

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2006

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 FRS134₂₀₀₄ – Interim Financial Reporting and the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

Except those mentioned herein, this interim financial report has been prepared in accordance with the same accounting policies adopted in the financial statements for the financial year ended 31 December 2005.

This interim financial report includes only condensed financial statements and should be read in conjunction with the annual financial statements for the financial year ended 31 December 2005, as the interim financial report focuses on the effects of transactions, events and circumstances that have occurred since that report.

The preparation of an interim financial report in conformity with FRS134₂₀₀₄ requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant for an understanding of the financial position and performance of the Group for the financial period ended 31 March 2006.

(a) Prepaid lease payments

In prior years, interest in leasehold land held for own use classified as Property, plant and machinery was stated at cost/valuation less accumulated depreciation and accumulated impairment loss. Surplus arising from revaluation, if any, less of tax was dealt with in the revaluation reserve accounts. Any deficit arising from revaluation was offset against revaluation reserve accounts to the extent that it reverses a previous increase for the same property. Otherwise, a decrease in valuation is charged to income statement.

The Group has opted for the early adoption of FRS117. As from 1 January 2006, the interest in leasehold land held for own use is accounted for as being held under an operating lease. Such interest will no longer be revalued. Where the leasehold land had been previously revalued, the Group retained the unamortised revalued amount as the surrogate carrying amount of prepaid lease payments as allowed by FRS117. Such prepaid lease payments are classified as non-current assets and are amortised on a straight line basis over the remaining lease term of the land.

The change in the accounting treatment in respect of the above does not have any material impact on the results of the Group.

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(b) **Comparative figures**

Comparative figures, where applicable have been restated to reflect the change in accounting treatment as stated in (a) above.

The Group did not present its quarterly report on the first quarter for financial year ended 31 December 2005. Certain comparative figures were presented on a proforma basis to accord a better understanding of the Group's financial performance.

These comparative figures have been presented in line with the principle of merger method of accounting in accordance with FRS122 and on the assumption that Aik Joo Can Factory Sdn Bhd has been combined with the Group throughout the period reported.

2. **Auditors' report**

The auditors' report dated 19 April 2006 on the financial statements for the financial year ended 31 December 2005 was not subject to any qualification.

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**

There were no items affecting assets, liabilities, equity, net income, or cashflows that are unusual because of 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**

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.

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7. Dividends

No dividend was paid or proposed during the quarter ended 31 March 2006.

The Directors have proposed a first and final dividend of 8% per share less 28% tax (or approximately 2.88 sen per share) for the financial year ended 31 December 2005 to be paid on 31 July 2006, subject to approval by shareholders of the Company in the forthcoming Annual General Meeting.

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

The valuation of property, plant and equipment have been brought forward from the previous annual financial statements without amendment, except for the reclassifications as mentioned in Note 1, Part A above.

10. Material subsequent events

Subsequent to the end of the quarter, the Group incorporated a wholly-owned subsidiary, Can-One International Sdn Bhd.

As at 23 May 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

There were no 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 March 2006.

As at 23 May 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. Authorisation for issue

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Directors passed at the Board Meeting held on 29 May 2006.

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PART B: REQUIREMENTS OF LISTING REQUIREMENTS OF BURSA SECURITIES

1. Review of performance

During the quarter under review, the Group recorded a revenue of RM46.2 million as compared to RM35.9 million in the preceding year corresponding quarter. Profit before tax and after tax of the Group improved from RM3.1 million and RM2.6 million respectively to RM3.8 million and RM3.1 million respectively.

The improvements in revenue and earnings were attributable to the increase in demand for tin cans and jerry cans from existing customers.

2. Variation of results against preceding quarter

As compared to the preceding quarter, revenue declined from RM55.6 million to RM46.2 million. Profit before tax and after tax have also declined from RM7.5 million and RM5.5 million respectively to RM3.8 million and RM3.1 million respectively.

Demand for certain of the Group's products is subject to seasonal fluctuations and demand is usually lower in the first half of the financial year.

3. Current year prospects

Barring any unforeseen circumstances, the Directors anticipate the growth in revenue and profit registered in the first quarter (in comparison to the corresponding quarter in the preceding financial year) to continue for the rest of the financial year ending 31 December 2006.

4. Profit forecast/profit guarantee

The Group did not publish any profit forecast or provide any profit guarantee for the financial year ending 31 December 2006.

5. Tax expense

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.

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7. Purchase or disposal of quoted securities

The Company did not purchase or dispose quoted securities during the current quarter under review.

8. Status of corporate proposal announced

There were no corporate proposals announced during the current quarter under review.

9. Group borrowings and debts securities

Group borrowings as at 31 March 2006 were as follows:

	RM'000
Short term borrowings - Secured	
Bank overdraft	225
Bankers' acceptances	14,708
Hire purchase/finance leases	516
Term loans	2,744
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	18,193
Short term borrowings – Unsecured	
Bankers' acceptances	24,051
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Total	42,244
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Long term borrowings - Secured	
Hire purchase/finance leases	966
Term loans	14,273
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	15,239
Long term borrowings – Unsecured	
Term loans	40,000
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Total	55,239
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10. Off balance sheet financial instruments

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

12. Dividends

No dividend was paid or proposed during the quarter ended 31 March 2006.

The Directors had proposed a first and final dividend of 8% per share less 28% tax (or approximately 2.88 sen per share) for the financial year ended 31 December 2005 to be paid on 31 July 2006, subject to approval by shareholders at the forthcoming Annual General Meeting of the Company.

13. Earnings per share

(a) The basic earnings per share is computed as follows:

	Individual Quarter	Individual Quarter	Cumulative Quarter	Cumulative Quarter
	Current Quarter ended 31/03/2006	Preceding year corresponding quarter ended 31/03/2005	Current year to date ended 31/03/2006	Preceding year to date ended 31/03/2005
Net profit attributable to shareholders of the Company (RM'000)	3,082	2,569	3,082	2,569
Weighted average number of shares in issue ('000)	152,400	130,400	152,400	130,400
Earnings per share (Sen)	2.02	1.97	2.02	1.97

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- (b) In computing the weighted average number of ordinary shares for the preceding year corresponding period, 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 were no dilutive potential ordinary shares as at the end of the financial period.

Dated : 29 May 2006
Petaling Jaya