

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOURTH QUARTER ENDED 31 DECEMBER 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 December 2011.

2. Changes in accounting policies

Commencing 1 January 2011, 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*

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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

The Directors proposed a first and final tax exempt dividend of 6% (or 3 sen per share) for the financial year ended 31 December 2011, subject to the approval by shareholders in the forthcoming Annual General Meeting.

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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 financial year ended 31 December 2011 are as follows:

	Financial year ended 31/12/2011			Financial year ended 31/12/2010		
	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	262,043	369,010	631,053	229,019	220,032	449,051
Inter segment	77,865	-	77,865	52,383	-	52,383
	<u>339,908</u>	<u>369,010</u>	<u>708,918</u>	<u>281,402</u>	<u>220,032</u>	<u>501,434</u>
Segment results	35,335	16,469	51,804	25,244	10,929	36,173
Other non-reportable segments			(1,008)			(549)
Interest income			355			88
Financial expenses			(9,388)			(9,321)
Consolidated profit before taxation			<u>41,763</u>			<u>26,391</u>
Segment assets	337,318	194,466	531,784	302,193	128,536	430,729
Others			31,235			30,682
Total assets			<u>563,019</u>			<u>461,411</u>
Segment liabilities	195,563	118,689	314,252	171,800	75,967	247,767
Others			23,885			18,847
Total liabilities			<u>338,137</u>			<u>266,614</u>
Capital expenditure	<u>48,900</u>	<u>17,156</u>	<u>66,056</u>	<u>8,743</u>	<u>6,714</u>	<u>15,457</u>

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.

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11. Material subsequent events

Subsequent to the financial year end:

- a) On 25 January 2012, Can-One International Sdn Bhd (“CISB”), a wholly-owned subsidiary of the Company, completed its acquisition of 146,131,500 shares of RM0.25 each in Kian Joo Can Factory Berhad (“KJCFB”) at RM1.65 per share, or a total cash consideration of RM241,116,975, from Kian Joo Holdings Sdn Bhd – In Liquidation (“Acquisition”).
- b) On 14 February 2012, CISB received two (2) Notice of Motions and the Affidavits in Support filed by Dato’ See Teow Chuan and 13 others applying to the Federal Court for a review of the grounds of Judgement of Federal Court and the consequent orders of the Federal Court dated 5 January 2012 in the Federal Court Civil Appeal No. 02()-11-2011(W) and Federal Court Civil Appeal No. 02()-12-2011(W). Please refer to Note B10 for further details.
- c) On 24 February 2012, CISB received two (2) Notice of Motions and the Affidavits in Support filed by See Tiau Kee and 10 others applying to the Federal Court for a review of the grounds of Judgement of Federal Court and the consequent orders of the Federal Court dated 5 January 2012 in the Federal Court Civil Appeal No. 02()-11-2011(W) and Federal Court Civil Appeal No. 02()-12-2011(W). Please refer to Note B10 for further details.

Apart from the above, as at 23 February 2012 (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 under review, Newmarq Sdn. Bhd. (formerly known as Newmarq Land Sdn. Bhd.), a wholly-owned subsidiary of the Group:

- a) subscribed for 1,000 shares of USD0.001 each in the capital of Lumiera Corporation (Labuan) Pte Ltd (“Lumiera”), a company incorporated in Labuan, Malaysia, representing its entire issued and paid up capital, at par, for cash. Consequently, Lumiera became a wholly-owned subsidiary of the Group.
- b) acquired 1 share of SGD1 in Grensing Pte Ltd (“GPL”), a company incorporated in Singapore, representing its entire issued and paid up capital at a cash consideration of SGD1. Consequently, GPL became a wholly-owned subsidiary of the Group.

There were no other changes in the Group composition during the period ended 31 December 2011.

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13. Changes in contingent liabilities or contingent assets

There were no contingent liabilities or assets for the Group as at 31 December 2011.

As at 23 February 2012, (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 28 February 2012.

