

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FIRST QUARTER ENDED 31 MARCH 2013

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

1. Basis of preparation

The interim financial statements are unaudited and have been prepared in compliance with the requirements of MFRS134 – Interim Financial Reporting and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

These interim financial statements include only condensed financial statements and should be read in conjunction with the annual financial statements for the financial year ended 31 December 2012. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the financial position and performance of the Group since the financial year ended 31 December 2012.

2. Significant accounting policies

The accounting policies adopted for this interim report are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2012.

The Group also adopted the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) effective from 1 January 2013.

MFRS 10	Consolidated Financial Statements
MFRS 13	Fair Value Measurement
MFRS 119	Employee Benefits (2011)
MFRS 128	Investments in Associates and Joint Ventures (2011)
Amendments to MFRS 1	First-time adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10	Consolidated Financial Instruments: Transition Guidance
Amendments to MFRS 101	Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 116	Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 132	Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 134	Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)

The initial application of the standards, amendments and interpretations did not have any material financial impacts to the current and prior periods financial statements of the Group.

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2. Significant accounting policies – Cont'd

The Group plans to apply the following revised accounting standards, amendments and interpretations issued by the MASB when they become effective:

Amendments effective for annual periods beginning 1 January 2014

Amendments to MFRS 10	Consolidated Financial Instruments: Investment Entities
Amendments to MFRS 132	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

MFRSs and Amendments effective for annual periods beginning 1 January 2015

MFRS 9	Financial Instruments (2009)
MFRS 9	Financial Instruments (2010)
Amendments to MFRS 7	Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures

The initial application of the standards, amendments and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements of the Group.

3. Auditors' report

The auditors' report dated 17 April 2013 on the financial statements for the financial year ended 31 December 2012 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 but lower in the first quarter of every financial year.

5. Unusual items due to their nature, size or incidence

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

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6. **Investment in associates**

	At 31/03/2013	At 31/12/2012
	RM'000	RM'000
Share of net assets in associates	<u>371,416</u>	<u>360,740</u>
Market value	<u>347,793</u>	<u>325,873</u>

7. **Changes in estimates**

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

8. **Issues, repurchases and repayments 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 quarter under review.

9. **Dividends paid**

There were no dividends paid during the quarter under review.

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10. **Segment information**

The Group organised its activities principally into 3 reportable business segments:

- a) Manufacture of tin cans and plastic jerry cans (General Cans)
- b) Manufacture of food products (Food Products)
- c) International trading

Segment revenue and results for the financial period ended 31 March 2013 are as follows:

	Year-to-date ended 31/03/2013			
	General cans RM'000	Food products RM'000	International trading RM'000	Total RM'000
<i>Revenue</i>				
External customers	72,446	115,743	6,285	194,474
Inter segment	18,025	3,857	13,954	35,836
	<u>90,471</u>	<u>119,600</u>	<u>20,239</u>	<u>230,310</u>
Segment results	6,023	12,710	7	18,740
Unallocated income/(expenses)				(760)
Operating profit				<u>17,980</u>
Interest income				57
Financial expenses				(4,616)
Share of profit after tax of associates				10,571
Consolidated profit before taxation				<u>23,992</u>
Segment assets	346,682	297,199	16,716	660,597
Investment in associates				371,416
Unallocated assets				6,696
Total assets				<u>1,038,709</u>
Segment liabilities	175,427	148,123	13,715	337,265
Unallocated liabilities				270,384
Total liabilities				<u>607,649</u>
Capital expenditure	<u>3,019</u>	<u>2,423</u>	<u>2</u>	<u>5,444</u>

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10. **Segment information – Cont'd**

