



# 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 SECOND QUARTER ENDED 29 FEBRUARY 2008

### 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 SECOND QUARTER ENDED 29 FEBRUARY 2008 (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 29 February 2008, a total of 178,800 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 29 February 2008 are as follows :-

	No. of shares	RM
As at 30 November 2007	300,551,531	150,275,766
Ordinary shares issued pursuant to the ESOS	178,800	89,400
As at 29 February 2008	300,730,331	150,365,166

6.2) During the current quarter, the Company repurchased 2,500,600 of its issued ordinary shares from the open market at an average price of RM5.70 per share. The total consideration paid for the repurchase including transaction costs was RM14.314 million and this was financed by internally generated funds. Of the total 300,730,331 issued and fully paid ordinary shares as at 29 February 2008, 5,638,200 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 SECOND QUARTER ENDED 29 FEBRUARY 2008 (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 14 March 2008, the Company paid a total dividend of RM15,417,667 consisting of a final dividend of 6% (with tax 26%) amounting RM6,556,941 (after netting off 26% tax) and a final dividend of 6% (tax exempt) amounting RM8,860,726 which were approved in the Company's Annual General Meeting held on 9 January 2008

The total dividend paid by the Company in respect of the financial year ended 31 August 2007 was 20% represented by a net payment of RM27,434,924.

Record of dividends paid in respect of previous financial year :

Financial Year	Dividend (%)	Dividend (RM'000)
2007	20%	27,435
2006	18%	21,173
2005	16%	14,110
2004	14%	12,295
2003	12%	9,550
2002	6%	2,808

### 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.

#### 29 February 2008 (6 months)

	Malaysia RM'000	Thailand RM'000	China RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
<b>Revenue</b>						
External sales	508,283	76,886	37,368	34,721	-	657,258
Inter-segment sales	17,799	104,089	21,309	-	(143,197)	-
Total Revenue	<u>526,082</u>	<u>180,975</u>	<u>58,677</u>	<u>34,721</u>	<u>(143,197)</u>	<u>657,258</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	65,291	2,918	1,615	997	-	70,821
Finance cost						(4,943)
Share of profit from associate						455
Profit before tax						66,333
Taxation						(8,177)
Profit for the year						<u>58,156</u>

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### NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 29 FEBRUARY 2008 (CONTINUED)

	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	701,673	164,332	99,262	30,689		<u>995,956</u>
Goodwill arising From Consolidation						<u>21,078</u>
<b><u>Liabilities</u></b>						
Segment liabilities	259,334	75,679	32,293	7,710		<u>375,016</u>
<b><u>Other information</u></b>						
Capital expenditure	15,970	2,901	3,669	-		<u>22,540</u>
Depreciation	19,312	5,957	1,552	113		<u>26,934</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 SECOND QUARTER ENDED 29 FEBRUARY 2008 (CONTINUED)

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

#### 13. Review of Performance

For the quarter ended 29 February 2008, sales revenue increased by 3% to RM320.8 million from RM311.4 million registered in the corresponding quarter in the previous financial year which can be analysed as follow:

	Qtr 2/08	Qtr 2/07	Growth
Sales:			
Gloves (RM mil)	310.8	288.9	8%
Latex concentrate (external sales – RM mil)	10.0	22.5	(56)%
Total sales (RM mil)	320.8	311.4	3%
Sales of Gloves (in USD' million equivalent)	93.6	81.1	15%
Profit before tax (RM mil)	31.8	29.1	9%
Net Profit (RM mil)	29.5	25.4	16%

Due to the appreciation of Ringgit Malaysia against USD between quarter ended 29 February 2008 and quarter ended 28 February 2007, sales of gloves in USD value increased by 15% but only 8% 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 28 February 2007.

Profit before tax for the quarter increased by 9% to RM31.8 million as compared to RM29.1 million registered in the quarter ended 28 February 2007.

The financial results of the Group since financial year 2001 (year of listing) are as follow :

RM 'mil	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	6 mths FY2008 (Sept'07 to Feb'08)
Revenue	138.9	180.2	265.1	418.1	641.8	992.6	1,228.8	657.3
EBITDA	23.9	27.1	39.5	60.6	89.2	130.3	175.7	98.2
EBITDA margin	17.2%	15.0%	14.9%	14.5%	13.9%	13.1%	14.3%	14.9%
PBT	17.2	20.2	29.3	45.2	65.7	91.8	118.6	66.3
PAT	14.7	16.1	23.3	38.9	53.4	78.4	103.8	58.9
PAT margin	10.6%	8.9%	8.8%	9.3%	8.3%	7.9%	8.5%	9.0%

The 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 since last quarter, which is earlier than the target set of March 2008. China's operation continues to contributing positively to the 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.

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### NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 29 FEBRUARY 2008 (CONTINUED)

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

On current quarter and preceding quarter, the Group registered PBT of RM31.8 million and RM34.6 million respectively. While for profit after tax attributable to equity holder, the Group recorded RM29.5 million in current quarter and RM29.4 million in preceding quarter ended 30 November 2007.

