

**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 2006. 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 2006.

**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 2006 except for the adoption of the following new/revised FRS effective for the financial period beginning 1 January 2007:

|                                      |  |
|--------------------------------------|--|
| FRS 117                              | Leases   |
| Amendment to FRS 119 <sub>2004</sub> | Employee Benefits<br>– Actuarial Gains and Losses, Group Plans and Disclosures |
| FRS 124                              | Related Party Disclosures  |

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 revised FRS 117 is discussed below:

**a. FRS 117: Leases**

Prior to the adoption of the revised FRS 117, leasehold land was classified as property, plant and equipment and was stated at cost or valuation less accumulated depreciation and impairment losses. The adoption of FRS 117 has resulted in a change in the accounting policy relating to the classification of leasehold land which is now classified as an operating lease. With the adoption of the revised FRS 117, the unamortized carrying amounts of leasehold land are now classified as prepaid lease payments and amortised over the period of its remaining lease term. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and the comparatives in the balance sheet have been restated as shown below:

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**For The Financial Period Ended 30 June 2007**

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|                               | <b>As<br/>previously<br/>reported<br/>(RM'000)</b> | <b>Effects on<br/>adoption of<br/>FRS 117<br/>(RM'000)</b> | <b>As restated<br/>(RM'000)</b> |
|-------------------------------|--|--|---------------------------------|
| <b>Group</b>                  |  |  |                                 |
| <b>As at 1 January 2007</b>   |  |  |                                 |
| Property, plant and equipment | 174,935  | (35,608)   | 139,327                         |
| Prepaid lease payments        | -  | 35,608   | 35,608                          |

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**3. Status of Annual Report 2006**

The auditors' report on the Group's most recent annual audited financial statements for the year ended 31 December 2006 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.

**6. Changes in estimates**

There were no changes in estimates of amounts reported in prior financial years that have material effect in the current quarter.

**7. Issuance/repayment of debts and equity securities**

During the second quarter ended 30 June 2007, there were no shares bought back or resold to the open market.

The cumulative shares bought-back for the financial period ended 30 June 2007 was 7,604,100 are held as treasury shares in accordance with Section 67A of the Companies Act, 1965. There was an issuance of 3,000 ordinary share of RM0.50 each at RM0.85 per share pursuant to the Employees' Share Option Scheme. As at 30 June 2007, the number of outstanding shares issued and fully paid with voting rights was 80,418,900 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   | Ice<br>Manufacturing | Temperature-<br>controlled<br>logistics/warehousing | Others     | Total         | Elimination    | Consolidated<br>Amount |
|--------------------------------|---------------|----------------------|---|------------|---------------|----------------|------------------------|
|                                | RM'000        | RM'000               | RM'000  | RM'000     | RM'000        | RM'000         | RM'000                 |
| <b>REVENUE</b>                 |               |                      |   |            |               |                |                        |
| -External                      | 45,871        | 5,345                | 19,427  | -          | 70,643        | -              | 70,643                 |
| -Internal segment only         | 664           | 207                  | 3,222   | 692        | 4,785         | (4,785)        | -                      |
| Total revenue                  | <u>46,535</u> | <u>5,552</u>         | <u>22,649</u>                                       | <u>692</u> | <u>75,428</u> | <u>(4,785)</u> | <u>70,643</u>          |
| <b>RESULT</b>                  |               |                      |   |            |               |                |                        |
| Segments Result                | 11,809        | 176                  | 3,795   | 757        | 16,537        | (1,260)        | 15,277                 |
| Interest income                | 39            | -                    | -   | 1,443      | 1,482         | -              | 1,482                  |
| Unallocated corporate expenses | -             | -                    | -   | -          | -             | -              | (888)                  |
| Operating profit               |               |                      |   |            |               |                | 15,871                 |
| Exceptional Items              |               |                      |   |            |               |                | 762                    |
| Finance costs                  |               |                      |   |            |               |                | (5,134)                |
| Profit before tax              |               |                      |   |            |               |                | 11,499                 |
| Taxation                       |               |                      |   |            |               |                | (1,178)                |
| Profit after tax               |               |                      |   |            |               |                | <u>10,321</u>          |

**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 2006. The carrying value is based on a valuation carried out in year ranging from 2000 to 2006 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 June 2007 up to the date of this announcement, other than as disclosed in Note 22(c).

