

11. ACCOUNTANT'S REPORT

(Prepared for inclusion in this Prospectus)



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27 JUN 2005

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Gentlemen

Accountants' Report

1. Introduction

This report has been prepared by an approved company auditor for inclusion in the Prospectus dated 30 June 2005 in connection with the public issue of 22,000,000 new ordinary shares of RM0.50 each at an issue price of RM1.00 per ordinary share in Can-One Berhad (hereinafter referred to as "Can-One" or the "Company") and offer for sale of 33,528,000 ordinary shares of RM0.50 each at an offer price of RM1.00 per ordinary share pursuant to the listing of and quotation of its entire issued and paid-up share capital of 152,400,000 ordinary shares of RM0.50 each on the Main Board of the Bursa Malaysia Securities Berhad ("Bursa Malaysia").

2. General Information

2.1 The Company's Background

Can-One was incorporated in Malaysia under the Companies Act, 1965 on 7 January 2004 as a public company under the name Can-One Group Berhad. On 21 January 2004, Can-One assumed its present name. Can-One is an investment holding company whilst its subsidiaries are principally involved in the manufacture and sale of tin cans and plastic jerry cans which are mainly used as packaging materials for edible oil, cereal, milk powder, biscuits, coffee powder, motor oils, chemicals and paints.



KPMG, KPMG, a partnership established under Malaysian Law, is a member of KPMG International, a Swiss cooperative.

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2.2 Share Capital

At the date of incorporation, Can-One's authorised share capital was RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each and Can-One's issued and fully paid-up share capital was RM2 comprising 2 ordinary shares of RM1.00 each.

On 9 April 2005, Can-One reduced the par value of its ordinary shares of RM1.00 each to a par value of RM0.50 each by sub-dividing every ordinary shares of RM1.00 each to two ordinary shares of RM0.50 each.

Pursuant to the restructuring scheme mentioned in section 2.3 below, the issued and paid-up share capital of Can-One has increased to RM65,200,000 comprising 130,400,000 ordinary shares of RM0.50 each as shown below:

Date of allotment/ subdivision	No. of ordinary shares allotted	Par value RM	Consideration	Resultant issued and paid-up share capital (cumulative)
				RM
7.1.2004	2	1.00	Subscribers' shares	2
9.4.2005	4	0.50	Sub-division of par value from RM1.00 per ordinary share to RM0.50 per ordinary share	2
29.4.2005	130,399,996	0.50	Issue as consideration for the acquisition of Aik Joo Can Factory Sdn Bhd ("Aik Joo")	65,200,000

2.3 Restructuring Scheme

In conjunction with and as part of the listing of and quotation for the entire issued and paid-up share capital of Can-One on the Main Board of the Bursa Malaysia, the following restructuring scheme was carried out:-

(I) Sub-division of Shares

On 9.4.2005, Can-One reduced the par value of its ordinary shares of RM1.00 each to a par value of RM0.50 each by sub-dividing every ordinary share of RM1.00 each to two ordinary shares of RM0.50 each.

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2.3 Restructuring Scheme (Cont'd)

(II) Revaluation

The revaluation surplus net of deferred tax amounting to RM264,265 arising from the revaluation of land and building owned by Aik Joo and Ajcan Sdn Bhd ("Ajcan") based on their net book value as at 31 December 2003 compared to their respective open market value, as valued by an independent registered valuer, Rahim & Co.

(III) Acquisitions

- i) Acquisition of the entire issued and paid-up share capital of Aik Joo comprising 10,000,000 ordinary shares of RM1.00 each for a total purchase consideration of RM65,344,522 satisfied by way of issuance of 130,399,996 new ordinary shares of Can-One ("Can-One Shares") credited as fully paid up at an issue price of approximately RM0.50 per Can-One Share.

The total purchase consideration was arrived at on a willing buyer-willing seller basis based on the adjusted consolidated net tangible assets of Aik Joo as at 31 December 2003 after incorporating the revaluation surplus net of deferred tax amounting to RM264,265.

