

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 year beginning 1 January 2007:

FRS 117	Leases
Amendment to FRS 119 ₂₀₀₄	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
FRS 124	Related Party Disclosures

The adoption of the above new/revised FRSs do 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 amount of leasehold lands are now classified as prepaid lease payments and amortised over the period of their 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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	As previously reported (RM'000)	Effects on adoption of FRS 117 (RM'000)	As restated (RM'000)
Group			
As at 1 January 2007			
Property, plant and equipment	174,935	(35,608)	139,327
Prepaid lease payments	-	35,608	35,608

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 to date.

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 third quarter ended 30 September 2007, there were no shares bought back or resold to the open market. The cumulative shares bought-back for the financial period ended 30 September 2007 was 7,604,100 held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

There was an issuance of 116,000 ordinary share of RM0.50 each at RM0.85 per share pursuant to the Employees' Share Option Scheme during the current third quarter. As at 30 September 2007, the number of outstanding shares issued and fully paid with voting rights was 80,534,900 ordinary shares of RM0.50 each.

8. Dividends paid

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).

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9. Segmental reporting

	Engineering	Ice Manufacturing	Temperature- controlled logistics/ warehousing	Others	Total	Elimination	Consolidated Amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
REVENUE							
-External	64,055	8,020	26,796	-	98,871		98,871
-Internal segment only	19,340	328	4,527	919	25,114	(25,114)	-
Total revenue	<u>83,395</u>	<u>8,348</u>	<u>31,323</u>	<u>919</u>	<u>123,985</u>	<u>(25,114)</u>	<u>98,871</u>
RESULT							
Segments Result	17,761	560	4,877	985	24,183	(1,908)	22,275
Interest income	51	1	-	2,180	2,232		2,232
Unallocated corporate expenses	-	-	-	-	-		(1,332)
Operating profit							<u>23,175</u>
Exceptional Item							762
Finance costs							<u>(7,831)</u>
Profit before tax							<u>16,106</u>
Taxation							<u>(2,303)</u>
Profit after tax							<u>13,803</u>

10. Valuations of Property, Plant and Equipment

The valuations of land and buildings have been brought forward, without amendment from the annual audited financial statements for the year ended 31 December 2006. The carrying value is based on a valuation carried out in years 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 September 2007 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 2007.

13. Capital Commitments

As at to date, the Group has entered into a commitment as stated below:

- a. On 20 January 2007, the company's subsidiary, IIL had entered into a Cooperation Agreement with Beijing Golden Bridge Technical Industry Base Development Co. Ltd 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.,

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Ltd. in west; land piece is numbered as B4-1-5 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 RM49,206,369 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 third quarter has improved significantly compared to the preceding year corresponding third quarter in 2006 mainly due to the revenue contribution from Malaysian Mega Galvaniser Sdn Bhd (MMG), a subsidiary company acquired during the second quarter 2007. The Group's profit after tax before minority interest (PATBMI) in the current third quarter is RM3.48m compared to RM1m in the preceding year corresponding quarter, an increase of 248%. The revenue of the current third quarter of RM28.23m compared to the preceding year corresponding third quarter's RM18.17m was higher by 55.37%.

The current third quarter's Group PATBMI in comparison to the immediate previous second quarter results, however, decreased by 42.38% from RM6.04m to RM3.48m. The turnover recorded in the current third quarter of RM28.23m, compared to the immediate previous quarter's turnover of RM43.99m, also indicated a decrease of 35.83%.

Nevertheless, the Group's cumulative performance in the first 9 months of the financial year has improved significantly with turnover increasing by 66.31% from RM59.45m in the first 9 months of the preceding year to RM98.87m in the current period. Profitability PATBMI has also increased by 5 fold from RM2.29m in the first 9 months of the previous year to RM13.8m in the current period mainly due to the contribution from the newly acquired subsidiary company, MMG.

16. Material change in quarterly results

In comparison with the immediate preceding quarter, the Group's turnover reduced by 35.83% from RM43.99m in the previous quarter to RM28.23m in the current quarter. PATBMI in the current third quarter has also declined by 42.38% from RM6.04m in the previous second quarter to RM3.48m in the current third quarter. This was due to revenue from exceptional item (disposal of Integrated Global Low Temperature Operations Phils., Inc.) in the second quarter 2007.

