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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
SECOND QUARTER ENDED 30 JUNE 2011

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 2010 except for the adoption of those financial reporting standards which are effective for financial year commencing 1 March 2010, 1 July 2010 and 1 January 2011 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 2010, 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 2011.

## 2. Changes in accounting policies

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

***Amendments effective for annual periods beginning on or after 1 March 2010***

- Amendments to FRS 132, *Financial Instruments: Presentation - Classification of Rights Issues*

***FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010***

- FRS 1, *First-time Adoption of Financial Reporting Standards* (revised)
- FRS 3, *Business Combinations* (revised)
- FRS 127, *Consolidated and Separate Financial Statements* (revised)
- Amendments to FRS 2, *Share-based Payment **
- Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations **
- Amendments to FRS 138, *Intangible Assets*
- IC Interpretation 12, *Service Concession Agreements **
- IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation **
- IC Interpretation 17, *Distributions of Non-cash Assets to Owners **
- Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives

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

***FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011***

- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*
  - *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
  - *Additional Exemptions for First-time Adopters*
- Amendments to FRS 2, *Group Cash-settled Share Based Payment Transactions* *
- Amendments to FRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
- IC Interpretation 4, *Determining whether an Arrangement contains a Lease*
- IC Interpretation 18, *Transfers of Assets from Customers* *
- Improvements to FRSs (2010)

The adoption of the FRS, Amendments to FRSs and Interpretations does not have a significant impact on the financial performance of the Group.

3. **Auditors' report**

The auditors' report dated 21 April 2011 on the financial statements for the financial year ended 31 December 2010 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 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.

8. **Dividends**

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

A first and final tax exempt dividend of 6% (or 3 sen per share) for the financial year ended 31 December 2010 was paid on 29 July 2011.

## 9. Segment information

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 year to date ended 30 June 2011 are as follows:

| | Current year to-date ended 30/06/2011 | | | Preceeding year to-date ended 30/06/2010 | | |
|---|---|---|---|---|---|---|
| | 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 | 122,399 | 180,731 | 303,130 | 114,035 | 87,601 | 201,636 |
| Inter segment | 37,785 | - | 37,785 | 22,312 | - | 22,312 |
| | 160,184 | 180,731 | 340,915 | 136,347 | 87,601 | 223,948 |
| Segment results | 13,201 | 6,333 | 19,534 | 8,213 | 2,110 | 10,323 |
| Other non-reportable segments | | | (414) | | | 974 |
| Interest income | | | 53 | | | 30 |
| Financial expenses | | | (4,033) | | | (4,222) |
| Consolidated profit before taxation | | | 15,140 | | | 7,105 |
| Segment assets | 321,170 | 154,236 | 475,406 | 326,374 | 123,264 | 449,638 |
| Others | | | 30,932 | | | 28,909 |
| Total assets | | | 506,338 | | | 478,547 |
| Segment liabilities | 183,710 | 96,095 | 279,805 | 199,993 | 80,102 | 280,095 |
| Others | | | 18,593 | | | 13,741 |
| Total liabilities | | | 298,398 | | | 293,836 |
| Capital expenditure | 13,711 | 2,491 | 16,202 | 3,788 | 1,086 | 4,874 |

## 10. 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.

11. **Material subsequent events**

On 22 July 2011, a wholly-owned subsidiary of the Group entered into a Sale and Purchase Agreement with OCMerit Plastic Sdn Bhd to acquire a piece of leasehold land and building situated at Teluk Gong, Port Klang, Selangor Darul Ehsan for a cash consideration of RM14.3 million. The acquisition was completed on 10 August 2011.

Apart from the above, as at 10 August 2011 (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**

During the quarter, the Group subscribed for 100,000 ordinary shares of USD1.00 each (“Shares”) in the capital of PT Corum at par for cash. Consequently, PT Corum became a wholly-owned subsidiary of the Group.

There were no other changes in the Group composition during the period ended 30 June 2011.

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

There were no contingent liabilities or assets for the Group as at 30 June 2011.

As at 10 August 2011, (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 15 August 2011.

