



TOP GLOVE CORPORATION BHD.

(Company No. 474423-X)

Public Listed Company on Bursa Malaysia Main Board

The World's Largest Rubber Glove Manufacturer

Lot 4969, Jalan Teratai, Batu 6, Off Jalan Meru,

41050 Klang, Selangor D.E., Malaysia.

Tel: 603-33921992 / 603-33921905 Fax: 603-33921291 / 603-33928410

Homepages : (i) www.topglove.com.my (ii) <http://topglove.asiaep.com>

E-mails : (i) top@topglove.com.my (ii) topg@po.jaring.my



NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED 31 AUG 2006

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, except for the adoption of MASB 25 : Income Tax.

In prior years, the Company recognized deferred tax assets on unused reinvestment allowances. During the current year, the Company changed its accounting policy and accordingly, deferred tax assets on unused reinvestment allowances are no longer recognize.

The change in accounting policy has been applied retrospectively and comparatives have been restated. The effects of change in accounting policy are as follows :

	2005 RM ('000)
Effect on retained profits :	
At 1 September, as previously stated	110,202
Effects of change in accounting policy	<u>(12,343)</u>
At 1 September, as restated	<u>97,859</u>

Comparative amount of the Company as at 31 August 2005 have been restated as follows :

	Previously stated RM ('000)	Adjustment RM ('000)	Restated RM ('000)
Deferred Tax	<u>10.062</u>	<u>12.343</u>	<u>22.405</u>

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 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 Aug 2006.

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.

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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 31 Aug 2006, a total of 478,700 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 31 Aug 2006 are as follows :-

	No. of shares	RM
As at 31 May 2006	191,806,600	95,903,300
Ordinary shares issued pursuant to the ESOS	478,700	239,350
As at 31 Aug 2006	192,285,300	96,142,650

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.

7. Dividends Paid

On 15 September 2006, the Company paid an interim dividend of 7% (tax exempt) amounting RM6,727,157, which was declared on 4 July 2006 in conjunction with the 3rd quarter ended 31 May 2006 financial results announcement

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.

There was no payment of dividend from 1 June 2006 to 31 August 2006.

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.

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FOR THE QUARTER ENDED 31 AUG 2006 (CONTINUED)**

	<u>31 Aug 2006</u>					
	Malaysia RM'000	Thailand RM'000	China RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
Revenue						
External sales	766,970	132,125	38,030	55,358	-	992,483
Inter-segment sales	<u>43,874</u>	<u>22,773</u>	<u>53,715</u>	<u>-</u>	<u>(120,362)</u>	<u>-</u>
Total Revenue	<u>810,844</u>	<u>154,898</u>	<u>91,745</u>	<u>55,358</u>	<u>(120,362)</u>	<u>992,483</u>
Result						
Profit/(loss) from operations	83,192	7,686	9,721	(43)		100,556
Finance cost, net						(9,521)
Taxation						<u>(12,227)</u>
Profit after tax						78,808
Minority interests						<u>(669)</u>
Net profit for the period						<u>78,139</u>
Assets						
Segment assets	510,013	131,213	66,965	29,373		<u>737,564</u>
Goodwill arising from consolidation						<u>21,078</u>
Liabilities						
Segment liabilities	362,599	66,606	37,822	6,968		<u>473,995</u>
Other information						
Capital expenditure	102,769	30,315	20,216	14		<u>153,314</u>
Depreciation	21,304	4,935	1,755	235		<u>28,229</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.

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11. Changes in the Composition of the Group

There were no significant changes in the composition of the Group, other than the acquisition of 100% of B-Tech Industry Co., Ltd (details as disclosed in note 20), 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 quarter ended 31 Aug 2006, the Group recorded a 57.8% increased in sales revenue to RM307.5 million from RM194.8 million registered in the corresponding quarter in the previous financial year. The profit before tax for the quarter increased by 26.1% to RM22.2 million as compared to RM17.6 million registered in the quarter ended 31 Aug 2005. 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, marketing strategy and the increase in latex concentrate cost.

Overall, the Group has a positive outlook towards continuous growth and in securing better results in the forthcoming quarter 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 45% 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 registered a PBT of RM22.2 million as compared to RM24.60 million achieved in the previous quarter ended 31 May 2006. This is mainly due to the renewal of workers' permit compound, which was subsequently settled and deemed completed on 6th October 2006. Kindly refer to the Company announcement to Bursa Malaysia dated 16 Aug 2006 and 6 October 2006.

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 15 factories, and employed about 8,000 employees and have installed 263 production lines with capacity of 23 billion pieces of gloves per annum. Top Glove has 750 customers and exports to more than 175 countries worldwide.

On the progress of our Factory 13, which is located in Klang, we are pleased to inform that we have completed the installation and commenced commercial production on all the 32 new and advanced glove production lines for this factory.

On the progress of Factory 14, which is also located in Klang, we are pleased to report that the construction of the factory building was completed in September 2006. The Company is currently in the process of installing the latex glove production lines and is targeting to commence production for the first 8 lines by 31 December 2006. This factory also has the capacity to house a total of 32 new and advanced glove production lines.

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The construction of Factory 15, the Group second China plant has also been completed in September 2006 and will be followed by the progressive installation of 48 new and advanced vinyl glove production lines. The first 8 new and advanced vinyl glove production lines are targeted to be completed for commercial production by 31 December 2006.