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 in which the Group operates in order to recapture market share and develop new markets. The engineering division, comprising MMG, however, is expected to continue to lead the Group's operational performance. The

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Management will continue to focus its efforts to develop its core businesses regionally to tap new and expanding markets.

The completion of construction of the Group's new TCL facilities in Shanghai, China and Ho Chi Minh City, Vietnam by the end of this year and early next year respectively will provide new recurring revenue streams.

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	1,071	2,572
Deferred taxation	54	(269)
	<u>1,125</u>	<u>2,303</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 September 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 19 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.

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- 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 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.

- d. On 28 September 2007, the company's wholly-owned subsidiaries, Hai San & Sons Sdn Bhd and Hai San Holdings Sdn Bhd entered into 3 Sale and Purchase Agreements with Jenstud Marketing Sdn Bhd and C Y Lin Realty Sdn Bhd for the proposed acquisition of 4 pieces of industrial lands approximately 6,313.66 square meters in total and are located in Mukim Klang, Daerah Klang, Negeri Selangor for a total purchase consideration of RM6,800,000.

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23. Group Borrowings And Debt Securities

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

	Short term	Long term	Total
	RM'000	RM'000	RM'000
Secured			
Denominated in RM			
Term loan	1,078	17,388	18,466
Revolving credits	508	-	508
Bankers acceptance	11,441	-	11,441
Bonds	-	29,449	29,449
Bank overdraft	41,175	-	41,175
Hire purchase & lease payables	2,367	3,115	5,482
	<u>56,569</u>	<u>49,952</u>	<u>106,521</u>
Unsecured			
Denominated in RM			
Revolving credits	5,529	-	5,529
Term loan	-	40,000	40,000
	<u>5,529</u>	<u>40,000</u>	<u>45,529</u>
Secured			
Denominated in foreign currency (*)			
Term loan			
Chinese Renminbi 8,276,000	-	3,807	3,807
Chinese Renminbi 20,000,000	-	15,477	15,477
USD (Vietnam) USD 2,050,000	-	6,615	6,615
	<u>-</u>	<u>25,899</u>	<u>25,899</u>
Revolving credits			
Chinese Renminbi 7,600,000	3,416	-	3,416
US Dollar 1,500,000	5,135	-	5,135
	<u>8,551</u>	<u>-</u>	<u>8,551</u>
Total	<u>70,649</u>	<u>115,851</u>	<u>186,500</u>

* translated using exchange rate as at 30 September 2007

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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 and thereafter on 19 December 2005 filed a Summons in Chambers at the High Court seeking, inter alia, an interim injunction against the Defendants pending the outcome of the Notice of Appeal (“*Erinford* Injunction”). The application for *Erinford* Injunction was dismissed by the High Court on 7 February 2006.

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. The hearing date was postponed pending discussion for settlement by the parties and no hearing date has yet been fixed by the Federal Court.

The case was fixed for case management before the High Court on 3 October 2007 where the Plaintiffs withdrew the Writ in light of a Deed of Settlement dated 3 October 2007 entered into between the Plaintiffs, HRB and HSSSB.

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26. Earnings per share

	Individual quarter		Cumulative period	
	30-Sep-07	30-Sep-06	Year ended 30-Sep-07	Year ended 30-Sep-06
Net profit for the period (RM'000)	1,593	692	9,566	1,607
a) <u>Basic</u> Weighted average number of ordinary shares in issue ('000)	80,467	82,499	80,434	83,142
Basic earnings per share (sen)	<u>1.98</u>	<u>0.84</u>	<u>11.89</u>	<u>1.93</u>
b) <u>Diluted</u> Weighted average number of ordinary shares in issue ('000)	80,467	82,499	80,434	83,142
Effect of share options ('000) Weighted average number of ordinary shares ('000)	1,787	(752)	1,244	(279)
	<u>82,254</u>	<u>81,747</u>	<u>81,677</u>	<u>82,863</u>
Diluted earnings per share (sen)	<u>1.94</u>	<u>**</u>	<u>11.71</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 November 2007.