

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
QUARTER ENDED 30 SEPTEMBER 2006

PART A: REQUIREMENTS OF FRS134₂₀₀₄ – 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 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 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 to an understanding of the financial position and performance of the Group for the financial period ended 30 September 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.

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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.

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 Ramadan 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**

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.

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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 25 November 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 other than the following:-

- a) The Group had on 1 November 2006 acquired the entire equity interest in Amber Alliance Sdn Bhd ("AA") comprising 2 ordinary shares of RM1 each at a total cash consideration of RM2. AA is an investment holding company.
- b) The Group, through AA, had on 15 November 2006 subscribed for 8,000,000 ordinary shares of RM1 each at par for cash in F&B Nutrition Sdn Bhd ("F&B"), representing 80% equity interest in F&B. F&B is principally involved in the manufacture of dairy and non-dairy products.

11. Changes in Group composition

There were no changes in the Group's composition during the quarter under review.

12. Changes in contingent liabilities or contingent assets

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

As at 25 November 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 ("Board") in accordance with a resolution of Directors passed at the Board Meeting held on 29 November 2006.

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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 RM48.0 million as compared to RM37.9 million in the preceding year corresponding quarter. The improvement in revenue is attributed by increase in demand for tin cans and jerry cans from existing customers.

Profit before tax was lower due to higher raw material, distribution and finance costs.

Tax expense was lower during the quarter under review compared to the preceding year corresponding quarter due to the availability of reinvestment allowance.

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

The results recorded during the quarter under review is in tandem with those recorded in the immediate preceding quarter.

3. **Current year prospects**

Barring any unforeseen circumstances, the Directors anticipate the growth in revenue and profit registered in the first three quarters of the current financial year (in comparison to that of 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.

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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.

The Group has completed the following exercises subsequent to the balance sheet date:

- a) the acquisition of the entire equity interest in AA at a total cash consideration of RM2.
- b) the subscription by AA of 8,000,000 ordinary shares of RM1 each at par for cash in F&B, representing 80% equity interest in F&B.

9. Group borrowings and debts securities

Group borrowings as at 30 September 2006 are as follows:

	RM'000
Short term borrowings - Secured	
Bankers' acceptances	3,763
Hire purchase/finance leases	508
Term loans	3,066
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	7,337
Short term borrowings – Unsecured	
Bankers' acceptances	55,748
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Total	63,085
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Long term borrowings - Secured	
Hire purchase/finance leases	717
Term loans	18,275
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	18,992
Long term borrowings – Unsecured	
Term loans	40,000
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Total	58,992
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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 25 November 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 25 November 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 30/09/2006	Preceding year corresponding quarter ended 30/09/2005	Current year to date ended 30/09/2006	Preceding year to date ended 30/09/2005
Net profit attributable to shareholders of the Company (RM'000)	3,952	3,367	10,933	9,800
Weighted average number of shares in issue ('000)	152,400	145,943	152,400	135,638
Earnings per share (Sen)	<u>2.59</u>	<u>2.31</u>	<u>7.17</u>	<u>7.23</u>

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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 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 : 29 November 2006
Petaling Jaya