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EVERSAFE RUBBER

EVERSAFE RUBBER BERHAD

(Company no: 1133877 - V)
(Incorporated in Malaysia)

CONSOLIDATED
RESULTS FOR THE FIRST QUARTER ENDED
31 MARCH 2018

EVERSAFE RUBBER BERHAD (COMPANY NO.: 1133877 - V)
(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FIRST (1ST) QUARTER ENDED 31 MARCH 2018 ⁽¹⁾

| | Individual Period (1st quarter) | | Cumulative Period | |
|--|---|--|---|---|
| | Current Year Quarter 31.03.2018 RM | Preceding Year Corresponding Quarter 31.03.2017 RM | Current Year To-date 31.03.2018 RM | Preceding Year Corresponding Period 31.03.2017 RM |
| Revenue | 25,764,522 | 18,653,471 | 25,764,522 | 18,653,471 |
| Cost of sales | (21,871,616) | (14,959,161) | (21,871,616) | (14,959,161) |
| Gross profit | 3,892,906 | 3,694,310 | 3,892,906 | 3,694,310 |
| Other operating income | 365,466 | 281,004 | 365,466 | 281,004 |
| Distribution costs | (1,344,146) | (1,250,125) | (1,344,146) | (1,250,125) |
| General and administrative expenses | (2,500,632) | (1,288,942) | (2,500,632) | (1,288,942) |
| Profit from operations | 413,594 | 1,436,247 | 413,594 | 1,436,247 |
| Finance income | 27,193 | 46,960 | 27,193 | 46,960 |
| Finance costs | (232,077) | (197,364) | (232,077) | (197,364) |
| Profit before tax | 208,710 | 1,285,843 | 208,710 | 1,285,843 |
| Tax expense | (140,695) | (334,119) | (140,695) | (334,119) |
| Profit for the financial period attributable to owners of the parent | 68,015 | 951,724 | 68,015 | 951,724 |
| Foreign currency translation, net of tax | (31,206) | 2,868 | (31,206) | 2,868 |
| Total comprehensive income, attributable to owners of the parent | 36,809 | 954,592 | 36,809 | 954,592 |
| Profit per share attributable to owners of the parent: | | | | |
| Profit for the financial period | | | | |
| Basic and diluted (sen) ⁽²⁾⁽³⁾ | 0.03 | 0.49 | 0.03 | 0.49 |

EVERSAFE RUBBER BERHAD (COMPANY NO.: 1133877 - V)
(Incorporated in Malaysia)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FIRST (1ST) QUARTER ENDED 31 MARCH 2018 (con'd)**

Notes:

- (1) The basis of preparation of the Condensed Consolidated Statement of Profit Or Loss And Other Comprehensive Income are disclosed in Note A1 and should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017 and the accompanying explanatory notes to this interim financial report.
- (2) Basic earnings per share is calculated based on the Company's weighted average number of ordinary shares for the financial period.
- (3) Diluted earnings per share of the Company is equivalent to the basic earnings per share as the Company does not have convertible options at the end of the reporting period.

N/A - Not applicable

EVERSAFE RUBBER BERHAD (COMPANY NO.: 1133877 - V)

(Incorporated in Malaysia)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018 ⁽¹⁾**

| | As at 31.03.2018 RM (Unaudited) | As at 31.12.2017 RM (Restated) |
|--|--|---|
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 33,179,400 | 33,550,109 |
| Intangible assets | 18,026 | 21,700 |
| Trade receivable | 1,250,460 | 1,361,273 |
| | 34,447,886 | 34,933,082 |
| Current assets | | |
| Inventories | 18,724,111 | 16,435,356 |
| Trade and other receivables | 32,450,881 | 28,800,982 |
| Current tax assets | 166,664 | 110,895 |
| Cash and bank balances | 16,631,931 | 20,115,662 |
| | 67,973,587 | 65,462,895 |
| TOTAL ASSETS | 102,421,473 | 100,395,977 |
| EQUITY AND LIABILITIES | | |
| Equity attributable to owners of the parent | | |
| Share capital | 65,428,449 | 65,428,449 |
| Reserves | 1,621,737 | 2,047,672 |
| TOTAL EQUITY | 67,050,186 | 67,476,121 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Deferred tax liabilities | 3,863,362 | 3,785,416 |
| Borrowings | 1,754,108 | 1,708,834 |
| | 5,617,470 | 5,494,250 |
| Current liabilities | | |
| Trade and other payables | 8,444,999 | 6,873,429 |
| Borrowings | 20,917,004 | 20,009,757 |
| Current tax liabilities | 391,814 | 542,420 |
| | 29,753,817 | 27,425,606 |
| TOTAL LIABILITIES | 35,371,287 | 32,919,856 |
| TOTAL EQUITY AND LIABILITIES | 102,421,473 | 100,395,977 |
| Net assets per ordinary share (RM) ⁽²⁾ | 0.279 | 0.280 |