	Preceding year-to-date ended 31/03/2012			
	General cans RM'000	Food products RM'000	International trading RM'000	Total RM'000
<i>Revenue</i>				
External customers	63,009	87,643	31,009	181,661
Inter segment	22,008	29,510	5,762	57,280
	<u>85,017</u>	<u>117,153</u>	<u>36,771</u>	<u>238,941</u>
Segment results	7,795	5,421	1,552	14,768
Unallocated income/(expenses)				(2,474)
Operating profit				<u>12,294</u>
Interest income				81
Finance costs				(5,563)
Share of profit of equity-accounted investee, net of tax				87,751
Profit before tax				<u>94,563</u>
Segment assets	323,069	206,331	8,068	537,468
Investment in associates				328,989
Unallocated assets				13,950
Total assets				<u>880,407</u>
Segment liabilities	179,502	106,355	6,495	292,352
Unallocated liabilities				266,050
Total liabilities				<u>558,402</u>
Capital expenditure	<u>8,623</u>	<u>5,200</u>	-	<u>13,823</u>

11. **Valuation of property, plant and equipment**

The Group did not carry out any revaluation exercise during the quarter under review.

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12. Material subsequent events

As at 25 May 2013 (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 end of the balance sheet date which may have an impact on the consolidated financial statements of the Group.

13. Changes in Group composition

There were no changes in the Group composition during the quarter under review except for the following acquisition subsequent to the balance sheet date.

On 19 April 2013, 80%-owned subsidiary F & B Nutrition Sdn Bhd, acquired the entire paid-up share capital of Can Ridge Sdn Bhd ("CRSB") comprising 2 ordinary shares of RM1.00 each at a cash consideration of RM2.00. Consequently, CRSB became an indirect subsidiary of the Company.

14. Changes in contingent liabilities or contingent assets

There were no contingent liabilities or assets for the Group as at 31 March 2013.

As at 25 May 2013 (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.

15. Capital commitment

As at 31 March 2013, the Group has the following capital commitment:

Approved and contracted for	RM'000 10,814 =====
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16. Authorisation for issue

This interim financial report was authorised for issue by the Board of Directors ("Board") in accordance with a resolution of Directors passed at the Board Meeting held on 29 May 2013.

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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 RM181.7 million in the previous year corresponding quarter to RM194.5 million in the quarter under review. The pre-tax and post-tax profit reduced from RM94.6 million and RM92.1 million in the previous year corresponding quarter to RM24.0 million and RM19.7 million respectively in the current quarter. The reduction was mainly due to one-off bargain purchase gain of RM82.4 million arising from acquisition of investment in associates included in the previous year corresponding quarter results.

General Cans division

Revenue from General Cans division for the quarter under review increased by 6.4% to RM90.5 million from RM85.0 million in the preceding year corresponding quarter due to increase in demand of jerry cans.

The increase in revenue also contributed to better gross margin for the General Cans division.

Food Products division

Revenue from Food Products division increased from RM117.2 million in the preceding year corresponding quarter to RM119.6 million in the current quarter. Improvement in revenue was mainly due to increase in demand from local customers.

Gross profit margin also improved due to better operating efficiencies.

International Trading division

Revenue from International Trading division reduced from RM36.8 million in the preceding year corresponding quarter to RM20.2 million in the current quarter.

Investment in associates

Associated company, Kian Joo Can Factory Berhad ("KJCFB") contributed RM10.6 million profit to the Group for the quarter under review.

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

	Current Quarter 31/03/2013 RM'000	Preceding Quarter 31/12/2012 RM'000
Revenue	<u>194,474</u>	<u>196,896</u>
Profit before taxation	<u>23,992</u>	<u>32,084</u>
Profit after taxation	<u>19,671</u>	<u>25,582</u>

The Group's revenue decreased slightly from RM196.9 million in the preceding quarter to RM194.5 million in the quarter under review. Pre-tax and post-tax profit decreased from RM32.1 million and RM25.6 million in the preceding quarter to RM24.0 million and RM19.7 million in the quarter under review respectively.

The performances of the other segments are as follows:

General Cans division

Revenue from General Cans division increased from RM88.9 million in the immediate preceding quarter to RM90.5 million in the current quarter attributable mainly to the increase in demand for jerry cans.

Food Products division

Revenue from Food Products division decreased from RM129.4 million in the immediate preceding quarter to RM119.6 million in the current quarter due mainly to lower demand from local and overseas customers.

Current quarter profit from the Food Products division decreased due to lower production and sales.

International Trading division

International Trading division contributed revenue of RM20.2 million for the current quarter.