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

1. Review of performance

The Group's revenue increased from RM132.2 million in the previous year corresponding quarter to RM167.4 million in the quarter under review. The pre-tax and post-tax profit has also improved from RM12.5 million and RM9.5 million respectively in the previous year corresponding quarter to RM16.8 million and RM13.3 million respectively in the quarter under review.

For the financial year ended 31 December 2011, the Group's revenue has increased from RM449.1 million in the previous financial year to RM631.1 million in the financial year under review. The pre-tax and post tax profit has also improved from RM26.4 million and RM20.8 million respectively in the previous financial year to RM41.8 million and RM34.7 million respectively in the financial year under review.

The performances of the various segments are as follows:

General can division

Revenue from general can division increased from RM74.3 million in the previous year corresponding quarter to RM91.1 million in the quarter under review. For the financial year ended 31 December 2011, revenue increased from RM281.4 million in the previous financial year to RM339.9 million in the financial year under review.

Improvement in revenue is contributed mainly by the increase in internal demand (driven by increase in production capacity in the food division) and increase in demand from existing customers in Malaysia and new customers in Indonesia.

The increase in revenue has contributed to the increase in the profitability of general can division as production efficiency has improved and the Group is able to reap benefits from economies of scale. For financial year ended 31 December 2011, operating margin for general can division has increased from 9.0% in the previous financial year to 10.4% in the financial year under review.

Food division

Revenue from food division increased from RM72.3 million in the previous year corresponding quarter to RM100.6 million in the quarter under review. For the financial year ended 31 December 2011, revenue increased from RM220.0 million in the previous financial year to RM369.0 million in the financial year under review.

The Group's expansion plan has enable it to accept additional sales order from new customers and fulfilling the increased demand from its existing customers.

For the financial year ended 31 December 2011, operating margin for food division has reduced slightly from 5.0% in the previous financial year to 4.5% in the financial year under review. The slight reduction is contributed mainly by the cost of commissioning new plant during the financial year under review.

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2. Variation of results against immediate preceding quarter

	Current Quarter RM'000	Preceding Quarter RM'000
Revenue	<u>167,368</u>	<u>160,555</u>
Profit before taxation	<u>16,833</u>	<u>9,794</u>
Profit after taxation	<u>13,330</u>	<u>8,184</u>

The Group's revenue has increased from RM160.6 million in the preceding quarter to RM167.4 million in the quarter under review. The pre-tax and post-tax profit has increased from RM9.8 million and RM8.2 million in the preceding quarter to RM16.8 million and RM13.3 million in the quarter under review.

The improvement in operating margin is attributable to changes in sales mix.

The performances of the various segments are as follows:

General can division

Revenue from general can division increased from RM88.6 million in the preceding quarter to RM91.1 million in the current quarter. The increase was contributed by the increase in demand for tin cans.

Food division

Revenue from food division increased from RM91.2 million in the preceding quarter to RM100.6 million in the current quarter. The increase is attributable to increase in demand from its existing and new customers.

3. Current year prospects

For the financial year ending 31 December 2012, the Group expects all its operating division to further improve their performance especially with the anticipated contributions from its operations overseas.

The Group also anticipates its investment in associated companies to yield significant positive results.

Barring any unfavourable movements in foreign currency exchange rates, interest rates and cost of key materials, the Directors anticipate the results for the financial year ending 31 December 2012 to be better.

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.

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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. **Status of corporate proposal announced**

There were no corporate proposal announced which have not been completed as at 23 February 2012 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

7. **Group borrowings and debts securities**

Group borrowings are as follows:

	At 31/12/2011 RM'000	At 31/12/2010 RM'000
Short term borrowings - secured		
Finance leases	1,951	1,971
Term loans	2,347	2,885
Foreign currencies trade loans in USD	46,867	19,495
	51,165	24,351
Short term borrowings - unsecured		
Term loans	9,808	14,444
Bankers acceptances	221	8,506
Foreign currencies trade loans in USD	77,637	57,012
Revolving credits	19,000	15,000
	106,666	94,962
Total short term borrowings	157,831	119,313
Long term borrowings - secured		
Finance leases	2,545	3,489
Term loans	43,287	16,465
	45,832	19,954
Long term borrowings - unsecured		
Term loans	42,804	50,777
Total long term borrowings	88,636	70,731

