

Explanatory Notes pursuant to MFRS 134 for the 2nd quarter ended 30 June 2019.

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 23 August 2019.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements, for the period ended 30 June 2019, 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 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2018, except for the adoption of the following new Malaysian Financial Reporting Standards ("MFRSs") effective for financial periods beginning on or after 1 January 2019.

- 1) MFRS 9: Prepayment Features with Negative Compensation (Amendments to MFRS 9)
- 2) MFRS 16: Leases
- 3) MFRS 128: Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)
- 4) Annual Improvements to MFRS Standards 2015-2017 Cycle
- 5) IC Interpretation 23: Uncertainty over Income Tax Treatments
- 6) MFRS 119: Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)

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

<u>MFRSs</u>	Effective for financial periods beginning on or after
1) Amendments to MFRS 3: Definition of a Business	1 Jan 2020
2) Amendments to MFRS 101 and MFRS 108: Definition of Material	1 Jan 2020
3) Amendments to references to the Conceptual Framework in MFRS Standards	1 Jan 2020
4) MFRS 17: Insurance Contracts	1 Jan 2021
5) Amendments to MFRS 10 and MFRS 128: Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

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:

MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)

A debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification.

The amendments to MFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments have no impact on the financial statements of the Company.

MFRS 16 Leases

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under MFRS 16 is substantially unchanged from today's accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

The Group has adopted a modified retrospective approach, which has no material impact on the financial statements.

Annual Improvements to MFRS Standards 2015–2017 Cycle

The Annual Improvements to MFRS Standards 2015-2017 Cycle include a number of amendments to various MFRSs, which do not have a significant impact on the Group's and the Company's financial statements.

- (a) Amendments to MFRS 112 Income Taxes - Income tax consequences of payments on financial instruments classified as equity.

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

(b) Amendments to MFRS 123 Borrowing Costs - Borrowing costs eligible for capitalisation

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are completed.

IC Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involves uncertainty that affects the application of MFRS 112 and does not apply to taxes or levies outside the scope of MFRS 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:-

- (a) whether an entity considers uncertain tax treatments separately;
- (b) the assumptions an entity makes about the estimation of tax treatments by taxation authorities;
- (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- (d) how an entity considers changes in facts and circumstances.

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.

6. SEGMENT INFORMATION

Segmental financial information for the cumulative quarters has been prepared based on the geographical location as per the table append below.

SEGMENTAL INFORMATION - By geographical area 30 JUN 2019	Malaysia Operation RM '000	Vietnam Operation RM '000	Other Operation RM '000	Eliminations RM '000	Total RM '000
Segment Revenue					
External sales	184,435	45,006	25,692		255,133
Inter-segment sales	4,204	1,352	1,846	(7,402)	-
Total revenue	188,639	46,358	27,538	(7,402)	255,133
Segment Results					
Interest income	465	51	8		524
Depreciation & amortisation	12,439	3,033	1,184		16,656
Profit / (Loss) before tax	(10,329)	(8,005)	(559)	(2,385)	(21,278)
Segment Assets					
Total assets	778,827	152,449	52,428		983,704
Segment Liabilities					
Total liabilities	229,264	59,268	7,645		296,177

SEGMENTAL INFORMATION	Malaysia	Vietnam	Other		
- By geographical area	Operation	Operation	Operation	Eliminations	Total
30 JUN 2018	RM '000	RM '000	RM '000	RM '000	RM '000
Segment Revenue					
External sales	210,488	46,723	33,979		291,190
Inter-segment sales	11,285	5,204	1,816	(18,305)	-
Total revenue	221,773	51,927	35,795	(18,305)	291,190
Segment Results					
Interest income	223	42	13		278
Depreciation & amortisation	11,915	2,878	1,290		16,083
Profit / (Loss) before tax	6,269	(5,962)	1,287	(961)	633
Segment Assets					
Total assets	811,257	180,219	59,556	-	1,051,032
Segment Liabilities					
Total liabilities	249,393	53,968	6,729	-	310,090

Malaysia and Vietnam operations consists manufacturing and distribution activities, while the other operations were merely distribution function in ASEAN region and China.

Malaysia, Vietnam and Other operations experiencing loss position mainly due to the slow market pace in the construction industry and also stiff market competition.

7. SEASONALITY OF OPERATIONS

The Group's business operation is related to the construction and renovation industries. Due to the festive season in the first quarter, the business has performed at a slower pace and it is a norm that the business in the forthcoming quarters would be performed better.

However, for the current quarter, in view of the slow market pace, stiff market competition, volatility of foreign exchange currencies and high operating cost, the Group has negative impact to its bottom line.

