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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 2010. 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 2010.

**A2 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 for the annual audited financial statements for the year ended 31 December 2010.

**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 materials 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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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. The milling operations were ceased from May 2009 to February 2011 as the Group leased the palm oil mill to a third party mill operator. The Group had subsequently re-possessed the palm oil mill by court order (refer to B11 (ix)) and commenced the milling operations in March 2011 and thereon.

Segmental analysis of the Group for the 3-month period ended 31 March 2011 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>
External revenue	877,805	3,520,415	-	4,398,220
Inter-segment revenue	219,773	2,422	(222,195)	-
Total revenue	1,097,578	3,522,837	(222,195)	4,398,220
<b>Results</b>				
Segment results	(907,736)	(673,092)	-	(1,580,828)
Unallocated cost	-	-	-	(500,676)
Finance costs	(412,161)	(229,736)	-	(641,897)
Loss before taxation				(2,723,401)
Taxation				(870)
Loss after taxation				(2,724,271)
<b>Other information</b>				
Segment assets	45,828,762	27,541,955	-	73,370,717
Unallocated assets	-	-	-	1,501,134
Total assets				74,871,851
Segment liabilities	26,247,028	26,992,969	-	53,239,997
Unallocated liabilities	-	-	-	18,379,670
Total liabilities				71,619,667
Capital expenditure	-	3,260	-	3,260
Depreciation and amortization	494,699	469,465	-	964,164
Unallocated depreciation and amortization	-	-	-	2,903
Non-cash items other than depreciation and impairment losses	57,366	(23,645)	-	33,721

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---

**A Notes to the Interim Financial Report**

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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**

- i. Pursuant to the Guidance Note 5 ("GN5") of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("AMLR"), the Board had on 3 May 2011 announced the following update of status in relation to the defaults on payments of interest and principal in respect of banking facilities granted by the following financial institutions to the Company's subsidiaries:-
  - EON Bank Berhad ("EON") with amount in default of RM0.32 million. The Board has submitted a proposal to restructure the repayment schedule on 16 March 2011 and EON had on 12 April 2011 issued a revised letter of offer based on the said proposal. Currently, the letter of offer will be executed upon submission of required documents to EON.
  - OCBC Bank (Malaysia) Berhad ("OCBC") with amount in default of RM0.75 million. OCBC had on 24 March 2011 agreed to accept the restructured repayment schedule as proposed by the Board, and has executed the proposal on 1 April 2011.
- ii. On 11 May 2011, the Malaysia Base Lending Rate ("BLR") was adjusted from 6.30% to 6.60% per annum. The increase in BLR is expected to increase the interest costs on bank borrowings and interest-bearing non-trade advances from Directors by approximately RM125,000 per annum.

In the opinion of the Directors, other than as disclosed above and Note B11 below, 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 March 2011 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 significant changes in contingent liabilities since the last audited balance sheet as at 31 December 2010.

- I. Corporate guarantees given by the Company to licensed banks and financial institutions for banking facilities granted to subsidiaries amounting to RM23.5 million as at 31 December 2010.

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**Ecofuture Bhd.**

(Company No. 628026-M)

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**and its subsidiaries**

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**A Notes to the Interim Financial Report**

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- 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 ("Patents") of the Group including damages amounting to approximately RM8,539,801 (Note B11).
- III. A subsidiary of the Company received a writ of summon filed by a supplier purporting a claim of approximately RM83,369 for late return of certain tankers rented by the subsidiary (Note B11).
- IV. A subsidiary of the Company received a statement of claim filed by a party purporting a claim on a share of an employee's remuneration of approximately RM294,034 (Note B11).
- V. A subsidiary of the Company received a writ of summon from a party for a claim of RM162,799 in respect of a container detained overseas (Note B11).
- VI. A subsidiary of the Company has received a writ of summon filed by several parties on the claim that the subsidiary provided and charged unauthorized services to third party which sum up to RM2,308,931 (Note B11).

**A14 Capital commitment**

There were no major capital commitments of the Group as at 31 March 2011.