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018 ⁽¹⁾ (con'd)

Notes:

- (1) The basis of preparation of the Condensed Consolidated Statement of Financial Position are disclosed in Note A1 and should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017 and the accompanying explanatory notes to this interim financial report.
- (2) Net assets per ordinary shares is calculated based on the Company's number of ordinary shares at the end of the reporting period.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FIRST (1ST) QUARTER ENDED 31 MARCH 2018 ⁽¹⁾

| | [-----Non-distributable-----] | | | | Distributable | Total equity RM |
|--|-------------------------------|-----------------------|--|------------------------------------|-------------------------|--------------------|
| | Share capital RM | Capital reserve RM | Foreign currency translation reserve RM | Reorganisation debit reserve RM | Retained earnings RM | |
| Balance as at 1 January 2017 | 48,148,449 | 7,104 | (1,239,158) | (36,914,958) | 45,554,001 | 55,555,438 |
| Profit for the financial period | - | - | - | - | 951,724 | 951,724 |
| Other comprehensive income, net of tax | - | - | 2,868 | - | - | 2,868 |
| Total comprehensive income | - | - | 2,868 | - | 951,724 | 954,592 |
| Balance as at 31 March 2017 | 48,148,449 | 7,104 | (1,236,290) | (36,914,958) | 46,505,725 | 56,510,030 |

| | [-----Non-distributable-----] | | | | Distributable | Total equity RM |
|--|-------------------------------|-----------------------|--|------------------------------------|-------------------------|--------------------|
| | Share capital RM | Capital reserve RM | Foreign currency translation reserve RM | Reorganisation debit reserve RM | Retained earnings RM | |
| Balance as at 31 December 2017 | 65,428,449 | 7,104 | (1,252,168) | (36,914,958) | 41,131,835 | 68,400,262 |
| Adjustments from adoption of MFRS 15 | - | - | - | - | (924,141) | (924,141) |
| Opening balance adjustment from adoption of MFRS 9 | 65,428,449 | 7,104 | (1,252,168) | (36,914,958) | 40,207,694 | 67,476,121 |
| | - | - | - | - | (462,744) | (462,744) |
| Restated balance as at 1 January 2018 | 65,428,449 | 7,104 | (1,252,168) | (36,914,958) | 39,744,950 | 67,013,377 |
| Loss for the financial period | - | - | - | - | 68,015 | 68,015 |
| Other comprehensive income, net of tax | - | - | (31,206) | - | - | (31,206) |
| Total comprehensive income | - | - | (31,206) | - | 68,015 | 36,809 |
| Balance as at 31 March 2018 | 65,428,449 | 7,104 | (1,283,374) | (36,914,958) | 39,812,965 | 67,050,186 |

Note:-

(1) The basis of preparation of the Condensed Consolidated Statement of Changes in Equity are disclosed in Note A1 and should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017 and the accompanying notes to this interim financial report.

EVERSAFE RUBBER BERHAD (COMPANY NO.: 1133877 - V)
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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FIRST (1ST) QUARTER ENDED 31 MARCH 2018 ⁽¹⁾**

| | (Unaudited) 3 months ended 31.03.2018 RM | (Unaudited) 3 months ended 31.03.2017 RM |
|---|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before tax | | |
| Continuing operations | 208,710 | 1,285,843 |
| Adjustments for: | | |
| Non-cash items/Non-operating items | 2,272,624 | 1,040,247 |
| Operating profit before working capital changes | <u>2,481,334</u> | <u>2,326,090</u> |
| Changes in working capital: | | |
| Increase in inventories | (2,292,763) | (1,059,425) |
| Increase in trade and other receivables | (5,201,888) | (27,104) |
| Decrease/(Increase) in trade and other payables | 1,816,383 | (2,134,395) |
| Others | 48,732 | 217,375 |
| Cash utilised in operations | <u>(3,148,202)</u> | <u>(677,459)</u> |
| Tax paid - net | (264,702) | (457,762) |
| Net cash used in operating activities | <u>(3,412,904)</u> | <u>(1,135,221)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | <u>27,193</u> | <u>46,960</u> |
| Purchase of property, plant and equipment | <u>(363,341)</u> | <u>(988,914)</u> |
| Net cash used in investing activities | (336,148) | (941,954) |

