

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

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 Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

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 2009 except for the adoption of those financial reporting standards which are effective for financial year commencing 1 July 2009 and 1 January 2010 as discussed in Note A2.

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 2009, 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 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 31 March 2010.

2. **Changes in accounting policies**

Commencing 1 January 2010, the Group has adopted the following Financial Reporting Standards (“FRS”), Amendments to FRSs and Interpretations:

(i) FRS 101, *Presentation of Financial Statements (Revised)*

The Group adopted the revised FRS 101 which require the Group to present all non-owner changes in equity in the consolidated statement of comprehensive income. The change only entails revision in the presentation of financial statements and does not have any impact on the financial position of the Group.

(ii) FRS 8, *Operating Segments*

FRS 8 replaces FRS 114₂₀₀₄, Segment Reporting and requires the identification and reporting of operating segments based on internal reports that are regularly reviewed by the chief operating decision maker of the Group in order to allocate resources to the segment and to assess its performance. The adoption of FRS 8 only entails revision in the presentation of financial statements and does not have any impact on the financial position of the Group.

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

2. **Changes in accounting policies (Cont'd)**

(iii) Improvements to FRSs (2009)

Improvements to FRSs (2009) contain various amendments that result in accounting changes for presentation, recognition or measurement and disclosure purposes. Amongst the amendments that have material impact on the financial statements are the amendments to FRS117, Leases.

The amendments clarify that the classification of lease of land and require entities with existing leases of land and buildings to reassess the classification of land as finance or operating lease. Leasehold land which in substance is a finance lease will be reclassified to property, plant and equipment.

The adoption of these amendments has resulted in a change in accounting policy which is applied retrospectively in accordance with its transitional provisions.

Consequently, the Group has retrospectively

- a) reclassified its prepaid lease payments as property, plant and equipment; and
- b) incorporated the surplus/deficit arising from revaluation exercise carried out in December 2009 in respect of its leasehold land.

The following comparative figures in the balance sheet have been restated to reflect the adoption of these amendments:

	Balance at 31/12/2009, as reported Dr/(Cr) RM'000	Amount reclassified Dr/(Cr) RM'000	Revaluation adjustments Dr/(Cr) RM'000	Balance at 31/12/2009, as restated Dr/(Cr) RM'000
Property, plant & equipment	180,238	13,612	424	194,274
Prepaid lease payments	13,612	(13,612)	-	-
Retained earnings	(85,678)	-	133	(85,545)
Revaluation reserves	(4,467)	-	(451)	(4,918)
Deferred taxation	(16,204)	-	(106)	(16,310)

(iv) FRS 7, Financial Instruments: Disclosures

Amendments to FRS 7, Financial Instruments: Disclosures

FRS 139, Financial Instruments – Recognition and Measurement

Amendments to FRS 139, Financial Instruments – Recognition and Measurement

FRS 7 enhances disclosure requirements in relation to the financial instruments and qualitative and quantitative information on the Group's exposure to risks arising from financial instruments.

FRS 139 deals with the principles for the recognition and measurement of the Group's financial instruments. Under FRS 139, financial instruments are recorded initially at fair value. Subsequent measurement of these instruments at the balance sheet date depends on the classification of the financial instruments.

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

2. Changes in accounting policies (Cont'd)

Financial assets are classified as follows:

- A financial asset at fair value through profit or loss ("FVTPL") – under this category, the asset is measured at fair value, with changes recognised as profit or loss in the statement of comprehensive income. Financial assets which are held for trading is classified as FVTPL. The Group may also designate certain financial assets as FVTPL on initial recognition, subject to certain conditions. Once an instrument is designated as FVTPL, any subsequent reclassifications into or out of this category is not allowed until it satisfies the derecognition test.
- Loans and receivables - comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
- Held-to-maturity investments - are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.
- Available-for-sale ("AFS") – being financial instruments that do not fall into any of the three categories above. A company may also designate a particular non-derivative financial asset as AFS.

