

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

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
THIRD QUARTER ENDED 30 SEPTEMBER 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 impact on financial statements of the Group for the current and prior periods.

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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 impact on the financial statements of the Group for the current and prior periods.

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 30/09/2013	At 31/12/2012
	RM'000	RM'000
Share of net assets in associates	<u>375,305</u>	<u>360,740</u>
Market value	<u>458,853</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

A first and final tax exempt dividend of 8% (or 4 sen per share) for the financial year ended 31 December 2012 was paid on 31 July 2013.

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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 30 September 2013 are as follows:

	Year-to-date ended 30/09/2013			
	General cans RM'000	Food products RM'000	International trading RM'000	Total RM'000
<i>Revenue</i>				
External customers	209,394	360,475	17,212	587,081
Inter segment	59,160	10,621	44,683	114,464
	<u>268,554</u>	<u>371,096</u>	<u>61,895</u>	<u>701,545</u>
Segment results	20,689	41,212	1,018	62,919
Unallocated income/(expenses)				(4,131)
Operating profit				<u>58,788</u>
Interest income				181
Financial expenses				(15,447)
Share of profit after tax of associates				31,298
Consolidated profit before taxation				<u>74,820</u>
Segment assets	376,223	291,543	12,084	679,850
Investment in associates				375,305
Unallocated assets				6,893
Total assets				<u>1,062,048</u>
Segment liabilities	169,903	146,802	5,522	322,227
Unallocated liabilities				271,404
Total liabilities				<u>593,631</u>
Capital expenditure	<u>12,320</u>	<u>5,536</u>	<u>2</u>	<u>17,858</u>

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10. **Segment information – Cont'd**

	Preceding year-to-date ended 30/09/2012			
	General cans	Food products	International trading	Total
	RM'000	RM'000	RM'000	RM'000
<i>Revenue</i>				
External customers	186,673	326,638	69,833	583,144
Inter segment	75,734	62,186	28,558	166,478
	<u>262,407</u>	<u>388,824</u>	<u>98,391</u>	<u>749,622</u>
Segment results	28,515	31,036	3,225	62,776
Unallocated income/(expenses)				(3,046)
Operating profit				<u>59,730</u>
Interest income				150
Finance costs				(17,559)
Share of profit after tax of associates				120,476
Profit before tax				<u>162,797</u>
Segment assets	348,291	275,056	11,471	634,818
Investment in associates				346,196
Unallocated assets				20,807
Total assets				<u>1,001,821</u>
Segment liabilities	201,486	145,724	6,967	354,177
Unallocated liabilities				262,037
Total liabilities				<u>616,214</u>
Capital expenditure	<u>18,428</u>	<u>9,930</u>	-	<u>28,358</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 23 November 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 ended 30 September 2013.

14. Changes in contingent liabilities or contingent assets

There were no contingent liabilities or assets for the Group as at 30 September 2013.

As at 23 November 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 30 September 2013, the Group has the following capital commitment:

	RM'000
Approved and contracted for	7,849
	=====

16. Related Party Disclosures

	Financial Period to date 30/09/2013 RM'000
Sales to associated companies	107
	=====
Purchases from associated companies	1,044
	=====

17. 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 27 November 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 decreased from RM200.0 million in the previous year corresponding quarter to RM171.4 million in the quarter under review. The pre-tax and post-tax profit dropped from RM28.9 million and RM24.1 million in the previous year corresponding quarter to RM27.7 million and RM22.9 million respectively in the current quarter.

General Cans division

Revenue from General Cans division for the quarter under review decreased by 12.6% to RM75.6 million from RM86.4 million in the preceding year corresponding quarter mainly due to drop in demand for jerry cans.

Food Products division

Revenue from Food Products division decreased from RM139.0 million in the preceding year corresponding quarter to RM113.7 million in the current quarter due to lower export sales.

However, gross profit margin improved due to better operating efficiencies and automation.

International Trading division

Revenue from International Trading division reduced from RM28.1 million in the preceding year corresponding quarter to RM15.2 million in the current quarter.

Investment in associates

Associated company, Kian Joo Can Factory Berhad ("KJCFB") contributed RM12.6 million profits to the Group for the quarter under review.

