
6. INDUSTRY OVERVIEW

6.1 Overview of Malaysian Economy

The Malaysian economy strengthened further, with growth in real Gross Domestic Products (“GDP”) increasing at a faster pace of 8% in the second quarter of 2004, from 7.6% in the first quarter. Private sector aggregate demand was more robust and reinforced by buoyant growth in external demand. Stronger domestic demand emanated largely from stronger household consumption and the strengthening of private investment activities, as the public sector continued to consolidate. The private sector continued to be the main growth driver, contributing significantly to real GDP growth.

Overall, the global economic performance in the first half of 2004 has surpassed expectations. GDP growth was higher than expected in the first half-year and more balanced across regions. While indicators point towards some moderation in global growth in the second half-year, global growth is expected to remain strong, supported by continued growth in consumer and investment demand. Continued expansion in intra-regional trade and domestic demand as well as favourable outlook for the global economy would continue to support growth in the regional economies.

This favourable external environment is expected to further reinforce domestic demand growth in Malaysia. Improved consumer and business confidence, favourable commodity prices, stable employment conditions and rising incomes are expected to support further growth in private consumption and investment. Given the high savings, rising incomes and liquidity in the banking system, there is potential for higher consumption to support growth without undermining financing of private investment from domestic sources. Favourable financing conditions and improving corporate profitability as well as sustained growth in external demand will support private investment in the second half-year. In the business sector, the forward-looking indicators, loan applications and approvals by the banking system were significantly higher in the second quarter. Overall, growth would continue to be private sector driven with ongoing consolidation by the public sector.

The underlying fundamentals of the Malaysian economy continue to remain strong with low inflation, stable labour market conditions, sound and strong banking system and rising external reserves. Expanding capacity and increasing competitiveness of the domestic economy will contain price pressures in the strong growth environment. Monetary policy will, therefore, remain accommodative. The supportive external environment and conducive domestic conditions ensure that growth is likely to remain strong in the second half of the year. Following the strong growth performance of 7.8% for the first half-year, growth for the year as a whole is expected to surpass earlier estimates.

(Source: Press release by Bank Negara Malaysia titled Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2004 dated 25 August 2004)

6.2 Industries Relating to the Group

The Group has been aggressively expanding its oil palm biomass optimisation activities. In its foray into these activities, the Group has successfully developed, produced and distributed ECOFIBRE, ECOMAT and ECOFIBREX. ECOMAT, which is initially marketed to the agricultural sector is now being used for soil erosion and protection purposes. The diversification of the use of ECOMAT has opened up new larger potential markets such as terrain management, in particular infrastructure and landscaping sectors.

Concrete plans have been put forth by the Board to explore the use of EFB as raw material for other potential products. The development of ECOPAK will enable the Group to reach out to the mass consumer market for disposable food packaging, and to the general product packaging market, whilst the development of ECOPULP will see marketing efforts made within the pulp and paper industry. As such, the Group’s principal end-users for its technologies and products are not merely confined to the agricultural sector at large or specifically the oil palm industry, but are extended to infrastructure, terrain management, the disposable food and beverage, general product packaging, and the pulp and paper markets.

6. INDUSTRY OVERVIEW (Cont'd)

6.2.1 Outlook of the Oil Palm Biomass Recycling Industry

Approximately 90% of the CPO is used in food applications – production of cooking oil and margarine. The remaining 10% is processed into non-food applications – mainly oleochemicals – and are used in applications such as soap and efforts are also underway to use it as a biodiesel (diesel substitute). Palm oil and derived food products are already widely used in food and non-food applications. The CPO also shows promise of being a strategic, renewable and green product in the fuel and oleochemical/petroleum sectors.

Palm oil, the current major revenue generator for the industry, represents only a usage of 10% of the oil palm component. The balance 90% of the oil palm has yet to be commercially exploited. Fibrous biomass in the form of trunks, fronds and EFBs are derived from the oil palm trees during the extraction process. On average, an oil palm plantation produces about 55 tonnes per hectare per year of dry matter as compared to 5.5 tonnes of CPO and PKO. The maximisation of this could significantly increase revenue-generating capacity of up to RM30 billion annually, as well as create industries and additional employment opportunities.

(Source: Frost & Sullivan Summary of Independent Market Research Report dated 2 December 2004 on Strategic Analysis of the Malaysian Market Potential for ECOMAT and ECOPAK which is prepared for the inclusion in the Prospectus)

The process of extracting oil from the oil palm bunches generates CPO as well as Palm Oil Mill Effluent (“POME”), large quantities of EFBs, mesocarp fibre and shell, which may become a source of environmental pollution. Each ton of FFB at the extraction mill generates approximately 0.23 tons of EFBs, effluents and other by products.

(Source: Malaysian Palm Oil Promotion Council - MPOPC)

The palm oil industry made significant strides during the year. Malaysia gained marked shares for palm oil-based products in five (5) new markets, namely Chechnya, Antigua, Mayotte, Cape Verde and the Central African Republic. In the area of research and development, MPOB launched thirty-five (35) new technologies and products for commercialisation in the palm oil industry in 2003. To enhance utilisation of palm oil products, MPOB together with local palm oil related agencies conducted research in collaboration with research organisations and institutional users in several consuming countries. Joint venture projects have been conducted with P.R. China, Egypt, Oman, Poland, Russian, Ukraine, South Africa, Pakistan, Turkey and Kuwait. In addition, Malaysia participated actively in the international scientific and trade meetings to promote facilitation of international trade for palm oil products.

(Source: Bank Negara Malaysia Annual Report 2003)

Backed with a wealth of experience and expertise in optimisation of oil palm biomass, the Group will be poised to reap the immense business opportunities and potential that oil palm biomass holds. The Board anticipates that the Group will benefit from the increasing environmental consciousness and responsibility within the general populace, stringent enforcement of legislation on waste disposal and the need for the overall oil palm industry to increase its revenue generating capacity.