3. **Prospects**

The Group expects all its operating divisions and investment in associate to contribute positively to its current year results.

Barring any unfavourable movements in foreign currency exchange rates, interest rates and cost of key raw materials, the Directors anticipate the results of the Group for the financial year ending 31 December 2013 to be satisfactory.

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4. **Profit forecast/profit guarantee**

The Group did not publish any profit forecast or provide any profit guarantee.

5. **Tax expense**

	Current Quarter ended 31/03/2013 RM'000	Preceding year corresponding quarter ended 31/03/2012 RM'000	Current year to date ended 31/03/2013 RM'000	Preceding year to date ended 31/03/2012 RM'000
Current tax expense	2,103	2,443	2,103	2,443
Deferred tax expense	2,218	-	2,218	-
	<u>4,321</u>	<u>2,443</u>	<u>4,321</u>	<u>2,443</u>

The effective tax rate of the Group is lower than the enacted statutory tax rate due to availability of reinvestment allowance and share of results from associate which has been accounted for net of tax.

6. **Status of corporate proposal announced**

There were no corporate proposals announced which have not been completed as at 25 May 2013 (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 as at 31 March 2013

	Current RM'000	Non-current RM'000
Borrowings denominated in RM		
Secured		
Finance leases	1,512	958
Term loans	9,197	284,321
	<u>10,709</u>	<u>285,279</u>
Unsecured		
Term loans	12,298	25,433
Bankers acceptances	2,436	-
Revolving credits	7,000	-
	<u>21,734</u>	<u>25,433</u>
Total borrowings in RM	<u>32,443</u>	<u>310,712</u>
Borrowings denominated in USD		
Secured		
Foreign currencies trade loans	27,925	-
Unsecured		
Foreign currencies trade loans	116,186	-
Total borrowings in USD	<u>144,111</u>	<u>-</u>
Total Group borrowings	<u>176,554</u>	<u>310,712</u>

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8. Retained profit

The breakdown of retained earnings of the Group is as follows:

	At 31/03/2013 RM'000	At 31/12/2012 RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	283,285	272,091
- Unrealised	(14,765)	(17,337)
	268,520	254,754
Total share of retained earnings in associates		
- Realised	44,290	20,993
- Unrealised	101,261	113,987
Consolidation adjustments	(86,174)	(79,695)
Total retained earnings of the Group	327,897	310,039

9. Profit before taxation

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

	Current Quarter ended 31/03/2013 RM'000	Preceding year corresponding quarter ended 31/03/2012 RM'000	Current year to date ended 31/03/2013 RM'000	Preceding year to date ended 31/03/2012 RM'000
Interest income	(57)	(81)	(57)	(81)
Other income including investment income	(273)	(289)	(273)	(289)
Interest expense	4,291	3,690	4,291	3,690
Depreciation and amortisation	4,070	3,823	4,070	3,823
Impairment of receivables	-	-	-	-
Impairment of inventories	-	-	-	-
(Gain)/loss on disposal of investment	-	-	-	-
(Gain)/Loss on disposal of plant & equipment	(11)	(23)	(11)	(23)
Impairment of goodwill	305	-	305	-
(Gain)/loss on foreign exchange	(330)	(2,216)	(330)	(2,216)
(Gain)/loss on derivative financial instruments	11	(1,060)	11	(1,060)

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10. Changes in material litigation

Save as disclosed below, the Group was not involved in any material litigation as at 25 May 2013 (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, Can-One International Sdn Bhd (“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 Acquisition is illegal, null and void.

CISB had applied to the High Court to set aside and/or strike out the Plaintiffs’ Writ and Statement of Claim. The case has been fixed for mention on 6 June 2013.

- 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 1 Bonus Share for every 2 shares in KJCFB (“KJCFB Shares”) held (“Proposed Bonus Issue”) and the proposed renounceable rights issue of 166,562,919 5 year warrants 2011/2016 on the basis of 1 warrant for every 4 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 Kian Joo Holdings Sdn Bhd – In Liquidation (“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;
 - 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;

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10. Changes in material litigation (cont'd)

- 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.