EVERSAFE RUBBER BERHAD (COMPANY NO.: 1133877 - V)
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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FIRST (1ST) QUARTER ENDED 31 MARCH 2018 (con'd)**

| | (Unaudited) 3 months ended 31.03.2018 RM | (Unaudited) 3 months ended 31.03.2017 RM |
|--|--|--|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Interest paid | (232,077) | (197,364) |
| Net drawdowns of bank borrowings | 1,273,611 | 4,447,402 |
| (Increase)/Decrease in short-term deposits pledged as securities | (26,876) | 1,461,866 |
| Net cash generated from financing activities | 1,014,658 | 5,711,904 |
| Net (decrease)/increase in cash and cash equivalents | (2,734,394) | 3,634,729 |
| Effect of foreign exchange rates changes | (37,584) | 31,393 |
| Cash and cash equivalents at the beginning of the financial period | 13,617,242 | 2,710,075 |
| Cash and cash equivalents at the end of the financial period | 10,845,264 | 6,376,197 |
| Cash and cash equivalents comprise: | | |
| Cash and bank balances | 16,631,931 | 11,591,573 |
| Less: Deposits pledged as securities | (3,609,138) | (3,501,200) |
| Less: Deposits with licensed banks and other financial institutions with maturity of over 3 months | (1,500,000) | (1,500,000) |
| | 11,522,793 | 6,590,373 |
| Less: Bank overdrafts | (677,529) | (214,176) |
| | 10,845,264 | 6,376,197 |

Note:

(1) The basis of preparation of the Condensed Consolidated Statement of Cash Flows are disclosed in Note A1 and should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017 and the accompanying explanatory notes to this interim financial report.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1ST) QUARTER ENDED 31 MARCH 2018

A1. BASIS OF PREPARATION

The interim financial report of Eversafe Rubber Berhad (“Eversafe Rubber” or “the Company”) and its subsidiaries (“the Group”) are unaudited and have been prepared in accordance with the requirements of MFRS 134 - Interim Financial Reporting and Paragraph 9.22 of the Listing Requirements of Bursa Securities.

A2. CHANGES IN ACCOUNTING POLICIES

The accounting policies and presentation adopted by the Group for the quarterly financial statements are consistent with those adopted in the audited financial statements of the Group for the financial year ended 31 December 2017, except for the adoption of the following MFRS/ Amendments/ Interpretations effective 1 January 2018:

MFRS 9, Financial Instruments
MFRS 15, Revenue from Contracts with Customers
Amendments to MFRS 15, Clarifications to MFRS 15
Amendments to MFRS 1, Annual Improvements to MFRS Standards 2014 - 2016 Cycle
Amendments to MFRS 2, Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 128, Annual Improvements to MFRS Standards 2014-2016 Cycle
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration
Amendments to MFRS 140, Transfers of Investment Property
Amendments to MFRS 4 Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts

The Group has adopted the new and revised MFRSs that are relevant and effective for accounting periods beginning on or after 1 January 2018. The adoption of these new and revised MFRSs have not resulted in any material impact on the financial statements of the Group as mentioned below:

MFRS 9, Financial Instruments

On the adoption of MFRS 9, the Group has assessed all the three aspects of the accounting for the financial assets and liabilities for classification and measurement, impairment and hedge accounting. In respect of impairment of financial assets, MFRS 9 replaces the “incurred loss” model in MFRS 139 with an “expected credit loss” model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments.

On the date of initial application, MFRS 9 did not affect the classification and measurement of the Group’s financial assets and financial liabilities, except that the Group’s allowance for impairment has increased by RM0.46 million as at 1 January 2018 as a result of applying the ECL model on trade receivables. As permitted by the transitional provisions of MFRS 9, the Group has elected not to restate comparative figures for the statement of profit and loss and thus this adjustment was recognised in the opening retained earnings of the current period.