6.2.2 Outlook of the Application of ECOMAT for Malaysian Agricultural Sector

Agricultural exports are also one of the country's major foreign exchange earners, accounting for around 8.4 percent of total export earnings in 2003. Improving market access for agriculture exports, particularly palm oil, is one of the key challenges. With greater market access and acceptability, the agriculture sector can be a stronger source of economic growth.

6. INDUSTRY OVERVIEW (Cont'd)

Sustained investment in the agriculture sector was largely attributed to activities in crop plantation, with a larger contribution from palm oil plantations, buoyed by stronger demand for crude palm oil and high prices. The capital expenditure was mainly to improve efficiency in crop harvesting processes and for new planting as well as replanting activities. The increase in investment in the agriculture sector was also reflected in higher imports of agricultural equipment during the year. In addition, higher investment committed under the National Agricultural Policy continued to encourage participation from the private sector, primarily for food production.

(Source: Bank Negara Malaysia Annual Report 2003)

Malaysia is going back to its roots, with the government's commitment to revitalise the agriculture sector as the third engine of growth after manufacturing and services. This is in line with its policy to reduce food imports and increase food production.

The agriculture sector is projected to grow by 2.8 percent for the year 2004 as compared to the 5.7 percent growth registered in 2003. This was due to a slower growth in the output of crude palm oil (CPO) after a strong increase in the previous year. However, it was noted that the overall agriculture sector registered a growth of 3.2 percent in the first six months of the year on the back of an increase in the output of rubber and food commodities, especially fish, livestock and fruits. This increase can be attributed to the success of the government's policy to reduce food imports and increase food production.

(Source: Frost & Sullivan Summary of Independent Market Research Report dated 2 December 2004 on Strategic Analysis of the Malaysian Market Potential for ECOMAT and ECOPAK which is prepared for the inclusion in the Prospectus)

Towards this end, the Group is anticipated to benefit from the encouraging prospects of the agricultural sector. This will augur well with the overall Group activities, in particular its product, ECOMAT as large-scale agricultural activities, replanting programmes, increase plantation land hectareage provides an immense opportunities for the Group.

6.2.3 Outlook of the Eco-Friendly Packaging Industry

The growing public desire to preserve natural resources and minimise waste has contributed positively in the growth of the biodegradable food and beverage packaging materials in the recent years. Biodegradable packaging, minimises the use of natural resources and use less energy at all stages of the life cycle of the packaged product. As a reflection of this trend, countries such as China, Japan, North America and Western Europe are phasing out non-biodegradable materials specifically styrofoam.

Depicted below is the consumption of disposable food and beverage packaging material, legislation and government policies in the respective countries. These developments are anticipated to provide the impetus for the growing demand of eco-friendly packaging materials.

-
- | | |
|---------------------------|---|
| China ⁺ | <ul style="list-style-type: none"> ▪ The annual consumption of disposable food and beverage packaging is about 10 billion pieces and around 80 percent are Styrofoam. ▪ On 1 January 2000, to curb the increasing amount of domestic waste as well as a method to reduce environmental pollution in the country, the Chinese Government imposed a ban on the production, selling and using non-degradable disposable food packaging material. |
|---------------------------|---|
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6. INDUSTRY OVERVIEW (Cont'd)

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|-------------------------------|--|
| Taiwan ⁺ | <ul style="list-style-type: none"> ▪ Approximately 17.7 million persons eat out everyday, or around 6 million persons for each meal, producing about 59,000 tonnes of disposable food and beverage packaging annually. This includes 43,000 tonnes of non-biodegradable plastic and styrofoam packaging material. ▪ Only 15% of the 20% of disposable food and beverages packaging are effectively recycled. To reduce such domestic waste, the Environment Protection Administration (EPA) of Taiwan, is currently pushing for restricted use of non recycled packaging materials throughout Taiwan. |
| Singapore ⁺ | <ul style="list-style-type: none"> ▪ With a 100% urbanisation rate, Singaporean frequent “eating out” venues such as hawker centres, coffee shops, fast food outlets as well as the high-end restaurants. This leads to the consumption of a significant amount of disposable food and beverage packaging. In 2002, approximately 2.63 million tonnes of waste was disposed off. Out of these waste, 57.4 percent were from residential premises, food centres and markets whilst the remainder from commercial and industrial premises. ▪ About 92% of the refuse were incinerated, while the remaining were landfilled. In an effort to accommodate land constraints and mitigate the rising cost of disposal, waste minimisation was actively promoted across all sectors of the community in 2001. |
| Japan ⁺ | <ul style="list-style-type: none"> ▪ During the 20th century, consumer packaging in Japan went through a phase of mass production, mass consumption and mass disposal, which supported the high growth rate of the Japanese economy. However, currently, consumer packaging in Japan is going through a new phase, which includes appropriate production, appropriate consumption and minimum disposal. Annually, there are about 450 million tonnes of waste generated in Japan. ▪ There is a growing shortage of landfill sites as the amount of waste generated increased. Estimates show that landfill sites in Japan will last only another 12.3 years (from fiscal year 1999) with current domestic waste generation patterns. Recycling initiative and using eco-friendly products will augur well in Japan efforts to further reduce waste generation. |
| Hong Kong ⁺ | <ul style="list-style-type: none"> ▪ Like many other developed countries, Hong Kong has seen its wasteloads grow as its economy has grown. In 2001, the population was 6.7 million and it has an average annual population growth rate of 0.3 percent till 2015. The per capita level of domestic waste has risen from 0.95 kilograms per person per day in 1990, to 1.11 kilograms in 2002. ▪ With the rapid pace of economic development and population expansion over the past decades, solid waste generation has become a serious problem in Hong Kong. This problem is aggravated by the fact the plastic contents of the solid waste generated is extremely high compared with many other developed countries. This is due to the high usage of plastic packaging and disposable food containers in Hong Kong. It is well known that these plastics do not biodegrade, and thus disposal of these plastics waste will create immense environmental problems in the future |
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(Source: Frost & Sullivan Summary of Independent Market Research Report dated 2 December 2004 on Strategic Analysis of the Malaysian Market Potential for ECOMAT and ECOPAK which is prepared for the inclusion in the Prospectus)

6. INDUSTRY OVERVIEW (Cont'd)

Note:-

* The countries above are selected taking into consideration Ecofuture's intended target market for its product, ECOPAK

6.2.4 Outlook of the Packaging Industry in Asia

Currently, the principle end-user markets for packaging are the food and beverage industry, toiletries and cosmetics, pharmaceuticals and medical products, household and consumer goods. The increase in population and urbanisation, coupled with the influence of social trends and changes in lifestyles (e.g. growth in the fast food market) has contributed significantly to the increase in consumption of disposable food and beverage packaging. Nonetheless, the use of packaging materials has become more stringent due to certain laws and regulations governing its usage worldwide. For example, in Asia, countries such as China, Taiwan and Japan have legislation to ban the use of plastics and styrofoam in respect of food packaging as these non-biodegradable products have created major waste disposal problems and environmental pollution.

