

Explanatory Notes pursuant to MFRS 134 for the 2nd quarter ended 30 June 2020.

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 24 August 2020.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements, for the period ended 30 June 2020, 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 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2019, except for the adoption of the following new Malaysian Financial Reporting Standards ("MFRSs") effective for financial periods beginning on or after 1 January 2020.

- 1) Amendments to MFRS 3: Definition of a Business
- 2) Amendments to MFRS 101 and MFRS 108: Definition of Material
- 3) Amendments to references to the Conceptual Framework in MFRS Standards
- 4) Amendments to MFRS 9, MFRS 7 and MFRS139: Interest Rate Benchmark Reform

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

<u>MFRSs</u>	Effective for financial periods beginning <u>on or after</u>
1) MFRS 17: Insurance Contracts	1 Jan 2021
2) Amendments to MFRS 10 and MFRS 128: Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
3) Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 Jan 2022

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.

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
30 Jun 2020	RM '000	RM '000	RM '000	RM '000	RM '000
Segment Revenue					
External sales	110,967	24,288	14,965		150,220
Inter-segment sales	2,359	2,167	911	(5,437)	-
Total revenue	113,326	26,455	15,876	(5,437)	150,220
Segment Results					
Interest income	511	207	12		730
Depreciation & amortisation	13,772	2,968	1,224		17,964
Loss before tax	(34,341)	(6,335)	(1,720)	-	(42,396)
Segment Assets					
Total assets	680,572	131,444	42,465		854,481
Segment Liabilities					
Total liabilities	200,699	50,556	3,928		255,183

SEGMENTAL INFORMATION	Malaysia	Vietnam	Other		
- By geographical area	Operation	Operation	Operation	Eliminations	Total
30 Jun 2019	RM '000	RM '000	RM '000	RM '000	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
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

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

The Group experiencing a loss position due to the impact from the Covid-19 pandemic, slow market pace in the construction industry and 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 will perform better.

8. LOSS BEFORE TAX

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

	CURRENT QUARTER		CUMULATIVE QUARTER	
	3 MONTHS ENDED		6 MONTHS ENDED	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM '000	RM '000	RM '000	RM '000
Interest income	(314)	(281)	(730)	(524)
Interest expense	1,357	1,977	2,895	3,730
Depreciation of property, plant and equipment	7,412	6,902	14,932	13,851
Depreciation of right-of-use assets	1,533	1,410	3,032	2,805
Loss on disposal of property, plant and equipment	54	444	32	429
Write down of inventories	54	25	76	35
Loss / (Gain) on foreign currency exchange	(765)	2,391	5,766	(191)

9. INCOME TAX EXPENSE / (INCOME)

Income tax 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		6 MONTHS ENDED	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM '000	RM '000	RM '000	RM '000
Current Tax:				
Malaysian Income Tax	247	(2,484)	(28)	(4,014)
Foreign Tax	(369)	(85)	(387)	(139)
	(122)	(2,569)	(415)	(4,153)
Deferred Tax	255	750	504	1,500
Total Tax Expense / (Income)	133	(1,819)	89	(2,653)

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.

	CURRENT QUARTER		CUMULATIVE QUARTER	
	03 MONTHS ENDED		06 MONTHS ENDED	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
Loss net of tax attributable to owners of the parent used in the computation of loss per share (RM'000)	(22,352)	(12,684)	(42,485)	(18,625)
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Treasury shares ('000)	(12,289)	(11,760)	(12,289)	(11,760)
Net Weighted average number of ordinary shares in issue ('000)	227,711	228,240	227,711	228,240
Basic loss per share (sen per share)	(9.82)	(5.56)	(18.66)	(8.16)

11. PROPERTY, PLANT AND EQUIPMENT

During the three months ended 30 June 2020, the Group has acquired asset of RM 0.9 million (30 June 2019: RM 3.1 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 2020	30 Jun 2019
	RM '000	RM '000
Cash on hand and at banks	44,913	21,797
Short term deposits with banks	39,950	34,030
Total Cash and Cash Equivalents	84,863	55,827

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

Details of the treasury shares as at 30 June 2020, are as follows :-

Month	No. of shares purchased	Purchase Price		Average Price	Total Consideration
		Highest	Lowest		
Balance as at 30 Jun 2020	12,289,200	RM 2.5000	RM 0.7700	RM 1.5384	RM 18,905,148