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A2. CHANGES IN ACCOUNTING POLICIES (cont'd)

MFRS 15, Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretation when it becomes effective.

Upon adoption of MFRS 15, the Group recognises the revenue from contracts with customers when or as the Group transfers goods or services to a customer, measured at the amount to which the Group expects to be entitled, according to the term and condition stipulated in the contracts with customers. Depending on whether certain criteria are met, revenue is recognised over time, in a manner that depicts the Group's performance; or at a point in time, when control of the goods or services is transferred to the customers.

The impact of adopting MFRS 15 is as follows:

Statement of Financial Position:

| | <u>Previously Reported</u> RM | <u>Effect of MFRS 15</u> RM | <u>Restated</u> RM |
|--|--------------------------------------|------------------------------------|-----------------------|
| For the quarter ended 31 December 2017 | | | |
| Current assets | | | |
| Trade and other receivables | 32,421,189 | (3,620,207) | 28,800,982 |
| Inventories | 13,739,290 | 2,696,066 | 16,435,356 |
| Impact to assets | <u>46,160,479</u> | <u>(924,141)</u> | <u>45,236,338</u> |
| Equity attributable to owners of the Parent | | | |
| Reserves | <u>2,971,813</u> | <u>(924,141)</u> | <u>2,047,672</u> |

The Group has elected to recognise the adjustment of the financial effect of MFRS 15 in the opening retained earnings of the current period and, accordingly, the comparative figures for the statement of profit and loss for 2017 have not been restated.

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A2. CHANGES IN ACCOUNTING POLICIES (cont'd)

The following are Standards of the MFRS Framework that have been issued by the Malaysian Accounting Standards Board (“MASB”) but not yet effective and have not applied by the Group:

| MFRSs (Including The Consequential Amendments) | Effective Date |
|---|-----------------------|
| MFRS 16 Leases | 1 January 2019 |
| IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i> | 1 January 2019 |
| Amendments to MFRS 128 <i>Long-Term Interests in Associates and Joint Ventures</i> | 1 January 2019 |
| Amendments to MFRS 9 <i>Prepayment Features with Negative Compensation</i> | 1 January 2019 |
| Amendments to MFRS 3 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i> | 1 January 2019 |
| Amendments to MFRS 11 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i> | 1 January 2019 |
| Amendments to MFRS 112 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i> | 1 January 2019 |
| Amendments to MFRS 123 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i> | 1 January 2019 |
| Amendments to MFRS 119 <i>Plan Amendment, Curtailment or Settlement</i> | 1 January 2019 |
| MFRS 17 Insurance Contracts | 1 January 2021 |
| Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> | Deferred |
| Amendments to MFRS 2 <i>Share-Based Payment</i> | 1 January 2020 |
| Amendments to MFRS 3 <i>Business Combinations</i> | 1 January 2020 |
| Amendments to MFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> | 1 January 2020 |
| Amendments to MFRS 14 <i>Regulatory Deferral Accounts</i> | 1 January 2020 |
| Amendments to MFRS 101 <i>Presentation of Financial Statements</i> | 1 January 2020 |
| Amendments to MFRS 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> | 1 January 2020 |
| Amendments to MFRS 134 <i>Interim Financial Reporting</i> | 1 January 2020 |
| Amendments to MFRS 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i> | 1 January 2020 |
| Amendments to MFRS 138 <i>Intangible Assets</i> | 1 January 2020 |
| Amendments to IC Interpretation 12 <i>Service Concession Arrangements</i> | 1 January 2020 |
| Amendments to IC Interpretation 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i> | 1 January 2020 |
| Amendments to IC Interpretation 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i> | 1 January 2020 |
| Amendments to IC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i> | 1 January 2020 |
| Amendments to IC Interpretation 132 <i>Intangible Assets Web Site Costs</i> | 1 January 2020 |

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A3. AUDITORS' REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The preceding year's audited financial statements of the Group were not subject to any qualification.

A4. SEASONAL OR CYCLICAL FACTORS

The Group's business operations are not materially affected by seasonal or cyclical factors during the current financial quarter under review.

Generally, our sales for the first (1st) half of the year will be slower as compared to the second (2nd) half of the year. This is attributable to the festive seasons, public holidays and geometric condition in certain country. We generally see our sales picking up in the second (2nd) half of the year. Save for the above, our Group does not experience any other material seasonality or cyclical effects in sales.