According to Frost & Sullivan, the estimated market potential for disposable packaging material in selected Asian countries in respect to the food and beverage industry alone, is as follows:-

Estimated Market for food packaging at end user level in selected Asian countries in 2004

Country	Population 2004 (millions)	Urban Population 2004 (millions)	Average Consumption Per (Urban) Person Annually (pieces)	Total Average Consumption Per (Urban) Person Annually (millions)
China	1,295	488	85	46,345
Taiwan	22.6	17	80	1,393
Hong Kong	6.8	6.8	90	608
Japan	126	99	65	6,444
Singapore	4.2	4	90	394
Malaysia	25.5	15.3	65	995

Note: All figures are rounded.

(Source: Frost & Sullivan Summary of Independent Market Research dated 2 December 2004 on Strategic Analysis of the Malaysian Market Potential for ECOMAT and ECOPAK which is prepared for the inclusion in the Prospectus)

Although the end-user market for disposable packaging consists of various industries like medical products, household, consumer goods, and etc, the food and beverage industry was identified as the major driver for the packaging industry. The overall food packaging industry is a growth industry especially driven by the increasing urbanisation in Asian countries. The conventional disposable food packaging like plastics and Styrofoam pose a hazard to the environment as well as the health of people. Moreover, conventional plastics are resistant to microbial degradation. Plastics also cannot be disposed of through burning since plastics fumes cause a wide range of cancer and also extremely high dioxins, heavy metals and gases, which causes acid rain. Even recycling, widely endorsed to reduce solid wastes, does not effectively reduce the volume of used plastics.

6. INDUSTRY OVERVIEW (Cont'd)

Hence, in the near future a greater emphasis on the consumption of biodegradable disposable food packaging would emerge leading to positive growth opportunities for products catering to this need. With the expectation of more stringent government rules related to food packaging, we expect biodegradable food packaging industry to grow at a faster pace during the forecast period. This growth can be faster once the key issues related to quality, cost as well as consistency are resolved. Other business factors such as logistics, sales promotion, etc. are considered to be a given.

(Source: Frost & Sullivan Summary of Independent Market Research dated 2 December 2004 on Strategic Analysis of the Malaysian Market Potential for ECOMAT and ECOPAK which is prepared for the inclusion in the Prospectus)

6.3 Industry Players and Competition

As ECOMAT is currently enjoying status as a pioneer product and technology, it has no direct competition. Nonetheless, as ECOMAT attains market prominence and witnesses commercial success, it is anticipated that similar products may be introduced by other companies.

Conversely, the domestic and overseas markets for disposable food packaging products are relatively competitive. Local companies such as, Kenweld (M) Sdn. Bhd, Magnificent Diagraph Sdn. Bhd., Katrin BJ Sdn. Bhd., Mega MDP Marketing Sdn. Bhd., Diethlem Malaysia Sdn. Bhd., Able Enterprise Sdn. Bhd. and Yong Kam Fook Plastic Industries Sdn. Bhd produce various paper, plastic and styrofoam based disposable food packaging products, which are marketed in major supermarkets, hypermarkets and convenience stores. In addition, Grenidea Technologies Pte. Ltd. ("Grenidea"), a company based in Singapore, sources ECOFIBRE, amongst other materials such as coconut coir, rice husk and wheat straw, to produce agrofibre disposable food packaging material, presenting potential competition to ECOPAK in the near future. Grenidea uses its patented binding agent called "Agro Binder" to produce agrofibre packaging in the form of plant containers, bento bowls, burger boxes, chicken rice plates, and food trays.

(Source: Frost & Sullivan Summary of Independent Market Research Report dated 2 December 2004 on Strategic Analysis of the Malaysian Market Potential for ECOMAT and ECOPAK which is prepared for the inclusion in the Prospectus)

Nevertheless, the Group believes that the integration of its ECOPAK production facility with its mill allows it to enjoy a lower overhead structure as costs such as transportation, storage and energy are either sunk or insignificant, translating to its ability to cost its products at a relative discount and command price leadership. This provides the Group with a significant competitive edge against products from other competing manufacturers. However, being new in the packaging market, the Group will still need to compete with existing players to attain its market share. In this regard, emphasis will be placed on the eco-friendly nature of the product and its price competitiveness. To broaden the Group's market base, there are plans to penetrate into the overseas disposable food and beverage market, which include amongst others, Taiwan and China.

Based on the foregoing, the Group has taken proactive steps to protect its technology through the application for patents and trademarks on its products and processes. Nonetheless, potentially new entrants may emerge with competing technologies offering products with similar features or benefits. Being successful in the development of biomass recycling technology and commercialisation, the Group intends to exploit its position during this lead time to develop a strong customer base and to continuously improve its technologies, products and services to strengthen its competitive edge against potential new entrants.

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6. INDUSTRY OVERVIEW (Cont'd)

6.4 Government Legislation, Policies and Incentives

There are currently no specific regulations governing the recycling of biomass in Malaysia nor is the Board currently aware of any specific material peculiarity of the industry.

However, the Government has implemented and legislated various environmental regulations to that effect. These are as follows:-

- **Environmental Quality Act 1974**

The move towards stringent enforcement of the Environmental Quality Act 1974, will see a greater number of palm oil mills being required to adhere to its provisions. Such enforcement will ensure that the “zero burning” policy is adopted, and as such, requiring alternative disposable methods to be considered in the management of oil palm biomass.

