



# 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 FIRST QUARTER ENDED 30 NOVEMBER 2007

### 1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with FRS 134, Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Securities.

The interim financial report should be read in conjunction with the audited financial statements for the Group for the financial year ended 31 August 2007. The explanatory notes attached to the interim financial statements provide an explanation of events and transaction that are significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 August 2007

#### Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 August 2007 except for the adoption of the following new and revised FRSs :-

##### (a) FRS 117 Leases

FRS 117 requires if leasehold land for own use to be classified as operating lease and where necessary minimum lease payments or the up-front payments made are allocated between the land and the building elements in proportion to the relative fair values for leasehold interests in the land element and building element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and the comparative figure has been restated. The effects on the comparative figure stated as below :-

	As previously Reported (RM'000)	Effect of adoption of FRS117 (RM'000)	As restated (RM'000)
<u>Balance Sheet as at 31 August 2007</u>			
Property, Plant and Equipment	557,623	(9,588)	548,035
Prepaid Lease Payments	-	9,588	9,588

##### (b) FRS 124 Related Party Disclosures

This standard extends the definition of related party and adds new disclosure requirements. The adoption of FRS124 has no impact on the Group's consolidation financial statements

##### (c) FRS 6 Exploration for and Evaluation of Mineral Resources

(d) FRS 119<sup>2004</sup> Amendment to FRS 119<sup>2004</sup> Employee Benefits Actuarial Gains and Losses, Group Plans and Disclosures.

##### (e) FRS 111 Construction Contracts

##### (f) FRS 120 Accounting for Government Grants and Disclosure of Government Assistance

The new and revised FRS 6, FRS 119<sup>2004</sup>, FRS 111 and FRS 120 are not relevant to the operation of the Group

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2007 (CONTINUED)

(f) FRS 107 Cash Flow Statements

(g) FRS 118 Revenue

(h) FRS 134 Interim Financial Reporting

(i) FRS 137 Provisions, Contingent Liabilities and Contingent Assets

The new and revised FRS 107, FRS 118, FRS 134 and FRS 137 has no financial impact on the Group's consolidation financial statements.

### 2. Auditors' Report

The audited financial statements for the financial year ended 31 August 2007 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 August 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 30 November 2007, a total of 75,700 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 2007 are as follows :-

	No. of shares	RM
As at 31 August 2007	300,475,831	150,237,916
Ordinary shares issued pursuant to the ESOS	75,700	37,850
As at 30 November 2007	300,551,531	150,275,766

6.2) During the current quarter, the Company repurchased 3,137,600 of its issued ordinary shares from the open market at an average price of RM6.28 per share. The total consideration paid for the repurchase including transaction costs was RM19.067 million and this was financed by internally generated funds. Of the total 300,551,531 issued and fully paid ordinary shares as at 30 November 2007, 3,137,600 shares are held as treasury shares by the Company

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

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2007 (CONTINUED)

### 7. Dividends Paid

For the financial year ended 31 August 2007, the Company :-

- i) On 13 September 2007, paid an interim dividend of 8% (tax exempt) amounting RM12,017,257.
- ii) On 19 October 2007, a dividend of 12% was proposed, consisting of a final dividend of 6% (with tax 26%) amounting to approximately RM6,672,244 (after netting off 26% tax) and a final dividend of 6% (tax exempt) amounting to approximately RM9,016,546 for the financial year ended 31 August 2007. The proposed final dividend (totaling 12% and amounting to approximately RM15,688,790) is subject to 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 2007 is 20%, represented by a net payment of approximately RM27,706,047.

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.

### 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 2007 (3 months)

	Malaysia RM'000	Thailand RM'000	China RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
<b>Revenue</b>						
External sales	253,142	44,873	19,711	18,757	-	336,3483
Inter-segment sales	9,706	41,013	10,242	-	(60,961)	-
Total Revenue	<u>262,848</u>	<u>85,886</u>	<u>29,953</u>	<u>18,757</u>	<u>(60,961)</u>	<u>336,483</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	34,037	2,238	133	479	-	36,887
Finance cost						(2,524)
Share of profit from associate						197
Profit before tax						<u>34,560</u>
Taxation						<u>(4,773)</u>
Profit for the year						<u>29,787</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	704,964	167,745	101,189	32,926		<u>1,006,824</u>
Goodwill arising From Consolidation						<u>21,078</u>
<b><u>Liabilities</u></b>						
Segment liabilities	263,699	73,261	38,318	6,757		<u>382,035</u>
<b><u>Other information</u></b>						
Capital expenditure	8,057	1,707	1,696	-		<u>11,460</u>
Depreciation	9,557	2,387	891	57		<u>12,892</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, 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.

