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**Ecofuture Bhd.**

(Company No. 628026-M)

(Incorporated in Malaysia)

**and its subsidiaries**

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**A Notes to the Interim Financial Report**

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**A1 Basis of preparation**

The interim financial reports are not audited. They have been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad, including compliance with Financial Reporting Standard (FRS) 134, Interim Financial Reporting, issued by the Malaysian Accounting Standards Board (MASB).

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2008. These explanatory notes attached to the 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 2008.

**A2 Changes in accounting policies**

The significant accounting policies and presentation adopted by the Group for these interim condensed financial statements are consistent with those of the audited financial statements for the year ended 31 December 2008.

**A3 Auditors' report of preceding annual financial statements**

The auditors' report of the preceding annual financial statements for the Group was not subject to any qualification.

**A4 Seasonal or cyclical factors**

The Group's operations are not materially affected by seasonal or cyclical changes during the quarter under review.

**A5 Unusual items affecting assets, liabilities, equity, net income or cash flows**

There were no unusual items affecting the assets, liabilities, equity, net income and cash flows of the Group since the last annual audited financial statements.

**A6 Material changes in estimates of amounts reported in prior periods in current financial year or prior financial years which have material effect in the current interim period**

There were no material changes in estimates of amounts reported in prior periods and/or prior financial years, which have a material effect in the current financial year and/or current interim period.

**A7 Debts and equity securities**

There were no issuance, cancellations, repurchases, resale and repayment of debt and equity securities, share buy backs, share cancellation, shares held as treasury share and resale of treasury shares for the current quarter.

**A8 Dividend paid**

No dividend has been paid in the current financial quarter.

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**A Notes to the Interim Financial Report****A9 Segmental reporting**

The Group's operations comprise the following business segments:

## i. Oil palm biomass optimization operations

Sourcing of oil palm biomass, i.e. Empty Fruit Bunches (EFBs) from the Group's milling operations and followed by processing and manufacturing the EFBs into biodegradable products such as fibre mat, fruit and food packaging materials and pulp.

## ii. Milling operations

Processing of Fresh Fruit Bunches (FFBs), sourced from internal and external oil palm plantations into Crude Palm Oil (CPO), Palm Kernel (PK) and EFBs. Nevertheless, processing of FFBs ceased from May 2009 onwards as the Group's palm oil mill has been leased to a third party mill operator where the EFB supply will be sourced thereon.

Segmental analysis of the Group for the 9-months period ended 30 September 2009 is as follows:

<b>Business segments</b>	<b>Biomass (RM)</b>	<b>Milling (RM)</b>	<b>Elimination (RM)</b>	<b>Consolidated (RM)</b>
<b>Revenue</b>				
Total revenue	2,769,057	3,579,973	(598,130)	5,750,900
Inter-segment revenue	(591,835)	(6,295)	598,130	-
External revenue	<u>2,177,222</u>	<u>3,573,678</u>	-	<u>5,750,900</u>
<b>Results</b>				
Segment results	(3,587,403)	(2,017,428)	-	(5,604,831)
Unallocated cost				(203,508)
Interest income				-
Finance costs				<u>(2,262,343)</u>
Loss before taxation				<u>(8,070,682)</u>
Taxation				-
Loss after taxation				<u><u>(8,070,682)</u></u>
<b>Other information</b>				
Segment assets	48,918,749	25,459,718	-	74,378,467
Unallocated assets				<u>2,522,865</u>
Total assets				<u><u>76,901,332</u></u>
Segment liabilities	27,962,871	31,983,151	-	59,946,022
Unallocated liabilities				<u>2,629,864</u>
Total liabilities				<u><u>61,575,886</u></u>
Capital expenditure	-	-	-	-
Depreciation and amortisation	2,438,202	2,045,172	-	4,483,374
Unallocated depreciation and amortisation	-	-	-	7,628

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No segmental reporting has been prepared for geographical segments as the Group's activities are predominantly carried out in Malaysia.

**A10 Statement on the effect on interim results concerning valuation of property, plant and equipment brought forward without amendment from the previous annual financial statements**

There were no changes in the valuation of the property, plant and equipment reported in the previous audited financial statements that will have an effect on the results of the current financial quarter under review.

**A11 Material events subsequent to the end of the quarter**

In the opinion of the Directors, there are no items, transactions or events of a material and unusual nature, which have arisen, which would substantially affect the results of the Group for the period between 30 September 2009 and the date of this announcement.