- ii) Acquisition of the entire issued and paid-up share capital of Ajcan comprising 200,000 ordinary shares of RM1.00 each for a total cash purchase consideration of RM1,050,409 from Aik Joo. The total purchase consideration of RM1,050,409 was arrived at on a willing buyer-willing seller basis based on the net tangible assets of Ajcan as at 31 December 2003.
- iii) Acquisition of the entire issued and paid-up share capital of Canzo Sdn Bhd ("Canzo") comprising 2 ordinary shares of RM1.00 each for a total cash purchase consideration of RM2.00. The total purchase consideration of RM2.00 was arrived at on a willing buyer-willing seller basis based on the paid-up share capital of Canzo.

The above acquisitions were completed on 29 April 2005.

(IV) Public Issue

Public issue of 22,000,000 new ordinary shares of RM0.50 each at an issue price of RM1.00 per share.

(V) Offer For Sale

Offer for sale of 33,528,000 ordinary shares of RM0.50 each at an offer price of RM1.00 per share.

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2.4 Subsidiaries

The subsidiaries and their respective principal activities as at the date of this report are as follows:

Name	Date and Place of Incorporation	Issued and Paid-up Share Capital	Effective Equity Interest %	Principal Activities
Aik Joo	1 November 1957, Malaysia	RM10,000,000	100%	Manufacturing of metal and lithographed cans, and jerry cans
Ajcan	25 January 1983, Malaysia	RM200,000	100%	Property letting and property investment
Canzo	9 October 2003, Malaysia	RM2	100%	Manufacturing and trading of jerry cans and related products

3. Audited Financial Statements And Auditors

We have been the auditors of Aik Joo, Ajcan and Canzo for the financial years/period ended 31 December 2003 and 2004.

Prior to the financial year mentioned above, Aik Joo and Ajcan were audited by another firm of auditors.

None of the financial statements of Aik Joo, Ajcan and Canzo for all the financial years/period under review were subject to any audit qualification.

We are the auditors of Can-One for the financial period ended 31 December 2004 and its financial statements were not subject to any audit qualification.

4. Accounting Policies And Standards

This report is prepared on a basis consistent with accounting policies normally adopted by Can-One and its subsidiaries ("Can-One Group") and in accordance with the applicable approved accounting standards issued by the Malaysian Accounting Standards Board, a summary of which is set out in Section 8.1 below.

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5. Summarised Income Statement

5.1 Can-One

The summarised income statement of Can-One based on the audited financial statements for the financial period ended 31 December 2004 is set out below:

	7.1.2004 to 31.12.2004 RM'000
Revenue	-
Loss before depreciation and interest	(11)
Depreciation	-
Interest expense	-
Loss before taxation	(11)
Taxation	-
Loss after taxation	(11)
Number of shares in issue	2
Loss per share (RM)	
Gross	(5,500)
Net	(5,500)

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5. Summarised Income Statement (Cont'd)

5.2 The Proforma Group

The summarised proforma consolidated results of the Can-One Group for the past five (5) financial years ended 31 December 2000 to 2004 have been prepared for illustrative purposes assuming that Can-One Group had been in existence throughout the years under review.

	For the financial year ended				
	31.12.00	31.12.01	31.12.02	31.12.03	31.12.04
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	70,907	79,513	67,024	75,184	123,160
Profit before depreciation and interest	14,783	15,413	13,542	15,505	20,521
Depreciation	(2,838)	(2,902)	(3,052)	(3,042)	(3,949)
Interest expense	(253)	(576)	(536)	(407)	(2,168)
Profit before taxation	11,692	11,935	9,954	12,056	14,404
Taxation	(1,962)	(1,740)	(2,273)	(1,630)	(2,191)
Profit after taxation	9,730	10,195	7,681	10,426	12,213
Number of shares in issue* ('000)	130,400	130,400	130,400	130,400	130,400
Earnings per share (sen)					
Gross	8.97	9.15	7.63	9.25	11.05
Net	7.46	7.82	5.89	8.00	9.37

* - based on the number of shares issued for the acquisition of Aik Joo and including subscribers' shares in Can-One

Notes:

- i) The proforma consolidated results of Can-One Group are prepared for illustrative purposes only and are based on the audited financial statements of :
 - a) Aik Joo and its subsidiary, Ajcan for the financial year ended 31 December 2000 to 2004 after adjusting for the additional tax expense in respect of the financial years prior to 31 December 1999 arising from the tax investigation which was paid and recognised in financial year ended 31 December 2003;

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5. Summarised Income Statement (Cont'd)

- b) Canzo for the financial period ended 31 December 2003 and year ended 31 December 2004; and
- c) Can-One for the financial period ended 31 December 2004.