Financial liabilities are classified as follows:

- A financial liability at fair value through profit or loss ("FVTPL") – under this category, the liability is measured at fair value, with changes recognised as profit or loss in the statement of comprehensive income.
- Other liabilities - comprises liabilities not classified as FVTPL.

The adoption of FRS 139 has the following impacts on the Group's financial statements:

- i) Prior to the adoption of FRS 139, financial derivatives were not recognised until their settlement dates. With the adoption of FRS 139, all financial assets and liabilities, including financial derivatives are recognised at contract dates when, and only when the Group becomes a party to the contractual provisions of the financial instruments. Fair value changes in respect of financial derivatives are recognised as gain/loss in the income statement;
- ii) Prior to the adoption of FRS 139, receivables are carried at cost less allowance for doubtful debts. With the adoption of FRS 139, receivables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method except for short term receivables when the recognition of interest will be insignificant. An allowance for impairment of loans and receivables is recognised when there is objective evidence that the Group will not be able to collect the amount due according to the original terms of receivables.
- iii) Prior to the adoption of FRS 139, investment in quoted shares are stated at cost less allowance for diminution in value. With the adoption of FRS 139, investment in quoted shares are now classified as Available-for-sale investment and is stated at fair value. Unrealised gains and losses is recognised directly in equity until the investment is derecognised or impaired.

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

2. Changes in accounting policies (Cont'd)

In accordance with FRS 139, the recognition, derecognition and measurement of financial instruments are applied prospectively from 1 January 2010. The effect of the remeasurement of financial assets and liabilities brought forward from the previous financial period are adjusted to the opening balances. Comparative figures as of 31 December 2009 are not restated.

The adoption of FRS 139 has the following effects on the following balance sheet captions:

	Balance at 31/12/2009, restated Dr/(Cr) RM'000	Impact of FRS 139 Dr/(Cr) RM'000	Adjusted balance at 01/01/2010 Dr/(Cr) RM'000
Available-for-sale investment	-	9	9
Other investment	17	(17)	-
Derivative financial instruments	-	(96)	(96)
Retained earnings (Restated to reflect the adoption of amendments to FRS117, Leases)	(85,545)	104	(85,441)

3. Auditors' report

The auditors' report dated 15 April 2010 on the financial statements for the financial year ended 31 December 2009 was not subject to any qualification.

4. 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 and lower sales in Quarter 1 of every financial year.

5. Unusual items

There were no items affecting assets, liabilities, equity, net income, or cashflows that are unusual because of their nature, size or incidence.

6. Changes in estimates

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

7. 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.

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

8. Dividends

No interim dividend has been proposed for the quarter under review.

The Directors proposed a first and final tax exempt dividend of 6% (or approximately 3 sen per share) for the financial year ended 31 March 2010, subject to approval by shareholders of the Company.

9. Segment information

The adoption of FRS 8, Operating segment requires the Group to present the segment information on a similar basis to that used for internal reporting to the chief operating decision maker who makes decisions on the allocation of resources and assess the performance of the reportable segments.

The Group organised its activities principally into two reportable business segments which are primarily operated in Malaysia:

- a) Manufacture of tin cans and plastic jerry cans (General Cans)
- b) Manufacture of dairy products (Food Products)

Segment revenue and results for the period ended 31 March 2010 are as follows:

	3 Months ended 31-03-2010			3 months ended 31-03-2009		
	General cans RM'000	Food products RM'000	Total RM'000	General cans RM'000	Food products RM'000	Total RM'000
Revenue						
External customers	51,507	41,273	92,780	91,150	31,179	122,329
Inter segment	10,026	-	10,026	9,590	-	9,590
	<u>61,533</u>	<u>41,273</u>	<u>102,806</u>	<u>100,740</u>	<u>31,179</u>	<u>131,919</u>
Segment results	3,751	620	4,371	6,572	682	7,254
Other non-reportable segments			347			(205)
Interest income			20			32
Financial expenses			(1,843)			(2,887)
Consolidated profit before taxation			<u>2,895</u>			<u>4,194</u>
Segment assets	307,300	121,092	428,392	279,482	101,098	380,580
Others			30,062			31,804
Total assets			<u>458,454</u>			<u>412,384</u>
Segment liabilities	180,081	81,410	261,491	196,940	52,162	249,102
Others			16,350			12,885
Total liabilities			<u>277,841</u>			<u>261,987</u>
Capital expenditure	<u>2,853</u>	<u>835</u>	<u>3,688</u>	<u>5,214</u>	<u>3,538</u>	<u>8,752</u>