**A12 Changes in the composition of the Group**

There were no changes in the composition of the Group during the current quarter under review.

**A13 Contingent liabilities**

Save as disclosed below, there were no changes in contingent liabilities since the last audited balance sheet as at 31 December 2008.

I. Corporate guarantees given by the Company to licensed banks and financial institutions for banking facilities granted to subsidiaries amounting to RM25,894,010 as at 30 September 2009.

II. In respect of the Statement of Claim filed against the Group and two of the directors of the Group, purporting a claim on the ownership of certain products and processes of the Group including damages amounting to approximately RM4,819,000 ( Note B11).

**A14 Capital commitments**

There were no major capital commitments of the Group as at 30 September 2009.

**A15 Significant related party transactions**

	<b>For 9 months ended 30 September 2009 RM</b>
1 Purchases of FFB from MESB	906,845
2. Purchases of FFB from Jang Kim Luang @ Yeo Kim Luang ("Madam Yeo")	9,817
3. Interest expense	138,173

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The transactions were carried out in the ordinary course of business and are on normal commercial terms which are not more favourable to Madam Yeo than those generally available to the non-related parties and not detrimental to the minority shareholders.

Included in the other payables and accruals, were amount owing to certain directors and related parties of RM4,928,826. This amount is unsecured, with an interest rate of 6.55% pa, and has no fixed terms of repayment.

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**B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Listing Requirement**

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**B1. Review of performance**

Operating revenue of RM964,490 from the biomass segment improved by 10% as against the revenue of RM878,092 from the same segment in the corresponding quarter of the previous year. This accounted for 54% of the Group’s revenue of RM1,795,903 for the current quarter under review which was 91% lower than the corresponding quarter of preceding year’s revenue of RM19,335,710 as the Group ceased processing palm oil from FFBS due to the lease of the mill to a third party operator since May 2009.

Despite the higher financing cost of RM832,954, the Group managed a lower loss after taxation of RM2,183,222 for the current quarter in a sluggish business environment as compared to the loss after taxation of RM3,088,660 for the corresponding period of the preceding year.

**B2. Material change in the loss before tax of current quarter as compared to preceding quarter**

On a quarter to quarter basis, the Group saw an 8% improvement in their net loss before taxation of RM2,183,222 during the third quarter of 2009 as compared to the loss before taxation of RM2,376,516 recorded in the preceding quarter. This was achieved despite the higher financing cost of RM832,954 which was 6.5% above the financing cost in the previous quarter.

**B3. Current financial year’s prospects**

The Board of Directors expects improvement in the Group’s performance to continue despite the sluggish economic environment and challenging operating conditions due to working capital constraints. The present arrangement with the mill operator is expected to sustain the biomass segment through the continued supply of EFB. The gross proceeds raised from the recent private placement of RM2,689,290 are expected to ease working capital constraints in the short term.

**B4. Variance of actual profit from profit forecast and profit guarantee**

The Group has not announced any profit forecast or issued any profit guarantee during the financial quarter.

**B5. Taxation**

The breakdown of taxation for the Group is as follows:

	<b>For quarter ended 30 September 2009 RM</b>
Current year provision	-

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**B6. Unquoted investments and properties**

There was no sale of unquoted investments and properties during the current financial quarter.

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**B7. Quoted securities**

Not applicable to the Group.

**B8. The status of corporate proposals**

There is no corporate proposal announced other than the private placement announced in October 2009. The private placement comprised the issue of 22,410,750 ordinary shares of RM0.10 each, which raised gross proceeds of RM2,689,290 at an issue price of RM0.12 per share. The private placement was completed on November 18, 2009.

As at the date of this announcement, the proceeds from the private placement of RM2,689,290 were utilised as follows:

<u>Purpose</u>	<u>Proposed utilisation</u> <u>RM</u>	<u>Actual utilisation</u> <u>RM</u>	<u>Intended timeframe for utilization</u>	<u>Explanation</u>
1. Working capital	1,559,290	1,391,088	Within six months	To be utilised for future working capital.
2. Repayment of Bank Borrowings	1,030,000	1,030,000	Within three months	Fully utilised.
3. Private placement expenses	100,000	Nil	Within one month	To be utilised.
<b>Total</b>	<u>2,689,290</u>	<u>2,421,088</u>		

**B9. Group’s borrowings and debt securities**

The Group’s short-term and long-term borrowings as at 30 September 2009 are as follows:

