

## **7th. Draft (as at 17/11/2008) of Chairman's Statement for Top Glove Corporation Berhad 2008 Annual Report**

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Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the annual report of Top Glove Corporation Berhad for the financial year ended 31 August 2008. This edition marks the seventh (7<sup>th</sup>) year that Top Glove has been listed on the main board of Bursa Malaysia since our listing in March 2001.

***Financial year 2008 (FY08) has been a very challenging and tough year for the Group, with latex prices surged to a peak of RM7.20/kg in July 2008, Ringgit Malaysia strengthen to a high of RM3.14 per 1 USD in April 2008, crude oil price hit the all time high of USD148 per barrel in July 2008, and Malaysian government announced RM 0.78 or 41% increased in petrol price effective 5 June 2008, 26% electricity tariff hike effective 1 July 2008 and also the 71% hike in natural gas tariffs to RM22.06/mmbtu effective 1 August 2008.***

***Despite of all these headwinds, the Group continues to grow while maintaining a strong and healthy balance sheet position, with low gearing that is more comfortable for the Group to face the current world financial crisis or to fund any potential acquisitions.***

The escalating operating costs has caused us to undertake various cost saving exercises, re-engineering our manufacturing processes, as well as focusing extensively on research and development (R&D) projects to improve product quality, boost productivity and enhance efficiency.

The ability of the Group to grow from strength to strength over the years have mainly been attributed to the Group's continuous effort in improving its product quality, generating growth, capacity expansion and building a dedicated management team that add values to our stakeholders in line with the Group's business direction, philosophies and rules as follows :-

### **Business Direction**

Consistently High Quality with Efficient Low Cost.  
Top Glove, Top Quality, Top Efficient.

### **Business Philosophies**

- 1) We work for our **Customers**.
- 2) We take care of the interest of our **Shareholders**.
- 3) We ensure that our **Employees** continue to contribute positively to the Company and we take good care of the well-being of our employees; and
- 4) We work closely with our **Bankers, Suppliers, Business Associates and Friends**.

## **Business Rules**

- 1) Do not lose our shareholders' money**
- 2) Do not lose our health**
- 3) Do not lose our temper**
- 4) Do not lose our customers**

Moving forward, we will remain very focused on our core business and will strive to maintain our Group's mission to be a world class glove manufacturer providing top quality products with excellent services through continuous improvements and innovations, as well as to strengthen our position as the world's largest rubber glove manufacturer.

## **Overview Of Operations**

The Group has continued to further strengthen its position by adding more highly efficient production lines for this financial year. With the completion of factory 19 and 20 (F19 & 20) which are located in Klang, Selangor, Malaysia. Currently, the Group has a total of 355 efficient production lines with production capacity of 33 billion pieces of gloves per annum by March 2009.

With the Group's strong financial footing and its determination to grow aggressively, currently the Group is exporting to more than 180 countries with a strong customer base of 850 customers, constituting 24% of the global market share.

Since the acquisition of Medi-Flex Limited (Medi-Flex), the management has put in relentless efforts to turn Medi-Flex around or to reduce its losses. Special task force comprising the best and experienced compounding, production and marketing personnel in the Group have been deployed to Medi-Flex to carry out re-engineering exercise as well as to enhance the quality of clean room gloves produced at the most efficient cost. I am confident that this venture will complete Top Glove's aspiration to be a "One Stop Comprehensive Glove Sourcing Centre" for our existing and targeted customers in the future.

In addition, to further improve the efficiency and reduce cost for Medi-Flex Limited, the Group had relocated the operation in its rented factory located at Klang to its existing factory located at Banting. The consolidation of both the factories (the Klang factory and the Banting factory) is aimed to achieve better operational control by centralising the production lines and to improve on the quality and cost efficiency aspects of the business. Also, the Banting factory is currently operating on biomass boiler systems of which is cheaper and more cost effective.

As the company continues to forge ahead, we have also implemented highly efficient energy cost saving measures like biomass facilities in the factories in Malaysia and Thailand. Beside that F19 and F20 will also be operating on biomass boiler systems of which is cheaper and more cost effective. With this energy cost saving measures, we are confident that we will stay even more competitive in terms of costing and improve the company's bottom line further.

On the overseas front, our China factories have performed well and the world demand should continue to be strong. The installation of eight (8) additional new and advanced vinyl glove production lines at Factory 15 (F15 has 24 lines) was completed in October 2008 and we are confident that with this additional capacity, our China's operations will continue to contribute positively to the overall growth of the Group. This also signifies the good efforts put in by the management to turnaround the China's operations to profitable position has been very successful.

The Group two latex plants in Thailand, which is Factory 16L and Factory 17L, will also increase additional 8 latex centrifuge machines, in order to supply additional latex concentrate to the increasing demand from the Group's glove factories

For future corporate development, the Group has allocated about RM80 million for capital expenditure for the next financial year which would include organic expansion and potential acquisitions.

