**CAN-ONE BERHAD**
(Company No. 638899-K)

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
QUARTER ENDED 31 DECEMBER 2005

PART A: REQUIREMENTS OF FRS134 – INTERIM FINANCIAL REPORTING

1. **Basis of preparation**

The interim financial report is unaudited and has been prepared in compliance with the requirements of FRS134 – Interim Financial Reporting and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

These explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant to an understanding in the financial position and performance of the Group for the financial year ended 31 December 2005.

The following accounting policies are adopted by the Group:

(a) **Basis of accounting**

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

**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 consolidated financial statements of the Group comprises the financial statements of the Company and its wholly-owned subsidiaries, Aik Joo Can Factory Sdn Bhd, Canzo Sdn Bhd, Ajcan Sdn Bhd, Newmarq Land Sdn. Bhd. (Formerly known as Liew Yoke Fatt Holdings Sdn Bhd) and Sanjung Nuri Sdn Bhd made up to the end of the financial period.

The financial statements of the subsidiaries are consolidated using the acquisition method of accounting except for those of Aik Joo Can Factory Sdn Bhd which are consolidated using merger method of accounting.

Under the merger method of accounting, the results of the subsidiaries acquired during the period are presented as if the companies had been combined throughout the current and previous financial years/periods. Any differences between the nominal value of shares capital issued as purchase consideration and the nominal value of the shares capital acquired is accounted for as merger debit.

Under the acquisition method of accounting, the results of the subsidiaries acquired or disposed during the period/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 subsidiaries' net assets are determined and these values are reflected in the Group's financial statements. The differences between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

All inter-company transactions and balances are eliminated on consolidation and the consolidated financial statements reflect only external transactions. Unrealised profits are eliminated on consolidation whilst unrealized losses are also eliminated unless cost cannot be recovered.

(b) **Property, plant & equipment**

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

Property, plant & equipment retired from active use and held for disposal, if any, 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 depreciated.

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/valuation on a reducing balance method over their estimated useful lives at the following principal annual rates:

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

(c) **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. Impairment losses are recognised in the income statement, unless the asset is carried at 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 the current market assessment 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.

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 event has 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 amortization, 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.

(d) **Investment**

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.

(e) **Goodwill**

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired. Goodwill is retained in the consolidated balance sheet and will be written down immediately to their recoverable amount where an indication of impairment exists.

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

(f) **Inventories**

Inventories are stated at the lower of cost and net realisable 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.

(g) **Trade and other receivables**

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

(h) **Liabilities**

Borrowings, trade and other payables are stated at cost.

(i) **Provisions**

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

(j) **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.

(k) **Employee benefits**

**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.

**Defined contribution plans**

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

(l) **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.

(m) **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 the initial recognition of assets or liabilities that at the time of 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.

(n) **Revenue**

**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.

**Dividend income**

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

**Interest income**

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

(o) **Financing cost**

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

(p) **Foreign currency transactions**

Transactions in foreign currencies are translated into Ringgit Malaysia at rates of exchange ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rate 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 into Ringgit Malaysia at foreign exchange rates ruling at the date of the transactions.

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

| | |
|---|---|
| USD1 | : RM3.80 |
| SGD1 | : RM2.30 |

(q) **Comparative figures**

No comparative figures is presented for the consolidated income statement and consolidated cash flows statement as this is the first year consolidated quarterly financial statements are presented.

2. **Auditors' report**

The auditors report on the preceding financial period was not qualified.

3. **Seasonal or cyclical factors**

The operations of the Group are not subject to seasonal or cyclical fluctuations except that certain products are subject to seasonal demand where higher sales will be recorded a few months before major festive seasons such as Ramadhan and Chinese New Year.

4. **Unusual items**

Except for those disclosed in Note 13 of Part A, there were no items affecting assets, liabilities, equity, net income, or cashflows that are unusual because their nature, size or incidence.

5. **Changes in estimates**

There were no major changes in estimates of amounts which may have a material effect on the current quarter under review.

6. **Issue and repayment of debt and equity securities**

Except for those disclosed in Note 13 of Part A, 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 during the current financial period.

7. **Dividends**

The Directors proposed a first and final dividend of 8% less 28% tax (or approximately 2.88 sen per share) for the financial year ended 31 December 2005, subject to approval by shareholders of the Company.

8. **Segment revenue and results**

No segmental reporting has been prepared as the Group's activities are principally confined to the business of manufacture of tin cans and jerry cans in Malaysia.