They are prepared using the merger method of accounting for the acquisition of Aik Joo and acquisition method of accounting for the acquisition of Canzo.

All intercompany transactions have been eliminated on consolidation.

- ii) The taxation amount included in the proforma consolidated results of the Can-One Group for the financial year ended 31 December 2003 ("FY2003") has been adjusted to exclude the prior years' tax expense amounting to RM2,348,000 recognised in FY2003 pursuant to the tax investigation on taxes prior to FY1999.
- iii) There were no extraordinary or exceptional items for all the years/period under review.
- iv) The proforma gross earnings per share was calculated based on the profit before taxation and on the assumption that the issued and paid-up share capital of the Group of 130,400,000 ordinary shares of RM0.50 each had been in issue throughout the years under review.

The proforma net earnings per share was calculated based on the profit after taxation and on the assumption that the issued and paid-up share capital of the Group of 130,400,000 ordinary shares of RM0.50 each had been in issue throughout the years under review.

5.3 Dividends

Can-One has not paid or declared any dividend since the date of incorporation.

No dividend has been paid or declared by the subsidiaries of Can-One during the financial years/period under review except for the following: -

- i) Aik Joo declared and paid a first and final dividend of 10% tax exempt amounting to RM377,500 in respect of the financial year ended 31 December 2001.
- ii) Aik Joo declared and paid a first and final dividend of 10% tax exempt amounting to RM377,500 in respect of the financial year ended 31 December 2002.

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- iii) Aik Joo declared a first interim dividend of 10% tax exempt (based on issued capital of 3,775,000 shares) amounting to RM377,500 which was paid on 30 April 2003 and a second interim dividend of 170% less 28% tax (based on issued capital of 10,000,000 shares) totalling RM12,240,000 which was paid on 7 June 2004 in respect of the financial year ended 31 December 2003.

6. Summarised Balance Sheet

6.1 Can-One

The summarised balance sheet of Can-One based on the audited financial statements as at 31 December 2004 is set out below:

	RM'000
Plant and equipment	4
Current assets	8
Current liabilities	(23)
Net current liabilities	(15)
	(11)
Financed by:	
Share capital	*
Reserves	(11)
Shareholders' funds	(11)
Net tangible liabilities per share (RM)	(5,500)

* - Denotes 2 ordinary shares of RM1 each

6.2 The Proforma Group

The summarised proforma consolidated balance sheet for Can-One Berhad as at 31 December 2000 to 31 December 2004 based on the audited financial statements of the subsidiaries of Can-One Berhad after incorporating the change in accounting policy as a result of the adoption of MASB 25, Income Taxes and adjusting for the additional tax expense in respect of the financial years prior to 31 December 1999 arising from the tax investigation which was paid and recognised in financial year ended 31 December 2003 are set out below: -

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	31.12.00 RM'000	31.12.01 RM'000	31.12.02 RM'000	31.12.03 RM'000	31.12.04 RM'000
Property, plant and equipment	38,102	44,518	43,322	50,591	56,809
Other investments	16	16	16	16	4,016
Current assets	39,405	38,939	40,624	52,442	104,946
Current liabilities	(22,146)	(9,621)	(8,965)	(27,753)	(34,803)
Net current assets	17,259	29,318	31,659	24,689	70,143
	<u>55,377</u>	<u>73,852</u>	<u>74,997</u>	<u>75,296</u>	<u>130,968</u>
Financed by:					
Share capital *	65,200	65,200	65,200	65,200	65,200
Reserves	(15,075)	(4,872)	2,440	(121)	12,102
Shareholders' funds	50,125	60,328	67,640	65,079	77,302
Term loans	689	8,260	1,673	3,950	47,314
Deferred tax liabilities	4,563	5,264	5,684	6,267	6,352
	<u>55,377</u>	<u>73,852</u>	<u>74,997</u>	<u>75,296</u>	<u>130,968</u>
NTA per share (RM)	0.38	0.46	0.52	0.50	0.59

* - represents ordinary shares with par value of RM0.50 each assumed to be issued pursuant to the acquisition of Aik Joo and including subscribers' shares in Can-One.