- **Enforcement by Governmental Authorities**

The Department of Environment, Malaysia (“DOE”), the Natural Resources and Environmental Board (“NREB”) of Sarawak, and Environment Conservation Department (“ECD”) of Sabah are the local regulatory bodies that implement, legislate, and enforce environmental regulations. These three organisations have imposed strict legislations for environmental quality control to encourage factories, manufacturers and companies to better understand the importance of recycling and caring for the environment.

(Source: Frost & Sullivan Summary of Independent Market Research Report dated 2 December 2004 on Strategic Analysis of the Malaysian Market Potential for ECOMAT and ECOPAK which is prepared for the inclusion in the Prospectus)

With such legislations and policies in place, coupled with stringent enforcement in an effort to instil more environmental responsibility, the Group is anticipated to benefit from these efforts, as they provide an incentive for the adoption of the Group’s products and technologies.

In relation to the palm oil industry, MPOB was incorporated by an act of Parliament with effect from 1 May 2000, to take over the functions of its two predecessors, PORIM and PORLA. Recognising the constraint in resources such as land and labour and increasing production costs, MPOB does not only lend assistance in increasing producing yield but also emphasises on aspects such as quality, value addition, optimal use of resources and development of indigenous intellectual property. This is consistent with the national aspiration of becoming a knowledge-based or k-economy.

(Source: Frost & Sullivan Summary of Independent Market Research Report dated 2 December 2004 on Strategic Analysis of the Malaysian Market Potential for ECOMAT and ECOPAK which is prepared for the inclusion in the Prospectus)

Based on the foregoing, the Group’s activities in developing its own technology to optimise the use of oil palm biomass and its R&D into other revenue generating potential for the oil palm industry augur well with the objectives of MPOB.

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7. FINANCIAL INFORMATION

7.1 Proforma Historical Financial Information

The following table is extracted from the Accountants' Report as set out in Section 8 of this Prospectus and should be read in conjunction with the notes thereto.

The proforma consolidated income statements of the proforma Ecofuture Group for the five (5) financial years ended from 31 December 1999 to 31 December 2003 and six (6) months financial period ended 30 June 2004 (except for companies which have been incorporated for less than five years) are set out below. The proforma consolidated income statements have been prepared for illustrative purposes only and on the assumption that the Ecofuture Group structure has been in existence throughout the relevant years/periods under review.

	Financial Year ended 31 December					6-months period ended
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	30.06.2004 RM'000
Revenue	72,340	49,093	49,333	65,737	81,436	41,572
EBIDTA	2,350	1,975	2,866	4,025	4,327	1,735
Interest expenses	(359)	(421)	(504)	(470)	(429)	(179)
Depreciation	(629)	(747)	(867)	(930)	(979)	(529)
Profit before taxation	1,362	807	1,495	2,625	2,919	1,027
Taxation	(186)	(245)	(630)	(900)	(870)	4
Profit after taxation but before minority interests	1,176	562	865	1,725	2,049	1,031
Minority interests	-	-	-	-	-	-
Profit after taxation and minority interests	1,176	562	865	1,725	2,049	1,031
Number of ordinary shares assumed in issue ⁽¹⁾ ('000)	130,905	130,905	130,905	130,905	130,905	130,905
Gross EPS (sen) ⁽¹⁾	1.0	0.6	1.1	2.0	2.2	0.8
Net EPS (sen) ⁽¹⁾	0.9	0.4	0.7	1.3	1.6	0.8

Notes:-

⁽¹⁾ Based on the enlarged issued and paid-up share capital of Ecofuture of RM13,090,500 comprising of 130,905,000 ordinary shares of RM0.10 each in issue after the Acquisitions, Internal Reorganisation and Share Split but before the Public Issue and assuming that the Group had been in existence since 1999

⁽²⁾ There were no extraordinary and exceptional item for the years/period under review

⁽³⁾ No provision for tax was made for the profit for the financial year ended 31 December 1999 as the amount payable was waived, in accordance with the Income Tax (Amendment) Bill 1999. The proforma effective tax rates for the financial year ended 31 December 2000 to 2003 are higher than the statutory tax rates due to certain expenses are not deductible for taxation purposes. For the financial period ended 30 June 2004, the reversal of provision of taxation was due to the overprovision in prior years.

Kindly refer to Section 7.6 of this Prospectus or analysis and commentary on material items in the table above.

7. FINANCIAL INFORMATION (Cont'd)

7.2 Profit Forecast and Projections

The Group's revenue and operating results are difficult to forecast and may be adversely affected by a host of factors. The market for the Group's products and services is characterised by the ability of the Group to successfully launch and penetrate its products in new and existing markets, continuous development and technology enhancement and product development. The Group is also subjected to many risk factors, some of which are highlighted in Section 4 – Risk Factors, of this Prospectus. The Group's revenue and operating results are therefore difficult to forecast. As such, the Group's profit forecast and projections are not disclosed in this Prospectus.

7.3 Proforma Consolidated Balance Sheet

The proforma consolidated balance sheet set out below are provided for illustrative purposes based on the audited financial statements of Ecofuture and its subsidiary companies and after taking into account the Flotation Exercise as stated in Section 5.3 and the proposed utilisation of proceeds from the Public Issue had the proposal been effected on that date. The detailed proforma consolidated balance sheets of Ecofuture as at 30 June 2004, together with the basis and assumptions, as well as the Reporting Accountants' Letter on the Proforma Balance Sheet as at 30 June 2004 is set out in Section 7.9 of this Prospectus.