9. **Valuation of property, plant and equipment**

There has been no valuation on any property, plant and equipment of the Group during the current quarter under review except for the revaluation of land and buildings which has been incorporated in the financial statements in accordance with its listing scheme.

10. **Material subsequent events**

As at 23 February 2006 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report), there were no material events subsequent to balance sheet date which may have an impact on the consolidated financial statements of the Group.

11. **Changes in Group composition**

During the quarter under review, the Group completed the acquisition of the entire equity interest in Sanjung Nuri Sdn Bhd comprising 2 ordinary shares of RM1 each for a total consideration of RM1.2 Million.

Except for those mentioned above and those stated in Note 13 of Part A, there were no other changes in the composition of the Group during the current quarter.

12. **Changes in contingent liabilities or contingent assets**

There were no contingent liabilities or assets for the Group as at 31 December 2005.

As at 23 February 2006, (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report) no material contingent assets or liabilities have arisen since the end of the financial period.

13. **Restructuring and Listing exercise**

(a) On 8 April 2005, the Company entered into the following conditional share sale agreements which were completed on 29 April 2005:

(i) Acquisition of 100% equity interest in Aik Joo Can Factory Sdn Bhd comprising 10,000,000 ordinary shares of RM1 each for a total consideration of RM65,344,522, satisfied by the issuance of 130,399,996 new ordinary shares at an issue price of approximately RM0.50 per share.

Consequently, the issued and paid-up share capital of the Company was increased from RM2 comprising 4 ordinary shares of RM0.50 each to RM65,200,000 comprising 130,400,000 ordinary shares of RM0.50 each.

(ii) Acquisition of 100% equity interest in Canzo Sdn Bhd comprising 2 ordinary shares of RM1 each for a total consideration of RM2 satisfied by cash.

(iii) Acquisition of 100% equity interest in AJCan Sdn Bhd comprising 200,000 ordinary shares of RM1 each for a total consideration of RM1,050,409 satisfied by cash.

(b) On 30 June 2005, the Company issued its prospectus in conjunction with its listing on the Main Board of Bursa Securities ("Listing Exercise"). Pursuant to the Listing Exercise:

(i) The issued and fully paid-up share capital of the Company will be increased from RM65,200,000 comprising 130,400,000 ordinary shares of RM0.50 each to RM76,200,000 comprising 152,400,000 ordinary shares of RM0.50 each by way of a public issue of 22,000,000 new ordinary shares of RM0.50 each at an issue price of RM1.00 per share, payable in full upon application comprising:

- 6,000,000 new ordinary shares of RM0.50 each available for application by eligible directors, employees and business associates of the Group;
- 8,380,000 new ordinary shares of RM0.50 each available for application by placement to identified investors; and
- 7,620,000 new ordinary shares of RM0.50 each available for application by public investors.

(ii) The promoter of the Company, Eller Axis Sdn Bhd, made an offer for sale of 33,528,000 ordinary shares of RM0.50 each at an offer price of RM1.00 per share payable in full on application comprising:

- 19,050,000 ordinary shares of RM0.50 each reserved for Bumiputera investors approved by the Ministry of International Trade and Industry; and
- 14,478,000 ordinary shares of RM0.50 each available for application by placement to identified investors

(iii) In conjunction with the listing exercise, the Company established an Employees' Share Option Scheme ("ESOS") of up to 15% of the issued and paid-up share capital of the Company for the benefit of eligible Directors (including non-executive Directors) and employees of the Group upon the its listing on the Main Board of Bursa Securities.

The Listing Exercise was completed on 29 July 2005.

14. **Material Litigation**

As at 23 February 2006 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report) the Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, and the Directors do not have any knowledge of any proceedings pending or threatened against the Group or any facts likely to give rise to any proceedings which may materially and adversely effect the Group's financial position or business.

## 15. Utilisation of proceeds from public issue

The status of utilisation of proceeds raised from public issue is as follows:

| | Amount allocated RM'000 | Amount utilised as at 31/12/2005 RM'000 |
|---|---|---|
| Acquisition of land and construction of new factory | 7,000 | 7,000 |
| Acquisition of production machinery | 3,100 | 3,100 |
| Estimated share issue expenses | 2,400 | 2,400 |
| Working capital | 9,500 | 9,500 |
| | 22,000 | 22,000 |

## 16. Related party transactions

There were no related party transactions during the quarter under review.