16. INTEREST-BEARING LOANS AND BORROWINGS

	Borrowings as at 30 June 2020										
	Long term	Short term					Total Borrowings				
	RM '000	VND '000,000	SD '000	USD '000	EURO 000	RM '000	VND '000,000	SD '000	USD '000	EURO 000	RM '000
Unsecured											
Term loan	-			-	-	4,000	-	-	-	-	4,000
Revolving Credit		-		15,800	-	44,625	-	-	15,800	-	44,625
Trade lines		-	57	501	88	9,293	-	57	501	88	9,293
Total	-	-	57	16,301	88	57,918	-	57	16,301	88	57,918
Foreign exchange rate	1.0000	-	3.0677	4.2825	4.8045	1.0000	-	3.0677	4.2825	4.8045	1.0000
RM'000 Equivalent	-	-	176	69,810	421	57,918	-	176	69,810	421	57,918
Total (RM'000)	-					128,324					128,324

	Borrowings as at 30 June 2019										
	Long term	Short term					Total Borrowings				
	RM '000	VND '000,000	SD '000	USD '000	EURO 000	RM '000	VND '000,000	SD '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	24,944	-	32,823	203	37,743	24,944	-	32,823	203	41,743
Foreign exchange rate	1.0000	0.1760	3.0098	4.1335	4.7083	1.0000	0.1760	3.0098	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

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 4.25% per annum.

There was a reduction in borrowings for RM 54.4 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. (30 June 2019 : Nil).

19. COMMITMENT

Capital expenditure :-	30 Jun 2020	30 Jun 2019
	RM '000	RM '000
Approved and contracted for Property, plant and equipment	-	463
Approved but not contracted for Property, plant and equipment	-	-
Total Commitment	-	463

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 2020 and 30 June 2019 as well as the balances with the related parties as at 30 June 2020 and 31 December 2019.

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	2020	6,340		6,596	-
	2019	5,470		5,555	-
Teobros Ceramica Sdn Bhd	2020	7,006	16	18,485	16
	2019	9,106	58	21,790	71
White Horse Investment (S) Pte Ltd	2020	-	-	-	67,235
	2019	-	-	-	64,896

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 + / (-)		CUMULATIVE PERIOD		Change + / (-)	
	30 Jun 2020 Unaudited	30 Jun 2019 Unaudited			30 Jun 2020 Unaudited	30 Jun 2019 Unaudited		
	RM '000	RM '000	RM '000	%	RM '000	RM '000	RM '000	%
Revenue	55,224	128,233	(73,009)	-56.9%	150,220	255,133	(104,913)	-41.1%
Gross (Loss) / Profit	(2,165)	13,642	(15,807)	-115.9%	7,594	28,852	(21,258)	-73.7%
Loss Before Tax	(22,219)	(14,503)	(7,716)	53.2%	(42,396)	(21,278)	(21,118)	99.2%

The revenue for the current quarter was lower by 56.9 as compared to the same corresponding period of last year, mainly due to impact from the Covid-19 pandemic, other than the slow market pace in the construction industry and stiff market competition.

It was a gross loss for the current quarter due to the market price competition and also the higher production cost resulting from the lower production output, as our business operation was shut down for almost 48 days since 18 March 2020, in compliance with the Movement Control Order imposed by the Government due to the Covid-19 pandemic.

The loss before tax was 53.2% higher than last year mainly due to the lower revenue achieved, resulting from the Covid-19 pandemic.

24. COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAXATION

	Current Quarter 30 Jun 2020 Unaudited	Immediate Preceding Quarter 31 Mar 2020 Unaudited	Change + / (-)	
	RM '000	RM '000	RM '000	%
Revenue	55,224	94,996	(39,772)	-41.9%
Gross (Loss) / Profit	(2,165)	9,759	(11,924)	-122.2%
Loss Before Tax	(22,219)	(20,177)	(2,042)	10.1%

The revenue, gross profit and loss before tax were worst off across the board for the current quarter as compared with the immediate preceding quarter mainly due to the negative impact from the Covid-19 pandemic, even though there was a reduction in the operating expenses for RM 12 million,

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 including pay-cut 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

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 2019 was not qualified.