8. PROFIT / (LOSS) BEFORE TAX

Included in the Profit / (Loss) Before Tax are the following items:-

	CURRENT QUARTER		CUMULATIVE QUARTER	
	03 MONTHS ENDED		06 MONTHS ENDED	
	30 JUN 2019	30 JUN 2018	30 JUN 2019	30 JUN 2018
	RM '000	RM '000	RM '000	RM '000
Interest income	(281)	(202)	(524)	(278)
Interest expense	1,977	1,581	3,730	3,063
Amortisation of prepaid lease payments	1,307	820	1,981	1,527
Depreciation of property, plant and equipment	7,005	7,415	14,675	14,556
Loss on disposal of property, plant and equipment	444	25	429	20
Write down of inventories	25	24	35	38
Net foreign exchange loss / (gain)	2,605	7,635	(191)	(386)

9. INCOME TAX EXPENSE

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.

	CURRENT QUARTER		CUMULATIVE QUARTER	
	03 MONTHS ENDED		06 MONTHS ENDED	
	30 JUN 2019	30 JUN 2018	30 JUN 2019	30 JUN 2018
Current Tax:	RM '000	RM '000	RM '000	RM '000
Malaysian Income Tax	(2,484)	374	(4,014)	2,187
Foreign Tax	(85)	21	(139)	111
	(2,569)	395	(4,153)	2,298
Deferred Tax	750	(900)	1,500	(1,800)
Total Tax (Income) / Expense	(1,819)	(505)	(2,653)	498

10. EARNINGS / (LOSS) PER SHARE

Basic earnings per share amounts are computed by dividing the profit or loss 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 or loss and share data used in the computation of basic earnings per share :-

	CURRENT QUARTER		CUMULATIVE QUARTER	
	03 MONTHS ENDED		06 MONTHS ENDED	
	30 JUN 2019	30 JUN 2018	30 JUN 2019	30 JUN 2018
Profit / (Loss) net of tax attributable to owners of the parent used in the computation of earning per share (RM'000)	(12,684)	(3,678)	(18,625)	135
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Treasury shares	11,760	11,120	11,760	11,120
Net Weighted average number of ordinary shares in issue ('000)	228,240	228,880	228,240	228,880
Basic earnings / (loss) per share (sen per share)	(5.56)	(1.61)	(8.16)	0.06

11. PROPERTY, PLANT AND EQUIPMENT

During the three months ended 30 June 2019, the Group acquired assets of RM 3.1 million (30 June 2018 : RM 1.9 million).

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. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following amounts:-

	30 JUN 2019	30 JUN 2018
	RM '000	RM '000
Cash on hand and at banks	21,797	46,910
Short term deposits with banks	34,030	15,098
Total Cash and Cash Equivalents	55,827	62,008

14. 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.

15. SHARE CAPITAL AND TREASURY SHARES

Subsequent to the end of the second quarter, the Company had further purchased its own shares as treasury shares as at 16 August 2019, which were not for resale or cancelled.

Details of the treasury shares are as follows :-

Month	No. of shares purchased	Purchase Price		Average Price	Total Consideration
		Highest	Lowest		
		RM	RM	RM	RM
Balance as at 30 Jun 2019	11,760,200	2.5000	0.9200	1.5500	18,335,821
August 2019	8,000	1.1500	1.1300	1.1501	9,201
Balance as at 16 Aug 2019	11,768,200	2.5000	0.9200	1.5589	18,345,022

16. INTEREST-BEARING LOANS AND BORROWINGS

Borrowings as at 30 June 2019									
	Long term	Short term			Total Borrowings				
	RM '000	VND '000,000	USD '000	EURO 000	RM '000	VND '000,000	USD '000	EURO 000	RM '000
Unsecured									
Term loan	4,000		-	-	4,000	-	-	-	8,000
Revolving Credit		8,840	31,600	-	15,000	8,840	31,600	-	15,000
Trade lines		16,103	1,223	203	18,743	16,103	1,223	203	18,743
Total	4,000	24,943	32,823	203	37,743	24,943	32,823	203	41,743
Foreign exchange rate	1.0000	0.1760	4.1335	4.7083	1.0000	0.1760	4.1335	4.7083	1.0000
RM'000 Equivalent	4,000	4,390	135,674	956	37,743	4,390	135,674	956	41,743
Total (RM'000)	4,000				178,763				182,763

Borrowings as at 30 June 2018									
	Long term	Short term			Total Borrowings				
	RM '000	VND '000,000	USD '000	EURO 000	RM '000	VND '000,000	USD '000	EURO 000	RM '000
Unsecured									
Term loan	8,000		-	-	4,000	-	-	-	12,000
Revolving Credit			29,600	-	10,000	-	29,600	-	10,000
Trade lines		-	1,209	491	23,343	-	1,209	491	23,343
Total	8,000	-	30,809	491	37,343	-	30,809	491	45,343
Foreign exchange rate	1.0000	0.1690	4.0385	4.6990	1.0000	0.1690	4.0385	4.6990	1.0000
RM'000 Equivalent	8,000	-	124,422	2,307	37,343	-	124,422	2,307	45,343
Total (RM'000)	8,000				164,072				172,072

The unsecured borrowings are subject to corporate guarantee and negative pledge.

