

HAISAN RESOURCES BERHAD
Company No. 502213-D

Notes to Third Quarter Report
For The Financial Period Ended 30 September 2006

NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (“FRS”) NO. 134 – INTERIM FINANCIAL REPORTING

1. Basis of preparation

The interim financial statements have been prepared under the historical cost convention unless specifically stated otherwise, as modified by the revaluation of certain properties.

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134 Interim Financial Reporting and Chapter 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2005. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2005.

2. Changes in Accounting Policies

The same accounting policies and methods of computation are followed in the interim financial statements as in the audited annual financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised FRS effective for the financial period beginning 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of the above new/revised FRSs does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption in the new/revised FRSs are discussed below:

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a. FRS 3: Business Combinations and FRS 136: Impairment of Assets

The adoption of these new FRSs has resulted in the Group ceased annual goodwill amortisation. Goodwill is now tested for impairment in value in accordance with FRS 136 (Impairment of Assets) annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised in income statements and subsequent reversal is not allowed. There is no impairment loss recorded during the period. Prior to 1 January 2006, goodwill was amortised on a straight-line basis over its estimated useful life or 20 years, whichever is shorter. This change in accounting policy has been accounted for prospectively for business combinations where the agreement date is on or after 1 January 2006. The transitional provisions of FRS 3, however, have required the Group to eliminate at 1 January 2006 the carrying amount of the accumulated amortisation of RM373, 144 against the carrying amount of goodwill. The carrying amount of goodwill as at 1 January 2006 of RM2, 725,450 ceased to be amortised. This has the effect of reducing the amortisation charges by RM8, 357 from the quarter ended 31 March 2006.

b. FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of net-after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statements, minority interests are presented as an allocation to the total profit or loss for the period. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognized income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform to the current period's presentation.

3. Status of Annual Report 2005

The auditors' report on the Group's most recent annual audited financial statements for the year ended 31 December 2005 was not qualified.

4. Seasonal or cyclical factors

The business operations of the Group were not affected by any seasonal or cyclical factors during the financial period under review.

5. Unusual item

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

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6. Changes in estimates

The revised FRS 116: Property, Plant and Equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least at each financial year end. The Group revised the residual values of cold room, warehouses, machineries and motor vehicles and their estimated useful life with effect from 1 January 2006. The revision were accounted for a change in accounting estimates and as a result, the depreciation charges for the current quarter and current year to date ended 30 September 2006 have decreased by RM1.8m.

7. Issuance/repayment of debts and equity securities

During the third quarter ended 30 September 2006, a total of 1,734,200 shares were bought back from the open market. The cumulative shares bought back are held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

The cumulative shares bought-back for the financial period ended 30 September 2006 was 2,734,200.

The details of the treasury shares are as follows:-

Month	Price per share (RM)			Number of shares	Total consideration RM
	Lowest	Highest	Average		
Balance as at 30 June 2006				4,931,600	4,967,322
Shares bought back					
21 Aug 2006	0.700	0.700	0.700	3,000	2,117
30 Aug 2006	0.725	0.755	0.745	30,700	22,865
01 Sep 2006	0.720	0.765	0.765	51,600	39,481
05 Sep 2006	0.760	0.785	0.775	225,100	174,361
06 Sep 2006	0.720	0.755	0.758	123,100	93,343
07 Sep 2006	0.740	0.760	0.762	145,000	110,511
15 Sep 2006	0.720	0.770	0.766	445,400	340,972
18 Sep 2006	0.730	0.775	0.775	370,400	287,195
19 Sep 2006	0.750	0.790	0.780	254,900	198,827
21 Sep 2006	0.735	0.765	0.765	85,000	64,993
Total				6,665,800	6,301,987

As at 30 September 2006, the number of outstanding shares issued and fully paid with voting rights was 81,354,200 ordinary shares of RM0.50 each.

8. Dividends paid

There were no dividends paid for the current quarter under review and for the financial period to-date.

