

Explanatory Notes pursuant to MFRS 134 for the 4th quarter ended 31 December 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 26 February 2020.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements, for the period ended 31 December 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
- 2) MFRS 16: Leases
- 3) MFRS 128: Long-term Interests in Associates and Joint Ventures
- 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

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
6) Amendments to MFRS 9, MFRS 7 and MFRS 139: Interest Rate Benchmark Reform	1 Jan 2020

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

4 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, except the following:-

PT. WH Ceramic Indonesia ("WHIN"), a wholly owned subsidiary of White Horse Ceramic Industries Sdn Bhd ("WHC"), a wholly owned subsidiary, had ceased operations since January 2020 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 WHIN is relatively a smaller scale as compared 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.

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	Malaysia	Vietnam	Other		
- By geographical area	Operation	Operation	Operation	Eliminations	Total
31 Dec 2019	RM '000	RM '000	RM '000	RM '000	RM '000
Segment Revenue					
External sales	369,601	102,134	60,181		531,916
Inter-segment sales	10,234	2,435	4,746	(17,415)	-
Total revenue	379,835	104,569	64,927	(17,415)	531,916
Segment Results					
Interest income	1,057	196	14		1,267
Depreciation & amortisation	26,259	6,355	2,381		34,995
Loss before tax	(42,166)	(16,056)	(369)	(3,173)	(61,764)
Segment Assets					
Total assets	772,741	117,061	55,918		945,720
Segment Liabilities					
Total liabilities	258,087	39,272	6,548		303,907
SEGMENTAL INFORMATION	Malaysia	Vietnam	Other		
- By geographical area	Operation	Operation	Operation	Eliminations	Total
31 Dec 2018	RM '000	RM '000	RM '000	RM '000	RM '000
Segment Revenue					
External sales	427,625	110,435	74,740		612,800
Inter-segment sales	18,167	6,311	-	(24,478)	-
Total revenue	445,792	116,746	74,740	(24,478)	612,800
Segment Results					
Interest income	751	32	157		940
Depreciation & amortisation	24,951	7,379	2,514		34,844
Profit / (Loss) before tax	(5,041)	(12,571)	(1,739)	(6,666)	(26,017)
Segment Assets					
Total assets	829,974	146,335	59,755	9,066	1,045,130
Segment Liabilities					
Total liabilities	254,582	69,849	6,041	8,203	338,675

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

The Group experiencing a 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.

8. LOSS BEFORE TAX

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

	CURRENT QUARTER		CUMULATIVE QUARTER	
	03 MONTHS ENDED		12 MONTHS ENDED	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RM '000	RM '000	RM '000	RM '000
Interest income	(401)	(385)	(1,267)	(940)
Interest expense	1,871	1,810	7,613	6,666
Amortisation of prepaid lease payments	(2,957)	(567)	-	1,730
Depreciation of right-of-use asset	5,048	-	5,048	-
Depreciation of property, plant and equipment	7,996	11,125	29,947	33,114
(Gain) / Loss on disposal of property, plant and equipment	(1,016)	(118)	(592)	(28)
Write down of inventories	10,482	598	10,524	690
Property, plant and equipment written off	151	155	151	155
Impairment loss on trade receivables	142	345	142	345
Reversal of impairment loss on trade receivables	(65)	(140)	(65)	(140)
Impairment loss on property, plant and equipment	12,114	-	12,114	-
(Gain) / Loss on foreign currency exchange	749	(676)	(501)	3,428

9. INCOME TAX EXPENSE / (INCOME)

Income tax expense / (income) 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		12 MONTHS ENDED	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RM '000	RM '000	RM '000	RM '000
Current Tax:				
Malaysian Income Tax	5,004	(1,425)	3,000	1,535
Foreign Tax	173	638	205	743
	5,177	(787)	3,205	2,278
Deferred Tax	(3,383)	(229)	(1,064)	(2,929)
Total Tax Expense / (Income)	1,794	(1,016)	2,141	(651)

10. LOSS PER SHARE

Basic loss per share amounts are computed by dividing the 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.

10 LOSS PER SHARE (Continued)

	CURRENT QUARTER		CUMULATIVE QUARTER	
	03 MONTHS ENDED		12 MONTHS ENDED	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Loss net of tax attributable to owners of the parent used in the computation of loss per share (RM'000)	(31,828)	(19,923)	(63,905)	(25,366)
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Treasury shares	12,091	11,521	12,091	11,521
Net weighted average number of ordinary shares in issue ('000)	227,909	228,479	227,909	228,479
Basic loss per share (sen per share)	(13.97)	(8.72)	(28.04)	(11.10)

11. PROPERTY, PLANT AND EQUIPMENT

During the three months ended 31 December 2019, the Group has acquired asset of RM 7.5 million (31 Dec 2018 : RM 7.5 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:-

	31 Dec 2019	31 Dec 2018
	RM '000	RM '000
Cash on hand and at banks	57,164	60,813
Short term deposits with banks	34,257	18,531
Total Cash and Cash Equivalents	91,421	79,344