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8. Retained profit

Pursuant to Bursa Malaysia Securities Berhad's directive dated 25 March 2010, the retained earnings of the Group as at 31 December 2011 comprise:

	At 31/12/2011 RM'000	At 31/12/2010 RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	198,440	165,222
- Unrealised	(19,753)	(14,568)
	178,687	150,654
Consolidation adjustments	(50,342)	(50,342)
Total retained earnings of the Group	128,345	100,312

9. Profit before taxation

The profit before taxation is stated after charging/(crediting):

	Current Quarter ended 31/12/2011 RM'000	Preceding year corresponding quarter ended 31/12/2010 RM'000	Financial year ended 31/12/2011 RM'000	Financial year ended 31/12/2010 RM'000
Interest income	(253)	(61)	(355)	(88)
(Gain)/loss on derivative financial instruments	(1,119)	(455)	684	(112)
(Gain)/loss on foreign exchange	3,278	(1,314)	3,843	(4,520)
Rental income	(198)	0	(842)	0
Miscellaneous income	30	28	(62)	(20)
(Gain)/Loss on disposal of plant & equipment	(45)	2	117	(2)
Total other (income)/expenses	1,693	(1,800)	3,385	(4,742)
Depreciation and amortisation	3,395	5,096	12,840	14,564
Impairment loss on trade receivables	1,865	1,090	1,865	1,700
Interest expense	2,926	2,599	8,282	8,567

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10. Changes in material litigation

Save as disclosed below, the Group was not involved in any material litigation as at 23 February 2012 (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 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 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 8 March 2012.

- b) In May 2011, CISB served a writ of summons and a statement of claim on KJCFB 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 KJCFB ("Bonus Shares") to be credited as fully paid-up on the basis of one Bonus Share for every two shares in KJCFB ("KJCFB 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 KJCFB Shares held after the Proposed Bonus Issue at an issue price of RM0.01 per warrant ("Proposed Renounceable Rights Issue") by KJCFB 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 KJHSB and as directors of KJCFB, 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;

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10. Changes in material litigation (cont'd)

- 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 KJCFB for purposes of approving or for any purposes incidental to the Proposed Bonus Issue and the Proposed Renounceable Rights Issue by KJCFB;
- 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 KJCFB or on any of the resolutions passed at any directors' meetings and general meetings of KJCFB or on any approval of the regulatory authorities, incidental to the Proposed Bonus Issue and the Proposed Renounceable Rights Issue;
- 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 KJCFB 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.

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10. Changes in material litigation (cont'd)

The Court of Appeal had on 8 November 2011:-

- i) allowed CISB's Appeal against the decision of the High Court given on 4 July 2011 in allowing CISB's suit to be strike out; and
- ii) dismissed CISB's Appeal against the decision of the High Court given on 4 July 2011 in refusing CISB's application for an injunction restraining the implementation the Proposed Bonus Issue and the Proposed Renounceable Rights Issue pending the hearing of the suit of CISB.

CISB, has applied for leave to appeal to the Federal Court against the said decision in dismissing CISB's Appeal on the injunction. The case is now fixed for hearing on 15 March 2012.

- c) The Federal Court on 5 January 2012, allowed the appeals of the Liquidators of Kian Joo Holdings Sdn Bhd – In Liquidation ("KJHSB"), including the Liquidator's Appeals to proceed with the completion of the sale of 146,131,500 KJCFB shares held by KJHSB to CISB at a total consideration of RM241,116,975 ("FC Judgement"). CISB had on 25 January 2012 completed the acquisition of the said KJCFB shares.