#### 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. The Group currently has 19 factories, 338 production lines with capacity of 29.7 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.

Following from the completion of the construction of Factory 19 in Klang in December 2007, the Company has started to installed the new and advanced glove production lines progressively

As for F15, the Group 2<sup>nd</sup> plant in China, additional 8 new and advanced vinyl glove production lines had been installed and initial trial run commenced in March 2008. With the additional lines, the factory currently has 16 advanced glove production lines. The contributions from the two factories in China were higher compared with last quarter. The efforts put in by the management to turnaround the China's operations to profitable position has shown good progress.

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	
	29 Feb 2008 RM'000	28 Feb 2007 RM'000	29 Feb 2008 RM'000	28 Feb 2007 RM'000
Income tax during the year	3,132	1,757	7,523	3,574
Deferred taxation	272	1,936	654	3,872
	<u>3,404</u>	<u>3,218</u>	<u>8,177</u>	<u>7,446</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.

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### NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 29 FEBRUARY 2008 (CONTINUED)

#### 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 29 February 2008, the status of utilization of the proceeds raised from the Share Placement amounting to RM239.5 million is as below :

	Proposed Utilisation RM'mil	Actual Utilisation RM'mil
Capital expenditure	100.0	49.1
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>179.2</u>

- 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 has been approved by Shareholders in the Extraordinary General Meeting held on 9 January 2008.

On 28 January 2008, the Company, through RHB Investment Bank Berhad announced that Bursa Malaysia Securities Berhad has granted its approval-in-principle for such number of additional new Top Glove Shares, representing 15% of the issued and paid-up share capital of Top Glove, to be issued pursuant to the exercise of options under the new ESOS.

#### 21. Group Borrowings

<u>Group Borrowings as at 29 February 2008</u>	<u>RM'000</u>
Export credit Refinancing (ECR) / Bankers' Acceptance (secured)	3,136
Promissory Notes (secured)	12,808
Packing credit (secured)	2,857
Letter of Credit (secured)	13,144
Term Loan (secured)	72,927
Hire Purchase (secured)	1,758
Medium Term Notes (unsecured)	70,000
Total facilities	<u>176,630</u>
Payable within 12 months	<u>56,832</u>
Payable after 12 months	<u>119,798</u>

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### NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 29 FEBRUARY 2008 (CONTINUED)

#### 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 29 February 2008 are as follows:-

	Notional Amount As At 29 Feb 2008 RM'000
Foreign exchange forward contracts :	<u>101,570</u>
Within 11 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 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.

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 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 and the court has fixed trial dates for 24 & 25 June 2008.

During the above period, 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 several times and a decision 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. On 20 July 2007, the court allowed SGM's appeal and subsequently 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.



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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 given on 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 given on 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. SGM had also on 14 December 2005 filed an application to stay the above proceedings until the disposal of SGM's two appeals. This application was allowed on 7 March 2006. Appeals against both these decisions were allowed and on 5 February 2008 both SGM's appeals were dismissed and Supermax Corporation Berhad was included as a Second Defendant in this Suit.

(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.

#### 24. Dividend

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

Record of dividends paid in respect of previous financial year :

Financial Year	Dividend (%)	Dividend (RM'000)
2007	20%	27,435
2006	18%	21,173
2005	16%	14,110
2004	14%	12,295
2003	12%	9,550
2002	6%	2,808

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE SECOND QUARTER ENDED 29 FEBRUARY 2008 (CONTINUED)**
**25. Earnings Per Share**

	<b>Quarter Ended</b>		<b>Year To Date Ended</b>	
	<b>29 Feb 2008</b>	<b>28 Feb 2007</b>	<b>29 Feb 2008</b>	<b>28 Feb 2007</b>
Net profit attributable to ordinary shareholders (RM'000)	<u>29,480</u>	<u>25,368</u>	<u>58,863</u>	<u>50,213</u>
<b><u>Basic</u></b>				
Total number of ordinary shares ('000)	<u>300,730</u>	<u>299,507</u>	<u>300,730</u>	<u>299,507</u>
Adjusted weighted average number of ordinary shares ('000)	<u>300,630</u>	<u>277,449</u>	<u>300,562</u>	<u>273,841</u>
<b>Basic earnings per ordinary share (sen)</b>	<u>9.81</u>	<u>9.14</u>	<u>19.58</u>	<u>18.34</u>
<b><u>Diluted</u></b>				
Adjusted weighted average number of ordinary shares ('000)	300,630	277,449	300,562	273,841
<b>ESOS :</b>				
No. of unissued shares	3,593	3,040	3,593	3,040
No. of shares that would have been issued at fair value	<u>(1,732)</u>	<u>(2,010)</u>	<u>(1,732)</u>	<u>(2,010)</u>
Diluted weighted average number of ordinary shares ('000)	<u>302,491</u>	<u>278,479</u>	<u>302,423</u>	<u>274,871</u>
<b>Diluted earnings per ordinary share (sen)</b>	<u>9.75</u>	<u>9.11</u>	<u>19.46</u>	<u>18.27</u>