reduction. The Group currently operates 200 production lines with capacity of approximately 18 billion pieces of gloves per annum. Top Glove has approximately 700 customers and exports to more than 170 countries worldwide.

The construction of the additional lines in Factory 8, which is located in China, is progressing well with the construction of its Block 3 completed in December 2005 and installation expected to follow suit thereafter. Factory 8 Block 3 is expected to house 16 new and advanced vinyl glove production lines. The installation of the first new 8 production lines are expected to be completed by March 2006.

The Company's Factory 11 and Factory 12, which are located near to its Factory 9 in Klang (State of Selangor, Malaysia), is currently in commercial production and the gloves manufactured are exported worldwide. Both factories building, which were completed in February 2005 and June 2005 respectively, is presently being installed with new advanced glove producing lines. To date, both factories have 22 and 20 lines respectively which are in commercial production. These factories are planned to house more than 28 lines each, the remaining lines will be installed progressively and full installation is targeted for April 2006 respectively.

The construction of the factory building for Factory 13 is also completed and installation of more than 20 new and advanced glove production lines on progressive basis will commence soon.

Going forward, earthwork has been completed for Factory 14, which is also located in Klang. The construction is expected to commence by February 2006 and the factory building expected to be completed by August 2006, followed by the progressive installation of new and advanced glove production lines.

Building construction have been started for Factory 15, the Group second China plant. The construction of the factory is expected to be completed by June 2006 and will be followed with the progressive installation of 16 new and advanced vinyl glove production lines. Factory 15 will have the capacity to house 80 new and advanced glove production lines.

In addition to the above, the Group has also commenced commercial production in November 2005 of its newest product, Polyethylene glove or in short PE glove in its Factory 8 in China which will compliment the current existing extensive product range. These gloves are highly sought after in the food and other industrial related sectors.

The Group is also in the midst of planning the construction of its first latex concentrate plant for the purpose of producing its own latex concentrate for the manufacturing of disposable latex gloves. The plant is to be located close to the vicinity of its Factory 7 in Hadyai, Thailand. Commercial production from the plant is targeted by September 2006.

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### NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED 30 NOVEMBER 2005 (CONTINUED)

On 27 December 2005, Top Glove's American Depositary Receipt ("ADR") Program, which is a program to facilitate the trading of Top Glove's shares by investors in the United States of America ("the US"), has been declared effective by the Securities and Exchange Commission of the US. The ADR program is anticipated to enhance the visibility of the Company in the US, as well as, to increase the awareness on the Company among US brokers, analyst and investors as the ADR program provides an avenue for US investors to have access to Top Glove's shares, thereby allowing the Company to broaden its foreign shareholders' base in addition to increasing its shareholders' diversity. Top Glove's ADR symbol is TGLVY.

With the commitment of the management team and with the continuous improvement of gloves 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	
	30 Nov 2005 RM'000	30 Nov 2004 RM'000	30 Nov 2005 RM'000	30 Nov 2004 RM'000
Income tax during the year	2,116	1,797	2,116	1,797
Under/(Over) provision in prior year	-	-	-	-
	<u>2,116</u>	<u>1,797</u>	<u>2,116</u>	<u>1,797</u>
Deferred taxation	288	227	288	227
	<u>2,404</u>	<u>2,024</u>	<u>2,404</u>	<u>2,024</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

There were no corporate proposals announced which remain uncompleted during the quarter under review and as at the date of this report.

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### NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED 30 NOVEMBER 2005 (CONTINUED)

#### 21. Group Borrowings

<u>Group Borrowings as at 30 November 2005</u>	<u>RM'000</u>
Export credit Refinancing (ECR) / Bankers' Acceptance (secured)	64,541
Bank Overdrafts (secured)	2,180
Term Loan (secured)	102,957
Hire Purchase (secured)	892
Total facilities	<u>170,570</u>
Payable within 12 months	<u>89,672</u>
Payable after 12 months	<u>80,898</u>

#### 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 30 November 2005 are as follows:-

	Notional Amount As At 30 November 2005 RM'000
Foreign exchange forward contracts :	
Within 1 month	<u>32,293</u>

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.