Assumptions used

- 1) The summarised proforma consolidated balance sheet of Can-One and its subsidiaries has been prepared for illustrative purposes only assuming Can-One Group had been in existence as at 1 January 2000 and is based on the audited consolidated financial statements of Aik Joo and its subsidiary, Ajcan as at 31 December 2000 to 2004, Canzo as at 31 December 2003 and 2004 and Can-One as at 31 December 2004. They are prepared using the merger method of accounting for the acquisition of Aik Joo and acquisition method of accounting for the acquisition of Canzo.

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The following transactions are assumed to have been effected:

- i) Can-One Berhad has been incorporated with an issued and paid-up capital of RM2 comprising 2 ordinary shares of RM1.00 each and subsequently, reduced the par value of its ordinary shares of RM1.00 each to a par value of RM0.50 each by sub-dividing every ordinary share of RM1.00 each to two ordinary shares of RM0.50 each;
- ii) Acquisition of the entire issued and paid-up share capital of Aik Joo comprising 3,775,000 ordinary shares of RM1 each for a total purchase consideration of RM65,344,522 satisfied by way of issuance of 130,399,996 Can-One Shares at an issue price of approximately RM0.50 per Can-One Share.

The acquisition is accounted for using the merger method of accounting as the transaction falls under internal group reorganisation and accordingly, it meets the relevant criterias for merger method of accounting as set out in Malaysian Accounting Standards Board's Standard No. 21 – Business Combinations. The merger deficit of RM61,424,998 arising from the exchange of shares is adjusted against capital reserve and retained profits and the balance is shown as merger deficit.

- iii) Acquisition of the entire issued and paid-up share capital of Ajcan comprising 200,000 ordinary shares of RM1 each for a total cash purchase consideration of RM1,050,409.
- iv) Acquisition of the entire issued and paid up share capital of Canzo comprising 2 ordinary shares of RM1 each for a total cash purchase consideration of RM2.

The acquisition is accounted for using the acquisition method of accounting as the purchase consideration is satisfied by way of cash.

- 2) In arriving at the summarised proforma consolidated balance sheet, the following adjustments have been made to the audited financial statements :
 - a) deferred tax liabilities arising from the revaluation surplus of properties amounting to RM1,673,793 as a result of the adoption of MASB 25, Income Taxes and consequently, a reduction in Reserves and an increase in Deferred Tax Liabilities by that amount for the financial years ended 31 December 2000 to 2002; and
 - b) additional tax expense of RM2,348,000 in respect of the financial years prior to 31 December 1999 arising from the tax investigation which was paid and recognised in financial year ended 31 December 2003 and consequently, an increase in Current Liabilities and a corresponding decrease in Reserves for the financial years ended 31 December 2000 to 2002.

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7. Statement Of Assets And Liabilities

The following are the detailed statement of assets and liabilities of Can-One as well as the Proforma Can-One Group which have been prepared for illustrative purposes only and are based on the audited financial statements of the companies in the Can-One Group as at 31 December 2004. The statement of assets and liabilities has been prepared to show the effects of acquisitions of Aik Joo, Ajcan and Canzo ("Acquisitions"), the Public issue of 22,000,000 new ordinary shares of RM0.50 each at an issue price of RM1.00 per share and the estimated share issue expenses of RM2,400,000 ("Proforma I") and the implementation of Employees' Share Option Scheme ("ESOS") ("Proforma II") on the assumption that the respective transactions had been completed on 31 December 2004 and should be read in conjunction with the notes thereon :-

		Company Audited at 31 December 2004 RM'000	Proforma I Group RM'000	Proforma II After Proforma I and assuming full exercise of ESOS RM'000
	Note			
PROPERTY, PLANT AND EQUIPMENT	8.2	4	67,066	67,066
OTHER INVESTMENTS	8.3	-	4,016	4,016
CURRENT ASSETS				
Inventories	8.4	-	47,740	47,740
Trade and other receivables	8.5	7	40,074	40,074
Tax recoverable		-	2	2
Cash and cash equivalents	8.6	1	26,630	49,490
		8	114,446	137,306
CURRENT LIABILITIES				
Trade and other payables	8.7	23	9,220	9,220
Borrowings	8.8	-	25,020	25,020
Taxation		-	565	565
		23	34,805	34,805
NET CURRENT (LIABILITIES) / ASSETS		(15)	79,641	102,501
		(11)	150,723	173,583

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7. Statement Of Assets And Liabilities (Cont'd)