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9. Segmental reporting

	Engineering of industrial refrigeration RM'000	Ice manufacturing RM'000	Temperature- controlled logistics/ warehousing RM'000	Others RM'000	Total RM'000	Elimination RM'000	Consolidated amount RM'000
REVENUE							
-External	10,670	8,346	40,435	-	59,451		59,451
-Internal segment only		262	1,697	1,006	2,965	(2,965)	-
Total revenue	10,670	8,608	42,132	1,006	62,416	(2,965)	59,451
RESULT							
Segments Result	1,492	778	7,100	3,204	12,574	(2,068)	10,506
Interest income	47	1	98	112	258	-	258
Unallocated corporate expenses							(1,724)
Operating profit							9,040
Finance costs							(5,635)
Profit before tax							3,405
Taxation							(1,116)
Profit after tax							2,289

10. Valuations of Property, Plant and Equipment

The valuations of land and buildings have been brought forward, without amendment from the most recent annual audited financial statements for the year ended 31 December 2005. The carrying value is based on a valuation carried out in year 2000 by independent qualified values less depreciation.

11. Material events subsequent to end of the interim period

There are no material events since the end of the financial period ended 30 September 2006 up to the date of this announcement.

12. Effects of changes in the composition of the company during the interim period.

There were no significant changes in the composition of the Group for the quarter ended 30 September 2006.

13. Capital Commitments

As at the date of this report, the Group has entered two capital commitments in year 2006:

- a. On 18 January 2006, the company's subsidiary, Iglo International Limited ("IIL") had entered into a Sale and Purchase Agreement with Shanghai City North Industrial Zone Investment & Development Co. Ltd., China for the acquisition of a 50-year leasehold vacant industrial land measuring approximately 36,667 square metre known as parcel number 7 and situated in Shanghai City Minhang Area North Industrial District, China for cash consideration of RMB21,000,000

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(approximately RM9,870,000 based on exchange rate of RM0.47:RMB1.00);
and

- b. On 25 September 2006, the company's subsidiary, IIL had entered into a Land Lease Contract ("Contract") with T&D Co. Ltd for the Proposed Acquisition of the land use right of a piece of land measuring approximately 90,000 square meters within Viet Hoa Industrial Park, Vietnam for a total cash consideration of USD3,600,000/RM13,275,000.

Saved as the above, there are no other material commitments for capital expenditure incurred or known to be incurred by HRB and its subsidiary companies which may have a substantial impact on the result or the financial position of the Group for the financial year ending 31 December 2006, since 31 December 2005, the date on which the last audited accounts were made up to.

14. Contingent liabilities and contingent assets

The Company provided corporate guarantee amounting to RM32,147,826 in favour of financial institutions for credit facilities granted to subsidiaries (As at 31 December 2005: RM20,265,764)

NOTES TO BURSA MALAYSIA SECURITIES BERHAD REVISED LISTING REQUIREMENTS

15. Performance review

The Haisan Group performance in this third quarter has improved compared to the immediate previous quarter. The Group's profit after tax before minority interest (PATBMI) for the current third quarter was RM1,000k compared to RM955k in the immediate previous quarter and RM882k in the corresponding period in the previous financial year. The reduction in operating expenses has contributed an improvement in net profit by 4.71% against the previous quarter and 13.38% against the corresponding period in the preceding financial year.

However the current third quarter's turnover has deteriorated by 7.55% compared to the previous quarter from RM19.7m to RM18.2m. Compared to the corresponding period in the preceding year the turnover has also reduced by 13.17% from RM20.9m to RM18.2m in the current quarter. This is mainly due to the fall in sales in Engineering division by 50% compared to previous quarter and by 80% compared to the corresponding period in the preceding year.

The Group's cumulative performance in the first 9 months of the financial year has improved with turnover increasing by 16.37% from RM51.1m in the first nine months of the preceding year to RM59.5m in the current year. Whilst profitability has declined from RM4.4m in the first nine months of the previous year to RM3.4m in the current year. The decline in the profitability was due mainly to the increase in the finance cost by 51.55% from RM3.7m in the first nine months of previous year to RM5.6m in the current year.

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The MTCF Division continues to spearhead the Groups operational performance.