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

10. Valuation of property, plant and equipment

Except as disclosed in Note A2(iii), the valuation of property, plant and equipment have been brought forward from the previous annual financial statements without amendment.

11. Material subsequent events

As at 21 May 2010 (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

12. Changes in Group composition

There were no changes in the Group composition during the period ended 31 March 2010.

13. Changes in contingent liabilities or contingent assets

There were no contingent liabilities or assets for the Group as at 31 March 2010.

As at 21 May 2010, (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.

14. 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 27 May 2010.

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

PART B: REQUIREMENTS OF MAIN MARKET LISTING REQUIREMENTS OF BURSA
MALAYSIA SECURITIES BERHAD

1. **Review of performance**

During the quarter under review, the Group recorded a revenue of RM92.8 million and pre-tax profit of RM2.9 million compared with a revenue of RM122.3 million and pre-tax profit of RM4.2 million in the preceding year corresponding quarter.

The decrease in revenue was due mainly to the weakening in demand for general can division.

The decline in gross profit margin is attributable to the increased cost of direct materials.

The decrease in profit before taxation is due mainly to the decrease in revenue and gross profit margin.

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

Revenue for the quarter under review is slightly lower than the immediate preceding quarter due to weakening in demand in the general can division.

The profit before taxation was lower due to the increased cost of direct materials.

3. **Current year prospects**

Barring any unforeseen circumstances, the Directors anticipate the results for the financial year ending 31 December 2010 to be satisfactory.

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 2010.

5. **Tax expense**

The effective tax rate of the Group is slightly lower than the enacted statutory tax rate due to the availability of 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.

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

7. Investment in quoted securities

Except as disclosed in Note 8, the Group did not purchase or dispose of quoted securities during the quarter under review.

Investment in quoted securities at 31 March 2010 is as follows:

	RM'000
Original acquisition cost	17
Carrying amount	9
Market value	9

8. Status of corporate proposal announced

Save as disclosed below, the Group has not announced any corporate proposal as at 21 May 2010 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

On 23 March 2009, a wholly-owned subsidiary of the Company, Can-One International Sdn Bhd ("CISB") entered into a conditional shares sale agreement to acquire 146,131,500 ordinary shares of RM0.25 each, representing 32.9% equity interest in Kian Joo Can Factory Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad, for a total consideration of RM241,116,975 ("Proposed Acquisition").

The Proposed Acquisition was approved by the shareholders of the Company on 3 September 2009 and Ministry of International Trade and Industry on 11 September 2009.

The Proposed Acquisition was approved by the Securities Commission on 7 September 2009.

Pending the satisfactory resolution of the litigation as mentioned in Note B11, the Proposed Acquisition has yet to be completed at the date of this report.

9. Group borrowings and debts securities

Group borrowings as at 31 March 2010 are as follows:

	RM'000
Short term borrowings - Secured	
Hire purchase/finance leases	1,689
Term loans	2,061
Trade facilities	32,041
Short term borrowings - Unsecured	
Short term borrowings	
Trade facilities	52,476
Revolving credits	20,000
Term loans	11,495
Total	119,762

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

9. **Group borrowings and debts securities – Cont'd**

	RM'000
Long term borrowings - Secured	
Hire purchase/finance leases	4,268
Term loans	18,843
Long term borrowings – Unsecured	
Term loans	59,040
Total	82,151