Financed by:

SHARE CAPITAL	8.9	*	76,200	87,630
RESERVES	8.10	(11)	20,965	32,395
SHAREHOLDERS' FUNDS		(11)	97,165	120,025
BORROWINGS	8.8	-	47,314	47,314
DEFERRED TAX LIABILITIES		-	6,244	6,244
		(11)	150,723	173,583
NET TANGIBLE (LIABILITIES)/ ASSETS PER ORDINARY SHARE (RM)	8.11	(5,500)	0.64	0.68

* Denotes 2 ordinary shares of RM1 each

8. Notes To The Statement Of Assets And Liabilities

8.1 Summary of Significant Accounting Policies

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in previous years.

(a) Basis of Accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

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**8.1 Summary of Significant Accounting Policies (Cont'd)****(b) Basis of Consolidation**

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The Proforma Group financial statements include the audited financial statements of Can-One and its subsidiaries made up to 31 December 2004 on the assumption that the restructuring of the Can-One Group as stated in paragraph 2.3 had been effected as at 31 December 2004. The financial statements of the subsidiaries were consolidated using the merger method of accounting except for Canzo Sdn. Bhd. which is consolidated using the acquisition method of accounting.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. A subsidiary excluded on these grounds is accounted for as an investment.

Under the merger method of accounting, the results of the subsidiaries brought in for the first time are included in the consolidated income statement for the entire year without any adjustment in respect of that part of period prior to merger. The difference between the nominal value of the share capital issued as purchase consideration and the nominal value of the share capital of the subsidiaries acquired is taken to merger reserve.

Under the acquisition method of accounting, the results of the subsidiary acquired or disposed of during the year is included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiary's net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiary's net assets is reflected as goodwill or negative goodwill as appropriate.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

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8.1 Summary of Significant Accounting Policies (Cont'd)

(c) Property, Plant and Equipment

Property, plant and equipment except for freehold land are stated at cost/valuation less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

Depreciation

Freehold land is not amortised.

Leasehold land and building are amortised over their respective unexpired period of lease.

On other property, plant and equipment, depreciation is calculated to write off their cost on a reducing balance method over their estimated useful lives at the following principal annual rates :

	%
Buildings	1.35 – 2
Plant and machinery	10 – 20
Furniture, fittings and office equipment	10 – 20
Motor vehicles	20

(d) Impairment

The carrying amount of assets, other than inventories and financial assets (other than investment in subsidiaries), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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8.1 Summary of Significant Accounting Policies (Cont'd)

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

(e) Investments

Long term investment other than in subsidiaries, is stated at cost. An allowance is made when the directors are of the view that there is a diminution in their value which is other than temporary.

Long term investment in subsidiaries are stated at cost in the Company, less impairment loss where applicable.

(f) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is written off to the income statement in the year of acquisition.

Negative goodwill represents the excess of the fair values of the net identifiable assets acquired over the cost of acquisition and is recognised immediately in the income statement.

(g) Inventories

Inventories are stated at the lower of cost and net realizable value with first-in, first-out being the main basis for cost. For work-in-progress and manufactured inventories, cost consists of materials, direct labour and an appropriate proportion of fixed and variable production overheads.

(h) Trade and Other Receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

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8.1 Summary of Significant Accounting Policies (Cont'd)

(i) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(j) Liabilities

Borrowings and trade and other payables are stated at cost.

(k) Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount.

(l) Income Tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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8.1 Summary of Significant Accounting Policies (Cont'd)

(m) Finance Leases

Assets acquired by way of finance leases are capitalised as plant and equipment and the corresponding obligations are treated as liabilities. Financing charges are allocated to income statement over the lease periods using the "sum-of-digits" method to give a constant periodic rate of interest on the remaining finance lease liabilities.

(n) Foreign Currency Transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Where forward exchange contracts have been arranged in respect of monetary assets and liabilities, the contracted rates of exchange are used. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of the transactions.

The closing rates used in the translation of foreign currency monetary assets and liabilities are as follows :

USD1	:	RM3.80
SGD1	:	RM2.32
EURO1	:	RM5.15

(o) Revenue

i) Goods sold

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

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8.1 Summary of Significant Accounting Policies (Cont'd)

(o) Revenue (Cont'd)

ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

iii) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

(p) Finance Costs

All interest and other costs incurred in connection with borrowings are expensed as incurred.

