

# **WHITE HORSE BERHAD** (Company No: 455130-X)

## **Notes to the quarterly report on consolidated results for the FIRST quarter ended 31 Mar 2010.**

### **1. BASIS OF PREPARATION**

The interim financial statements have been prepared on a historical basis, except for the freehold land and buildings included within property, plant and equipment that have been stated at their fair values

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting, and paragraph 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 2009. 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 2009.

### **2. CHANGES IN ACCOUNTING POLICIES**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2009, except for the adoption of the following new Financial Reporting Standards (“FRSs”) and Issues Committee Interpretations (“IC Interpretations”) effective for financial periods beginning on or after 01 January 2010.

FRS 4 Insurance Contracts;  
FRS 7 Financial Instruments: Disclosures;  
FRS 8 Operating Segments;  
FRS 101 Presentation of Financial Statements (revised);  
FRS 123 Borrowing Costs;  
FRS 139 Financial Instruments: Recognition and Measurement;  
Amendments to FRS 1 First-time Adoption of Financial Reporting Standards;  
Amendments to FRS 2 Share-based Payment-Vesting Conditions/Cancellations;  
Amendments to FRS 127 Consolidated and Separate Financial Statements:  
Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate;  
Amendment to FRS 5 Non-current Assets Held for Sale and Discontinued Operations  
Amendment to FRS 8 Operating Segments;  
Amendment to FRS 107 Cash Flow Statements;  
Amendment to FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors;  
Amendment to FRS 110 Events after the Reporting Period;  
Amendment to FRS 116 Property, Plant and Equipment;  
Amendment to FRS 117 Leases;  
Amendment to FRS 118 Revenue;  
Amendment to FRS 119 Employees Benefits;  
Amendment to FRS 120 Accounting for Government Grants and Disclosure of Government Assistance;  
Amendment to FRS 123 Borrowing Costs;  
Amendment to FRS 127 Consolidated and Separate Financial Statements:  
Amendment to FRS 128 Investment in Associates;  
Amendment to FRS 129 Financial Reporting in Hyperinflationary Economies;

Amendment to FRS 131 Interests in Joint Ventures;  
Amendment to FRS 132 Financial Instruments: Presentation;  
Amendment to FRS 134 Interim Financial Reporting;  
Amendment to FRS 136 Impairment of Assets;  
Amendment to FRS 138 Intangible Assets;  
Amendment to FRS 139 Financial Instruments: Recognition and Measurement;  
Amendment to FRS 140 Investment Property;  
Amendments to FRSs “Improvements to FRSs (2009)”  
IC Interpretation 9 Reassessment of Embedded Derivatives;  
IC Interpretation 10 : Interim Financial Reporting and Impairment;  
IC Interpretation 11 : FRS 2 - Group and Treasury Share Transactions;  
IC Interpretation 13 : Customer Loyalty Programmes;  
IC Interpretation 14 : FRS 119 – The Limit on a Defined Benefit Asset,  
Minimum Funding Requirements and their Interaction.  
Tri-3 Presentation of Financial Statements of Islamic Financial Institutions.

The adoption of the new FRS and Interpretations does not have significant impact on the financial statements of the Group and the Company, except for FRS 139. The principal effects of the changes in accounting policies resulting from the adoption of FRS 139 are summarised below:

#### **FRS 139 – Financial Instruments: Recognition and Measurement**

The adoption of FRS 139 has resulted in changes to the accounting policies relating to recognition and measurement of financial instruments. A financial instrument is recognised in the financial statements when, and only when, the Group becomes a party to the contractual provisions of the instrument. A financial instrument is recognized initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition or issue of the financial instrument.

- 1) **Financial assets** Marketable securities Prior to the adoption of FRS 139, investment in equity securities, other than investments in subsidiaries and associates were stated at cost less allowance for diminution in value, which is other than temporary. With the adoption of FRS 139, quoted investments in non-current equity securities, other than investments in subsidiaries and associates are now categorised and measured as fair value through profit or loss.
- 2) **Derivatives** Prior to the adoption of FRS 139, derivative contracts off balance sheet items and gains and losses were recognised in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now required to be initially recognised at fair value on the date the derivative contract is entered into and subsequently re-measured at fair value at each balance sheet date. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Derivatives are classified as fair value through profit and loss with any gains or losses arising from changes in fair value of these derivatives being recognised in the income statement.
- 3) **Financial liabilities** Borrowings Prior to the adoption of FRS 139, transaction costs attributable to borrowings were expensed off as incurred. With the adoption of FRS 139, borrowings are now recognised initially at fair value, plus directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest rate method

#### **STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

As at 31 March 2010, the following FRSs and IC Interpretations were in issue effective from 01 July 2010, have not been adopted by the Group and the Company

FRS 1 First-time Adoption of Financial Reporting Standards;  
FRS 3 Business Combination;  
FRS 127 Consolidated and Separate Financial Statements (amended):  
Amendments to FRS 2 Share-based Payments;  
Amendment to FRS 5 Non-current Assets Held for Sale and Discontinued Operations  
Amendment to FRS 138 Intangible Assets;  
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives;  
IC Interpretation 12 : Service Concession Arrangements;  
IC Interpretation 15 : Agreements for the Construction of Real Estate;  
IC Interpretation 16 : Hedges of a Net Investment in a Foreign Operation, and  
IC Interpretation 17: Distribution of Non-Cash Assets to Owners.

