

EQUINE CAPITAL BERHAD
PART A – EXPLANATORY NOTES PURSUANT TO FRS134

1. BASIS OF PREPARATION

The interim financial statements of Equine Capital Berhad (“ECB”) and its subsidiaries (“the Group”) are unaudited and have been prepared in accordance with FRS134: “Interim Financial Reporting” and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities (“Bursa Malaysia”).

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 March 2008. 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.

The accounting policies and methods of computation adopted in the interim financial statements are consistent with those adopted in the audited financial statements for the financial year ended 31 March 2008 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) that are effective for the Group’s financial statements commencing 1 April 2008:

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets

However, there will be no material impact on the results and the financial position of the Group in applying amendments to these FRS as these standards will only impact the form and content of disclosures presented in the financial statements..

2. AUDITORS’ REPORT ON REPORTING ANNUAL FINANCIAL STATEMENTS

The auditors’ report on the financial statements of ECB for the financial year ended 31 March 2008 was not qualified.

3. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS

The Group’s performance for the quarter ended 30 September 2008 was not affected by significant seasonal or cyclical fluctuations.

4. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

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

5. CHANGES IN ESTIMATES

There were no changes in estimates during the quarter under review that had a material effect on the interim financial statements.

6. DEBT AND EQUITY SECURITIES

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the quarter under review except as follows:-

Pursuant to the conditions stipulated in the Trust Deed constituting the Irredeemable Convertible Unsecured Loan Stocks 2003/2008 ("ICULS") issued by ECB on 7 August 2003, a total of 34,933,756 ICULS matured on 26 August 2008 and was converted to 34,933,756 new ordinary shares. The new ordinary shares were granted listing and quotation on Bursa Malaysia with effect from 9.00 a.m. Wednesday 3 September 2008.

7. DIVIDENDS PAID

There were no dividends paid or declared during the quarter under review.

8. SEGMENTAL INFORMATION

The Group's operations comprise the following business segments:

Property development	:	Development of residential and commercial properties
Property letting	:	Rental of properties
Investment holding	:	Investment holding

The Group's primary segment reporting is based on the business segment. The Group operates predominantly in Malaysia and accordingly, no geographical segment is presented.

Segment Revenue and Results

Group	Property Development RM'000	Property Letting RM'000	Investment Holding RM'000	Elimination RM'000	Total RM'000
Results For 6 Months Ended 30.09.2008					
Revenue					
External sales	59,202	-	-	-	59,202
Rental Income	-	346	-	-	346
	<u>59,202</u>	<u>346</u>			<u>59,548</u>
Results					
Segment results	(185)	(289)	(245)	-	(719)
Unallocated items:					
- Finance costs					(883)
Share of loss of associate					(65)
Loss before tax					<u>(1,667)</u>
Tax expense					<u>(446)</u>
Net loss for the period					<u>(2,113)</u>

Property Property Investment

Group	<u>Development</u> RM'000	<u>Letting</u> RM'000	<u>Holding</u> RM'000	<u>Elimination</u> RM'000	<u>Total</u> RM'000
Results For 6 Months Ended					
30.09.2007					
Revenue					
External sales	47,819	-	-	-	47,819
Rental Income	-	447	-	-	447
	47,819	447	-	-	48,266
Results					
Segment results	(1,907)	64	(273)	-	(2,116)
Unallocated items:					
- Finance costs					(839)
Loss before tax					(2,955)
Tax expense					1,585
Net loss for the period					(1,370)

9. CARRYING AMOUNT OF REVALUED ASSETS

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Investment properties are initially measured at cost. After initial recognition, investment properties are stated at fair value. The fair value of investment properties are the prices at which the properties could be exchanged between knowledgeable, willing parties in an arm's length transaction.

10. SUBSEQUENT EVENTS

There were no material events subsequent to the reporting period except as follows:-

On 20 October 2008, the Group proposed the disposal of the entire 25% equity interest in its associated company, Abad Naluri Sdn Bhd held by Taman Equine (M) Sdn Bhd, a wholly-owned subsidiary company of the Group for a cash consideration of RM2.0 million. The proposed disposal has no material effect on the earnings of the Group.

On 29 October 2008, the extension of time as approved by the Securities Commission for the proposed Private Placement exercise to issue up to 22,733,832 new ordinary shares of RM1.00 each representing up to ten percent (10%) of the enlarged issued and paid-up share capital of the Company, expired and was not renewed by the Company.

11. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the quarter under review.

12. CHANGES IN CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There were no material contingent assets or contingent liabilities for the current quarter under review.

13. CAPITAL COMMITMENTS

There were no material capital commitments as at date of this report.