On 14 February 2012, CISB received two (2) Notice of Motions and the Affidavits in Support filed by Dato' See Teow Chuan and 13 others applying for the following orders;

- i) the Grounds of FC Judgement and the consequent Orders of the Federal Court dated 5 January 2012 be reviewed and set aside pursuant to Rule 137 of the Rules of the Federal Court, 1995 and/or the inherent jurisdiction of the Federal Court;
- ii) the said Appeals be re-heard by the Federal Court consisting of Judges of the Federal Court other than those who heard and decided upon the said Appeals on 5 January 2012;
- iii) The Liquidators of KJHSB, Ooi Woon Chee and Ng Kim Tuck be restrained from distributing the said proceeds of RM241,116,975 from the sale of the 146,131,500 shares of KJCFB to CISB and the said proceeds be retained in a monthly fixed deposit account in a local bank pending the hearing and final disposal of this Application and in the event the reliefs in paragraphs (i) and (ii) above are granted by the Federal Court, until the said Appeals are re-heard and finally disposed of by the Federal Court;
- iv) CISB be restrained from selling and/or in any way disposing of the whole or any part of the 146,131,500 of KJCFB shares purchased from KJHSB pending the hearing and final disposal of this Application and in the event the reliefs in paragraphs (i) and (ii) above are granted by the Federal Court, until the said Appeals are re-heard and finally disposed of by the Federal Court;

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10. Changes in material litigation (cont'd)

- v) CISB be restrained from exercising any of its rights attached to or arising from the purchase of the 146,131,500 of KJCFB shares by CISB from KJHSB pending the hearing and final disposal of this Application and in the event the reliefs in paragraphs 1 and 2 above are granted by the Federal Court, until the said Appeals are re-heard and finally disposed of by the Federal Court;
- vi) costs of this Application be costs in the cause; and
- vii) any other or further reliefs that the Federal Court deems fit and proper to grant in the circumstances

The case is now fixed for hearing on 5 March 2012.

(d) On 24 February 2012, CISB received two (2) Notice of Motions and the Affidavits in Support filed by See Tiau Kee and 10 others applying for the following orders;

- i) the Grounds of FC Judgement and the Orders of the Federal Court both dated 5 January 2012 in respect of Civil Appeal No. 02()-11-2011(W) and Civil Appeal No. 02()-12-2011(W) ("the said Appeals") be reviewed and set aside pursuant to Rule 137 of the Rules of the Federal Court, 1995 and/or the inherent jurisdiction of the Federal Court;
- ii) The said Appeals be re-heard by a differently constituted Panel of Federal Court;
- iii) The Liquidators of KJHSB, Ooi Woon Chee and Ng Kim Tuck be restrained from distributing the said proceeds of RM241,116,975 from the sale of the 146,131,500 shares of KJCFB to CISB pending the hearing and final disposal of this Application and in the event the reliefs in paragraphs (i) and (ii) above are granted by the Federal Court, until the said Appeals are re-heard and finally disposed of by the Federal Court;
- iv) CISB be restrained from selling and/or in any way disposing of the whole or any part of the 146,131,500 of KJCFB shares purchased from KJHSB pending the hearing and final disposal of this Application and in the event the reliefs in paragraphs (i) and (ii) above are granted by the Federal Court, until the said Appeals are re-heard and finally disposed of by the Federal Court;
- v) costs of this Application be costs in the cause; and
- vi) any other or further reliefs that the Federal Court deems fit and proper to grant in the circumstances

The case is now fixed for hearing on 5 March 2012.

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11. Capital commitment

As at 31 December 2011, the Group has the following capital commitment:

Approved and contracted for	RM'000 15,376
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12. Dividends

The Directors proposed a first and final tax exempt dividend of 6% (or 3 sen per share) for the financial year ended 31 December 2011, subject to the approval by shareholders in the forthcoming Annual General Meeting.

13. Earnings per share

The basic earnings per share are computed as follows:

	Current Quarter ended 31/12/2011	Preceding year corresponding quarter ended 31/12/2010	Financial year ended 31/12/2011	Financial year ended 31/12/2010
Net profit attributable to shareholders of the Company (RM'000)	12,583	8,668	32,595	19,442
Weighted average number of shares in issue ('000)	152,400	152,400	152,400	152,400
Earnings per share (Sen)	<u>8.26</u>	<u>5.69</u>	<u>21.39</u>	<u>12.76</u>

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

Dated : 28 February 2012
Petaling Jaya