### **3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The auditors' report on the financial statements for the year ended 31 December 2009 was not qualified.

### **4. SEGMENTAL INFORMATION**

No segmental financial information has been prepared as the Group's business activities are primarily in the manufacturing and distribution of ceramic tiles, which were also principally conducted in Malaysia.

### **5. 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 current quarter.

### **6. CHANGES IN ESTIMATES**

There were no other changes in estimates that had a material effect in the current quarter results.

### **7. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS**

The Group's business operation is related to the construction and renovation industries. It is a norm that every first quarter of the calendar year, the business will be performed at a slower pace due to the festive season and it is expected that the business's performance will be improved in the forthcoming quarters.

### **8. DIVIDENDS PAID**

No dividends were paid for the current quarter.

### **9. CARRYING AMOUNT OF REVALUED ASSETS**

The valuation of landed property, plant and equipment had been brought forward without amendment from the financial statements for the year ended 31 December 2009.

## 10. DEBT AND EQUITY SECURITIES

There were no issuance, cancellations, repurchases, resale and repayment of debt and equity securities for the current quarter.

## 11. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the current financial quarter.

## 12. DISCONTINUED OPERATION

White Horse Ceramic (India) Pte Ltd (“WHID”), a wholly owned subsidiary of White Horse Ceramic Industries Sdn Bhd (“WHC”), a wholly owned subsidiary, had ceased operations since January 2008 and is in the midst of voluntary liquidation.

The discontinuation was due to the change in the marketing strategies and also cost-savings measures. The operations of WHID is relatively smaller scale as compare to the Group, henceforth the discontinuation had little impact on the Group’s result as its past performances had been reflected in the financial reporting each year.

In the long run, the discontinuation will contribute positively to the Group’s bottom-line due to cost-savings measures.

## 13. CAPITAL COMMITMENTS

The amount of commitments for the purchase of property, plant and equipment, which are not provided for in the interim financial statements as at 07 May 2010 is as follows:-

Approved and Contracted for : RM7.5 million

## 14. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS

All contingent liabilities were made-up of corporate guarantees issued to financial institutions for credit facilities, including the Bank Guarantee and Foreign Exchange Forward Contracts, utilised by a subsidiary, amounting to RM60.4 million as at 07 May 2010.

## 15. SUBSEQUENT EVENTS

Subsequent to the end of the first quarter, the company had further purchased its own shares as treasury shares as at 07 May 2010, which were not resale or canceled, as shown below :-

Details of the share buy-back are as follows :-

<u>Month</u>	<u>No. of Shares Purchased</u>	<u>Purchase Price</u>		<u>Average Price</u> RM	<u>Total Consideration</u> RM
		<u>Highest</u> RM	<u>Lowest</u> RM		
Balance b/f	10,032,700	2.5000	0.9200	1.5208	15,345,918

Apr 10	5,000	1.6000	1.6000	1.6000	8,058
Balance c/f	10,037,700	2.5000	0.9200	1.5208	15,353,976

## 16. PERFORMANCE REVIEW

The Group had achieved a turnover of RM115.5 million, a gross profit of RM36.7 million and a profit before tax of RM16.5 million for the current quarter as compared to the same corresponding period of last year of RM101.0 million, RM27.9 million and RM11.2 million respectively.

The turnover, gross profit and profit before tax had increased by 14%, 32% and 47% respectively, mainly due to the overall market recovery and also our added production capacity installed last year.

## 17. COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAX

The profit before tax of RM16.5 million for the current quarter is 49% lower than the immediate preceding quarter mainly due to the norm of lower sales volume resulting from the festive season for the current quarter.

## 18. COMMENTARY ON PROSPECTS

The Group anticipates that the results for the next financial quarter will be performing better than the current quarter.

## 19. PROFIT FORECAST AND PROFIT GUARANTEE

- (a) Profit forecast : Not applicable  
(b) Profit guarantee : Not applicable

## 20. INCOME TAX EXPENSE

The taxation charge for the Group is as follows: -

	Current quarter	Year to date
	RM'000	RM'000
Income tax	3,787	3,787
Deferred tax	240	240
<b>Total</b>	<b>4,027</b>	<b>4,027</b>

## 21. SALE OF UNQUOTED INVESTMENTS AND PROPERTIES

There were no sales of unquoted investments and properties for the current quarter.

## 22. QUOTED SECURITIES

- (a) There were no purchases or sales of quoted securities for the current quarter, except for the above Note 15.
- (b) There were no investments in quoted securities, as at the reporting period, except for the above Note 15.