**A15 Significant related party transaction**

**For 3-months ended  
31 March 2011  
(RM)**

Interest expense	<u>106,134</u>
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The advance from directors and related parties is unsecured, with an interest rate ranging from 6.55%-7.30% during the period, 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**

External revenue from biomass segment has marginally decreased by RM70,823 (7%), contributing RM877,805 compared to the preceding year corresponding period of RM948,628. The decrease was mainly due to under-capacity production as a result of lack of feedstock being supplied by the upstream production, plus the working capital constraints.

External revenue from milling segment has surged by RM2,731,097 (346%), contributing RM3,520,415 compared to the preceding year corresponding period of RM789,318. The steep uptrend was contributed by the milling operation since the Group re-possessed its palm oil mill on 7 March 2011 and has commenced the milling activities from 10 March 2011 thereon.

Overall, the Group’s revenue has increased by RM2,660,274 (153%) from RM1,737,946 for the preceding year corresponding period to RM4,398,220 for the quarter under review. The milling segment contributed 80% of the total external revenue of RM4,398,220 for the quarter under review, and biomass segment contributed the remaining 20%.

For the 3-months ended 31 March 2011, the Group suffered loss before taxation of RM2,723,401 as compared to the loss before taxation of RM1,538,369 for same period in 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 reported a net loss before taxation of RM2,723,401 during the first quarter of 2011 as compared to the loss before taxation of RM2,686,392 recorded in the preceding quarter.

This was resulted from higher fixed costs were incurred on the biomass operation as a result of under-capacity production, and higher maintenance costs were incurred to repair the palm oil mill after the Group re-possessed the mill from a third-party lessee in March 2011. In addition, the Group’s legal expenses have surged as a result of professional legal services rendered on various litigation cases during the quarter under review.

**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.

In addition to the above, the Board is in the midst of formulating a regularisation plan for the company with the aim to uplift the Group from the Guidance Note 3 (“GN3”) status.

Please also refer to B8 for more details.

**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.

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

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**B5. Taxation**

The breakdown of taxation for the Group is as follows:

**For 3-month ended  
31 March 2011**

	<b>RM</b>
Income tax	<u>870</u>

**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**

On 27 July 2010, the Board announced that the Company entered into a conditional Sale and Purchase Agreement (“SPA”) with Soon Lee Huat Palm Oil Mill Sdn Bhd (SLH) 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 Ringgit Malaysia Thirty Million Three Hundred and Sixty Thousand Only (RM30.36 million) (“Proposed Disposal”).

As of to-date, the conditional SPA has not completed. On 20 December 2010, SLH had filed originating summons to claim against Efuture for a declaration that the SPA was still valid and binding, an order for specific performance of the conditions of sale by Efuture within 3 months and an injunction restricting Efuture from disposing of its said shares. Please refer to B11 (x) above for the more details.

Other than above mentioned, 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 31 March 2011 are as follows:

	<b>(RM)</b>
Secured: Bank overdrafts	3,858,746
Secured: Banker acceptance	216,747
Secured: Revolving credit	461,328
Secured: Term loans	29,975,001
Hire purchase liabilities	1,486,668
<b>Total</b>	<u><b>35,998,490</b></u>
Repayable within one year	12,075,001
Repayable after one year	23,923,489
<b>Total</b>	<u><b>35,998,490</b></u>

All borrowings are denominated in Ringgit Malaysia.

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

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**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 Efuture, 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 defendants, SSPOM and DPOM 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 of stay and the defendant has filed in an appeal, the trial is fixed on 1 April 2011 and 4 April 2011 before the Court. The learnt judge proposed mediation. However, mediation failed and next hearing is fixed on 9<sup>th</sup> June 2011.

On 2 September 2009, in relation to the suit against GOM, the High Court had granted a stay of proceedings to GOM pending the outcome of case B (viii) below.

SSPP matter is now fixed for Case Management on 8 June 2011.

- 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.

Judgment was given on 14 June 2010 in favour of the Plaintiffs. The court dismissed the plaintiffs’ claim of RM4,819,000. Pursuant to the said Judgment, Soon Seng Palm Products Sdn Bhd is now the beneficial and rightful owner of the Patent Applications and/or Patents tabulated in the Judgment and has obtained proprietary rights over the same. The suit has reached damages assessment stage and the next court assessment is fixed on 2<sup>nd</sup> of June 2011.

