

**Explanatory Notes pursuant to MFRS 134 for the Third quarter ended 30 September 2013.**

**1. CORPORATE INFORMATION**

White Horse Berhad is a public limited liability company incorporated and domiciled in Malaysia, and is listed on Bursa Malaysia Securities Berhad.

These condensed consolidated interim financial statements were approved by the Board of Directors on 20 November 2013.

**2. BASIS OF PREPARATION**

The condensed consolidated interim financial statements, for the period ended 30 September 2013, have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board.

The explanatory notes attached to these condensed consolidated 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 2012.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2012, except for the adoption of the following new Malaysian Financial Reporting Standards ("MFRSs") effective for financial periods beginning on or after 01 January 2013.

- 1) MFRS 101 Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101)
- 2) Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
- 3) MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
- 4) MFRS 10 Consolidated Financial Statements
- 5) MFRS 11 Joint Arrangements
- 6) MFRS 12 Disclosure of interests in Other Entities
- 7) MFRS 13 Fair Value Measurement
- 8) MFRS 119 Employee Benefits
- 9) MFRS 127 Separate Financial Statements
- 10) MFRS 128 Investment in Associate and Joint Ventures
- 11) MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)
- 12) Amendment to IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments
- 13) (Annual Improvements 2009-2011 Cycle)
- 14) IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine
- 15) Amendments to MFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities
- 16) Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards- Government Loans
- 17) Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)
- 18) Amendments to MFRS 116: Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
- 19) Amendments to MFRS 132: Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)

- 20) Amendments to MFRS134: Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
- 21) Amendments to MFRS 10: Consolidated Financial Statements: Transition Guidance
- 22) Amendments to MFRS 11: Joint Arrangements: Transition Guidance
- 23) Amendments to MFRS 12: Disclosure of Interests in Other Entities: Transition Guidance

The Group has not adopted the following standards that have been issued but not yet effective.

<b><u>MFRSs</u></b>	Effective for financial periods beginning <u>on or after</u>
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	01 Jan 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	01 Jan 2014
MFRS 9 Financial Instruments	01 Jan 2015

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application, except as discussed below:

**(a) MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004) and MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)**

An entity shall apply these earlier versions of MFRS 3 and MFRS 127 only if the entity has elected to do so as allowed in MFRS 10 Consolidated Financial Statements. The adoptions of these standards are not expected to have any significant impact to the Group and to the Company.

**(b) MFRS 9 Financial Instruments**

MFRS 9 reflects the first phase of the work on the replacement of MFRS 139 Financial Instruments: Recognition and Measurement and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139 Financial Instruments: Recognition and Measurement. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

**(c) MFRS 10 Consolidated Financial Statements**

MFRS 10 replaces part of MFRS 127 Consolidated and Separate Financial Statements that deals with consolidated financial statements and IC Interpretation 112 Consolidation-Special Purpose Entities.

Under MFRS 10, an investor controls an investee when:

- (i) the investor has power over an investee,
- (ii) the investor has exposure, or rights, to variable returns from its involvement with the investee, and
- (iii) the investor has ability to use its power over the investee to affect the amount of the investor's returns.

Under MFRS 127 Consolidated and Separate Financial Statements, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

MFRS 10 includes detailed guidance to explain when an investor has control over the investee. MFRS 10 requires the investor to take into account all relevant facts and circumstances.

**(d) MFRS 13 Fair Value Measurement**

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under MFRS when fair value is required or permitted.

#### **(e) Amendments to MFRS 101 Presentation of Financial Statements (Annual Improvements 2009 - 2011 Cycle)**

The amendments to MFRS 101 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net loss or gain on available for sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings).

The amendment affects presentation only and has no impact on the Group's financial position and performance.

#### **(f) MFRS 127 Separate Financial Statements**

As a consequence of the new MFRS 10 and MFRS 12, MFRS 127 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

#### **(g) Amendments to MFRS 116 Property, Plant and Equipment**

The amendments to MFRS 116 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in MFRS 116 and as inventory otherwise. The directors do not anticipate that the amendments to MFRS 116 will have a significant effect on the Group's financial statements.

#### **(h) Amendments to MFRS 132 Financial Instruments: Presentation**

The amendments to MFRS 132 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with MFRS 112 Income Taxes. The directors anticipate that the amendments to MFRS 132 will have no effect on the Group's financial statements as this treatment has already been adopted.

### **4. CHANGES IN ESTIMATES**

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

### **5. CHANGES IN COMPOSITION OF THE GROUP**

There were no changes in composition of the Group for the current quarter, except the following :-

#### **(i) 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.

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.

A Notice of Striking-Off dated 5 July 2013 from the Office of Registrar of Companies, Ministry of Corporate Affairs, Government of India that the name of WHID has been struck-off from the Register under Section 560 (5) of the Indian Companies Act, 1956 and WHID is deemed dissolved then.

## (ii) CEASED OPERATION

WH Ceramic (Australia) Pty Ltd ("WHCA"), a 50% owned associated company of White Horse Ceramic Industries Sdn Bhd ("WHC"), a wholly owned subsidiary, had ceased operations since January 2013 and is in the midst of voluntary liquidation.