## 23. CORPORATE PROPOSALS

There was no corporate proposal announced but not completed as at the date of this quarterly report.

## 24. BORROWINGS

**Group borrowings** as at 31 March 2010 are as follows:-

- (a) Securities on banks' borrowings were corporate guarantees and negative pledge.
- (b) (i) Short-term borrowings

	<b>RM'000</b>
<b>Unsecured :</b>	
Bankers Acceptance	20,251
Revolving Credit	10,000
Fixed Loan	30,000
<b>Total</b>	<b>60,251</b>

- (ii) Hire-purchase creditors

<b>Secured</b>	
Repayments due within 12 months	10
Repayments after 12 month	0
<b>Total</b>	<b>10</b>

- (iii) Long-term borrowings

<b>Unsecured</b>	
Fixed Loan	NIL
<b>Total</b>	<b>NIL</b>

## 25. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Off balance sheet financial instrument as at 07 May 2010 was made-up of Bank Guarantee and Foreign Exchange Forward Contract, details of which are shown as follows :-

### (1) Bank Guarantee

- (a) The face amount involved is RM15.6 million, and

(b) It was issued to the Royal Custom of Malaysia, Immigration Department and Utilities Companies (gas and electricity), including the following :-

- (i) There is no credit and market risk as it is for the operational transaction;
- (ii) Cash requirement upon presentation of claim, and
- (iii) Recognition of expenditure, asset and liability upon its settlement.

**(2) Letter of Credit**

(a) The face amount involved is RM7.5 million, and

(b) It is for the purchase of plant and machinery and safeguarded by insurance coverage, include the following :-

- (i) There is no credit and market risk as it is for the purchase transaction;
- (ii) Cash requirement upon presentation of documents, and
- (iii) Recognition of asset and liabilities upon its settlement.

**26. DERIVATIVE FINANCIAL INSTRUMENTS**

Details of the outstanding derivative financial instrument as at 31 March 2010 are as follows:-

Type of Derivatives	Contract / Notional Value (RM '000)	Fair Value (RM '000)	Gain / (Loss) on Fair Value Changes (RM '000)	Reason for Gain /(Loss)
Forward Foreign Exchange Contract in Euro -Maturing within 6 months	10,792	10.190	(602)	Strengthening of Ringgit Malaysia against Euro

Forward foreign exchange contract is used as a hedging tool to minimise the group's exposure to changes in fair value of its capital commitment, conducted in the ordinary course of business, as a result of fluctuation in the exchange rate.

The fair value of forward exchange contract is determined by using the market rates at the end of reporting period and changes in the fair value is recognised in the profit or loss. The subsequent cumulative change in the fair value of the commitment attributable to the hedged risk is recognised as an asset or a liability with the corresponding gain or loss recognised in the profit or loss.

The above derivative financial instrument is not subjected to any credit risk, market risk and liquidity risk as the Group had sufficient internal funds for its settlement when it falls due.

**27. CHANGES IN MATERIAL LITIGATION**

White Horse Marketing Sdn Bhd ("WHM"), a wholly-owned subsidiary, was served with a second (2<sup>nd</sup>) writ of summons on 09 July 2004, as a co-defendant, by a customer claiming damages and losses for allegedly committing a tort of malicious prosecution or tort of abuse of process of court,

namely presenting a winding-up petition against the said customer's company for failure to settle a debt due to WHM.

On 24 August 2005, the Deputy Registrar of the High Court has allowed WHM's application summarily to strike out the suit filed by the customer, with costs.

On 15 August 2006, the High Court Judicial Commissioner has allowed the customer's appeal with costs.

On 07 September 2006, WHM had filed a Notice of Appeal to the Court of Appeal, against the said decision.

On 04 May 2009, WHM's appeal came up for hearing before the Court of Appeal.

However, as the customer had already been compulsorily wound up by the High Court in Alor Setar, the Official Receiver had requested for a postponement of the hearing of WHM's appeal, so as to enable the Official Receiver to call for a meeting among the contributories, ex-directors and creditors of the customer for sanction whether to oppose the appeal. The Official Receiver's request for adjournment was allowed by the presiding Judges of the Court of Appeal on 04 May 2009.

The hearing of the appeal has now been fixed on 30 June 2010 before the panel Judges of the Court of Appeal on that day.

## **28. DIVIDEND PAYABLE**

No interim dividend has been recommended for the current quarter.

However, at the forthcoming Annual General Meeting, a final tax exempt dividend of 5% amounting to RM11.5 million, in respect of the financial year ended 31 December 2009 will be proposed for shareholders' approval.

The financial statements for the current quarter do not reflect this proposed dividend. Upon approval by the shareholders, it will be accounted for in shareholders' equity as an appropriation of retained profits in the current financial year.

## **29. EARNINGS PER SHARE**

The basic earnings per share for the current quarter is 5.41 sen.

It was computed by dividing the net profit of current quarter of RM12.4 million by the weighted average number of ordinary shares in issue of 230.0 million, excluding treasury shares held by the company.

## **30. 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 12 May 2010.