	Audited as at 30 June 2004	Proforma (I) After Acquisitions and Internal Reorganisation	Proforma (II) After Proforma (I) and Share Split	Proforma (III) After Proforma (II) and Public Issue and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
Property, plant and equipment	1	28,630	28,630	34,434
Estate development expenditure	-	229	229	229
Patent	-	40	40	40
Goodwill on consolidation	-	1,989	1,989	1,989
	1	30,888	30,888	36,692
Current assets				
Inventories	-	3,054	3,054	3,054
Trade receivables	-	2,715	2,715	2,715
Deferred expenditure	406	406	406	-
Other receivables, deposit and prepayments	-	1,632	1,632	1,632
Cash and bank balances	-*	244	244	3,955
	406	8,051	8,051	11,356

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7. FINANCIAL INFORMATION (Cont'd)

	Audited as at 30 June 2004	Proforma (I) After Acquisitions and Internal Reorganisation	Proforma (II) After Proforma (I) and Share Split	Proforma (III) After Proforma (II) and Public Issue and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Current liabilities				
Trade payables	-	5,715	5,715	5,715
Other payables and accruals	422	3,420	3,420	3,420
Amount due to a director	-	331	331	331
Hire purchase and lease liabilities	-	273	273	273
Short term borrowings	-	9,805	9,805	9,805
Tax payable	-	445	445	445
	422	19,989	19,989	19,989
Net current liabilities	(16)	(11,938)	(11,938)	(8,633)
	(15)	18,950	18,950	28,059
Financed by:-				
Share capital	.*	13,090	13,090	17,454
Accumulated losses	(15)	(15)	(15)	(15)
Share premium	-	-	-	4,745
Reserves on consolidation	-	1,281	1,281	1,281
Shareholders' funds	(15)	14,356	14,356	23,465
Deferred and long term liabilities				
Hire purchase and lease liabilities	-	23	23	23
Deferred income	-	1,075	1,075	1,075
Deferred taxation	-	1,525	1,525	1,525
Term loans	-	1,971	1,971	1,971
	-	4,594	4,594	4,594
	(15)	18,950	18,950	28,059
Par value (RM)	1.00	1.00	0.10	0.10
Number of ordinary shares assumed in issue ('000)	*-	13,091	130,905	174,540
NTA per share (RM)	(7,482)	0.94	0.09	0.12

Note:-

* Denotes RM2

(The Reporting Accountants' Letter on the Proforma Balance Sheet as at 30 June 2004 is set out in Section 7.9 of this Prospectus.)

7. FINANCIAL INFORMATION (Cont'd)

7.4 Key Financial/Operating Ratios

The following table is extracted from and/or prepared based on information in the Accountants' Report as set out in Section 8 of this Prospectus. The table below sets out key financial ratios which are provided for illustrative purposes based on the audited accounts of the Group and on assumption that the Group had been in existence throughout the period under review:-

	← Financial year ended 31 December →					
	1999	2000	2001	2002	2003	6-months period ended 30 June 2004
Pre-tax profit margin (%)	1.9	1.6	3.0	4.0	3.6	2.5
Effective tax rate (%)	13.7	30.4	42.1	34.3	29.8	-*
Total bank borrowings (interest bearing) (RM'000)	7,111	13,732	13,109	12,768	9,074	12,072
Interest expense (RM'000)	359	421	504	470	429	179
Interest cover (times)	5	3	4	7	8	7

* There was a reversal of tax provision due to overprovision in prior years.

7.5 Segmental Analysis of Financial Information

The analysis of revenue and PBT by companies within the Group for the five (5) financial years ended 31 December 2003 and six (6) months financial period ended 30 June 2004 are set out below:-

(a) Analysis of Revenue by Subsidiaries

	← Financial year ended 31 December →					
	1999	2000	2001	2002	2003	6-months period ended 30 June 2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
REVENUE						
ETSB	240	113	159	405	3,059	976
SWSB	72,100	49,014	49,252	65,598	78,610	41,058
ISSB	-	32	48	174	75	52
ELPSB	-	-	-	-	-	-
Consolidation Adjustment	-	(66)	(126)	(440)	(308)	(514)
TOTAL GROUP'S REVENUE	72,340	49,093	49,333	65,737	81,436	41,572

7. FINANCIAL INFORMATION (Cont'd)

(b) Analysis of PBT by Subsidiaries

	Financial year ended 31 December					
	1999	2000	2001	2002	2003	6-months period ended 30 June 2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
PBT						
ETSB	(31)	(54)	(37)	(10)	827	543
SWSB	1,393	865	1,557	2,575	2,221	487
ISSB	-	(4)	(25)	60	18	19
ELPSB	-	-	-	-	(46)	(17)
Consolidation Adjustment	-	-	-	-	(101)	(5)
TOTAL SUBSIDIARIES' PBT	1,362	807	1,495	2,625	2,919	1,027

(c) Analysis of Group's Revenue by its Activities:-

	Financial year ended 31 December					
	1999	2000	2001	2002	2003	6-months period ended 30 June 2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
REVENUE						
ECOMAT	67	196	260	801	1,200	1,195
ECOFIBRE	-	32	48	174	169	405
Patent royalties	-	-	-	-	46	52
PK & CPO	72,033	48,931	49,151	65,202	77,902	40,393
Bunch ash	-	-	-	-	77	41
ECOFIBREX	240	-	-	-	2,350	-
Consolidation Adjustment	-	(66)	(126)	(440)	(308)	(514)
TOTAL GROUP'S REVENUE	72,340	49,093	49,333	65,737	81,436	41,572

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7. FINANCIAL INFORMATION (Cont'd)

7.6 Analysis and Commentary on Financial Information

7.6.1 Revenue Analysis

The Group's revenues constitute sale of crude palm oil and palm kernel, recycled products from oil palm biomass, and specialised recycling equipment. Notwithstanding, the constitution of revenues which comprises primarily crude palm oil and palm kernel sales, revenue contribution from the Group's oil palm biomass optimisation operations has been on an increasing trend over the years. Sale of recycled biomass products and specialised recycling equipment made up 1% of Group revenues in financial year ("FY") 2001 and up to 3% of Group revenues for the financial period ended 30 June 2004.