PART B – EXPLANATORY NOTES PURSUANT TO THE REVISED LISTING REQUIREMENTS OF BURSA MALAYSIA

1. REVIEW OF PERFORMANCE FOR THE CURRENT QUARTER AND COMPARISON WITH THE PRECEDING QUARTER'S RESULTS

The Group achieved a revenue of RM31.2 million and a pre-tax loss of RM2.5 million for the quarter under review. For the cumulative year to date, the Group registered a pre-tax loss of RM1.7 million on the back of revenue totalling RM59.5 million. The Group's revenue for the preceding quarter was RM28.3 million and the pre-tax profit was RM0.8 million.

The current quarter's pre-tax loss was attributed mainly to additional provision for liquidated and ascertained damages arising from extended delay in projects completion. Other contributing factors were loss contributions from lower margin products which consist mainly of low cost housing in Batu Kawan, and slower construction progress in ongoing projects.

2. COMMENTARY ON PROSPECTS

Following the launch of a new phase in Taman Mega Jaya, Cheras known as "Palomino" which comprises 54 units two-storey link houses with an estimated GDV of RM25.2 million in May 2008, a total of 38 units with GDV of RM16.8 million has been sold to date. There were no new launches in the quarter under review.

The 2nd phase of Eminence (Zone 2) in Bandar Putra Permai, Seri Kembangan which comprises 117 units of two and a half storey link houses, was completed and handed over to purchasers in July 2008.

In the next quarter, three other projects in Seri Kembangan are expected to be completed in November 2008 – 6 units of the Rise bungalows with GDV RM4.2 million, 102 units of the Sovereign semi-detached houses with GDV RM54.8 million and 150 units of shophots in Permai Place with GDV RM58.0 million.

The ongoing projects of the first phase of Crescentia Park in Batu Kawan comprising mainly low cost housing, with estimated total GDV of RM64.1 million are anticipated to be completed in March 2009.

The recent turmoil in global economies are expected to have spillover effects on the Malaysian economy which will present a challenging economic and business environment to the Group.

With a view to contain and overcome the negative impact to the Group arising from the deteriorating Malaysian economy, the Group will continue to review the development and marketing strategies on its remaining landbanks in cognizance of recent developments. Such efforts will necessitate strategic product development and product value engineering which are essential to manage costs without compromising on the quality of our end products. In addition, the Group will also continue to focus on market accessibility by reviewing its product mix on its existing land banks to ensure that the future products launches are well accepted. These measures taken will substantiate the Group's effort to enhance demand and to maximise returns, targeted at both the residential and commercial segments in Seri Kembangan and Batu Kawan.

As for its Batu Kawan township development, the Group will continue to accelerate the development to capitalise on the development potential in Penang.

With these efforts, the Group expects to achieve better results from its existing and future projects.

3. VARIANCES ON PROFIT FORECAST

Not applicable as no profit forecast was issued for the financial year ending 31 March 2009.

4. TAXATION

	3 months ended		6 months ended	
	30.09.2008	30.09.2007	30.09.2008	30.09.2007
	RM'000	RM'000	RM'000	RM'000
Current period taxation	(21)	(236)	1,220	788
Deferred taxation	(343)	(2,058)	(774)	(2,373)
	<u>(364)</u>	<u>(2,294)</u>	<u>446</u>	<u>(1,585)</u>

The effective tax rate for the current quarter's and cumulative results is not reflective of the statutory tax rate due mainly to the following reasons:

- i) Restriction in the group relief available in respect of losses incurred by certain subsidiary companies;
- ii) Expenditure that are not available as deduction; and
- iii) Excess of capital allowances over corresponding depreciation.

5. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no sales of unquoted investments and/or properties during the quarter under review.

6. DEALINGS IN QUOTED SECURITIES

There were no purchases and disposals of quoted securities during the quarter under review.

7. CORPORATE PROPOSALS

On 7 April 2008, the Securities Commission ("SC") vide its letter approved the application made on 31 March 2008 by Hwang DBS Investment Bank on behalf of the Company for the extension of time of six months until 29 October 2008 to complete the implementation of the Proposed Private Placement which was earlier approved by the SC subject to certain terms and conditions. As at the date of this report, the Company has not issued any shares in relation to the Proposed Private Placement.

On 29 October 2008, the extension of time as approved by the Securities Commission for the Proposed Private Placement expired and was not renewed by the Company.

Save for the above, there were no corporate proposals announced during the quarter under review up to the date of this report.

8. BORROWINGS AND DEBT SECURITIES

	As at 30.09.2008 RM'000	As at 31.03.2008 RM'000
Short term borrowings (Secured):		
Hire purchase and lease creditors	1,368	1,320
Bank borrowings	43,788	42,609
Commercial Papers	-	15,000
	<u>45,156</u>	<u>58,929</u>
Long term borrowings (Secured):		
Hire purchase and lease creditors	1,801	1,932
Bank borrowings	68,604	9,857
Commercial Papers	-	35,000
Medium Term Notes	-	25,000
	<u>70,405</u>	<u>71,789</u>

9. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There is no material instrument with off balance sheet risk issued as at the date of this report.