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### NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2007 (CONTINUED)

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

#### 13. Review of Performance

For the quarter ended 30 November 2007, sales revenue increased by 9.1% to RM336.5 million from RM308.3 million registered in the corresponding quarter in the previous financial year which can be analysed as follow:

RM 'million	Qtr 1/08	Qtr 1/07	Growth
Sales:			
Gloves	322.4	275.9	17%
Latex concentrate	14.1	32.4	(56)%
Total sales	336.5	308.3	9%
Sales of Gloves (in USD' million equivalent)	93.6	75.1	25%

Due to the appreciation of Ringgit Malaysia against USD between quarter ended 30 November 2007 and quarter ended 30 November 2006, sales of gloves in USD value increased by 25% but only 17% in Ringgit Malaysia value. The reduction in sales of latex concentrate in current quarter was mainly due to higher internal consumption compared with higher external sales for quarter ended 30 November 2006.

Profit before tax for the quarter increased by 20% to RM34.6 million as compared to RM28.9 million registered in the quarter ended 30 November 2006. 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.

Also, the management has managed to turn around the China's operation and Mediflex Ltd in this quarter, which is earlier than the target set of March 2008. Both China's operation and Mediflex Ltd are contributing positively to Group for this quarter.

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 2008 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.

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

On current quarter and preceding quarter comparison, the Group's PBT increased by RM3.3 million or 10.5% to registered a PBT of RM34.6 million as compared to RM31.3 million achieved in the previous quarter ended 31 August 2007. While profit after tax for this quarter increase by RM3.0 million or 11.2% to RM29.8 million from RM26.8 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 Factory 19 in Klang, Malaysia, the Group currently has 19 factories, 330 production lines with capacity of 29 billion pieces of gloves per annum and employed about 8,300 employees. Top Glove has more than 850 customers and exports to more than 180 countries worldwide.

On the progress of our Factory 14 which is located in Klang, the balance 8 new and advanced glove production lines has been fully installed and the factory currently has 32 advanced glove production lines.

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As for the progress of its latest factory, Factory 19, the construction of the factory building has been completed in December 2007 and the factory will be installed with new advanced glove production lines progressively.

As for Medi-Flex Group, the management continue to incorporate 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. Management has successfully turned around Mediflex Ltd performance and contribute positively to the Group this quarter.

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 profitable glove products and further expansion of the market share, the Company is confident of achieving better results in the financial year 2008.

#### 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 2007 RM'000	30 Nov 2006 RM'000	30 Nov 2007 RM'000	30 Nov 2006 RM'000
Income tax during the year	4,391	1,817	4,391	1,817
Deferred taxation	382	1,936	382	1,936
	<u>4,773</u>	<u>3,753</u>	<u>4,773</u>	<u>3,753</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

- a) As of 30 November 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	41.7
Repayment of borrowings	110.0	100.6
Working capital	25.8	25.8
Defray expenses for Proposed Placement	3.7	3.7
	<u>239.5</u>	<u>171.8</u>

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- b) On 19 October 2007, the Company, through RHB Investment Bank Berhad announced that the Company proposed to establish a new ESOS for the granting of option(s) ("ESOS Option(s)") to the eligible employees and Directors of Top Glove and its subsidiaries, excluding dormant subsidiaries, who fulfill the eligibility criteria.

The Proposed New ESOS is subject to Shareholders' approval in the forthcoming Extraordinary General Meeting held on 9 January 2008.

#### 21. Group Borrowings

<u>Group Borrowings as at 30 November 2007</u>	<u>RM'000</u>
Export credit Refinancing (ECR) / Bankers' Acceptance (secured)	1,823
Bank Overdraft (secured)	328
Promissory Notes (secured)	12,851
Packing credit (secured)	1,255
Letter of Credit (secured)	14,931
Term Loan (secured)	77,840
Hire Purchase (secured)	2,338
Medium Term Notes (unsecured)	70,000
Total facilities	<u>181,366</u>
Payable within 12 months	55,332
Payable after 12 months	<u>126,034</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 2007 are as follows:-

	Notional Amount As At 30 Nov 2007 RM'000
Foreign exchange forward contracts : Within 18 months	<u>151,460</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 Group is not engaged in any litigation, either as plaintiff or defendant, which may have a material effect on the financial position of the Group.