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 ("CISB's Appeal"); and

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10. Changes in material litigation (cont'd)

- 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.

In respect of CISB's Appeal, the High Court had struck out the said matter with no order as to cost.

CISB had applied for leave to appeal to the Federal Court against the Court of Appeal's decision in dismissing CISB's Appeal on the injunction. The Federal Court had fixed the said matter for mention on 6 June 2013 after numerous adjournments.

- c) The Federal Court on 5 January 2012, allowed the appeals of the Liquidators of 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.

CISB received 2 Notice of Motions and the Affidavits in Support filed by Dato' See Teow Chuan and 13 others on 14 February 2012 ("First Applicants") followed by another 2 motions and Affidavits in Support filed by See Tiau Kee and 10 others on 24 February 2012 ("Second Applicants").

They had applied 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 9 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 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 KJCFB shares by CISB 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;
- 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.

(collectively "Review Applications")

The Federal Court on 22 May 2013 unanimously dismissed the Review Applications filed by both the First Applicants and the second Applicants and in addition, awarded the costs in favour of (i) the Liquidators in the sum of RM100,000 (ii) in favour of CISB in the sum of RM75,000, for each of the above matters.

- d) The Kuala Lumpur High Court had on 10 April 2013 allowed the Company's and seven (7) Others' (collectively, "the Applicants") Notice of Application For Leave To Apply For Judicial Review against Bursa Securities ("the Respondent") in the following terms:
 - i) that leave be granted to the Applicants to make an Application for Judicial Review pursuant to Order 53 Rule 3 of the Rules of Court, 2012 read with Section 25(2) of the Courts of Judicature Act, 1964;
 - ii) that leave be granted to the Applicants to make an Application for Judicial Review by way of an Order of certiorari to remove into the High Court for the purpose of quashing the following decisions of the Listing Committee of the Respondent made on 6 November 2012 and as affirmed by the Appeals Committee of the Respondent on 22 February 2013, namely:
 - a) that the Company had breached paragraph 9.16(1)(a) of the Listing Requirements in respect of the Company's announcement dated 5 January 2012 in response to the unusual market activity query from Bursa Securities ("UMA Query");
 - b) that the Directors of the Company had breached paragraph 16.13(b) of the Listing Requirements for permitting, knowingly or where they had reasonable means of obtaining such knowledge, the Company to breach paragraph 9.16(1)(a) of the Listing Requirements in respect of the Company's announcement dated 5 January 2012 in response to the UMA Query; and

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c) that there be imposed a public reprimand on the Company, and a public reprimand and fine of RM50,000/- on each of the Directors of the Company in respect of the aforesaid breach on the part of the Company and breach on the part of the Directors of the Company;

(hereinafter referred to collectively as “the whole of the said decisions of the Respondent”)

- iii) that the leave granted to the Applicants to make an Application for Judicial Review shall operate as a stay of any proceedings before the Respondent in consequence of the said decisions of the Respondent or otherwise;
- iv) that there shall be such further and/or other reliefs, including an order of injunction or damages, and/or directions as may be deemed just and proper by the High Court; and
- v) that the costs of the proceedings herein shall be costs in the cause of the Application for Judicial Review.

The matter is fixed for case management before the Registrar on 11 June 2013.

11. Dividends

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

The Directors had recommended a first and final tax exempt dividend of 8% (or 4 sen per share) for the financial year ended 31 December 2012, subject to the approval by shareholders at the forthcoming Annual General Meeting of the Company.

12. Earnings per share

The basic earnings per share are computed as follows:

	Current Quarter ended 31/03/2013	Preceding year corresponding quarter ended 31/03/2012	Current year to date ended 31/03/2013	Preceding year to date ended 31/03/2012
Net profit attributable to shareholders of the Company (RM'000)	17,858	91,334	17,858	91,334
Weighted average number of shares in issue ('000)	152,400	152,400	152,400	152,400
Earnings per share (Sen)	<u>11.72</u>	<u>59.93</u>	<u>11.72</u>	<u>59.93</u>

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

Dated : 29 May 2013
Petaling Jaya