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

1. **Review of performance**

The Group's revenue has increased from RM108.9 million in the previous year corresponding quarter to RM172.1 million in the quarter under review. The pre-tax and post-tax profit has also improved from RM4.2 million and RM3.6 million respectively in the previous year corresponding quarter to RM10.1 million and RM8.9 million respectively in the quarter under review.

On a year-to-date basis, the Group's revenue has increased from RM201.6 million in the previous year corresponding period to RM303.1 million in the current period. The pre-tax and post tax profit has also improved from RM7.1 million and RM6.1 million respectively in the previous year corresponding period to RM15.1 million and RM13.1 million respectively in the current period.

The performances of the various segments are as follows:

General can division

Revenue from general can division increased from RM61.5 million in the previous year corresponding quarter to RM92.0 million in the quarter under review. For the 6 months period ended 30 June 2011, revenue increased from RM136.3 million in the previous year corresponding period to RM160.2 million in the period under review.

Improvement in revenue is contributed mainly by the increase in internal and external demand for tin can and jerry cans.

For the 6 months period ended 30 June 2011, operating margin for general can division has increased from 6.0% in the previous year corresponding period to 8.2% in the period under review. Improvement is due mainly to increase in production efficiency and economies of larger scale production.

Food division

Revenue from food division increased from RM46.3 million in the previous year corresponding quarter to RM100.4 million in the quarter under review. For the 6 months period ended 30 June 2011, revenue increased from RM87.6 million in the previous year corresponding period to RM180.7 million in the period under review.

Improvement in revenue is attributable to the increase in production capacity and demand for liquid milk products.

For the 6 months period ended 30 June 2011, operating margin for food division has increased from 2.5% in the previous year corresponding period to 3.5% in the period under review. The improvement is due mainly to the increase in production following the Group's expansion plan in the previous financial years.

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

The Group's revenue has improved from RM131.0 million in the immediate preceding quarter to RM172.1 million in the quarter under review. The pre-tax and post-tax profit has improved from RM5.1 million and RM4.3 million in the immediate preceding quarter to RM10.1 million and RM8.9 million in the quarter under review.

The performance of the various segments are as follows:

General can division

Revenue from general can division improved from RM68.1 million in the immediate preceding quarter to RM92.1 million in the quarter under review. The improvement is due mainly to increase in internal and external demand for tin cans. This is also in line with the cyclical nature of the general can business where demand is usually weak in Quarter 1.

Food division

Revenue from food division improved from RM80.3 million in the immediate preceding quarter to RM100.4 million in the quarter under review. This is due mainly to the increase in productivity and demand.

3. **Current year prospects**

Barring any unforeseen circumstances, the Directors anticipate the results for the financial year ending 31 December 2011 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 2011.

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 unquoted investments and properties during the quarter under review.

7. **Investment in quoted securities**

Movements in investment in quoted securities classified as available-for-sale investment in the 6 months period ended 30 June 2011 are as follows:

| | RM'000 |
|---|---|
| Net carrying amount | |
| Balance at 1 January 2011 | 116 |
| Disposal of investment | (116) |
| Balance at 30 June 2011 | - |
| Gain on disposal of investment | 3 |

8. **Status of corporate proposal announced**

Save as disclosed below, the Group has not announced any corporate proposal as at 10 August 2011 (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 ("Sale Shares"), representing 32.9% equity interest in Kian Joo Can Factory Berhad ("KJCF"), a company listed on the Main Market of Bursa Malaysia Securities Berhad, from Kian Joo Holdings Sdn Bhd – In Liquidation ("KJH") at a total consideration of RM241,116,975 ("Proposed Acquisition").

The Proposed Acquisition was approved by the shareholders of the Company on 3 June 2009 and Ministry of International Trade and Industry on 11 June 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 B12, the Proposed Acquisition has yet to be completed at the date of this report.