The discontinuation was due to a change in the marketing structure. The operations of WHCA 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 its market expansion resulting from the changed in the marketing strategy where dealers could deal directly with the factory, WHC, instead of WHCA..

## 6. SEGMENT 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.

## 7. SEASONALITY OF OPERATIONS

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 the business's performance will be improved in the forthcoming quarters.

## 8. PROFIT BEFORE TAX

Included in the Profit Before Tax are the following items:-

	CURRENT QUARTER		CUMULATIVE QUARTER	
	03 MONTHS ENDED		09 MONTHS ENDED	
	30 Sep 2013 RM '000	30 Sep 2012 RM '000	30 Sep 2013 RM '000	30 Sep 2012 RM '000
Interest income	(464)	(185)	(957)	(651)
Interest expense	1,023	722	2,911	2,391
Amortisation of prepaid lease payments	496	593	1,483	1,501
Depreciation of property, plant and equipment	8,797	9,746	28,445	29,572
Loss / (gain) on disposal of property, plant and equipment	(11)	(9)	35	4
Write down of property, plant and equipment	13	13	31	119
Gain on foreign currency exchange : realised	94	(239)	(1,506)	402
Loss / (gain) on foreign currency exchange : unrealised	(81)	(1,026)	654	(1,402)

## 9. INCOME TAX EXPENSE

	CURRENT QUARTER		CUMULATIVE QUARTER	
	03 MONTHS ENDED		09 MONTHS ENDED	
	30 Sep 2013 RM '000	30 Sep 2012 RM '000	30 Sep 2013 RM '000	30 Sep 2012 RM '000
Current Tax:				
Malaysian Income Tax	2,211	2,021	8,058	6,799
Foreign Tax	528	31	926	626
	2,739	2,052	8,984	7,425
Deferred Tax	910	481	3,390	1,796
	3,649	2,533	12,374	9,221

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

## 10. EARNINGS PER SHARE

Basic earnings per share amounts are computed by dividing the profit for the period, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period excluding treasury shares held by the Company.

The following reflect the profit and share data used in the computation of basic earning per share :-

	CURRENT QUARTER		CUMULATIVE QUARTER	
	03 MONTHS ENDED		09 MONTHS ENDED	
	30 Sep 2013	30 Sep 2012	30 Sep 2013	30 Sep 2012
Profit net of tax attributable to owners of the parent used in the computation of earning per share (RM'000)	11,803	8,457	39,581	30,507
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Treasury shares	10,589	10,333	10,589	10,333
Net Weighted average number of ordinary shares in issue ('000)	229,411	229,667	229,411	229,667
Basic earnings per share (sen per share)	5.14	3.68	17.25	13.28

## 11. PROPERTY, PLANT AND EQUIPMENT

During the three months ended 30 Sep 2013, the Group acquired assets at a cost of RM 6,476,000 (30 Sep 2012 : RM 4,037,000).

## 12. INTANGIBLE ASSETS : GOODWILL

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

## 13. INVENTORIES

There was no write-down of inventories to net realisable value for the current quarter. (year 2012: Nil).

## 14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following amounts:-

	30 Sep 2013 RM '000	30 Sep 2012 RM '000
Cash at bank and in hand	28,830	20,710
Short term deposits	69,484	24,384
<b>Total Cash and Cash Equivalents</b>	<b>98,314</b>	<b>45,094</b>

## 15. FAIR VALUE HIERARCHY

No transfers between any level of the fair value hierarchy took place during the current interim period and the comparative period. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.

The Group does not hold credit enhancements or collateral to mitigate credit risk. The carrying amount of financial assets therefore represents the potential credit risk.

## 16. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

There is no movement of share capital, share premium and treasury shares for the current quarter.

Details of the treasury shares as at 30 September 2013 are as follows:-

Month	No. of shares purchased	Purchase Price		Average Price	Total Consideration
		Highest	Lowest		
Balance as at 30 Sep 13	10,589,300	RM 2.5000	RM 0.9200	RM 1.5281	RM 16,275,688
Oct 2013	4,800	1.7500	1.7500	1.7500	8,462
Balance c/f	10,594,100	2.5000	0.9200	1.5281	16,284,150

## 17. INTEREST-BEARING LOANS AND BORROWINGS

	30 Sep <u>2013</u> RM '000	30 Sep <u>2012</u> RM '000
Short-term borrowings		
Unsecured	144,409	122,042
	<u>144,409</u>	<u>122,042</u>

The above loans and borrowings are subjected to corporate guarantee and negative pledge.

It also included borrowings denominated in foreign currency as follows:-

- (i) Between 1.4% p.a. and 1.99% floating rate United State Dollars ("USD") bank loan for USD 22.40 million (RM equivalent of 71.20 million).

## 18. PROVISIONS FOR COSTS OF RESTRUCTURING

There were no provisions for costs of restructuring for the current quarter and comparative period.