A5. UNUSUAL ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS

There were no material unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter and the financial year-to-date under review.

A6. MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates that had a material effect in the current financial quarter and the financial year-to-date under review.

A7. DEBT AND EQUITY SECURITIES

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial quarter.

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A8. SEGMENTAL INFORMATION

The Group is principally involved in the manufacturing and sale of rubber based tyre retread products and provision of related services.

No product and services segment information is presented as the Chief Operating Decision Maker (CODM) views the Group as a single reportable segment.

Segment revenue is based on geographical location from which the sale transactions originated.

The following are revenue from external customers by geographical location with revenue equal or more than ten percent (10%) of the Group revenue:

| | Individual Quarter | | Cumulative Quarter | |
|---------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | 3 months ended 31.03.2018 RM | 3 months ended 31.03.2017 RM | 3 months ended 31.03.2018 RM | 3 months ended 31.03.2017 RM |
| Revenue from external customers | | | | |
| Malaysia | 12,734,189 | 8,181,216 | 12,734,189 | 8,181,216 |
| Japan | 2,352,211 | 3,006,122 | 2,352,211 | 3,006,122 |
| Others | 10,678,122 | 7,466,133 | 10,678,122 | 7,466,133 |
| | <u>25,764,522</u> | <u>18,653,471</u> | <u>25,764,522</u> | <u>18,653,471</u> |
| Sales by currency | | | | |
| - USD | 7,245,231 | 3,714,731 | 7,245,231 | 3,714,731 |
| - JPY | 2,352,211 | 3,006,122 | 2,352,211 | 3,006,122 |
| - RM | 12,734,189 | 8,181,216 | 12,734,189 | 8,181,216 |
| - Others | 3,432,891 | 3,751,402 | 3,432,891 | 3,751,402 |
| | <u>25,764,522</u> | <u>18,653,471</u> | <u>25,764,522</u> | <u>18,653,471</u> |
| Average foreign exchange rates | | | | |
| - RM/USD | 3.925 | 4.446 | 3.925 | 4.446 |
| - RM/JPY100 | <u>3.624</u> | <u>3.913</u> | <u>3.624</u> | <u>3.913</u> |

(source: Bank Negara Malaysia Exchange Rate)

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A9. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

The Group has not carried out any valuation on its property, plant and equipment in the current financial quarter and the financial year-to-date under review.

A10. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE CURRENT FINANCIAL QUARTER

There were no material events subsequent to the end of the current financial quarter that have not been reflected in this interim financial report.

A11. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the current financial quarter and the financial year-to-date under review.

A12. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There were no contingent assets and contingent liabilities as at the date of this interim financial report.

A13. CAPITAL COMMITMENTS

Save for the new manufacturing lines and enhanced automation systems as disclosed in note B7, there were no material capital commitments in respect of property, plant and equipment as at the end of the current financial quarter under review.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1ST) QUARTER ENDED 31 MARCH 2018

B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES

B1. REVIEW OF PERFORMANCE

For the current financial quarter under review, the Group recorded revenue of RM25.76 million as compared to revenue of RM18.65 million for the preceding year's corresponding quarter. This is mainly due to the increase in the sales of tyre retreading materials especially pre-cured tread liner that is the main income of the Group.

The Group registered a profit before taxation of RM0.21 million for the current financial quarter under review as compared to the profit before taxation of RM1.29 million for the preceding year corresponding quarter. This is mainly due to the higher cost of raw materials and losses on foreign exchange.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

| | Current Quarter 31.03.2018 RM | Preceding Quarter 31.12.2017 RM | Variance RM | % |
|-------------------|--|--|------------------------|----------------|
| Revenue | 25,764,522 | 26,907,638 | (1,143,116) | (4.25) |
| Profit before tax | <u>208,710</u> | <u>1,063,129</u> | <u>(854,419)</u> | <u>(80.37)</u> |

The Group's revenue decreased by 4.25% from RM26.91 million recorded in the immediate preceding quarter to RM25.76 million in the current financial quarter. This is mainly due to lesser working days in the first quarter of the year.