- (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 brand name "Safemax" as boxes containing gloves manufactured by SGM under the brand name "Supermax". TGSB's appointed solicitors, have opined that SGM's case against the TGSB is weak and unlikely to succeed.

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### **NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2007 (CONTINUED)**

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 the Company.

The learned Judge was not in favour 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 several times to 24 & 25 June 2008.

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 was extended to 2 August 2005 and subsequently heard on 13 September 2005 and the said application was fixed for decision on 11 October 2005. The matter however was not listed before the court 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 dated 3 April 2006 which was fixed to be heard on 6 September 2006 and extended to 13 March 2007. On 20 July 2007, the court allowed SGM's appeal and fixed a final case management on 14 September 2007. The court has fixed the matter for trial on 24 & 25 June 2008.

(ii) 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 is 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 ("Bursa Securities") in the years 2000 and 2001. The commencement of these legal proceedings 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 the 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 the Company as an additional plaintiff and Supermax Corporation Berhad as an additional defendant. The matter was heard 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 SGM to file its amended Statement of Defence.

SGM had filed an application to strike out certain paragraphs of TGSB's Statement of Claim. This matter was also heard on 28 September 2005 and a decision was to be given on 14 October 2005 but 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 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 and 29 June 2006 and subsequently adjourned to 5 February 2008.

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.

(iii) The Company has been named as one of 39 respondents in United States International Trade Commission ("ITC") investigation, which Tillotson Corporation instituted on 30 May 2007, for alleged patent infringement of nitrile gloves.

The outcome of the abovementioned investigation is not presently determinable. The ITC, however, cannot award monetary damages and the Company's appointed solicitors, have opined that the Company has meritorious defences.



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### NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2007 (CONTINUED)

#### 24. Dividend

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

The total declared dividends for financial year 2007 was 20%. The Company paid an interim dividend of 8% (tax exempt) amounting RM12,017,257 on 13<sup>th</sup> September 2007, which was declared on 4 July 2007 in conjunction with the 3<sup>rd</sup> quarter ended 31 May 2007's financial results announcement. In quarter 4 financial year 2007, the Board of Directors has proposed a final dividend of 12% consisting of 6% (tax exempt) amount to RM9,016,546 and 6% (taxable at 26%) amounting RM6,672,244 for the financial year ended 31 August 2007. The proposed final dividend (totaling 12% and amounting to RM15,688,790) is subject to the shareholders' approval in the forthcoming Annual General Meeting.

#### 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>	

#### 25. Earnings Per Share

	Quarter Ended		Year To Date Ended	
	30 Nov 2007	30 Nov 2006	30 Nov 2007	30 Nov 2006
Net profit attributable to ordinary shareholders (RM'000)	29,383	24,845	29,383	24,845
<b>Basic</b>				
Total number of ordinary shares ('000)	300,552	270,896*	300,552	270,896*
Adjusted weighted average number of ordinary shares ('000)	300,496	269,525*	300,496	269,525*
<b>Basic earnings per ordinary share (sen)</b>	<u>9.78</u>	<u>9.22</u>	<u>9.78</u>	<u>9.22</u>
<b>Diluted</b>				
Adjusted weighted average number of ordinary shares ('000)	300,496	269,525*	300,496	269,525*
<b>ESOS :</b>				
No. of unissued shares	7,630	5,298*	7,630	5,298*
No. of shares that would have been issued at fair value	(5,492)	(3,552)*	(5,492)	(3,552)*
Diluted weighted average number of ordinary shares ('000)	<u>302,634</u>	<u>271,271</u>	<u>302,634</u>	<u>271,271</u>
<b>Diluted earnings per ordinary share (sen)</b>	<u>9.71</u>	<u>9.16</u>	<u>9.71</u>	<u>9.16</u>

For comparative purpose the number of ordinary shares issued as at 30 November 2006 had been adjusted to reflect the shares bonus issue of 2 for every 5 existing ordinary shares of par value RM0.50 each.