16. Material change in quarterly results

In comparison with the preceding quarter, the Group's turnover reduced by 7.55% from RM19.7m in the previous quarter to RM18.2m in the current quarter. However profitability in the current third quarter was better as a result of the decrease in operating expenses by 9.72% from RM16.8m in the previous quarter to RM15.2m in the current quarter mainly due to the saving in depreciation amount by RM1.8m as there was a revision in depreciation rate in current quarter in accordance with FRS 116 Property, Plant & Equipment which is treated as a change of estimates according to FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors. However with the decreasing sales coupled with increasing finance cost the effect of the savings from reduction in the depreciation amount on the Group's profitability was marginalized with profitability in the current third quarter improving only by RM45k or 4.71% from RM955k in the immediate previous quarter to RM1,000k in the current quarter.

17. Future prospects

The core businesses of the Group continue to face increasing challenges in their respective industries. Moving forward the Group intends to reposition itself in some of the markets of the Group's businesses in order to recapture and develop new market shares for the Group. The Management will continue to focus its attempts to develop its cores businesses regionally to tap new and expanding markets for its core businesses.

18. Profit forecast

Not applicable in this Quarterly Report.

19. Taxation

	Current quarter RM'000	Financial period to-date RM'000
Malaysian tax		
Current taxation	208	1,006
Deferred taxation	375	110
	<u>583</u>	<u>1,116</u>

The effective tax rate for the current quarter and the financial period to-date was higher than the statutory tax rate mainly attributable to certain non tax deductible expenses in certain subsidiary companies.

20. Profits on sale of unquoted investments and/or properties

There were no profits on sale of unquoted investments and/or properties for this reporting quarter and financial period to-date.

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21. Quoted Investments

As at 30 September 2006, the Group did not hold any quoted securities, nor were there any purchase or disposal of quoted securities during the reporting quarter and financial period to-date.

22. Status of Corporate Proposal

- a. On 19th January, 2006, the Company has written to the Securities Commission for the withdrawal of the Proposed Rights Issue with Warrants pending the finalisation of certain financial information.
- b. On 24 March 2006, Public Merchant Bank Berhad ("PMBB"), on behalf of HRB announced that the Company proposed the Proposed Exemption to Able Capital Ventures Sdn Bhd ("ACVSB") from the obligation to extend a mandatory take-over offer for the remaining HRB Shares not already owned by ACVSB and Parties Acting in Concert with ACVSB arising from the Share Buy-Back exercise undertaken by HRB pursuant to Practice Note 2.9.10 of the Malaysian Code on Take-overs and Merges, 1998
- c. On 29 March 2006, the company entered into a Sale & Purchase Agreement with Biztrak R&D Sdn Bhd. For the acquisition of the Warehouse Management System (WMS) Source Codes and all the rights to the WMS software, for a total purchase consideration of RM2,000,000 to be satisfied in cash.
- d. On 1 September 2006, Public Merchant Bank Berhad ("PMBB") on behalf of HRB announced that the Company proposed to revise the Proposed Original Rights Issue with Warrants by undertaking a revised renounceable rights issue of up to 50,600,000 new ordinary shares of RM0.50 each in HRB with up to 50,600,000 free detachable warrants, on the basis of one (1) Rights Share with one (1) Warrant for every two (2) ordinary shares of RM0.50 each in HRB held on a date to be determined later. The Proposed Revised Rights Issue with Warrants shall be implemented together with the Proposed ESOS Bye-laws Amendments, Proposed Amendment to the Articles and Proposed Exemption under PN2.9.1.

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23. Group Borrowings And Debt Securities

Total Group borrowings as at 30 September 2006 was as follows:

	Short term RM'000	Long term RM'000	Total RM'000
Secured			
Denominated in RM			
Term loan	419	5,801	6,220
Revolving credits	508	-	508
Bankers acceptance	2,167	-	2,167
Bonds	-	29,271	29,271
Bank overdraft	14,481	-	14,481
Hire purchase & lease payables	2,054	4,059	6,113
	<u>19,629</u>	<u>39,131</u>	<u>58,760</u>
Unsecured			
Denominated in RM			
Revolving credits	5,018	-	5,018
Term loan	-	40,000	40,000
	<u>5,018</u>	<u>40,000</u>	<u>45,018</u>
Secured			
Denominated in foreign currency (*)			
Term loan			
Chinese Renminbi 9,000,000	-	4,140	4,140
Philippine Peso 20,000,000	1,480	-	1,480
Philippine Peso 45,000,000	-	3,330	3,330
	<u>1,480</u>	<u>7,470</u>	<u>8,950</u>
Revolving credits			
Chinese Renminbi 6,000,000	2,760	-	2,760
US Dollar 1,500,000	5,573	-	5,573
	<u>8,333</u>	<u>-</u>	<u>8,333</u>
Total	<u>34,460</u>	<u>86,601</u>	<u>121,061</u>

** translated using exchange rate as at 30 September 2006*

24. Off Balance Sheet Risks

There were no financial instruments with off balance sheet risk as at the date of issue of this report.