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The Company has filed an appeal vide a Notice of Appeal dated 14 July 2010 to the Court of Appeal. Appeal records have also been filed at the Court of Appeal on 8 February 2011. The Appeal is presently pending hearing date before the Court of Appeal.

- iii. Stable-Win Sdn. Bhd. (“SW”) has received a writ of summon filed by EPA Management Sdn. Bhd.(“EPA”) over the crude palm oil supplied amounting to approximately RM896,920. Judgment was passed in favour of EPA and the Board is in the progress of negotiating with EPA for a settlement plan.
- 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. Judgment was passed in the Malacca High Court Civil Suit No. 22-16-2010 in favour of MTB on 20 September 2010 (the “Judgment”).

The solicitors of MTB has served a Notice pursuant to Section 218 of the Companies Act, 1965 (“Notice”) to the SW on 21 February 2011 for the outstanding sum of RM729,124.54 owing by SW to MTB in respect of the Judgment. SW is required to pay the Debt within twenty one (21) days from the date of receipt of the Notice.

SW had on 30 April 2011 settled the said outstanding sum and the Notice was subsequently withdrawn.

- v. Stable-Win Sdn. Bhd. (“SW”) has received a writ of summon filed by Felda Plantation Sdn Bhd (“FP”) over the fresh fruit brunches supplied amounting to approximately RM1,529,935. Judgment was passed in the Kuala Lumpur High Court Civil Suit No. S22-143-2010 in favour of FP on 28 December 2010 (the “Judgment”).

The solicitors of FP has served a Notice pursuant to Section 218 of the Companies Act, 1965 (“Notice”) to the SW on 10 March 2011 for the outstanding sum of RM1,971,672.21 owing by SW to FP in respect of the Judgment. SW is required to pay the Debt within twenty one (21) days from the date of receipt of the Notice.

FP has accepted the restructured repayment schedule as proposed by SW, and SW is currently servicing the repayment schedule without default.

- vi. Ecofuture Bhd (“EFuture”) has received a writ of summon filed by Kenneth Gerard Pereira and Larizz Bumi-Overseas Services Sdn Bhd (the “Plaintiffs”) over the claim of Director fees of RM11,000 and an advance of RM682,775.40. Judgment was passed in the High Court of Malaya at Shah Alam under Suit No. 22-1081-2010 in favour of the Plaintiffs on 2 March 2011 (the “Judgment”).

The solicitor of the Plaintiffs has served a notice of demand (the “Notice”) dated 14 April 2011 to the Company on 18 April 2011 for the outstanding sum of RM745,027.06 (the “Claim”) owing by Efuture to the Plaintiffs in respect of the Judgment. Efuture is required to pay the Claim within seven(7) days from the date of the Notice.



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---

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Efuture has previously recognized the Claim as a liability, and hence the expected financial impact is only the cash flow required to settle the Claim plus the expected losses arising from the Notice being the additional interest charges of RM46,251.66 in which such interest forms part of the Claim.

The Board is in the progress of negotiating with the Plaintiffs for a settlement plan.

- vii. Stable-Win Sdn Bhd (“SW”) has received a writ of summon filed by Standard Chartered Bank (M) Berhad on a non-payment of interest on overdraft facilities no. 620-100-181368.

On 29 September 2010, Summary Judgment obtained by Standard Chartered Bank of RM1,462,707.09 from the Court. This amount takes into account the outstanding interest as well as payments that have been made by Stable-Win Sdn Bhd.

SW has negotiated and agreed the settlement by the way of installment with Standard Chartered Bank Malaysia Berhad.

- viii. Stable-Win Sdn Bhd (“SW”) has received a write of summon filed by Agro-Bio Fibre Sdn Bhd (formerly known as Soon Seng Palm Products) and 3 other companies under Soon Seng Group on the claim that SW provided and charged unauthorized services to Agro-Bio which sums up to RM2,308,931.34.

The Court has fixed case management on 7.7.2011, and the trial is fixed on 24.8.2011 and 25.8.2011.