9. **Group borrowings and debts securities**

Group borrowings are as follows:

| | At 30/06/2011 RM'000 | At 31/12/2010 RM'000 |
|---|---|---|
| Short term borrowings - secured | | |
| Finance leases | 2,055 | 1,971 |
| Term loans | 3,352 | 2,885 |
| Foreign currencies trade loans in USD | 24,647 | 19,495 |
| | 30,054 | 24,351 |
| Short term borrowings - unsecured | | |
| Term loans | 14,690 | 14,444 |
| Bankers acceptances | - | 8,506 |
| Foreign currencies trade loans in USD | 94,268 | 57,012 |
| Revolving credits | 9,000 | 15,000 |
| | 117,958 | 94,962 |
| Total short term borrowings | 148,012 | 119,313 |
| Long term borrowings - secured | | |
| Finance leases | 2,897 | 3,489 |
| Term loans | 18,515 | 16,465 |
| | 21,412 | 19,954 |
| Long term borrowings - unsecured | | |
| Term loans | 45,237 | 50,777 |
| Total long term borrowings | 66,649 | 70,731 |

## 10. Derivative financial instruments

The Group does not have any off balance sheet financial instruments at 30 June 2011. Outstanding derivatives as at 30 June 2011 is as follows:

| Type of derivatives and maturity profile | Contracted Value RM'000 | Fair Value RM'000 |
|---|---|---|
| Less than 1 year | | |
| Forward currency exchange contracts to sell | | |
| - USD | 61,705 | 61,705 |
| - SGD | 1,104 | 1,106 |
| | 62,809 | 62,811 |
| Less than 1 year | | |
| Forward currency exchange contracts to buy | | |
| - USD | 4,250 | 4,250 |
| - Euro | 2,622 | 2,634 |
| | 6,872 | 6,884 |

| Types of derivatives | Current quarter ended 30/06/2011 Gain/(Loss) RM'000 | Preceeding year corresponding quarter ended 30/06/2010 Gain/(Loss) RM'000 |
|---|---|---|
| Forward foreign currency exchange contracts | | |
| - to buy USD | 78 | (447) |
| - to buy EURO | (36) | 155 |
| - to sell USD | (219) | 9 |
| - to sell SGD | 2 | (5) |
| | (175) | (288) |

10. **Derivative financial instruments - Cont'd**

| Types of derivatives | Current year to date ended 30/06/2011 Gain/(Loss) RM'000 | Preceeding year to date ended 30/06/2010 Gain/(Loss) RM'000 |
|---|---|---|
| Forward foreign currency exchange contracts | | |
| - to buy USD | 110 | 164 |
| - to buy EURO | 81 | 96 |
| - to sell USD | (196) | 9 |
| - to sell SGD | (1) | (5) |
| | (6) | 264 |

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.

11. **Retained profit**

Pursuant to Bursa Malaysia Securities Berhad's directive dated 25 March 2010, the retained earnings of the Group as at 30 June 2011 comprise:

| | At 30/06/2011 RM'000 | At 31/12/2010 RM'000 |
|---|---|---|
| Total retained earnings of the Company and its subsidiaries | | |
| - Realised | 177,464 | 165,222 |
| - Unrealised | (14,575) | (14,568) |
| | 162,889 | 150,654 |
| Consolidation adjustments | (50,342) | (50,342) |
| Total retained earnings of the Group | 112,547 | 100,312 |

## 12. Changes in material litigation

Save as disclosed below, the Group was not involved in any material litigation as at 10 August 2011 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

a) On 23 March 2009, CISB together with 4 other defendants were served a writ of summons and a statement of claims 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 High Court to set aside and/or strike out the Plaintiffs' Writ and Statement of Claim. The case has now been fixed for mention on 13 September 2011.

b) On 13 July 2011, Federal Court dismissed CISB's appeal to set aside the Court of Appeal ruling on technical grounds.

The Court of Appeal had on 24 June 2010 allowed the Appeal of the majority contributories of KJH against the decision of the High Court. On 25 September 2009, the High Court dismissed the application of the majority contributories of KJH led by one of the Defendants, for leave to commence proceedings against the Liquidators of KJH and CISB, and had allowed the Liquidators' application to proceed with the sale of the Sale Shares to CISB.