## 19. DIVIDEND

A final 5 sen per share tax-exempted dividend in respect of the financial year 2012, amounting to RM11.5 million was paid on 16 July 2013

The Board has approved a tax-exempted interim dividend of 5 sen per share for the current quarter (Sep Year 2012 : 5 sen).

## 20. COMMITMENT

	30 Sep <u>2013</u> RM '000	30 Sep <u>2012</u> RM '000
Capital expenditure :-		
Approved and contracted for Property, plant and equipment	-	676
Approved but not contracted for Property, plant and equipment	-	12,000
	<u>-</u>	<u>12,676</u>

## 21. CONTINGENCIES

There were no other contingencies for the current quarter, except the contingent liability, which was made-up of Corporate Guarantees issued to financial institutions for the subsidiaries' borrowings and banking facilities.

## 22. RELATED PARTY TRANSACTIONS

The following table provides information on the transactions, which have been entered into with related parties during the nine-months period ended 30 Sep 2013 and 30 Sep 2012 as well as the balances with the related parties as at 30 Sep 2013 and 31 December 2012.

		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
		RM '000	RM '000	RM '000	RM '000
<b>Joint Venture :</b>					
WH Ceramic	2013	-	-	1,103	-
(Australia ) Pty Ltd	2012	2,064	-	2,206	-
<b>Key Management Personnel of the Group : Directors' interest</b>					
White Horse Ceramic Industries (Vietnam) Co Ltd	2013	5,390	9,817	34,967	-
	2012	15,955	23,185	13,696	-
White Horse Ceramic Co Ltd	2013	1,735	-	1,323	-
	2012	1,228	157	2,119	-
Teobros Ceramica Sdn Bhd	2013	21,178	617	26,962	888
	2012	25,955	407	30,641	35

All outstanding balances with these related parties are unsecured and repayable on demand.

## 23. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period.

## 24. PERFORMANCE REVIEW

The local market remained competitive, however, export market has potential to grow further, in particular the ASEAN region, China and India.

The revenue had decreased by 1%, while the gross profit and profit before tax for the current quarter had increased by 9% and 41% respectively, as compared to the same corresponding period of last year. The decreased revenue was due to the festive season in August 2013, and the increase in gross profit and profit before tax was mainly due to the higher selling price.

## 25. COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAXATION

The profit before tax of RM 15.5 million for the current quarter is 22% lower than the immediate preceding quarter mainly due to the festive season in August 2013.

## **26. COMMENTARY ON PROSPECTS**

As the Group's business is linked with the construction and renovation industries, its markets coverage is fairly distributed into property development and replacement sectors for both local and exports markets. Besides the growing ASEAN market, China and India have emerged as up and coming markets, resulting from the implementation of Asean Free Trade Agreements "(AFTA)" plus China and India.

Business operations are still challenging in terms of higher production and operating costs. We have implemented some strategies such as manufacturing efficiency improvement, cost-reduction measures and market restructuring, so as to address such challenges.

## **27. PROFIT FORECAST OR PROFIT GUARANTEE**

There was no profit forecast or profit guarantee announced as at the date of this quarterly report

## **28. CORPORATE PROPOSALS**

The acquisition by White Horse Berhad of the entire equity interest in White Horse Ceramic Industries (Vietnam) Co. Ltd from White Horse Investment (S) Pte Ltd, for a cash consideration of USD 21 million (equivalent to RM 64.7 million) has been completed on 15 October 2013 as per the announcement made on 16 October 2013.

Details of the acquisition can be obtained from the website of Bursa Malaysia Berhad.

## **29. CHANGES IN MATERIAL LITIGATION**

There was no material litigation as at the date of this quarterly report

## **30. DIVIDEND PAYABLE**

Please refer to Note 19 for details.

## **31. DISCLOSURE OF NATURE OF OUTSTANDING DERIVATIVES**

There was no outstanding derivative as at the reporting period

## **32. DISCLOSURE OF GAINS / LOSSES ARISING FROM FAIR VALUE CHANGES OF FINANCIAL LIABILITIES**

There was no gains or losses arising from fair value changes of financial liabilities as at the reporting period.

## **33. BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES**

The breakdown of the retained profits of the Group as at 30 Sep 2013 and 31 December 2012 into realised and unrealised profits, is presented in accordance with the directives issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and 20 December 2010, prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	Current Quarter Ended 30 Sep 2013 RM '000	Previous Financial Year Ended 31 Dec 2012 RM '000
Total retained profits of White Horse Berhad and its subsidiaries		
- Realised	609,278	578,062
-Unrealised	<u>(16,967)</u>	<u>(26,965)</u>
	592,311	551,097
Total share of retained profits from a joint venture		
- Realised	-	(312)
-Unrealised	<u>-</u>	<u>-</u>
	-	(312)
Less: Consolidation adjustments	(125,476)	(112,060)
Total group retained profits as per financial statement	<u>466,835</u>	<u>438,725</u>

#### 34. AUDITORS REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the financial statements for the year ended 31 December 2012 was not qualified.