**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 June 2007.

**13. Capital Commitments**

As at the date of this report, the Group has entered into a commitment in year 2007:

- a. On 20 January 2007, the company's subsidiary, IIL had entered into a Cooperation Agreement ("Agreement") with Beijing Golden Bridge Technical Industry Base Development Co. Ltd ("BGB") for the Proposed Acquisition of a piece of land measuring approximately 43,444 square meters in total located in central position of Beijing Golden Bridge Technical Industry Base: adjacent to Beijing Shaped Steel Welding Net Technical Development Co., Ltd. in north, No.1 East Huanke Road in east, No.2 South Jingsheng Street in south, and Beijing Fox Garments Co., Ltd. in west; land piece is numbered as B4-1-5

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("Land") for a total cash consideration of RMB18,358,560 equivalent to approximately RM8,262,000.

**14. Contingent liabilities and contingent assets**

The Company provided corporate guarantee amounting to RM46,555,609 in favour of financial institutions for credit facilities granted to subsidiaries (As at 31 December 2006: RM31,933,110)

**NOTES TO BURSA MALAYSIA SECURITIES BERHAD REVISED LISTING REQUIREMENTS**

**15. Performance review**

The performance of Haisan Group in the current second quarter has improved significantly compared to the preceding year corresponding second quarter in 2006. The group's profit after tax before minority interest (PATBMI) in the current second quarter was RM6.04m compared to RM955k in the preceding year corresponding quarter which is an increase in PATBMI of 532%. The increase in revenue of the current second quarter compared to the preceding year corresponding second quarter by 124% from RM19.65m to RM43.99m is mainly due to the revenue contribution from Malaysian Mega Galvaniser Sdn Bhd (MMG).

The current second quarter's group performance in comparison to the immediate previous first quarter results have also increased by 41% from PATBMI of RM4.28 to PATBMI of RM6.04m. The turnover recorded in the current second quarter of RM43.99m compared to the immediate previous quarter's turnover of RM26.65 indicated an increase of 65%. Engineering and Temperature-Controlled Logistics (TCL) Divisions continue to spearhead the group's operational performance.

**16. Material change in quarterly results**

In comparison with the immediate preceding quarter, the Group's turnover increased by 65% from RM26.65m in the previous quarter to RM43.99m in the current quarter mainly due to the revenue contribution from newly acquired 50% owned subsidiary, MMG. The PATBMI in the current second quarter has also improved by 41% from RM4.28 in the immediate previous first quarter to RM6.04 in the current second 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 existing 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 also develop its core businesses regionally to tap new and expanding markets for its core businesses.

The completion of construction of the various new TCL centers in Shanghai, China and Ho Chi Minh City, Vietnam by the end of this year and early of next year respectively will provide new recurring revenue streams contributing to the Group bottom line.

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**18. Profit forecast**

Not applicable in this Quarterly Report.

**19. Taxation**

|                      | Current<br>quarter<br>RM'000 | Financial period<br>to-date<br>RM'000 |
|----------------------|------------------------------|---------------------------------------|
| <b>Malaysian tax</b> |                              |                                       |
| Current taxation     | 1,281                        | 1,501                                 |
| Deferred taxation    | (39)                         | (323)                                 |
|                      | <u>1,242</u>                 | <u>1,178</u>                          |

The effective tax rate for the current quarter and the financial period to-date is lower than the statutory tax rate mainly attributable to utilization of tax allowances available for 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.

**21. Quoted Investments**

As at 30 June 2007, 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 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.
- c. On 4 May 2007, the company had announced that the company intends to embark on a proposed asset securitisation exercise involving the issuance of up to RM200.0 million Asset Backed Sukuk Al-Ijarah by a special purpose vehicle ("Proposal"). The Proposal entails the selling of the beneficial rights and interest in relation to certain identified land and buildings of HRB and its subsidiaries, to

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a special purpose vehicle (“SPV”) based on their fair market values to be determined later on a willing buyer willing seller basis. The SPV shall then through an Ijarah agreement, lease the Real Estate Assets back to the HRB Group for an agreed lease period ranging from one (1) to seven (7) years.

