
Ecofuture Bhd.

(Company No. 628026-M)

(Incorporated in Malaysia)

and its subsidiaries

A Notes to the Interim Financial Report

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 except for the :

- Issuance of new ordinary shares of RM0.10 each at an issuance price of RM0.12 each on 18 November 2009 via a proposed placement exercise that was announced to Bursa Securities on 12 October 2009 and the subsequent granting of the listing and quotation on 23 November 2009 on the ACE Market of Bursa Securities. The proceed raised from this Private Placement amounted to

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RM2,689,290 has been utilised for working capital and repayment of bank borrowings (Note B8).

A8 Dividend paid

No dividend has been paid in the current financial quarter.

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 12-month period ended 31 December 2009 is as follows:

Business segments	Biomass	Milling	Elimination	Consolidated
Revenue	(RM)	(RM)	(RM)	(RM)
Total revenue	4,284,931	4,396,047	(1,013,704)	7,667,274
Inter-segment revenue	(1,006,814)	(6,890)	1,013,704	-
External revenue	<u>3,278,117</u>	<u>4,389,157</u>	-	<u>7,667,274</u>
Results				
Segment results	(5,472,958)	(2,352,049)	-	(7,825,007)
Unallocated cost				(273,235)
Interest income				
Finance costs				<u>(3,203,206)</u>
Loss before taxation				11,301,448
Taxation				<u>190,474</u>
Loss after taxation				<u>11,110,974</u>
Other information				
Segment assets	47,817,470	24,094,935		71,912,405
Unallocated assets				<u>2,300,668</u>
Total assets				<u>74,213,073</u>
Segment liabilities	27,622,970	30,142,506		57,765,476
Unallocated liabilities				<u>1,525,204</u>
Total liabilities				<u>59,290,680</u>

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Business segments	Biomass	Milling	Elimination	Consolidated
Capital expenditure	-	-	-	-
Depreciation and amortisation	3,482,766	2,716,074		6,198,840
Unallocated depreciation and amortisation				10,829

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 31 December 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 31 December 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 31 December 2009.

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A15 Significant related party transactions

	For 12 months ended 31 December 2009
	<u>RM</u>
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	254,254

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.

The advance from directors is unsecured, with an interest rate of 6.55% pa, and has no fixed terms of repayment.

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B1. Review of performance

Operating revenue of RM1,100,895 from the biomass segment improved by 2% as against the revenue of RM1,080,169 from the same segment in the corresponding quarter of the previous year. This accounted for 57% of the Group’s revenue of RM1,916,374 for the current quarter under review which was 81% lower than the corresponding quarter of preceding year’s revenue of RM10,252,380 as the Group has leased the palm oil mill plant to a third party operator since May 2009.

The Group suffered loss before taxation of RM3,230,766 for the current quarter as compared to the loss before taxation of RM3,272,854 for the corresponding period of the preceding year.

For the 12 months ended 31 December 2009, the Group registered a higher loss before taxation of approximately RM11.11million against the loss before taxation of approximately RM9.84million for the same period of the preceding year. The higher loss before taxation was mainly attributable to higher depreciation and finance costs incurred due to the commencement of the pulp division under the biomass segment.

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 48% increase in net loss before taxation of RM3,230,766 during the fourth quarter of 2009 as compared to the loss before taxation of RM2,183,222 recorded in the preceding quarter.

Likewise, the pulp division under the biomass segment incurred higher losses arising mainly from higher depreciation and finance costs, whereas, together with the biodegradable packaging products, both division production level remained under utilised.

B3. Current financial year’s prospects

Despite the sluggish economic environment and challenging operating conditions due to working capital constraints, the Group expects improvement in the performance with market expansion plan which would expect to increase the Group revenue.

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:

	For 3 months ended 31 December 2009 RM	For 12 months ended 31 December 2009 RM
Deferred taxation	<u>190,474</u>	<u>190,474</u>

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

B6. Unquoted investments and properties

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

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	1,559,290	Within six months	Fully utilised.
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.
Total	<u>2,689,290</u>	<u>2,589,290</u>		

B9. Group’s borrowings and debt securities

The Group’s short-term and long-term borrowings as at 31 December 2009 are as follows:

	RM
i <u>Short-term borrowings:</u>	
Secured: Bank overdrafts	2,733,859
Secured: Banker acceptance	824,763
Secured: Revolving credit	308,391
Secured: Term loans	3,963,357
Unsecured: Hire purchase	897,926
Unsecured: Shareholders advance	787,332
Total	<u>9,515,628</u>
ii <u>Long-term borrowings:</u>	
Secured: Term loans	30,080,090
Unsecured: Hire purchase	1,422,088
Total	<u>31,502,178</u>

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Repayable within one year	9,515,628
Repayable after one year	31,502,178
Total	<u>41,017,806</u>

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 is no other material litigation 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.

On 18 November 2009, the defendant, SSPOM filed an application of stay of proceedings which was fixed for case management and hearing on 8 December 2009, on 10 February 2010, the court dismissed the defendant application with writing in the next hearing date.

On 18 November 2009, the defendant, DPOM filed an application of stay of proceedings which was fixed for case management and hearing on 8 December 2009 and 10 February 2010, the defendant application was fixed for further hearing on 17 May 2010.

On 2 September 2009, in relation to the suit against GOM, the High Court had granted a stay of proceedings to GOM and SW solicitors had lodged an appeal to the Court of Appeal against the order for stay of proceedings.

Pending the outcome of appeal by SW against GOM for the stay of proceedings, the next hearing date for SSPP has been fixed on 16 April 2010.

- 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.

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The Company has engaged legal counsel to resist the claim in its entirety. The case was fixed for trial on 4 & 5 November 2009, further hearing was resumed on 9 & 10 December 2009 and the next hearing date will be on 11 March 2010.

- 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 March 2010.
- iv. Stable-Win Sdn.Bhd. (SW) has received a writ of summon filed by EPA Management Sdn.Bhd over the crude palm oil supplied amounting to approximately RM896,920. SW has filed in the affidavit of defence on 22 February 2010. The High Court will fix a date for further hearing.

B12. Dividend

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

B13. Loss per ordinary share (LPS)

- i. Basic LPS

	For 3 months ended 31 December 2009	For 12 months ended 31 December 2009
Loss for the period (RM)	3,040,292	11,110,974
Less: Amount attributable to minority interest (RM)	Nil	Nil
Loss for the period attributable to shareholders of the Company (RM)	3,040,292	11,110,974
Weighted average number of ordinary shares	234,582,090	226,747,671
Basic loss per share (sen)	1.30	4.90

- ii. Diluted EPS

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