

TEX CYCLE

Tex Cycle Technology(M)Berhad
(642619-P)

Tex Cycle Technology (M) Berhad (642619-P)



Tex Cycle Technology (M) Berhad
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Annual Report 2006

ANNUAL REPORT 2006

Cover story

The cover of annual report tells a story of the great achievement and activities the organization has carried out. It also tells a story of the hidden meaning the symbols it bears and the message it is trying to send across to the stake holders. The flowers and plants encapsulated on the front cover are found within the garden of Tex Cycle. On an actual scale, the plants are scattered about and not noticed but when combined, the glorification of the garden is seen.

Similar to the industry, if the waste is just scattered to landfills without much effort to recover and recycle, the glorification of conserving the environment and natural resources will be futile. Tex Cycle has been in the industry for more than 20 years and will never stop bringing awareness to the industry and community.

The water lily, in the lower center of the globe symbolizes the nature of Tex Cycle. The water lily, a humble plant that grows in murky muddy water and gains the nutrients from this dark depth is able to generate a marvel display of dazzling flowers. Similar to Tex Cycle, the organization is on the lower hierarchy of the industries, collecting the unwanted contaminated materials and able to recover, reuse and recycle these materials into raw materials for the industry again.



The leadership role played by Tex Cycle in environmental awareness as an exemplary waste contractor in the industry are the similar effects of the water lily flower, where Tex Cycle is able to stand out and provide a cleaner opinion to others on scheduled wastes management.



The fruiting plants, the banana, ciku and coconut found in the garden symbolize the fruit of success and benefits which is returned to community, clients, staff, contractors, regulators and share holders. The fruiting trees similar, in the beginning were not able to bear any fruits but over period of time and determination, the fruits will be the success story and enjoyed by everyone. Tex Cycle started as a small company but through sheer determination, it has succeeded as a leading organization in the scheduled waste management industry.

The fishes in the koi pond symbolize the living garden in a scheduled waste management organization and living in harmony in nature. Carps and Gold fishes are one of the sensitive species which are usually not able to cope well in a deteriorating environment. Therefore, the thriving fishes indicate clearly the cleaner production concept practiced, waste minimization efforts and tolerable emission from the processes are in harmony with nature.



The globe encompassing the plants in Tex Cycle garden carries the signification of success. The management of Tex Cycle has proven that the scheduled wastes management is able to comply with the legislation requirements and practice cleaner production concept and make it a success in Malaysia. The aspiration of the management is to bring Tex Cycle mission globally and ensure that the message or conserving the environment and natural resources through the recovery, recycle and reuse of scheduled wastes is achieved.



Hibiscus, 'Bunga Raya' in the centre of the globe is the symbol of the national flower of Malaysia and also the symbol of pride. Tex Cycle is proud to show its technology and cleaner production concept and be an exemplary company to international organizations. Tex Cycle was chosen as a centre for visit and technology discussion among international organizations. Tex Cycle is also proud to boast its achievements and awards especially being the winner of the Prime Minister Hibiscus Award, SME Special Award 2005/2006.



The logo for TEX CYCLE features the word "TEX" in a bold, black, sans-serif font, followed by a green circular icon containing a white stylized leaf or flower shape, and then the word "CYCLE" in the same bold, black, sans-serif font. The background of the top section is a collage of various flowers and leaves in warm tones like orange, yellow, and purple.

TEX CYCLE

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Corporate Information

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BOARD OF DIRECTORS

Ho Siew Choong
Executive Chairman

Periasamy A/L Sinakalai
Managing Director

Lt. Gen. (R) Dato' Jaffar Bin Mohamed
Executive Director

Yusseri Bin Said
Executive Director

Ho Siew Cheong
Executive Director

Ho Siew Weng
Executive Director

General (R) Dato' Seri Che Md Noor Bin Mat Arshad
Independent Non-Executive Director

Razali Bin Jantan
Independent Non-Executive Director

Ravindran A/L Markandu
Independent Non-Executive Director

AUDITORS

Messrs Delloite & Touche (AF: 0834)
Chartered Accountants

COMPANY SECRETARIES

Ng Yim Kong (LS 0008343)
Wong Youn Kim (MAICSA 7018778)