**23. Group Borrowings And Debt Securities**

Total Group borrowings as at 30 June 2007 was as follows:

|  | Short term<br>RM'000 | Long term<br>RM'000   | Total<br>RM'000       |
|--|----------------------|-----------------------|-----------------------|
| <b>Secured</b>                             |                      |                       |                       |
| <b>Denominated in RM</b>                   |                      |                       |                       |
| Term loan                                  | 4,338                | 16,118                | 20,456                |
| Revolving credits                          | 501                  | -                     | 501                   |
| Bankers acceptance                         | 1,785                | -                     | 1,785                 |
| Bonds                                      | -                    | 29,403                | 29,403                |
| Bank overdraft                             | 35,821               | -                     | 35,821                |
| Hire purchase & lease payables             | 2,508                | 3,439                 | 5,947                 |
|  | <u>44,953</u>        | <u>48,960</u>         | <u>93,913</u>         |
| <b>Unsecured</b>                           |                      |                       |                       |
| <b>Denominated in RM</b>                   |                      |                       |                       |
| Revolving credits                          | 5,020                | -                     | 5,020                 |
| Term loan                                  | -                    | 40,000                | 40,000                |
|  | <u>5,020</u>         | <u>40,000</u>         | <u>45,020</u>         |
| <b>Secured</b>                             |                      |                       |                       |
| <b>Denominated in foreign currency (*)</b> |                      |                       |                       |
| Term loan                                  |                      |                       |                       |
| Chinese Renminbi 8,276,000                 | -                    | 3,807                 | 3,807                 |
| Chinese Renminbi 20,000,000                | -                    | 9,200                 | 9,200                 |
|  | <u>-</u>             | <u>13,007</u>         | <u>13,007</u>         |
| Revolving credits                          |                      |                       |                       |
| Chinese Renminbi 7,600,000                 | 3,496                | -                     | 3,496                 |
| US Dollar 1,500,000                        | 5,323                | -                     | 5,323                 |
|  | <u>8,819</u>         | <u>-</u>              | <u>8,819</u>          |
| <b>Total</b>                               | <u><u>58,792</u></u> | <u><u>101,967</u></u> | <u><u>160,759</u></u> |

*\* translated using exchange rate as at 30 June 2007*

**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 (“HSSSB”) 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 29 August 2005 filed the memorandum of appearance and Defence respectively.

The High Court at Kuala Lumpur (“High Court”) dismissed the Plaintiffs’ application for an interlocutory injunction against the Defendants 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.

The Plaintiffs had 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. The Court of Appeal has not fixed a hearing date for the 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 had 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. The Federal Court conducted a case management before the Registrar on 9 November 2006 and fixed a hearing date for the Originating Motion on 26 March 2007. Both parties have requested for an adjournment of 3 months to facilitate discussions whether the matter could be resolved amicably.

The solicitors of the Company and HSSSB are of the view that the Company and HSSSB have a reasonable defence. The solicitors are also of the view that there appears to be an error of law in the Court of Appeal’s decision to grant the *Erinford* Injunction pending the outcome of the Notice of Appeal.

Meanwhile, the High Court at Kuala Lumpur has fixed the case for case management on 22 May 2007. The hearing date at the High Court has fixed on 3 October 2007.

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.

Pursuant to the above, the directors of HRB are of the view that HSSSB have a reasonable defence.

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**26. Earnings per share**

|  | Individual quarter |               | Cumulative period       |                         |
|--|--------------------|---------------|-------------------------|-------------------------|
|  | 30-Jun-07          | 30-Jun-06     | Year ended<br>30-Jun-07 | Year ended<br>30-Jun-06 |
| <b>Net profit for the period<br/>(RM'000)</b>  | 4,067              | 650           | 7,973                   | 915                     |
| a) <u>Basic</u><br>Weighted average number<br>of ordinary shares in issue<br>( '000)     | 80,418             | 83,088        | 80,417                  | 83,588                  |
| <b>Basic earnings per share<br/>(sen)</b>  | <u>5.06</u>        | <u>0.78</u>   | <u>9.91</u>             | <u>1.09</u>             |
| b) <u>Diluted</u><br>Weighted average number<br>of ordinary shares in issue<br>( '000)   | 80,418             | 83,088        | 80,417                  | 83,588                  |
| Effect of share options ( '000)<br>Weighted average number of<br>ordinary shares ( '000) | 806                | (692)         | 597                     | (141)                   |
|  | <u>81,224</u>      | <u>82,396</u> | <u>81,014</u>           | <u>83,447</u>           |
| <b>Diluted earnings<br/>per share (sen)</b>  | <u>5.01</u>        | <u>**</u>     | <u>9.84</u>             | <u>**</u>               |

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

**27. Dividend**

In respect of the year ended 31 December 2006 and as approved at the Annual General Meeting held on 28 June 2007, the Company paid dividends amounting to RM733,819.83 on 19 July 2007, based on a first and final dividend of 2.5% (less 27% income tax).

**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 29 August 2007.