All borrowings are based on the floating interest rate and its weighted average interest rate is about 4.85% per annum.

There was an increased in borrowings for RM 10.7 million in the current year to-date as compare to the same corresponding period in the immediate preceding year. It was due to the higher Revolving Credit borrowing from the Banks.

No hedging was made for the borrowings denominated in United State Dollar, as source of repayment of which is from the export proceeds denominated in the same currency.

17. PROVISIONS FOR COSTS OF RESTRUCTURING

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

18. DIVIDEND

No dividend has been recommended for the current quarter. (30 June 2018 : Nil).

19. COMMITMENT

	30 JUN 2019	30 JUN 2018
Capital expenditure :-		
	RM '000	RM '000
Approved and contracted for Property, plant and equipment	463	1,800
Approved but not contracted for Property, plant and equipment	-	-
Total Commitment	463	1,800

20. 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.

21. RELATED PARTY TRANSACTIONS

The following table provides information on the transactions, which have been entered into with related parties during the 6 months period ended 30 June 2019 and 30 June 2018 as well as the balances with the related parties as at 30 June 2019 and 31 December 2018.

Key Management Personnel of the Group : Directors' interest		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
White Horse Ceramic Co Ltd	2019	5,470		5,555	-
	2018	3,998	278	4,482	278
Teobros Ceramica Sdn Bhd	2019	9,106	58	21,790	71
	2018	14,467	60	23,711	17
White Horse Investment (S) Pte Ltd	2019	-	-	-	64,896
	2018	-	-	-	63,404

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

22. EVENTS AFTER THE REPORTING PERIOD

There were no significant subsequent events after the reporting period.

23. PERFORMANCE REVIEW

	CURRENT PERIOD 2nd QUARTER		Change + / (-)	
	30 JUN 2019	30 JUN 2018		
	Unaudited	Unaudited	RM '000	%
Revenue	128,233	145,414	(17,181)	-11.8%
Gross Profit	13,642	28,571	(14,929)	-52.3%
Profit / (Loss) Before Tax	(14,503)	(4,183)	(10,320)	246.7%

The revenue, gross profit and profit before tax for the current quarter was lower by 11.8%, 52.3% and 246.7% respectively as compared to the same corresponding period of last year, due to the slow market pace in the construction industry, stiff market competition and higher operating cost.

24. COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAXATION

	Current Quarter 30 JUN 2019 Unaudited	Immediate Preceding Quarter 31 MAR 2019 Unaudited	Change + / (-)	
	RM '000	RM '000	RM '000	%
	Revenue	128,233	126,900	1,333
Gross Profit	13,642	15,210	(1,568)	-10.3%
Profit / (Loss) Before Tax	(14,503)	(6,775)	(7,728)	114.1%

The revenue for the current quarter is 1.1% higher than the immediate preceding quarter due to the slight higher sales volume achieved in the second quarter of the year, which is a norm in the ceramic tiles industry.

The gross profit for the current quarter is 10.3% lower than the immediate preceding quarter mainly due to the higher utilities cost in the production operation.

The loss before tax for the current quarter was higher than the immediate preceding quarter mainly due to the foreign exchange loss as oppose to gain in the previous quarter.

25. COMMENTARY ON PROSPECTS

The Group's business is linked with the construction and renovation industries, where its markets coverage is fairly distributed into property development and replacement sectors for both local and exports markets.

Business operations are still challenging in view of market competitiveness, pricing strategy, marketing structure, fluctuation in foreign currencies, high production and operating costs, which have a great impact to the bottom-line of the Group.

Counter measures to address these challenges include enhancing the manufacturing efficiency and productivity, new products development, cost-control and market restructuring.

26. PROFIT FORECAST OR PROFIT GUARANTEE

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

27. CORPORATE PROPOSALS

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

28. CHANGES IN MATERIAL LITIGATION

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

29. DIVIDEND PAYABLE

Please refer to Note 18 for details.

30. DISCLOSURE OF NATURE OF OUTSTANDING DERIVATIVES

There was no outstanding derivative as at the reporting period

31. DISCLOSURE OF GAINS / LOSSES ARISING FROM FAIR VALUE CHANGES OF FINANCIAL LIABILITIES

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

32. AUDITORS REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the financial statements for the year ended 31 December 2018 was not qualified.