PRINCIPAL BANKER

Public Bank Berhad (6463-H)

SPONSOR

Hwang-DBS Investment Bank Berhad (14389-U)
(f.k.a Hwang-DBS Securities Berhad)
Suite 23A-01, 23A Floor
Menara Keck Seng
203 Jalan Bukit Bintang
55100 Kuala Lumpur
Tel: 03-2143 7888
Fax: 03-2148 2989

SHARE REGISTRAR

Symphony Share Registrars Sdn. Bhd. (378993-D)
Level 26, Menara Multi Purpose
Capital Square
8, Jalan Munshi Abdullah
50100 Kuala Lumpur
Tel: 03- 2721 2222
Fax: 03- 2721 2530

REGISTERED OFFICE

Unit 07-02, Level 7
Menara Luxor
6B Persiaran Tropicana
47410 Petaling Jaya
Selangor Darul Ehsan
Tel: 03-7804 5929
Fax: 03-7805 2559

CORPORATE OFFICE

8, Jalan TPK 2/3
Taman Perindustrian Kinrara
47100 Puchong
Selangor Darul Ehsan
Tel: 03-8076 3816/19/21/23
Fax: 03-8076 3817
Email: texcycle@po.jaring.my
Website: www.texcycle.com.my

STOCK EXCHANGE LISTING

MESDAQ Market of Bursa Malaysia Securities Berhad
Stock Name: TEXCYCL
Stock Code: 0089

Profile of Directors

Annual Report 2006



*front row from left to right : General (R) Dato' Seri Che Md Noor Bin Mat Arshad, Periasamy A/L Sinakalai, Ho Siew Choong and Lt. Gen (R) Dato' Jaffar Bin Mohamed.
standing from left to right : Yusseri Bin Said, Ho Siew Cheong, Razali Bin Jantan, Ravindran Markandu and Ho Siew Weng.*

HO SIEW CHOONG

Executive Chairman; 55 years of age; Malaysian

Ho Siew Choong was appointed to the Board of Tex Cycle Technology on 13 May 2005. He obtained a Diploma of Graphic Reproduction from London College of Printing, United Kingdom in 1974 and a Diploma in Post Award Studies (graphic reproduction) in 1975. Upon his return from the United Kingdom he joined Metro-Engravers Sdn. Bhd. and was involved in all areas of business management such as Human Resource, Finance, Marketing, Research and Development, Sales and Distribution. He was appointed as a Chairman in Metro-Engravers Sdn. Bhd. in 2000. He is the person responsible for advancing Metro-Engravers Sdn. Bhd. to a highly advanced field of pre-print electronic system. He was appointed as a Director in Tex Cycle in 1995 and has since been involved in various aspects of Tex Cycle's business which include Administration and Finance. He is also one of the three members of Tex Cycle's Research and Development ("R&D") team which is working to enhance and improve Tex Cycle's methods of recovery and recycling as well as to design and develop new methods of recovery and recycling, as well as new products and services.

PERIASAMY A/L SINAKALAI

Managing Director; 56 years of age; Malaysian

Periasamy A/L Sinakalai was appointed to the Board of Tex Cycle Technology on 13 May 2005. He obtained a Senior Cambridge Certificate in 1968. He started his career in The New Straits Times Group in 1969 at the young age of 18. After 10 years of service in The New Straits Times Group he left his position as a Production Planner to join Papyrus Printing, a subsidiary of the Star Publications for two (2) years. He then joined Malaysian British Assurance Berhad and was promoted to the position of a Production Manager in 1979. His tenure in Malaysian British Assurance Berhad lasted for about five (5) years before he left in 1985 to join Tex Cycle as a Marketing Manager. Periasamy A/L Sinakalai subsequently became a shareholder of Tex Cycle and was appointed the Executive Director of Tex Cycle on 21 April 1986. In addition to his role as a Marketing Manager, he has also been directly involved in Tex Cycle's Administration and is an integral part of Tex Cycle's Research and Development team. He was awarded the Pingat Masyarakat Cemerlang (PMC) by the Yang Dipertua Negeri Sembilan on 25 October 2001.