(q) Employee Benefits

i) Short term employee benefits

Wages, salaries and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

ii) Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

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	Valuation / Cost at 31.12.04 RM'000	Accumulated depreciation at 31.12.04 RM'000	Net book value at 31.12.04 RM'000
At Cost:			
Office equipment	4	-	4

Proforma Group

	Valuation / Cost at 31.12.04 RM'000	Accumulated depreciation at 31.12.04 RM'000	Net book value at 31.12.04 RM'000
At Valuation:			
Long term leasehold land	1,740	24	1,716
Short term leasehold land	1,521	39	1,482
Leasehold buildings	5,459	93	5,366
Freehold land	2,107	-	2,107
Freehold buildings	8,796	126	8,670
At Cost:			
Long term leasehold land	800	6	794
Leasehold buildings	4,150	199	3,951
Plant and machinery	57,693	27,955	29,738
Furniture, fittings and equipment	2,252	1,199	1,053
Motor vehicles	4,172	2,083	2,089
	88,690	31,724	56,966
Financed by the proceeds from Public Issue:			
- acquisition of land and construction of new factory	7,000	-	7,000
- acquisition of production machinery	3,100	-	3,100
	98,790	31,724	67,066

11. ACCOUNTANT'S REPORT



8.2 Property, plant and equipment (Cont'd)

Included in property, plant and equipment of the Group is an amount of RM2,229,678 representing the net book value of buildings erected on land belonging to third parties.

The net book value of equipment acquired under finance lease arrangement is as follows :

	Proforma Group RM'000
Motor vehicles	<u>361</u>

8.3 Other Investments – Proforma Group

	RM'000
Unquoted bonds	4,000
Quoted shares in Malaysia, at cost	16
	<u>4,016</u>
Market value	<u>45</u>

8.4 Inventories – Proforma Group

	RM'000
Raw materials	26,136
Work-in-progress	19,423
Manufactured inventories	2,181
	<u>47,740</u>

11. ACCOUNTANT'S REPORT**8.5 Trade and other receivables**

	Company RM'000	Proforma Group RM'000
Trade receivables	-	36,477
Other receivables, deposits and prepayments	7	3,597
	<u>7</u>	<u>40,074</u>

The ultimate holding company is Eller Axis Sdn Bhd, a company incorporated in Malaysia.

Included in other receivables, deposits and prepayments is an amount of RM1,088,862 representing deposits paid for the purchase of property, plant and equipment.

8.6 Cash and cash equivalents

	Company RM'000	Proforma I RM'000	Proforma II RM'000
Cash and bank balances	1	10,868	33,728
Short term deposits with licensed banks	-	15,762	15,762
	<u>1</u>	<u>26,630</u>	<u>49,490</u>

8.7 Trade And Other Payables

	Company RM'000	Proforma Group RM'000
Trade payables	-	6,372
Other payables and accruals	23	2,848
	<u>23</u>	<u>9,220</u>

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8.8 Borrowings – Proforma Group

	RM'000
Current	
Secured	
Term loans	2,135
Bankers' acceptances	22,814
Finance lease liabilities	71
	<u>25,020</u>
Non-Current	
Secured	
Term loans	7,159
Finance lease liabilities	155
	<u>7,314</u>
Unsecured	
Term loans	40,000
	<u>47,314</u>

The secured term loans and bankers' acceptances are secured against a legal charge over the leasehold land of Aik Joo, a lienholder's caveat over the freehold land and building of the Aik Joo, debentures on the entire fixed and floating, present and future assets of the Aik Joo, a negative pledge of RM55 million over the present and future assets of the Aik Joo and personal guarantee of a Director. The term loans bear interest at 0.75% above the bankers' prevailing base lending rates.

The bankers' acceptances are subject to interest rates ranging from 2.85% to 3.05% while finance leases are subject to a fixed interest rate of 3.90% to 6.09%.