1.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.

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.

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### NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED 30 NOVEMBER 2005 (CONTINUED)

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 **17.1.06** 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 23.9.05 which was extended to **11.10.05**. The matter was not listed on 11.10.05 as the file could not be located. The court will inform the parties on a new decision date once the file is located.

- 2.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 has 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 14.10.05 but this was deferred to 18.11.05 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 28.9.05. A decision on this issue was also to be given on 14.10.05 and this was also deferred to 18.11.05 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 18.11.05 above.
- iii. SGM has also on **14.12.05** filed an application to Stay the above proceedings until the disposal of SGM's appeal

## 24. Dividend

No dividend was proposed by the Board of Directors for the current quarter under review.

The Board of Directors had proposed a final dividend of 10%, consisting of 6% (tax exempt) amounting to RM5,665,983 and 4% (with tax 28%) amounting RM2,719,672 (after netting off 28%) for the financial year ended 31 August 2005. The proposed final dividend (totaling 10% and amounting to RM8,385,655) is subject to the shareholders' approval in the forthcoming Annual General Meeting.

The Company paid an interim dividend of 6% (tax exempt) amounting RM5,654,664 on 16<sup>th</sup> September 2005, which was declared on 4 July 2005 in conjunction with the 3<sup>rd</sup> quarter ended 31 May 2005's financial results announcement.

Thus, on full year basis, subject to the shareholders' approval for the final dividend, the total dividend paid and proposed by the Company for financial year ended 31 August 2005 is 16% amounting to approximately RM14,040,319.

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED 30 NOVEMBER 2005 (CONTINUED)**
Record of dividends paid in respect of financial year ended 31 August 2004

Date approved	Type of dividend	Dividend Rate	Amount Paid ( RM )	Payment date
5/7/2004	Interim dividend	5% (tax exempt)	4,651,200.00	6/9/2004
11/1/2005	Final dividend	6% (tax exempt)	5,620,770.00	15/3/2005
11/1/2005	Final dividend	3% (with 28% tax)	2,023,480.73	15/3/2005
	<b>Total dividend for financial year ended 31/8/2004</b>	<b>14%</b>	<b>12,295,450.73</b>	

**25. Earnings Per Share**

	<b>Quarter Ended</b>		<b>Year To Date Ended</b>	
	<b>30 Nov 2005</b>	<b>30 Nov 2004</b>	<b>30 Nov 2005</b>	<b>30 Nov 2004</b>
Net profit attributable to ordinary shareholders (RM'000)	<u>18,359</u>	<u>12,912</u>	<u>18,359</u>	<u>12,912</u>
<b>Basic</b>				
Total number of ordinary shares ('000)	<u>189,670</u>	<u>186,301*</u>	<u>189,670</u>	<u>186,301*</u>
Adjusted weighted average number of ordinary shares ('000)	<u>189,087</u>	<u>185,872*</u>	<u>189,087</u>	<u>185,872*</u>
<b>Basic earnings per ordinary share (sen)</b>	<u>9.71</u>	<u>6.95*</u>	<u>9.71</u>	<u>6.95*</u>
<b>Diluted</b>				
Adjusted weighted average number of ordinary shares ('000)	189,087	185,872*	189,087	185,872*
<b>ESOS :</b>				
No. of unissued shares	3,784	1,897*	3,784	1,897*
No. of shares that would have been issued at fair value	<u>(2,537)</u>	<u>(1,549)*</u>	<u>(2,537)</u>	<u>(1,549)*</u>
Diluted weighted average number of ordinary shares ('000)	<u>190,334</u>	<u>186,220*</u>	<u>190,334</u>	<u>186,220*</u>
<b>Diluted earnings per ordinary share (sen)</b>	<u>9.65</u>	<u>6.93*</u>	<u>9.65</u>	<u>6.93*</u>

\* For comparative purpose, the Earnings Per Share for quarter and year-to-date ended 30 November 2004 had been adjusted to reflect the subdivision of shares from one ordinary share of RM1.00 each to two ordinary shares of RM0.50 each.