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2. Variation of results against immediate preceding quarter

	Current Quarter 30/09/2013 RM'000	Preceding Quarter 30/06/2013 RM'000
Revenue	<u>171,439</u>	<u>221,168</u>
Profit before taxation	<u>27,666</u>	<u>23,162</u>
Profit after taxation	<u>22,924</u>	<u>19,076</u>

The Group's revenue decreased from RM221.2 million in the immediate preceding quarter to RM171.4 million in the quarter under review. Pre-tax and post-tax profit increased from RM23.2 million and RM19.1 million in the immediate preceding quarter to RM27.7 million and RM22.9 million in the quarter under review respectively.

The performances of the other segments are as follows:

General Cans division

Revenue from General Cans division decreased from RM102.5 million in the immediate preceding quarter to RM75.6 million in the current quarter attributable mainly to the decrease in demand for jerry cans.

Food Products division

Revenue from Food Products division decreased from RM137.8 million in the immediate preceding quarter to RM113.7 million in the current quarter due mainly to lower indirect export sales.

However gross profit margin improved due to better operating efficiencies and automation.

International Trading division

International Trading division contributed revenue of RM15.2 million for the current quarter.

3. Prospects

The Group expects all its operating divisions and its 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.

4. Profit forecast/profit guarantee

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

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5. **Tax expense**

	Current Quarter ended 30/09/2013 RM'000	Preceding year corresponding quarter ended 30/09/2012 RM'000	Current year to date ended 30/09/2013 RM'000	Preceding year to date ended 30/09/2012 RM'000
Current tax expense	4,080	2,090	10,185	7,533
Deferred tax expense	662	2,718	2,964	2,718
	4,742	4,808	13,149	10,251

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 23 November 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 30 September 2013

	Current RM'000	Non-current RM'000
Borrowings denominated in RM		
Secured		
Finance leases	1,147	1,586
Term loans	6,126	267,399
	7,273	268,985
Unsecured		
Term loans	15,500	32,964
Bankers acceptances	2,923	-
Revolving credits	15,000	-
	33,423	32,964
Total borrowings in RM	40,696	301,949
Borrowings denominated in USD		
Secured		
Foreign currencies trade loans	27,143	-
Unsecured		
Foreign currencies trade loans	98,030	-
Total borrowings in USD	125,173	-
Total Group borrowings	165,869	301,949

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8. Retained profit

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

	At 30/09/2013	At 31/12/2012
	RM'000	RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	318,658	272,091
- Unrealised	(15,366)	(17,337)
	303,292	254,754
Total share of retained earnings in associates		
- Realised	48,626	20,993
- Unrealised	117,653	113,987
	(109,977)	(79,695)
Consolidation adjustments		
Total retained earnings of the Group	359,594	310,039

9. Profit before taxation

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

	Current Quarter ended 30/09/2013	Preceding year corresponding quarter ended 30/09/2012	Current year to date ended 30/09/2013	Preceding year to date ended 30/09/2012
	RM'000	RM'000	RM'000	RM'000
Interest income	(67)	(67)	(181)	(150)
Other income including investment income	(388)	(249)	(1,122)	(816)
Interest expense	5,585	5,973	14,534	14,965
Depreciation and amortisation	4,261	3,706	12,644	10,837
Impairment of receivables	-	-	-	-
Impairment of inventories	-	-	-	-
(Gain)/Loss on disposal of investment	-	-	-	-
(Gain)/Loss on disposal of plant & equipment	337	539	280	516
Impairment of goodwill	-	-	305	-
(Gain)/Loss on foreign exchange	712	(2,377)	443	(3,028)
(Gain)/Loss on derivative financial instruments	(206)	260	(33)	(387)

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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 November 2013 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

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 Main Market Listing Requirements of Bursa Securities 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
 - 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 High Court on 29 October 2013 dismissed the Applicants' Application For Judicial Review. On 21 November 2013, the Applicants filed a Notice of Appeal to the Court of Appeal against the High Court decision.

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11. Dividends

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

12. Earnings per share

The basic earnings per share are computed as follows:

	Current Quarter ended 30/09/2013	Preceding year corresponding quarter ended 30/09/2012	Current year to date ended 30/09/2013	Preceding year to date ended 30/09/2012
Net profit attributable to shareholders of the Company (RM'000)	20,432	21,378	55,651	147,637
Weighted average number of shares in issue ('000)	152,400	152,400	152,400	152,400
Earnings per share (Sen)	<u>13.41</u>	<u>14.03</u>	<u>36.52</u>	<u>96.87</u>

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

Dated : 27 November 2013
Petaling Jaya