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 fourth quarter, the Company had further purchased its own shares as treasury shares as at 19 February 2020, 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 31 Dec 2019	12,091,000	2.5000	0.9200	1.5476	18,712,360
Jan ~ Feb 2020	154,600	1.0100	0.9800	1.0028	155,031
Balance as at 19 Feb 2020	12,245,600	2.5000	0.9200	1.5407	18,867,391

16. INTEREST-BEARING LOANS AND BORROWINGS

Borrowings as at 31 December 2019									
	Long term	Short Term				Total Borrowings			
	RM '000	SD '000	USD '000	EURO 000	RM '000	SD '000	USD '000	EURO 000	RM '000
Unsecured									
Term loan	2,000		-	-	4,000	-	-	-	6,000
Revolving Credit			21,800	-	44,625		21,800	-	44,625
Trade lines		208	1,103	220	10,965	208	1,103	220	10,965
Total	2,000	208	22,903	220	59,590	208	22,903	220	61,590
Foreign exchange rate	1.0000	3.0412	4.0930	4.5907	1.0000	3.0412	4.0930	4.5907	1.0000
RM'000 Equivalent	2,000	633	93,742	1,010	59,590	633	93,742	1,010	61,590
Total (RM'000)	2,000				154,975				156,975

Borrowings as at 31 December 2018									
	Long term	Short Term				Total Borrowings			
	RM '000	SD '000	USD '000	EURO 000	RM '000	SD '000	USD '000	EURO 000	RM '000
Unsecured									
Term loan	6,000		-	-	4,000	-	-	-	10,000
Revolving Credit			29,600	-	10,000		29,600	-	10,000
Trade lines		149	6,267	1,042	11,227	149	6,267	1,042	11,227
Total	6,000	149	35,867	1,042	25,227	149	35,867	1,042	31,227
Foreign exchange rate	1.0000	3.0322	4.1385	4.7340	1.0000	3.0322	4.1385	4.7340	1.0000
RM'000 Equivalent	6,000	452	148,436	4,933	25,227	452	148,436	4,933	31,227
Total (RM'000)	6,000				179,048				185,048

16 INTEREST-BEARING LOANS AND BORROWINGS (Continued)

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 a reduction in borrowings for RM 28.1 million in the current year to-date as compare to the same corresponding period in the immediate preceding year. It was due to the repayment of borrowing to 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. (31 Dec 2018 : Nil).

19. COMMITMENT

	31 Dec 2019	31 Dec 2018
Capital expenditure :-	RM '000	RM '000
Approved and contracted for Property, plant and equipment	463	4,370
Approved but not contracted for Property, plant and equipment	-	-
Total Commitment	463	4,370

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 12 months period ended 31 December 2019 and 31 December 2018 as well as the balances with the related parties as at 31 December 2019 and 31 December 2018.

21 RELATED PARTY TRANSACTIONS (Continued)

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	10,702		5,426	-
	2018	10,616	-	7,109	-
Teobros Ceramica Sdn Bhd	2019	18,638	65	18,496	78
	2018	28,136	152	21,298	12
White Horse Investment (S) Pte Ltd	2019	-	-	-	64,260
	2018	-	-	-	56,374

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 4th QUARTER		Change + / (-)		CUMULATIVE PERIOD		Change + / (-)	
	31 Dec 2019 Unaudited	31 Dec 2018 Audited			31 Dec 2019 Unaudited	31 Dec 2018 Audited		
	RM '000	RM '000	RM '000	%	RM '000	RM '000	RM '000	%
Revenue	145,664	153,132	(7,468)	-4.9%	531,916	612,800	(80,884)	-13.2%
Gross Profit	20,462	27,222	(6,760)	-24.8%	61,878	100,913	(39,035)	-38.7%
Loss Before Tax	(30,034)	(20,939)	(9,095)	43.4%	(61,764)	(26,017)	(35,747)	137.4%

The revenue and gross profit for the current quarter were lower by 4.9% and 24.8% respectively as compared to the same corresponding period of last year, mainly due to the slow market pace in the construction industry and stiff market competition.

The loss before tax was 43.4% higher than last year due to the impairment of assets.

24. COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAXATION

	Current Quarter 31 Dec 2019 Unaudited	Immediate Preceding Quarter 30 Sep 2019 Unaudited	Change + / (-)	
	RM '000	RM '000	RM '000	%
Revenue	145,664	131,119	14,545	11.1%
Gross Profit	20,462	12,564	7,898	62.9%
Loss Before Tax	(30,034)	(10,452)	(19,582)	187.4%

24 COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAXATION (Continued)

The revenue and gross profit for the current quarter are 11.1% and 62.9% respectively higher than the immediate preceding quarter due to the seasonal business trend at year-end, which command a norm of higher turnover.

The loss before tax for the current quarter was higher than the immediate preceding quarter mainly due to the impairment of assets.

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.