### **Financial Performance**

The Group continued to achieve another year of remarkable revenue growth of 12% to RM1,377.9 million for the financial year ended 31 August 2008 against RM1,228.8 million recorded in the previous financial year.

The growth was mainly attributed to the continued increase in customer base globally, higher volume of sales contributed by the increased capacity, as well as to our continued ability to pass on the increase in operating cost.

Against this backdrop, the Group continued to turn in record profits for year 2008. Pre-tax profit registered of RM134.6 million represented an increase of 13 % over the previous record pre-tax profit of RM118.6 million achieved in 2007, whilst net profit grew by 23% year-on-year to RM110.1 million from RM89.6 million achieved in 2007. Earnings per share rose to 37.18 sen from 31.20 sen in 2007 whilst return on equity continue to improve to 16% as compared to 14% in 2007.

Total assets of the Group increased from RM1,053.6 million as at August 2007 to RM1,109.5 million in August 2008, an increase of 5%, a reflection of the Group increase in asset base. In line with the strong financial performance for the year net asset also rose by 7% to RM686.8 million from RM641.0 million.

### **Dividends**

In line with the favorable results, the Board of Directors is pleased to recommend a final dividend of 12% (single tier) amounting approximately RM17.7 for the financial year ended 31 August 2008. The proposed final dividend is subject to the shareholders' approval in the forthcoming Tenth Annual General Meeting.

The company had on 2 July 2008 declared an interim dividend of 10% (tax exempt) amounting to RM14.7 million in conjunction with the third quarter

ended 31 May 2008 financial result announcement. Payment of the interim dividend was made on 13 September 2008.

### **Future Prospects**

In general, the glove industry has been blessed with the exponential growth in demand for gloves globally (estimated 8 to 10% growth p.a or around additional 12.3 billion pieces p.a) particularly due to the high demand from the traditional medical markets driven by stringent regulatory standards, aging population and emergence of health threats (e.g bio-terrorism threats, SARS, bird flu, anthrax), as well as from the increasing use of gloves in non medical sectors due to the increasing hygiene awareness particularly within the food and services industries.

Our business operates in a recession-proof market, taking into consideration the products are basic necessities, particularly in the healthcare and food services industry. As such, demand is anticipated to stay resilient in times when major consuming economies slow down.

Overall, the Group maintains a positive outlook towards continuous growth and securing better performance for the coming years in terms of sales revenue and profitability through the continuous effort of aggressive marketing strategies, increase in production capacity to capitalize on economies of scale coupled with further improvement in product quality, cost control and management efficiency.

Moving forward in tandem with the above mentioned initiatives, the Group has adopted a two-prong growth strategies namely vertical growth strategy by moving downstream to get closer to our customers via setting up of more overseas marketing officers as well as horizontal growth strategy in product range expansion by increasing our sales in value added products such as the enhanced and much improved version of powder free latex examination, soft nitrile, vinyl, clean room and surgical gloves to capture bigger market share. The presence in China will also enable us to tap for opportunities that synergize with our distribution channel.

### **Corporate Social Responsibility (CSR)**

The Group believes strongly in being a proactive, responsible and caring corporate citizen and is conscious of its social responsibilities that have been carried out as follows :-

- 1) The Group has set up the Top Glove Foundation which has implemented a scholarship scheme for poor and needy students to assist them in pursuing their tertiary education in local universities. The Group further offers job opportunities for these students after the completion of their studies.
- 2) Every year, the Group also provides practical training for university students to enable them to gain the necessary industrial exposure that is related to their field of studies.

- 3) The Group has donated gloves regularly to the St. John Ambulance and has recently contributed to the Malaysia Red Crescent for Myanmar and China natural disaster relief and rehabilitation projects.

### **In Appreciation**

I would like take this opportunity to express my sincere appreciation and gratitude to all our existing shareholders, investment analysts, bankers and fund managers for your continuous support and confidence in the Group; our valuable customers, suppliers, business associates, Government agencies and friends for their support of our products and services; and to our management and employees for their commitment and dedication in carrying out their duties and responsibilities diligently.

I would also like to thank our fellow Directors for their valuable advice, guidance and support rendered to the Group. I am fully confident that with their wisdom and experience will benefit and brings the Group to greater height.

On behalf of the Board of Directors, I wish to express our deepest condolence on the demise of Mr. Lau Boon Ann, our Non-Executive Director on 8<sup>th</sup> June 2008 and at the same time extend our appreciation to his family members on his valuable contribution and advices rendered to the Board in the past.

Last but not least, we are mindful and determined that we will constantly challenge ourselves to improve our performance in the coming years by adhering to our quality policy of "Continuous Improvement and Innovation Are Our Duties" and strive towards maintaining the Group's vision to be the world's leading manufacturer with excellent quality glove products and services that enrich and protect human lives.

Thank you.

**Tan Sri Dr. Lim, Wee-Chai**  
Chairman  
Top Glove Corporation Berhad  
12 November 2008