7.6.2 Profit Analysis

Whilst there was a modest contribution of revenues from the Group's oil palm biomass optimisation operations, the related contribution to the Group's profits has been more significant. In FY1999, profits before tax from the Group's oil palm biomass optimisation operations made up to 1% of Group's profits before tax. Over the years, this contribution has grown steadily and makes up to 53% of Group's profit before tax for the six (6) months financial period ended 30 June 2004. This increased contribution has also resulted in higher Group's net profit margins recorded over the years, from 1.14% in FY2000 to 2.48% for the six (6) months financial period ended 30 June 2004.

7.6.3 Overview of Revenue and Profit Growth, Tax Consideration, Exceptional and Extraordinary Items

An overview of revenue and profit growth and factors contributing including taxation, exceptional and extraordinary items for the past five (5) financial years ended 31 December 1999 to 2003 and the six (6) months financial period ended 30 June 2004 is set out in the Accountants' Report as set out in Section 8 of this Prospectus.

7.6.4 Impact of Interest Rates and Foreign Exchange Rates on Profit

The impact of interest rates on profit is minimal as the Ecofuture Group's gearing level is declining over the past five (5) financial years ended 31 December 1999 to 2003 and the six (6) months financial period ended 30 June 2004. The interest cover against the profit before interest and taxation ranged approximately between 3 times and 8 times.

The following table sets out the interest expense and profit before interest and taxation as extracted from the Accountants' Report as set out in Section 8 of this Prospectus.

	Financial year ended 31 December					6-months period ended 30 June 2004
	1999	2000	2001	2002	2003	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gearing (times)	1.38	2.80	2.57	2.02	1.15	0.84
Interest expenses (RM'000)	359	421	504	470	429	179
Profit before interest and tax (RM'000)	1,721	1,228	1,999	3,095	3,348	1,206
Interest cover (times)	5	3	4	7	8	7

7. FINANCIAL INFORMATION *(Cont'd)*

There is no material impact of foreign exchange to the Group on the sales of ECOMAT to China which is denominated in USD. Future sales of ECOPAK packaging products to other overseas customers, would most likely be priced using the USD denominations. However, the imposition of currency controls in 1998 and the setting of Ringgit peg at RM3.80:USD1.00 has, to an extent, mitigate the risks of foreign exchange fluctuations.

7.7 Directors' Declaration on Financial Performance

Save as disclosed in Section 7.6 and 7.8 of this Prospectus, the Directors of Ecofuture are of the view that the financial performance, position and operations of the Group are not affected by any of the following:-

- (i) Known trends, demands, commitments, events or uncertainties that have had or that the Company and/or its subsidiaries reasonably expects to have, a material or unfavourable impact on the financial performance, position and operations of the Group;
- (ii) Material capital expenditure commitments;
- (iii) Unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of the Company and/or its subsidiaries;
- (iv) Known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in revenue which is attributable to prices, volume of goods/services being sold and the introduction of new products/services or any other factors; and
- (v) Known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

7.8 Working Capital, Borrowings, Material Litigations, Material Commitments and Contingent Liabilities

(a) Working capital

The Directors of Ecofuture are of the opinion that after taking into account the cashflow position, banking facilities available and proceeds to be raised from the Flotation Exercise, the Ecofuture Group will have adequate working capital for a period of twelve (12) months from the date of this Prospectus.

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7. FINANCIAL INFORMATION (Cont'd)

(b) Borrowings

Based on the audited Proforma Consolidated Balance Sheets at 30 June 2004, (being the latest practicable date of which such amounts could be calculated prior to the printing of this Prospectus), the Group's material indebtedness based on its total outstanding borrowings amount to approximately RM12.072 million and comprise the following :

Type of Borrowing	Payable within 12 months RM'000	Payable after 12 months RM'000	TOTAL RM'000
Interest-bearing			
Overdraft	86	-	86
Bankers' Acceptances	8,576	-	8,576
Term -loans	1,143	1,971	3,114
Hire purchase and lease liabilities	273	23	296
Non Interest-bearing	-	-	-
TOTAL BORROWINGS	10,078	1,994	12,072

Save as disclosed above, the Group does not have any other capital outstanding or loan capital created but unissued outstanding on that date.

As at the Latest Practicable Date, the Group does not have any foreign currency denominated borrowings.

The Board wishes to confirm that there have been no default of payments of either interest and/or principal sums in respect of any borrowings throughout the past one (1) financial year and the subsequent financial period thereof, immediately preceding the date of this Prospectus.

(c) Material Litigations

As at the Latest Practicable Date , neither the Company nor any of its subsidiaries is engaged in any material litigation or arbitration (either as plaintiff or defendant) which might materially and adversely affect the business or financial position of the Company or any of its subsidiaries. The directors of the Company have no knowledge of any proceedings pending or threatened against the Company or any of its subsidiaries, or of any facts likely to give rise to any proceedings, which might materially and adversely affect the business or financial position of the Company or any of its subsidiaries.

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7. FINANCIAL INFORMATION (Cont'd)
(d) Material Commitments

Saved as disclosed below, as at the Latest Practicable Date, there are no other material commitments for capital expenditure incurred or known to be incurred by the Group which may have a substantial impact on the results or the financial position of the Group.

Description	Approved and contracted for	Approved but not contracted for	Total
	RM'000	RM'000	RM'000
Purchase of machineries, plants and equipment	2,079	-	2,079
Construction of new factory for the production of ECOPAK	887	-	887
Construction of new lines of production for ECOMAT	1,500	-	1,500
TOTAL	4,466	-	4,466

(e) Contingent liabilities

As at the Latest Practicable Date, the Directors are of the opinion that the Group has no contingent liabilities which, upon materialisation would have a material impact on the financial position and business of the Group.

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7. FINANCIAL INFORMATION (Cont'd)

7.9 Reporting Accountants' Letter on Proforma Consolidated Balance Sheet as at 30 June 2004



(AF 0911)

Chartered Accountants

8A 8th Floor, Wisma Harwant, 106 Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur, Malaysia
Tel: 603-2692 5399 Fax: 603-2691 2643
E-mail: pkfkl@pkfmalaysia.com Website: <http://www.pkf.com>

Date: 1 December 2004

The Board of Directors

Ecofuture Bhd.