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8.8 Borrowings – Proforma Group (Cont'd)

Analysis of repayment

The term loans are repayable as follows :

	Total RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
Secured term loans					
- 31 December 2004	9,294	2,135	2,997	2,613	1,549
Unsecured term loans					
- 31 December 2004	40,000	-	-	40,000	-

Finance lease liabilities are payable as follows :

	<div style="display: flex; align-items: center; justify-content: center;"> ← 2004 → </div>		
	Payments RM'000	Interest RM'000	Principal RM'000
Less than 1 year	83	12	71
Between 1 and 5 years	169	14	155
	252	26	226

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8.9 Share Capital

	Number of ordinary shares '000	Par Value RM	Proforma Group RM'000
Authorised	200,000	0.50	100,000
Issued and fully paid:			
Balance at 31 December 2004	*	1.00	*
Subdivision of shares	#	0.50	#
Issued as consideration for the acquisition of a subsidiary	130,400	0.50	65,200
Public issue	22,000	0.50	11,000
	152,400	0.50	76,200
ESOS	22,860	0.50	11,430
	175,260	0.50	87,630

* - Denotes 2 ordinary shares of RM1.00 each

- Denotes 4 ordinary shares of RM0.50 each

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8.10 Reserves

	Company RM'000	Proforma I RM'000	Proforma II RM'000
Non-distributable:			
Share Premium	-	8,600	20,030
Distributable:			
(Accumulated loss)/Retained profits	(11)	12,365	12,365
	<u>(11)</u>	<u>20,965</u>	<u>32,395</u>

8.11 Net Tangible Assets Per Ordinary Share

Based on the statement of assets and liabilities of the Proforma Can-One Group as at 31 December 2004, the net tangible assets per share after acquisitions, public issue and ESOS is calculated as follows: -

	Proforma I	Proforma II
Net tangible assets as per the Proforma Group's statement of assets and liabilities (RM'000)	<u>97,165</u>	<u>120,025</u>
Number of ordinary shares of RM0.50 each in issue ('000)	<u>152,400</u>	<u>175,260</u>
Net tangible assets per ordinary share of RM0.50 each (RM)	<u>0.64</u>	<u>0.68</u>

11. ACCOUNTANT'S REPORT



9. Proforma Consolidated Cash Flow Statement

The proforma consolidated cash flow statement of Can-One Group set out below is based on the audited financial statements of the companies in the Can-One Group for the year ended 31 December 2004 and is presented on the basis that the acquisitions, public issue and utilisation of proceeds had been in effect throughout the financial year under review.

CASH FLOWS FROM OPERATING ACTIVITIES	RM'000
Profit before tax	14,404
Adjustment for:	
Amortisation of goodwill	8
Depreciation	3,949
Gain on disposal of plant and equipment	(6)
Interest expense	2,168
Dividend income	(1)
Interest income	(275)
Operating profit before working capital changes	20,247
Increase in:	
Inventories	(25,194)
Trade and other receivables	(15,799)
Increase in:	
Trade and other payables	5,052
Cash used in operations	(15,694)
Interest paid	(2,168)
Tax paid	(963)
Net cash used in operating activities	(18,825)

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9. Proforma Consolidated Cash Flow Statement (Cont'd)

CASH FLOWS FROM INVESTING ACTIVITIES

Dividend income	1
Interest received	275
Purchase of property, plant and equipment	(20,288)
Proceeds from disposal of plant and equipment	88
Purchase of investment	(4,000)
Net cash used in investing activities	(23,924)

CASH FLOWS FROM FINANCING ACTIVITIES

Drawdown of term loans	45,322
Dividend paid	(12,240)
Repayment of term loans	(1,915)
Bankers' acceptances	15,129
Repayment of finance lease liabilities	(83)
Proceeds from public issue	22,000
Share issue expenses	(2,400)
Net cash generated from financing activities	65,813
Net increase in cash and cash equivalents	23,064
Cash and cash equivalents at beginning of year	3,566
Cash and cash equivalents at end of year (Note 8.6)	26,630

The net cash flow from financing activities will increase by RM22,860,000 assuming the full exercise of the ESOS options. The cash and cash equivalents included in the proforma consolidated cash flow statement after the full exercise of ESOS will be RM49,490,000.

11. ACCOUNTANT'S REPORT



10. Financial Statements

No audited financial statements have been prepared in respect of any period subsequent to 31 December 2004.

Yours faithfully

A handwritten signature in black ink, appearing to be 'KPMG'.

KPMG

Firm No : AF : 0758

Chartered Accountants

A handwritten signature in black ink, appearing to be 'Ooi Kok Seng'.

Ooi Kok Seng

Partner

Approval Number : 2432/05/07 (J)