- ix. Stable-Win Sdn Bhd (“SW”) had on 21 December 2010 applied by way of originating summons in High Court of Malaya at Muar (“Court”) for a declaration that the said Lease Agreement entered between SW and Soon Lee Huat Palm Oil Mill Sdn Bhd (“SLH”) on the Lease of SW’s palm oil mill located at off 10 miles, Labis Road, Segamat, Johor Darul Takzur to SLH be void/invalid and to be terminated and/or rescinded on the grounds of frustration, mistake and “illegal”.

The Court had on 7 February 2011 given judgment that the Lease Agreement dated 17 April 2009 is declared null and void, and ordered that SLH is required to deliver vacant possession of SW palm oil mill located at Segamat, Johor to SW in good and proper conditions within 7 days from the date of the Order; and SW is to refund to SLH all benefits received by SW pursuant to the said Lease Agreement subject to set-off or deduction by SW against SLH (the “Court Order”). The Board is in the opinion that SW did not receive any benefit pursuant to the said Lease Agreement and therefore, SW will not be making any refund to Soon Lee Huat Palm Oil Mill Sdn Bhd.

SW was granted a Court Order from Muar High Court to execute writ of possession on 2 March 2011, and the execution of writ was done on 7 March 2011.

The Solicitor of SLH had served a Notice pursuant to Section 218(1)(e) of the Companies Act, 1965 (“Notice”) to SW on 11 March 2011. The Notice has stated that there is an alleged claim of RM2,566,117.62 (“Claim”) being the benefits

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---

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received by SW pursuant to the said Lease Agreement and SW is required to refund to SLH pursuant to the Court Order from Muar High Court dated 7 February 2011. SW is required to pay the Debt within twenty one (21) days from the date of receipt of the Notice. The solicitor of SWSB had on 31 March 2011 obtained an Ex-Parte Injunction Order from the Muar High Court of Malaya restraining SLH from filing the winding up petition against SW. Solicitor of SLH has filed an application to strike out SWSB’s injunction order and the hearing is now fixed on 27 June 2011.

On the other hand, solicitor of SW had on 20 April 2011 filed an application to claim for a sum of RM2,550,003.16 being the benefits received by SLH pursuant to the pursuant to the Court Order from Muar High Court dated 7 February 2011. The hearing is now fixed on 27 June 2011.

- x. On 20 December 2010, SLH had filed originating summon to claimed against Efuture for a declaration that the Sale and Purchase Agreement (“SPA”) of Shares in SW dated 27 July 2010 was still valid and binding, an order for specific performance of the conditions of sale by Efuture within three months and an injunction restricting Efuture from disposing of its said shares.

In their prayers against SW, SLH prayed for mandatory injunction against SW and requiring SW to surrender its Malaysian Palm Oil Board (“MPOB”) license to operate its palm oil mill and an order for specific performance of the lease agreement entered into between SW and SLH on 17 April 2009 (“LA”).

The Shah Alam High Court had on 25 January 2011 disallowed or refused all the prayers sought by SLH. The Court also ordered that SLH’s originating summons be converted to Writ of Summons and the matter shall go for a full trial.

SW’s solicitor has filed an application for striking out SLH’s claim and the case is now fixed for Case Management on 16 June 2011.

**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 31 March 2011 RM</b>
Loss for the period	(2,724,271)
Number of ordinary shares	246,518,250
Basic loss per share (sen)	(1.11)

**( ii ) Diluted EPS**

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**Ecofuture Bhd.**

(Company No. 628026-M)

(Incorporated in Malaysia)

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

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

**B14. Disclosure of realised and unrealised profits**

The breakdown of accumulated losses of the Group into realised and unrealised accumulated losses is as follows:-

	<b>As at 31 March 2010 RM (unaudited)</b>	<b>As at 31 December 2010 RM (audited)</b>
Total accumulated losses of EFuture and its subsidiaries :-		
- Realised	29,219,967	26,495,696
- Unrealised	-	-
	<hr/>	<hr/>
Less : Consolidated adjustments	-	-
	<hr/>	<hr/>
Total accumulated losses as per interim financial report	<u>29,219,967</u>	<u>26,495,696</u>

**B15. Authorisation for issue**

The interim financial report were authorised for issue by the Board of Directors.