The profit before tax of the Group decreased by RM0.85 million from RM1.06 million in the previous financial quarter to RM0.21 million in the current financial quarter which is mainly due to higher cost of raw materials and losses on foreign exchange.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1ST) QUARTER ENDED 31 MARCH 2018
(CONT'D)

B3. COMMENTARY ON PROSPECTS

As disclosed in the Prospectus of the Company dated 31 March 2017, the Group has put in place a series of future plans in the following areas:-

Grow overseas markets

- (a) establish footprint in new overseas markets
- (b) increase export sales to overseas markets
- (c) enhance manufacturing capabilities
- (d) widen range of products, particularly high value-added and premium products
- (e) branding initiative and establish Intellectual property rights in new overseas markets

Enhance product quality

- (f) improve efficiency and reduce wastage
- (g) ensure consistent product quality

The Group plans to increase its export sales and geographical footprint to various overseas markets. The new markets the Group intends to expand to will primarily be outside the ASEAN region, with a focus on the South American region. The Group is in the midst of finalising the details of a joint venture agreement with its business partner to establish a tyre retreading plant in South America and also to market and distribute the retreaded tyres.

Being in the export business, the Group is exposed to foreign currency exchange risks as the Group's export revenue is mainly transacted in USD and JPY. On the other hand, the import of the raw materials such as synthetic rubber and carbon black is mainly denominated in USD. Any significant movement in foreign exchange rates will affect the Group's financial performance. Nonetheless, the Group matches its foreign-denominated sales with foreign-denominated purchases as a natural hedge to a certain degree against adverse foreign exchange fluctuations.

Barring any unforeseen circumstances, the Board is of the opinion that the prospects of the Group's financial performance for the financial year ending 31 December 2018 will remain satisfactory.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1ST) QUARTER ENDED 31 MARCH 2018
(CONT'D)

B4. INCOME TAX EXPENSES

| | Individual Quarter | | Cumulative Quarter | |
|-------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 3 months ended 31.03.2018 RM | 3 months ended 31.03.2017 RM | 3 months ended 31.03.2018 RM | 3 months ended 31.03.2017 RM |
| Income tax expense:- | | | | |
| Current financial period/year | 22,556 | 135,000 | 22,556 | 135,000 |
| Under provision in prior year | 35,810 | - | 35,810 | - |
| Deferred tax:- | | | | |
| Current financial period/year | (286,919) | 199,119 | (286,919) | 199,119 |
| Under provision in prior year | 369,248 | - | 369,248 | - |
| Total tax expense | <u>140,695</u> | <u>334,119</u> | <u>140,695</u> | <u>334,119</u> |

The applicable Malaysian income tax rate is 24% for the financial year ended 31 December 2018 (24% for the financial year ended 31 December 2017).

The Group's effective tax rate for the current year-to-date were higher than the statutory rate due to losses incurred by certain subsidiaries and also certain expenses which were not deductible for tax purposes.

B5. VARIANCE OF ACTUAL PROFIT FROM PROFIT FORECAST AND PROFIT GUARANTEE

The Group has not issued any profit forecast or profit guarantee in any form of public documentation and announcement.

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B6. STATUS OF CORPORATE PROPOSALS

There were no corporate proposals announced as at the date of this report.

B7. UTILISATION OF PROCEEDS

Based on the IPO price of RM0.36 per share, the gross proceeds arising from the public issue amounting to RM17,280,000 shall be utilised in the following manner:-

| Purposes | Proposed Utilisation RM'000 | Actual * Utilisation RM'000 | Deviations # RM'000 | Balance RM'000 | Estimated Timeframe for utilization upon listing |
|---|--------------------------------|-----------------------------------|------------------------|-------------------|---|
| (a) New manufacturing lines and enhanced automation systems | 12,580 | (10,712)^ | 293 | 2,161 | Within 24 months |
| (b) Establish intellectual property rights and overseas branding Initiative | 1,500 | (147) | - | 1,353 | Within 36 months |
| (c) Estimated listing expenses | 3,200 | (2,907) | (293) | - | Immediate |
| Total | 17,280 | (13,766) | - | 3,514 | |

* Utilisation as at 31 March 2018.

All listing expenses have been fully paid. Accordingly, the balance of RM0.293 million will be utilised for new manufacturing lines and enhancing automation systems.

^ Part of these which include capital expenditure incurred prior to the IPO which was funded using internally generated funds and bank borrowings.