With regards to the latex concentration plants, the construction of Factory 16L, which is located in Hadyai, Thailand is progressing well. This plant is planned to house 36 new centrifuge machines and is targeted to be completed by March 2007.

As announced to Bursa Malaysia on 31 July 2006, we have completed the acquisition of our second latex concentrate plant, Factory 17L, which is also located in Hadyai. We are pleased to report that the plant is operating smoothly and contributing positively to the operations of the Group.

The Company also had announce on 12th October 2006 on its acceptance to an offer from Medi-Flex Limited to subscribe for 300,305,829 new Medi-Flex Limited shares or 60.06% equity interest subject to the signing of a definitive Share Subscription Agreement. The propose subscription will allow the Group to expand its operations into the area of manufacturing of medical and clean room gloves. In addition it will also provide opportunities for both companies for future growth in the manufacturing of specialised glove whereby both Top Glove and Medi-Flex are expected to benefit through the sharing of technology and expertise.

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 Aug 2006 RM'000	31 Aug 2005 RM'000	31 Aug 2006 RM'000	31 Aug 2005 RM'000
Income tax during the year	(149)	(504)	5,543	5,172
Under/(Over) provision in prior year	-	(796)	-	(796)
	<u>(149)</u>	<u>(1,300)</u>	<u>5,543</u>	<u>4,376</u>
Deferred taxation	3,449	7,367	6,684	8,125
	<u>3,300</u>	<u>6,067</u>	<u>12,227</u>	<u>12,501</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.

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20. Status of Corporate Proposals Announced

Date of announcement	Subject	Status
8 May 2006	Top Glove Sdn. Bhd., a wholly owned subsidiary of Top Glove Corporation Bhd, acquisition of 7.5 million ordinary shares representing 100% interest in B Tech Industry Company Limited, a company incorporated in Thailand for a total purchase consideration of RM26.8 million.	Announcement on the completion of the acquisition was made to Bursa Malaysia on 31 July 2006.
12 October 2006	Top Glove Corporation Berhad proposed subscription of ordinary share in Mediflex Limited, a company listed on the official list of the Singapore Exchange Trading Limited Dealing and Automated Quotation System (SGX-SESDAQ).	The proposal is pending the entering of the Shares Subscription Agreement.

21. Group Borrowings

<u>Group Borrowings as at 31 Aug 2006</u>	<u>RM'000</u>
Export credit Refinancing (ECR) / Bankers' Acceptance (secured)	66,185
Bank Overdrafts (secured)	446
Promissory Note (secured)	20,878
Term Loan (secured)	89,764
Hire Purchase (secured)	498
Medium Term Notes (unsecured)	70,000
Commercial Paper (unsecured)	25,000
Total facilities	<u>272,771</u>
Payable within 12 months	<u>136,614</u>
Payable after 12 months	<u>136,157</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 31 Aug 2006 are as follows:-

	Notional Amount
	As At 31 Aug 2006
	RM'000
Foreign exchange forward contracts :	<u>192,511</u>
Within 14 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.

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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.

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 and to 13 March 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

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.

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- 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.
- 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.

24. Dividend

The Board of Directors is pleased to proposed a final dividend of 11%, consisting of 6.0% (tax exempt) amounting to RM5,768,559 and 5.0% (taxable at 28%) amounting RM3,461,136 for the financial year ended 31 August 2006. The proposed final dividend (totaling 11% and amounting to RM9,229,695) is subject to the shareholders' approval in the forthcoming Annual General Meeting.

The Company paid an interim dividend of 7% (tax exempt) amounting RM6,727,157 on 15th September 2006, which was declared on 4 July 2006 in conjunction with the 3rd quarter ended 31 May 2006's financial results announcement.

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)	5,654,664.00	16/9/2005
11/1/2006	Final dividend	6% (tax exempt)	5,712,675.00	14/3/2006
11/1/2006	Final dividend	4% (with 28% tax)	2,742,084.00	14/3/2006
	Total dividend for financial year ended 31/8/2005	16%	14,109,423.00	

25. Earnings Per Share

	Quarter Ended		Year To Date Ended	
	31 Aug 2006	31 Aug 2005	31 Aug 2006	31 Aug 2005
Net profit attributable to ordinary shareholders (RM'000)	<u>18,541</u>	<u>11,572</u>	<u>78,139</u>	<u>53,208</u>
Basic				
Total number of ordinary shares ('000)	<u>192,285</u>	<u>188,639</u>	<u>192,285</u>	<u>188,639</u>
Adjusted weighted average number of ordinary shares ('000)	<u>192,027</u>	<u>188,333</u>	<u>190,608</u>	<u>187,324</u>
Basic earnings per ordinary share (sen)	<u>9.66</u>	<u>6.14</u>	<u>40.99</u>	<u>28.40</u>
Diluted				
Adjusted weighted average number of ordinary shares ('000)	192,027	188,333	190,608	187,324
ESOS :				
No. of unissued shares	4,463	4,503	4,463	4,503
No. of shares that would have been issued at fair value	<u>(3,173)</u>	<u>(3,387)</u>	<u>(3,173)</u>	<u>(3,387)</u>
Diluted weighted average number of ordinary shares ('000)	<u>193,317</u>	<u>189,449</u>	<u>191,898</u>	<u>188,440</u>
Diluted earnings per ordinary share (sen)	<u>9.59</u>	<u>6.11</u>	<u>40.72</u>	<u>28.24</u>