10. CHANGES IN MATERIAL LITIGATION

Save as disclosed below, the Company and its subsidiary companies are not engaged, either as plaintiff or defendant, in any litigation which has a material effect on the financial position of the Company and its subsidiary companies. The Directors are not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceeding which might materially and/or adversely affect the position or business of the Group.

Kuala Lumpur Industries Holdings Berhad ("KLIH"), a wholly-owned subsidiary of ECB had been served with a Writ of Summons together with a Statement of Claim dated 24 May 2006 ("the Suit") claiming for outstanding balance sum, damages and preservation of retention monies in relation to a project known as "Proposed Renovation and Refurbishment of Hotel Uzbekistan, Tashkent, Uzbekistan ("the Project)".

KLIH is named as the Third Defendant in the Suit by Syarikat Lian Ping Enterprise Sdn Bhd ("the Plaintiff") whereby the Plaintiff alleges that KLIH is the "alter ego" of Crystal Mist Sdn Bhd ("First Defendant") and Syarikat Cengal Merah Sdn Bhd ("Second Defendant") both being the nominated sub-contractor for interior design including building works for the Project and that KLIH was the entity directing the other two defendants at the material time.

ECB wishes to highlight that:-

- a) the Suit was technically not properly served on KLIH. It was served on Horwath Mok & Poon ("HMP"), whose representatives were the Special Administrators appointed by Pengurusan Danaharta Nasional Berhad pursuant to KLIH's Scheme, which was completed on 23 October 2003. KLIH was acquired by ECB on 7 August 2003 pursuant to the Scheme. The Suit was only made known to KLIH on 4 December 2006 and some of the legal documentations were received by ECB on 8 December 2006.
- b) the Plaintiff has not raised any facts to support its allegation that the corporate veil between the First Defendant and KLIH should be lifted. At all material times, KLIH was merely the shareholder of the First Defendant and it had not given any guarantee to the Plaintiff for the Project; and
- c) the Plaintiff is making a claim where the cause of action arose in 1996 and prior to the Scheme of KLIH. ECB had, pursuant to the Scheme, settled part of the proved liabilities of KLIH Group and the remaining liabilities of KLIH Group were subsequently novated to and assumed by KLIH Debt Management Sdn Bhd ("KDM"), a special purpose vehicle established under the Scheme. Pursuant to the novation of the liabilities to KDM, all remaining liabilities of KLIH were deemed to have been extinguished and became that of KDM under the Scheme.

Our appointed solicitors have filed an application at the Kuala Lumpur High Court to strike off the Suit and/or remove the KLIH as being named a party to the Suit. The said application was dismissed with costs by the Senior Assistant Registrar on 23 October 2007. Our solicitors are of the view that the Senior Assistant Registrar had wrongly dismissed the application and that the Plaintiff's claim should not be maintained against us. Our solicitors have on 29 October 2007 filed an appeal to the Judge against the said decision. The hearing date was fixed for mention on 17 January 2008 and was postponed to 9 April 2008. It came up for hearing before the honourable justice but subsequently postponed to 4 August 2008 as the judge was attending a conference. Accordingly, it came up for hearing before the honourable justice but our counsel had to attend another hearing in Court of Appeal and thereby an adjournment was obtained. The Court heard our appeal on 17 October 2008 and fixed 17 November 2008 to present the Court's decision.

11. DIVIDEND

No dividend has been proposed or declared for the current quarter.

12. EARNINGS PER SHARE

a) Basic

The basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the financial period.

	3 months ended		6 months ended	
	30.09.2008	30.09.2007	30.09.2008	30.09.2007
Loss attributable to equity holders of the Company (RM'000)	(2,139)	(1,945)	(2,113)	(1,370)
Weighted average number of ordinary shares in issue (000)	206,074	151,497	195,850	150,389
Basic earnings per share (sen)	(1.04)	(1.28)	(1.08)	(0.91)

b) Diluted

Fully diluted earnings per ordinary share for the current period was not presented as there was an anti-dilutive effect upon the conversion of the then remaining ICULS to ordinary shares on 26 August 2008.

13. AUTHORISATION FOR ISSUE

These interim financial statements have been authorised by the Board of Directors for issuance in accordance with a resolution of the Directors duly passed at the Board of Directors' Meeting held on 13 November 2008.

By Order of the Board
Chin Pei Fung (MAICSA 7029712)
Company Secretary
Selangor Darul Ehsan
13 November 2008