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(Company No. 638899-K)

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
QUARTER ENDED 31 DECEMBER 2005

PART B: REQUIREMENTS OF REVISED LISTING REQUIREMENTS OF BURSA SECURITIES

1. **Review of performance**

During the quarter under review, the Group recorded a profit before tax of RM7.1 million and profit after tax of RM5.5 million on the back of a revenue of RM55.6 million. No comparison is made to the preceding year's corresponding period as this is the first year the Group prepares consolidated financial statements.

2. **Variation of results against preceding quarter**

Revenue increased from RM37.9 million in the previous quarter to RM55.6 million in the quarter under review due to increase in customers' order. This has contributed to better profit before taxation and profit after taxation during this quarter.

3. **Current year prospects**

Barring any unforeseen circumstances, the Directors anticipate the prospect for the Group for the next financial year ending 31 December 2006 to be satisfactory.

4. **Profit forecast/profit guarantee**

Results recorded in the financial year ended 31 December 2005 is in tandem with the profit forecast published in the prospectus dated 30 June 2005 issued pursuant to the Group's initial public offer exercise.

5. **Tax expense**

| | Current quarter ended 31 December 2005 RM'000 | Cumulative year to date ended 31 December 2005 RM'000 |
|---|---|---|
| Current taxation | 1,580 | 3,745 |
| Overprovision in respect of prior year | 0 | (500) |
| | 1,580 | 3,245 |

The effective tax rate of the Group is lower than the enacted statutory tax rate as the Group is eligible for reinvestment allowance.

6. **Unquoted investments and properties**

There were no profits/losses on sale of unquoted investments and properties as there were no disposals of investments and properties during the current quarter under review.

7. **Purchase or disposal of quoted securities**

The Company did not purchase or dispose quoted securities during the financial period.

8. **Status of corporate proposal announced**

During the quarter under review, the Group completed the acquisition of the entire equity interest in Sanjung Nuri Sdn Bhd comprising 2 ordinary shares of RM1 each for a total consideration of RM1.2 Million.

9. **Group borrowings and debts securities**

Group borrowings as at 31 December 2005 are as follows:

| | RM'000 |
|---|---|
| Short term borrowings - Secured | |
| Bank overdraft | 1,347 |
| Bankers' acceptances | 27,579 |
| Revolving credit | 4,000 |
| Hire purchase/finance leases | 501 |
| Term loans | 3,541 |
| | 36,968 |
| Short term borrowings – Unsecured | |
| Bank overdraft | 57 |
| Total | 37,025 |
| | |
| Long term borrowings - Secured | |
| Hire purchase/finance leases | 1,107 |
| Term loans | 13,969 |
| | 15,076 |
| Long term borrowings – Unsecured | |
| Term loans | 40,000 |
| Total | 55,076 |

10. **Off balance sheet financial instruments**

The Group did not enter into any transaction on off balance sheet financial instruments as at 23 February 2006 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

11. **Changes in material litigation**

The Group was not involved in any material litigation as at 23 February 2006 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

12. **Dividends**

The Directors proposed a first and final dividend of 8% less 28% tax (or approximately 2.88 sen per share) for the financial year ended 31 December 2005, subject to approval by shareholders of the Company.

13. **Earnings per share**

The basic earnings per share is computed based on the Group's net profit attributable to shareholders of the Company and the weighted average number of ordinary shares in issue as follows:

| | Current Quarter ended 31/12/2005 RM'000 | Cumulative Quarter ended 31/12/2005 RM'000 |
|---|---|---|
| Net profit attributable to members of the Company | 5,528 | 15,328 |
| Weighted average number of shares in issue | 152,400 | 139,863 |

In computing the weighted average number of ordinary shares, it is assumed that the ordinary shares issued as purchase consideration for the acquisition of Aik Joo Can Factory Sdn Bhd have been in issue since the beginning of the financial year.

This is in accordance with paragraph 18 of FRS133: Earnings Per Share and consistent with the application of merger accounting to consolidate the financial statements of Aik Joo Can Factory Sdn Bhd.

There are no dilutive potential ordinary shares as at the end of the financial period.

14. **Conditions Imposed By Securities Commission**

The conditions imposed by Securities Commission and the status of compliance are as follows:

(a) The Group is to obtain approval for the change of express condition in respect of its single-storey detached storey and other outbuildings in Pasir Gudang Johor within 1 year from the date of Securities Commission's approval letter. This has been complied with.

(b) The Group is to obtain approved building plans for the unapproved structures in respect of its single storey factory with a double storey office building and 1 ½ storey factory in Mak Mandin, Penang within 1 year from the date of Securities Commission's approval letter. This has been complied with.

Dated : 28 February 2006
Petaling Jaya