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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2006

PART A: REQUIREMENTS OF $FRS134_{2004}$ – INTERIM FINANCIAL REPORTING

1. **Basis of preparation**

The interim financial report is unaudited and has been prepared in compliance with the requirements of $FRS134_{2004}$ – Interim Financial Reporting and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad.

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 this interim financial report focuses on the effects of transactions, events and circumstances that have occurred since the annual financial statements.

The preparation of an interim financial report in conformity with $FRS134_{2004}$ 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 to an understanding of the financial position and performance of the Group for the financial period ended 30 June 2006.

(a) **Prepaid lease payments**

In prior year, interest in leasehold land held for own use classified as property, plant and machinery were 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.

(b) **Comparative figures**

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

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 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.

7. **Dividends**

No interim dividend was paid during or has been proposed for the quarter under review.

The first and final gross dividend of 8% per share less 28% tax (or approximately 2.88 sen per share) for the financial year ended 31 December 2005 was paid on 31 July 2006.

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**

As at 23 August 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 the balance sheet date which may have an impact on the consolidated financial statements of the Group.

11. **Changes in Group composition**

The Group had on 13 April 2006 incorporated a wholly-owned subsidiary, Can-One International Sdn Bhd.

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

There were no contingent liabilities or assets for the Group as at 30 June 2006.

As at 23 August 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**

This interim financial report was authorized for issue by the Board of Directors in accordance with a resolution of Directors passed at the Board Meeting held on 28 August 2006.

PART B: REQUIREMENTS OF REVISED LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1. **Review of performance**

During the quarter under review, the Group recorded revenue of RM50.7 million as compared to RM37.5 million in the preceding year corresponding quarter. Profit before tax and after tax of the Group has improved from RM4.0 million and RM3.8 million respectively to RM4.8 million and RM3.9 million respectively.

The improvement in revenue and earnings is attributed by increase in demand for tin cans and jerry cans from existing customers.

Tax expense was higher during the quarter under review compared to the preceding year corresponding quarter where the Group wrote back overprovision of tax in previous financial years.

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

As compared to the immediate preceding quarter, revenue of the Group increased from RM46.2 million to RM50.7 million. Profit before tax and after tax have also increased from RM3.8 million and RM3.1 million respectively to RM4.8 million and RM3.9 million respectively.

Demand for certain of the Group’s products is subject to seasonal fluctuations, Demand is usually lower in the first quarter of the financial year and improves in the second quarter 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 half of the current financial year (in comparison to the corresponding period of the previous 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 quarter under review.

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

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

8. **Status of corporate proposal announced**

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

9. **Group borrowings and debts securities**

Group borrowings as at 30 June 2006 are as follows:

	RM'000
Short term borrowings - Secured	
Bankers' acceptances	21,805
Hire purchase/finance leases	522
Term loans	3,285
	25,612
Short term borrowings – Unsecured	
Bankers' acceptances	34,047
Total	**59,659**
Long term borrowings - Secured	
Hire purchase/finance leases	883
Term loans	13,679
	14,562
Long term borrowings – Unsecured	
Term loans	40,000
Total	**54,562**

10. **Off balance sheet financial instruments**

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

12. **Dividends**

No interim dividend was paid during or has been proposed for the quarter under review.

The first and final gross dividend of 8% per share less 28% tax (or approximately 2.88 sen per share) for the financial year ended 31 December 2005 was paid on 31 July 2006.

13. **Earnings per share**

The basic earnings per share is computed as follows:

	Individual Quarter	**Individual Quarter**	**Cumulative Quarter**	**Cumulative Quarter**
	Current Quarter ended 30/06/2006	**Preceding year corresponding quarter ended 30/06/2005**	**Current year to date ended 30/06/2006**	**Preceding year to date ended 30/06/2005**
Net profit attributable to shareholders of the Company (RM'000)	3,895	3,864	6,979	6,433
Weighted average number of shares in issue ('000)	152,400	130,400	152,400	130,400
Earnings per share (Sen)	2.56	2.96	4.58	4.93

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 had been in issue since the beginning of the preceding 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: 28 August 2006
Petaling Jaya