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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 2009. 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 2009.

**A2 Changes in accounting policies**

The accounting policies, methods of computation and basis of consolidation adopted by the Group in the interim financial statements are consistent with those adopted in the financial statements for the year ended 31 December 2009, except that the Group has adopted the Malaysian Financial Reporting Standards (FRSs) that are effective for financial statements commencing 1 January 2010.

The FRSs, which are effective commencing 1 January 2010 and applied by the Group are:

FRS 4 Insurance Contracts  
FRS 7 Financial Instruments: Disclosures  
FRS 101 Presentation of Financial Statements (revised)  
FRS 123 Borrowing Costs  
FRS 139 Financial Instruments: Recognition and Measurement

In accordance with the transitional provisions of this standard, the required changes are applied prospectively and the comparative information is not restated. Adoption of the above standards does not have any material impact on the financial position and results of the Group.

**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.

**Ecofuture Bhd.**

(Company No. 628026-M)  
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**A Notes to the Interim Financial Report****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.

**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 6-month period ended 30 June 2010 is as follows:

<b>Business segments</b>	<b>Biomass</b>	<b>Milling</b>	<b>Elimination</b>	<b>Consolidated</b>
<b>Revenue</b>	<b>(RM)</b>	<b>(RM)</b>	<b>(RM)</b>	<b>(RM)</b>
Total revenue	2,904,873	1,100,107	(711,436)	3,293,544
Inter-segment revenue	(711,436)	-	711,436	-
External revenue	<u>2,193,437</u>	<u>1,100,107</u>	<u>-</u>	<u>3,293,544</u>
<b>Results</b>				
Segment results	(1,695,548)	(171,353)		(1,866,901)
Unallocated cost				(360,022)
Interest income				-
Finance costs				<u>(1,604,343)</u>
Loss before taxation				<u>(3,831,266)</u>
Taxation				-
Loss after taxation				<u>(3,831,266)</u>

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<b>Business segments</b>	<b>Biomass</b>	<b>Milling</b>	<b>Elimination</b>	<b>Consolidated</b>
<b>Other information</b>				
Segment assets	48,212,331	23,580,175		71,792,506
Unallocated assets				837,309
Total assets				<u>72,629,815</u>
Segment liabilities	27,332,715	29,771,794		57,104,509
Unallocated liabilities				4,622,408
Total liabilities				<u>61,726,917</u>
Capital expenditure	-	-		-
Depreciation and amortization *	1,118,657	782,553		1,901,210
Unallocated depreciation and amortization				5,085

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

\* The Group has revised the depreciation charge for its plant and machinery based on a reassessment of the useful lives of the assets. The effect of this revision have resulted a reduction in the depreciation charge for the current quarter by RM576,129.

**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**

On 13 July 2010, the Company announced that it is an affected issuer under Guidance Note 3 of the listing requirements. As such, the Company is required to submit a regularization plan to Bursa Securities. Details of the regularization plan will be announced by the Sponsor in due course.

The Company had on 27 July 2010 announced that it has entered into a conditional agreement with Soon Lee Huat Palm Oil Mill for the sale of its entire shareholding in Stable-Win Sdn Bhd, a company involved in palm oil milling, for a total cash consideration of RM30.36 million. Approval of shareholders will be sought in due course in a general meeting to be convened. It is the intention of the Directors that the disposal will be part of the regularization plan.

In the opinion of the Directors, other than as disclosed above, 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 June 2010 and the date of this announcement.

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

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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 2009.

- I. Corporate guarantees given by the Company to licensed banks and financial institutions for banking facilities granted to subsidiaries amounting to RM24 million as at 30 June 2010.
- 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).
- III. In respect of a subsidiary with a claim against it, for non fulfillment of a commodity supply contract from an initial value of RM 480,000 with subsequent mutually agreed upon amounting to approximately RM122,000.

**A14 Capital commitment**

There were no major capital commitments of the Group as at 30 June 2010.

**A15 Significant related party transaction**

	<b>For 6 months ended 30 June 2010 (RM)</b>
Interest expense	<u>180,131</u>

The advance from directors and related parties is unsecured, with an interest rate ranging from 6.55%-7.05% during the period, and has no fixed terms of repayment.

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

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**B1. Review of performance**

The biomass segment continued to grow at a rapid pace, contributing RM2,193,437 compared to the preceding year corresponding period of RM1,212,732, an increase of 81%. The biomass segment contributed 66.6% of the total revenue to date of RM3,293,544. The Group's result for the corresponding 6-month period is RM3,954,997.