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B8. GROUP BORROWINGS AND DEBT SECURITIES

Total Group's borrowing (all of which are secured against the Group's assets) as at 31 March 2018 are as follows:-

| | <u>Long term</u> | | <u>As at 31.03.2018</u> <u>Short term</u> | | <u>Total borrowings</u> | |
|-----------------------------------|------------------|------------------|--|-------------------|-------------------------|-------------------|
| | USD | RM | USD | RM | USD | RM |
| Secured: | | | | | | |
| Bankers' acceptance | - | - | 1,797,735 | 6,944,651 | 1,797,735 | 6,944,651 |
| Bankers' acceptance | - | - | - | 11,799,000 | - | 11,799,000 |
| Term loans | - | 1,272,597 | - | 1,226,708 | - | 2,499,305 |
| Hire purchase and lease creditors | - | 481,511 | - | 269,116 | - | 750,627 |
| Bank overdrafts | - | - | - | 677,529 | - | 677,529 |
| Total | - | 1,754,108 | 1,797,735 | 20,917,004 | 1,797,735 | 22,671,112 |

| | <u>Long term</u> | | <u>As at 31.03.2017</u> <u>Short term</u> | | <u>Total borrowings</u> | |
|-----------------------------------|------------------|------------------|--|-------------------|-------------------------|-------------------|
| | USD | RM | USD | RM | USD | RM |
| Secured: | | | | | | |
| Bankers' acceptance | - | - | 1,491,178 | 6,595,481 | 1,491,178 | 6,595,481 |
| Bankers' acceptance | - | - | - | 9,560,533 | - | 9,560,533 |
| Term loans | - | 1,946,864 | - | 1,019,964 | - | 2,966,828 |
| Hire purchase and lease creditors | - | 410,611 | - | 267,911 | - | 678,522 |
| Bank overdrafts | - | - | - | 214,176 | - | 214,176 |
| Total | - | 2,357,475 | 1,491,178 | 17,658,065 | 1,491,178 | 20,015,540 |

B9. MATERIAL LITIGATION

There were no material litigations pending as at the date of this announcement.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FIRST (1ST) QUARTER ENDED 31 MARCH 2018
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B10. DIVIDENDS

The Board of Directors does not recommend any dividend for the current financial quarter under review.

B11. EARNINGS PER SHARE (“EPS”)

The basic and diluted EPS for the current financial quarter and current period of 31 March 2018 are computed as follows:

| | Individual Quarter | | Cumulative Quarter | |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 3 months ended 31.03.2018 RM | 3 months ended 31.03.2017 RM | 3 months ended 31.03.2018 RM | 3 months ended 31.03.2017 RM |
| Basic | | | | |
| Profit attributable to equity holders of the Company | <u>68,015</u> | <u>951,724</u> | <u>68,015</u> | <u>951,724</u> |
| Weighted average number of ordinary shares | <u>240,593,796</u> | <u>192,593,796</u> | <u>240,593,796</u> | <u>192,593,796</u> |
| Basic earnings per ordinary share for (sen) | <u>0.03</u> | <u>0.49</u> | <u>0.03</u> | <u>0.49</u> |

Diluted

The diluted earnings per share equals basic earnings per share because there are no potentially dilutive instruments in existence as at the end of each reporting period.

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B12. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit before taxation is arrived at after charging/(crediting):-

| | Individual Quarter | | Cumulative Quarter | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 3 months ended 31.03.2018 | 3 months ended 31.03.2017 | 3 months ended 31.03.2018 | 3 months ended 31.03.2017 |
| | RM | RM | RM | RM |
| Interest income | (27,193) | (46,960) | (27,193) | (46,960) |
| Other income including investment income | - | - | - | - |
| Interest expense | 232,077 | 197,364 | 232,077 | 197,364 |
| Depreciation of property, plant and equipment | 1,068,085 | 975,448 | 1,068,085 | 975,448 |
| Amortisation of intangible assets | 10,674 | 5,425 | 10,674 | 5,425 |
| Bad debts written off | 247 | - | 247 | - |
| Inventories written down | - | - | - | - |
| Reversal of inventories written down | - | - | - | - |
| Gain on disposal of property, plant and equipment | - | - | - | - |
| Loss on disposal of a former subsidiary | - | - | - | - |
| Impairment of assets | - | - | - | - |
| Impairment loss on trade receivables | - | - | - | - |
| Reversal of impairment loss on trade receivables | - | - | - | - |
| Foreign exchange loss | 677,665 | - | 677,665 | - |
| Foreign exchange gain | (240,939) | (91,030) | (240,939) | (91,030) |
| Exceptional items | - | - | - | - |