## 12. Changes in material litigation (cont'd)

c) In May 2011, CISB served a writ of summons and a statement of claim on KJCF and 4 other defendants to claim the following:

(i) a declaration that the proposed bonus issue of 222,083,893 new ordinary shares of RM0.25 each in KJCF ("Bonus Shares") to be credited as fully paid-up on the basis of one Bonus Share for every two shares in KJCF ("KJCF Shares") held ("Proposed Bonus Issue") and the proposed renounceable rights issue of 166,562,919 five-year warrants 2011/2016 on the basis of one warrant for every four KJCF Shares held after the Proposed Bonus Issue at an issue price of RM0.01 per warrant ("Proposed Renounceable Rights Issue") by KJCF are in breach of the rights and interests of CISB under the Shares Sale Agreement dated 23 March 2009 and in breach of the Order of the Court of Appeal dated 25 August 2010 and the Order of the Federal Court dated 21 February 2011;

(ii) a declaration that the other 4 Defendants, as the shareholders or contributories of KJH and as directors of KJCF, are in breach of the Order of the Court of Appeal dated 25 August 2010 and the Order of the Federal Court dated 21 February 2011;

(iii) a declaration that the Defendants by their respective acts and involvement in the Proposed Bonus Issue and the Proposed Renounceable Rights Issue are in contempt of the Court of Appeal and the Federal Court;

(iv) a declaration that the Proposed Bonus Issue and the Proposed Renounceable Rights Issue and all shares issued in pursuance thereof are null and void;

(v) an injunction that the Defendants be restrained whether by themselves, their servants, agents or otherwise howsoever until such further Order from convening any directors' meetings or any ordinary or extraordinary general meetings of KJCF for purposes of approving or for any purposes incidental to the Proposed Bonus Issue and the Proposed Renounceable Rights Issue by KJCF;

(vi) an injunction that the Defendants be restrained whether by themselves, their servants, agents or otherwise howsoever until such further Order from acting, implementing or continuing to act on or implement the Proposed Bonus Issue and the Proposed Renounceable Rights Issue by KJCF or on any of the resolutions passed at any directors' meetings and general meetings of KJCF or on any approval of the regulatory authorities, incidental to the Proposed Bonus Issue and the Proposed Renounceable Rights Issue;

## 12. Changes in material litigation (cont'd)

(vii) an injunction that the Defendants be restrained whether by themselves, their servants, agents or otherwise howsoever until such further Order from taking, continuing and directing any steps or actions to be taken with a view to passing, effecting or enforcing any decisions or resolutions, whether incidental to the Proposed Bonus Issue and the Proposed Renounceable Rights Issue or any other corporate exercise, including declaring any benefits or dividends or causing any dispositions, which may have the effect of diluting the share capital or assets of KJCF and/or affect or prejudice the rights and interests of CISB under the Shares Sale Agreement dated 23 March 2009 ("SSA") and/or the said shares thereunder;

(viii) an inquiry into the damages suffered by CISB by reason of the Defendants' breach of the rights and interests of CISB under the SSA;

(ix) such further and/or other requisite accounts, inquiries, directions or reliefs as may be appropriate to safeguard the rights and interests of CISB under the SSA; and

(x) costs.

On 4 July 2011, the High Court dismissed CISB's application for the said injunction.

On 8 July 2011, CISB filed the Notices of Appeal to the Court of Appeal against the decisions of the High Court.

## 13. Capital commitment

As at 30 June 2011, the Group has the following capital commitment:

| | **RM'000** |
|---|---|
| Approved and contracted for | 34,733 |

## 14. Dividends

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

A first and final tax exempt dividend of 6% (or 3 sen per share) for the financial year ended 31 December 2010 was paid on 29 July 2011.

15. **Earnings per share**

The basic earnings per share are computed as follows:

| | **Current Quarter ended 30/06/2011** | **Preceding year corresponding quarter ended 30/06/2010** | **Current year to date ended 30/06/2011** | **Preceding year to date ended 30/06/2010** |
|---|---|---|---|---|
| Net profit attributable to shareholders of the Company (RM'000) | 8,284 | 3,461 | 12,225 | 5,918 |
| Weighted average number of shares in issue ('000) | 152,400 | 152,400 | 152,400 | 152,400 |
| Earnings per share (Sen) | 5.44 | 2.27 | 8.02 | 3.88 |

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

Dated : 15 August 2011
Petaling Jaya