The Group suffered loss before taxation of RM2,292,896 for the current quarter as compared to the loss before taxation of RM2,376,516 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 increased 49% in net loss before taxation of RM2,292,895 during the second quarter of 2010 as compared to the loss before taxation of RM1,538,369 recorded in the preceding quarter.

This resulted from the milling division's loss of lease rental income from May 2010 as the Company had entered into an agreement to dispose its milling operations (refer note **A11** above).

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

In view with the challenging operating conditions due to working capital constraints, the Board is actively exploiting and pursuing addition funding to alleviate its financial predicament. Despite the above, the Group is continuously breaking ground in new market and to further new product designs in term of application usage for its environmental friendly products which would expect to improve the Group's performance.

**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 6 months ended 30 June 2010 (RM)</b>
Current quarter provision	<u>Nil</u>

**B6. Unquoted investments and properties**

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

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**B Additional Information Required by Bursa Malaysia Securities Berhad (“Bursa Malaysia”) Listing Requirement****B7. Quoted securities**

Not applicable to the Group.

**B8. The status of corporate proposals**

There is no corporate proposal announced but not yet completed for the current quarter under review.

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

The Group’s borrowings as at 30 June 2010 are as follows:

	<b>(RM)</b>
Secured: Bank overdrafts	4,332,391
Secured: Banker acceptance	-
Secured: Revolving credit	447,444
Secured: Term loans	32,875,936
Hire purchase liabilities	1,967,698
<b>Total</b>	<b><u>39,623,469</u></b>
Repayable within one year	6,747,533
Repayable after one year	32,875,936
<b>Total</b>	<b><u>39,623,469</u></b>

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 has dismissed the defendant application and the defendant has filed in an appeal, no date has been fixed for mention yet.

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 is fixed for further hearing on 22<sup>nd</sup> June 2010.

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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 at the Court of Appeal against this order for stay of proceedings, no date has been fixed for mention yet.

Pending the outcome of appeal by SW against GOM for the stay of proceedings, the hearing date for SSPP fixed on 16 April 2010 which was adjourned then and fixed on 7<sup>th</sup> July 2010 as next hearing date.

On 7<sup>th</sup> July 2010, the High Court has directed both parties to attend case management on 13 July 2010 and subsequently on 1 September 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 ("Patents") 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, further hearing was resumed on 9 & 10 December 2009 and 11 March 2010, the next hearing date is fixed on 14 June 2010.

Judgement was served on 14 June 2010 in favour of the Plaintiffs. Pursuant to the said Judgement, Soon Seng Palm Products Sdn Bhd is now the beneficial and rightful owner of the Patent Applications and/or Patents tabulated in the Judgement and has obtained proprietary rights over the same. However the damages amounting to approximately RM4,819,000 has been dismissed by the High Court.

The Company has filed an appeal vide a Notice of Appeal dated 14 July 2010 to the Court of Appeal. The Appeal is presently pending before the Court of Appeal. The Company will be submitting a stay of execution of Judgement.

According to the Management of the Company, the said Patents have no material financial effect on the Group. The Company continues to have management powers in relation to the sale of Ecomat, Ecofibre and Ecopak products ("Products") as the Judgement is not expected to have any impact on the Company's current and future contractual obligations in connection with the Products.

- ( iii ) 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, no date has been fixed for mention yet.

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

- ( iv ) Stable-Win Sdn.Bhd. (SW) has received a writ of summon filed by Melaka Tong Bee Sdn.Bhd (MTB) over the crude palm oil supplied amounting to approximately RM1,076,945. The case is fixed for hearing on 17<sup>th</sup> September 2010.
- ( v ) Stable-Win Sdn.Bhd. (SW) has received a writ of summon filed by Felda Plantation Sdn.Bhd (FP) over the fresh fruit brunch (FFB) supplied amounting to approximately RM1,529,935, no date has been fixed for mention yet.

**B12. Dividend**

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

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

- ( i ) Basic LPS

	<b>For quarter ended 30 June 2010 (RM)</b>
Loss for the period	(3,831,266)
Less: Amount attributable to minority interest	-
Loss for the period attributable to shareholders of the Company	<b>(3,831,266)</b>
Weighted average number of ordinary shares	<b>246,518,250</b>
Basic loss per share (sen)	<b>(1.55)</b>

- ( ii ) Diluted EPS

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