10. **Derivative financial instruments**

With the adoption of FRS 139, the Group does not have any off balance sheet financial instruments. Outstanding derivatives as at 31 March 2010 is as follows:

	Contracted Value RM'000	Fair Value RM'000
Type of derivatives and maturity profile		
Forward foreign currency exchange contracts to sell USD		
- Less than 1 year	14,350	13,739
- 1 year to 3 years	-	-
- More than 3 years	-	-
	14,350	13,739
Forward currency foreign exchange contracts to purchase USD		
- Less than 1 year	2,320	2,261
- 1 year to 3 years	-	-
- More than 3 years	-	-
	2,320	2,261

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

10. **Derivatives - Cont'd**

Gain/(Loss) arising from fair value changes for the current and cumulative quarter is as follows:

Types of derivatives	Gain/(Loss) RM'000
Forward foreign currency exchange contracts	
- to sell of US Dollars	611
- to buy US Dollars	(59)
	<u>552</u>

Gain/(Loss) arising from fair value changes is the difference between the contracted rate and the fair value of the forward foreign currency exchange contract at balance sheet date.

The fair value is the amount payable or receivable on termination of these contracts at balance sheet date, determined with reference to the forward rate applied to a contract with similar quantum and maturity profile.

There have been no changes in the Group's financial risk management policies in relation to credit risk, market risk and liquidity risk. The change in accounting policy is as disclosed in Note A2.

Pursuant to Bursa Malaysia Securities Berhad's directive dated 25 March 2010, the retained earnings of the Group as at 31 March 2010 comprise:

	RM'000
Unrealised earnings attributable to fair value changes of financial instruments	552
Other realised earnings	87,346
	<u>87,898</u>

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

11. Changes in material litigation

Save as disclosed below, the Group was not involved in any material litigation as at 21 May 2010 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

On 23 March 2009, CISB together with 4 other defendants were served a Writ of Summons and a Statement of Claim pertaining to the Proposed Acquisition.

The plaintiffs are claiming:

- i) Against the other 4 defendants and CISB damages amounting to RM55,000,000 for alleged fraud and interest at rate of 8% per annum on the said sum, cost of action on a full indemnity basis and such further or any other reliefs as the Court may deemed fit and proper to grant,
- ii) An interim order restraining the defendants and each of them whether by themselves, their directors, their servants, or agents or otherwise howsoever from proceeding with the implementation of the Proposed Acquisition until the final hearing and disposal of the action,
- iii) A declaration that the award of the bid in the public tender exercise to CISB for the Proposed Acquisition is illegal, null and void.

The Board of Directors has referred the matter to its solicitors. Upon obtaining legal advice, the Directors are of the opinion that the suit against CISB is unlikely to succeed.

CISB has applied to the Kuala Lumpur High Court to set aside and/or strike out the Plaintiffs' Writ of Summons and Statement of Claim. The case has now been fixed for mention on 3 August 2010.

12. Capital commitment

As at 31 March 2010, the Group has the following capital commitment:

Approved and contracted for	RM'000 6,200
	<hr/> <hr/>

13. Dividends

No interim dividend has been proposed for the quarter under review.

The Directors proposed a first and final tax exempt dividend of 6% (or approximately 3 sen per share) for the financial year ended 31 December 2009, subject to approval by shareholders of the Company.

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2010

14. **Earnings per share**

The basic earnings per share is computed as follows:

	Individual Quarter	Individual Quarter	Cumulative Quarter	Cumulative Quarter
	Current Quarter ended 31/03/2010	Preceding year corresponding quarter ended 31/03/2009	Current year to date ended 31/03/2010	Preceding year to date ended 31/03/2009
Net profit attributable to shareholders of the Company (RM'000)	2,457	3,375	2,457	3,375
Weighted average number of shares in issue ('000)	152,400	152,400	152,400	152,400
Earnings per share (Sen)	<u>1.61</u>	<u>2.21</u>	<u>1.61</u>	<u>2.21</u>

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

Dated : 27 May 2010
Petaling Jaya