	<b>RM</b>
<b>i Short-term borrowings:</b>	
Secured: Bank overdrafts	2,655,248
Secured: Banker acceptance	772,502
Secured: Revolving credit	617,055
Secured: Term loans	11,610,651
Unsecured: Hire purchases	622,083
Unsecured: Shareholder’s advances	646,544
<b>Total</b>	<u><b>16,924,083</b></u>
<b>ii Long-term borrowings:</b>	
Secured: Term loans	22,473,600
Unsecured: Hire purchases	1,924,142
<b>Total</b>	<u><b>24,397,742</b></u>
Repayable within one year	16,924,083
Repayable after one year	24,397,742
<b>Total</b>	<u><b>41,321,825</b></u>

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**B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Listing Requirement**

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All borrowings are denominated in Ringgit Malaysia.

**B10. Financial instruments with off balance sheet risks**

There were no financial instruments with off balance sheet risks as at the date of this announcement applicable to the Group.

**B11. Material litigation**

Saved as disclosed below, there are no other material litigations involving the Group.

- i. Stable-Win Sdn Bhd (SW), a wholly owned subsidiary of Ecofuture, has taken separate legal action against certain of its trade debtors, namely Soon Seng Palm Oil Mill Sdn Bhd (SSPOM), Dominion Palm Oil Mill Sdn Bhd (DPOM), Gemas Oil Mill Sdn Bhd (GOM) and Soon Seng Palm Products Sdn Bhd (SSPP) on 7 April 2005 to recover total debts of RM2,747,229 for goods and services supplied and provided, i.e. crude palm oil and palm kernel. The cases have been fixed for further mention on 18 November 2009 for SSPOM and DPOM. After further hearing on 2 September 2009 for the suit against GOM, the High Court had ruled against SW and SW solicitors had lodged an appeal to the Court of Appeal. The appeal has been fixed for mention on 13 January 2010. The amount of RM2,747,229 has been fully provided for in the accounts.
- ii. On 22 March 2006, the Group and two of the directors of the Group (“the Defendants”) received a writ and statement of claim filed by Soon Seng Palm Oil Mill Sdn Bhd, Soon Seng Palm Products Sdn Bhd, Gemas Oil Mill Sdn Bhd, Dominion Palm Oil Mill Sdn Bhd and Soon Seng Palm Oil Mill Sdn Bhd (“the Plaintiffs”), purporting a claim on the ownership of certain products and processes of the Group including damages amounting to approximately RM4,819,000.

On 1 November 2007, the Defendants received a letter advising the appointment of a Receiver and Manager over the patent applications and/or patents filed by the Group pursuant to an Order of the High Court of Malaya at Kuala Lumpur. As a result of the said appointment, the Group is required to provide a list and all information/documentations pertaining to all patent applications and/or patents. The Group, however, is not restrained from using or dealing with the alleged confidential information in the normal course of their manufacturing, business and trading operations and activities.

The Company has engaged legal counsel to resist the claim in its entirety. The case was fixed for trial on 4 & 5 November 2009, and hearing will resume on 9 & 10 December 2009.

- iii. Ecofibre Technology Sdn Bhd (ETSB), a wholly-owned subsidiary of Ecofuture, has taken legal action against a trade debtor, Maxi Fibre Sdn Bhd (MFSB) to recover total debt of RM1,224,000 on 30 November 2006. The directors are positive on the outcome of the case based on legal advice obtained. MFSB has also made a counterclaim against ETSB and one of the directors of ETSB for amount paid by MFSB to ETSB, losses and damages amounting to RM2,477,000. The case has been fixed for trial on 1 to 4 March 2010.

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**B12. Dividend**

No dividend has been declared for the current quarter under review.

**B13. Loss per ordinary share (LPS)**

## i. Basic LPS

	<b>For 3 months ended 30 September 2009</b>	<b>For 9 months ended 30 September 2009</b>
Loss for the period (RM)	(2,183,222)	(8,070,682)
Less: Amount attributable to minority interest (RM)		-
Loss for the period attributable to shareholders of the Company (RM)	<b>(2,183,222)</b>	<b>(8,070,682)</b>
Weighted average number of ordinary shares	<b>224,107,500</b>	<b>224,107,500</b>
Basic loss per share (sen)	<b>(0.97)</b>	<b>(3.60)</b>

## ii. Diluted EPS

Not applicable to the Group as there are no dilutive shares.