Suite 11-03, 11th Floor Block A,
Damansara Intan,
No.1, Jalan SS20/27,
47400 Petaling Jaya,
Selangor Darul Ehsan

Dear Madam/Sirs,

Ecofuture Bhd. ("Ecofuture" or "the Company")

Proforma Consolidated Balance Sheets as at 30 June 2004

We have reviewed the presentation of the Proforma Consolidated Balance Sheets of Ecofuture and its subsidiaries (hereinafter known as the "Ecofuture Group") as at 30 June 2004 together with the accompanying notes thereto, for which the Directors are solely responsible, as set out in the Prospectus to be dated 13 December 2004 in connection with the public issue of 43,635,000 new ordinary shares of RM0.10 each in Ecofuture Bhd. at an issue price of RM0.25 per ordinary share and in conjunction with the listing and quotation of the entire 174,540,000 ordinary shares of RM0.10 each in Ecofuture Bhd. on the MESDAQ Market of the Bursa Malaysia Securities Berhad ("Bursa Securities") (formerly known as Malaysia Securities Exchange Berhad).

In our opinion, the Proforma Consolidated Balance Sheets, which have been prepared for illustrative purposes only, have been properly prepared on:

- (i) the basis set out in the notes and assumptions to the Proforma Consolidated Balance Sheets;
- (ii) such basis that is consistent with the accounting policies of Ecofuture Group; and
- (iii) the adjustments are appropriate for the purposes of the Proforma Consolidated Balance Sheets.

Yours faithfully

PKF
AF 0911
Chartered Accountants

ANTHONY JOSEPH SKELCHY
251/03/05 (J/PH)
Partner

7. FINANCIAL INFORMATION (Cont'd)

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IDENTIFICATION ONLY.
PKF (AF 0911)
Chartered Accountants

ECOFUTURE BHD. (628026-M)

Suite 11-03, 11th Floor, Block A, Damansara Intan,
No 1, Jalan SS 20/27, 47400 Petaling Jaya,
Selangor Darul Ehsan,
Malaysia.

Tel: 603-7118 8668 Fax: 603-7118 2943

Proforma Consolidated Balance Sheets as at 30 June 2004

	Audited as at 30.6.2004 RM'000	Proforma I After the Acquisitions and Internal Reorganisation RM'000	Proforma II After Proforma I and Share split RM'000	Proforma III After Proforma II and Public issue and utilisation of proceeds RM'000
Non-current assets				
Property, plant and equipment	1	28,630	28,630	34,434
Estate development expenditure	-	229	229	229
Patent	-	40	40	40
Goodwill on consolidation	-	1,989	1,989	1,989
	1	30,888	30,888	36,692
Current assets				
Inventories		3,054	3,054	3,054
Trade receivables		2,715	2,715	2,715
Deferred expenditure	406	406	406	-
Other receivables, deposit and prepayments		1,632	1,632	1,632
Cash and bank balances		244	244	3,955
	406	8,051	8,051	11,356
Current liabilities				
Trade payables		5,715	5,715	5,715
Other payables and accruals	422	3,420	3,420	3,420
Amount due to a director		331	331	331
Hire purchase and lease liabilities		273	273	273
Short term borrowings		9,805	9,805	9,805
Tax payable		445	445	445
	422	19,989	19,989	19,989
Net current liabilities	(16)	(11,938)	(11,938)	(8,633)
	(15)	18,950	18,950	28,059
Financed by:				
Share capital	-	13,090	13,090	17,454
Accumulated losses	(15)	(15)	(15)	(15)
Share premium	-	-	-	4,745
Reserve on consolidation	-	1,281	1,281	1,281
Shareholders' funds	(15)	14,356	14,356	23,465
Deferred and long term liabilities				
Hire purchase and lease liabilities		23	23	23
Deferred income		1,075	1,075	1,075
Deferred taxation		1,525	1,525	1,525
Term loan		1,971	1,971	1,971
	-	4,594	4,594	4,594
	(15)	18,950	18,950	28,059
Net tangible assets per share	(7,482)	0.94	0.09	0.12

7. FINANCIAL INFORMATION (Cont'd)

<p style="text-align: center;">STAMPED FOR THE PURPOSE OF IDENTIFICATION ONLY PKF Skeelchey (AF 1495) Chartered Accountants</p>

Ecofuture Bhd.
(Company No. 628026 – M)
Notes to the Proforma Consolidated Balance Sheets
as at 30 June 2004

1. **Restructuring and listing scheme**

The Proforma Consolidated Balance Sheets are prepared for illustrative purposes only and have been prepared based on accounting principles and bases consistent with those previously adopted in the preparation of their audited financial statements. The Proforma Consolidated Balance Sheets are based on the audited financial statements of Ecofuture, Ecofibre Technology Sdn. Bhd. (“ETSB”), Ecologico Packaging Sdn. Bhd. (“ELPSB”), Interactive Star Sdn. Bhd. (“ISSB”) and Stable Win Sdn. Bhd. (“SWSB”), as at 30 June 2004 and incorporate the following transactions so as to reflect the restructuring and listing exercise as if it has been carried out on that date:

Proforma I

Proforma I incorporates the effects of the following:-

- (i) Acquisition of 1,500,000 ordinary shares of RM1.00 each representing the entire equity interest in SWSB for a total purchase consideration of RM8,944,000 satisfied by the issuance of 8,944,000 new ordinary shares of RM1.00 each in Ecofuture at an issue price of RM1.00 each credited as fully paid up;
- (ii) Acquisition of 100,000 ordinary shares of RM1.00 each representing the entire equity interest in ISSB for a total purchase consideration of RM1,128,000 satisfied by the issuance of 1,128,000 new ordinary shares of RM1.00 in Ecofuture at an issue price of RM1.00 each credited as fully paid-up;
- (iii) Acquisition of 394,000 ordinary shares of RM1.00 each representing 50.71% of the issued and paid up share capital in ETSB for a total purchase consideration of RM718,498 satisfied by the issuance of 718,498 new ordinary shares of RM1.00 each in Ecofuture at an issue price of RM1.00 credited as fully paid-up; and
- (iv) Acquisition of 1,540,002 ordinary shares of RM1.00 each representing 77.00% of the equity interest in ELPSB for a total purchase consideration of RM2,300,000 satisfied by the issuance of 2,300,000 new ordinary shares of RM1.00 each in Ecofuture at an issue price of RM1.00 each credited as fully paid-up.