25. Material Litigation

Mayekawa Mfg Co Ltd and Mayekawa (M) Sdn Bhd, the Plaintiffs had on 1 August 2005 served a Writ of Summons dated 27 June 2005 on the Company, Hai San & Sons Sdn Bhd and Beh Teng Hong, the Defendants claiming infringement of trademark "MYCOM" and passing off by the Defendants and requesting, inter alia for a mandatory injunction against the Defendants from dealing in MYCOM products. The First and Second Defendants had on 9 August 2005 and on 29 August 2005 filed the memorandum of appearance and Defence respectively.

The Plaintiffs had also on 3 August 2005 filed a Summons in Chambers at the High Court at Kuala Lumpur seeking, inter alia, an interlocutory injunction against the Defendants. Pending the hearing and decision of the said Summons in Chambers, the High Court granted an ad hoc interim injunction effective from 9 September 2005. The High Court dismissed the said Summons in Chambers on 14 December 2005.

The Plaintiffs thereafter on 16 December 2005 filed a Notice of Appeal to the Court of Appeal against the High Court's decision to dismiss the said Summons in Chambers. A hearing date has yet to be fixed by the Court of Appeal.

Upon filing the Notice of Appeal, the Plaintiffs on 19 December 2005 filed a Summons in Chambers at the High Court at Kuala Lumpur seeking, inter alia, an interim injunction against the Defendants pending the outcome of the Notice of Appeal ("*Erinford* Injunction"). This application was also dismissed by the High Court on 7 February 2006.

The Plaintiffs on 13 February 2006 filed an Originating Motion at the Court of Appeal seeking, inter alia, an extension of time to file the Record of Appeal. A hearing date has yet to be fixed for the said Originating Motion.

The Plaintiffs subsequently on 15 February 2006 upon the dismissal of the application for *Erinford* Injunction by the High Court filed an Originating Motion at the Court of Appeal, seeking the same application for *Erinford* Injunction. The Court of Appeal allowed the *Erinford* Injunction on 20 March 2006.

The First and Second Defendants have on 19 April 2006 filed an Originating Motion at the Federal Court for leave to appeal against the decision of the Court of Appeal granting the *Erinford* Injunction. A hearing date for the application has yet to be fixed by the Federal Court.

As the action by the Plaintiffs is for an injunction, the Company is unable to quantify the amount of claim at this point in time. Hence, there is no financial impact at this moment except for the legal cost to defend the suit.

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26. Earnings per share

	3 months ended		Year ended	Year ended
	30-Sep-06	30-Sep-05	30-Sep-06	30-Sep-05
Net profit for the period (RM'000)	692	671	1,607	2,744
a) <u>Basic</u> Weighted average number of ordinary shares in issue ('000)	82,499	84,028	83,142	84,537
Basic earnings per share (sen)	<u>0.84</u>	<u>0.80</u>	<u>1.93</u>	<u>3.25</u>
b) <u>Diluted</u> Weighted average number of ordinary shares in issue ('000)	82,499	84,028	83,142	84,537
Effect of share options ('000) Weighted average number of ordinary shares ('000)	(752)	466	(279)	702
	<u>81,747</u>	<u>84,494</u>	<u>82,863</u>	<u>85,239</u>
Diluted earnings per share (sen)	<u>**</u>	<u>0.79</u>	<u>**</u>	<u>3.22</u>

** No diluted EPS is disclosed as the effect is anti-dilutive

27. Dividend

The Board of Directors does not recommend any interim dividend to be paid for the financial period ended 30 September 2006 (2005: Nil).

28. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 23 November 2006.