((i) to (iv) are collectively referred to as the “Acquisitions”)

Immediately after the completion of the Acquisitions, Ecofuture will undertake an Internal Reorganisation within its Group as follows:

- (a) Transfer of 49.29% equity interest in ETSB representing 383,000 ordinary shares of RM1.00 each from its wholly owned subsidiary, SWSB satisfied by a cash consideration of RM383,000;
- (b) Transfer of 15.00% equity interest in ELPSB representing 300,000 ordinary shares of RM1.00 each from its wholly owned subsidiary, SWSB satisfied by a cash consideration of RM411,290; and

7. **FINANCIAL INFORMATION (Cont'd)**

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Chartered Accountants

Ecofuture Bhd.
(Company No. 628026 – M)
Notes to the Proforma Consolidated Balance Sheets
as at 30 June 2004

- (c) Transfer of 8.00% equity interest in ELPSB representing 160,000 ordinary shares of RM1.00 each from its wholly owned subsidiary, ISSB satisfied by a cash consideration of RM219,355.

((a) to (c) are collectively referred to as the “Internal Reorganisation”)

Proforma II

Proforma II incorporates the effects of Proforma I and the following:-

Subdivision of every one (1) existing ordinary share of RM1.00 each in Ecofuture held immediately after the completion of the Acquisitions and Internal Reorganisation into ten (10) new ordinary shares of RM0.10 par value each in Ecofuture, credited as fully paid.

Proforma III

Proforma III incorporates the effects of Proforma I, Proforma II and the following:-

- (i) Public issue of 43,635,000 new ordinary shares of RM0.10 each in Ecofuture (“Ecofuture Shares”) representing 25% of the enlarged issued and paid-up share capital of Ecofuture at an issue price of RM0.25 per Ecofuture Share to be allotted pursuant to the placement, eligible employees and business associates of Ecofuture Group as well as the public investors;
- (ii) Accounting for the estimated listing expenses of RM1.8 million for the Flotation Exercise of the Company on the MESDAQ Market of Bursa Securities have been deferred and capitalised as deferred expenditure. Deferred Flotation Exercise expenditure will be written off against share premium upon completion of the Flotation Exercise. If the Flotation Exercise is unsuccessful, the deferred expenditure will be written off immediately. These expenses will be set off with the share premium arises from the proposed public issue of 43,635,000 new Ecofuture Shares; and

7. FINANCIAL INFORMATION (Cont'd)

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Ecofuture Bhd.
(Company No. 628026 – M)
Notes to the Proforma Consolidated Balance Sheets
as at 30 June 2004

- (iii) Details of utilisation of the proceeds from the proposed public issue of 43,635,000 new Ecofuture Shares will be as follows:

Details of utilisation	RM'000
<i>Capital expenditure</i>	
Part financing for the construction of a new factory building and purchase of plant and machinery	5,600
Expansion of existing biomass operations	700
Installation of boilers and turbines	1,600
<i>Others</i>	
Research and development	850
Working capital	359
Estimated listing expenses	1,800

Total	10,909
	=====

2. Deferred expenditure

	RM'000
Balance as at 30 June 2004	406
Less: Written off	(406)

	-
	=====

7. FINANCIAL INFORMATION (Cont'd)

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Ecofuture Bhd.
(Company No. 628026 -- M)
Notes to the Proforma Consolidated Balance Sheets
as at 30 June 2004

3. Share capital

	Number of ordinary shares in Ecofuture '000 units	RM	Cumulative proforma share capital of Ecofuture RM'000
Number of ordinary shares of RM1.00 each in Ecofuture in issue at 30 June 2004	*		*
Add: Issuance of 13,090,498 new ordinary shares of RM1.00 each in Ecofuture at an issue price of RM1.00, credited as fully paid-up on acquisitions of ETSB, ELPSB, ISSB and SWSB	13,090	1.00	13,090
Share split of 13,090,500 ordinary shares of RM1.00 each in Ecofuture into ten (10) new ordinary shares of RM0.10 each in Ecofuture	130,905	0.10	13,090
Add: Public issue of 43,635,000 new ordinary shares of RM0.10 each in Ecofuture at an issue price of RM0.25 per ordinary share	43,635	0.10	4,364
	<u>174,540</u>		<u>17,454</u>
	=====		=====

* Comprise 2 ordinary shares of RM1.00 each.

4. Share premium

	RM'000
Balance as at 30 June 2004	-
Add: Arising on Public Issue	6,545
Less: Estimated listing expenses	(1,800)
	<u>4,745</u>
	=====

7. FINANCIAL INFORMATION (Cont'd)

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Ecofuture Bhd.
(Company No. 628026 – M)
Notes to the Proforma Consolidated Balance Sheets
as at 30 June 2004

5. Reserve/(Goodwill) arising on consolidation	RM'000		
<i>i) Reserve on consolidation</i>			
Net assets of SWSB and ETSB as at 30 June 2004	11,326		
Purchase consideration to be satisfied by the issuance of 9,662,498 new ordinary shares of RM1.00 each in Ecofuture at an issue price RM1.00 per share and cash consideration of RM383,000	(10,045)		
Reserve on consolidation	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;"></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">1,281</td> </tr> </table>		1,281
	1,281		
<i>ii) Goodwill on consolidation</i>			
Net assets of ISSB and ELPSB as at 30 June 2004	2,070		
Purchase consideration to be satisfied by the issuance of 3,428,000 new ordinary shares of RM1.00 each in Ecofuture at an issue price RM1.00 per share and cash consideration of RM630,645	(4,059)		
Goodwill on consolidation	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;"></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">(1,989)</td> </tr> </table>		(1,989)
	(1,989)		