LT. GEN. (R) DATO' JAFFAR BIN MOHAMED

Executive Director; 72 years of age; Malaysian

Lt. Gen. (R) Dato' Jaffar Bin Mohamed was appointed to the Board of Tex Cycle Technology on 13 May 2005. He graduated from the Royal Military Academy, Sandhurst, United Kingdom in December 1957. Upon graduation, he served the armed forces of Malaysia until 1990, where he retired as Lieutenant General. He was appointed as a Chairman of the Board of Metro Koats in 1996. He is also currently the Chairman of Artimal Sdn. Bhd. and MJM Resources Sdn. Bhd. He was a Director in Affin Finance Berhad from 1991 to 1998, a Chairman in Harper Wira Sdn. Bhd. from 1992 to 1998 and an Executive Director in Mafira Techniques Sdn. Bhd. from 1991 to 1999.

YUSSERI BIN SAID

Executive Director; 49 years of age; Malaysian

Yusseri Bin Said was appointed to the Board of Tex Cycle on Technology 13 May 2005. He graduated from Universiti Sains Malaysia with a Bachelor of Science (Honours) in 1984. He started his career in the banking industry as a Trainee Officer in Malayan Banking Berhad. In 1995, he obtained a Masters in Business Administration from Ohio University, USA upon completion of a twinning programme at the Universiti Teknologi MARA (UiTM). He subsequently left Malayan Banking Berhad and appointed to the Board of Directors of Metro Koats.

HO SIEW CHEONG

Executive Director; 45 years of age; Malaysian

Ho Siew Cheong was appointed to the Board of Tex Cycle Technology on 13 May 2005. He graduated with a Bachelor of Science from the University of Newcastle-upon-Tyne, United Kingdom in 1985. Upon graduation, he started his career as a Site Engineer in General Fire Fighting Sdn. Bhd. He was later appointed as a Sales Manager in Metro-Engravers Sdn. Bhd. in 1987. In 1995 he founded Metro Koats and has been a Director in Metro Koats ever since. He is also the Head of Research and Development in Metro Koats where he is responsible for the development and invention of all the products of Metro Koats, including camouflage paint and chemical formulae/solutions for the process of treatment of contaminated waste and effluent. Due to his expertise in developing chemical formulae/solution, he is also a member of Tex Cycle's Research and Development team, focusing on the development of Tex Cycle's waste treatment system.

HO SIEW WENG

Executive Director ; 50 years of age; Malaysian

Ho Siew Weng was appointed to the Board of Tex Cycle Technology on 13 May 2005. He was appointed to the Board of Tex Cycle in 13 August 2001. He has been directly involved in various areas of Tex Cycle's business management, particularly Marketing, Sales and Distribution. Prior to his appointment to the Board of Tex Cycle, he was attached to Metro-Engravers Sdn. Bhd. and was involved mainly in the Sales and Marketing Department. Tex Cycle has benefited from his experience in marketing and sales, where his job function includes building a sales and marketing team with representatives based in different locations to reap the full benefit of local knowledge. He is also in charge of exploring new business potential in both the regulated and non-regulated waste generating industries.

GENERAL (R) DATO' SERI CHE MD NOOR BIN MAT ARSHAD

Independent Non-Executive Director; 64 years of age; Malaysian

General (R) Dato' Seri Che Md Noor Bin Mat Arshad was appointed to the Board of Tex Cycle Technology on 13 May 2005. He graduated from the Royal Military College in 1961 and subsequently joined the Malaysian Armed Forces as an Officer. During his attachment with the Malaysian Armed Forces, he also managed to obtain a Master's Degree in International Relations and Strategic Studies from Lancaster University, United Kingdom in 1983. He served the Malaysian Armed Forces until 1997, where he retired as the Chief of the Army, the highest recognition in the Malaysian Army. He is currently also the Chairman for Zenith Network Sdn. Bhd., and Jendela Hikmat Sdn. Bhd.

RAZALI BIN JANTAN

Independent Non-Executive Director; 49 years of age; Malaysian

Razali Bin Jantan was appointed to the Board of Tex Cycle Technology on 13 May 2005. He holds a Diploma in Business Studies and subsequently joined Modern Commodities Trading as a Dealer. From 1983 to 1992, he was attached to Malaysian Tobacco Company Berhad with the Marketing Department. In 1993, he founded Quest Entrepreneur Sdn. Bhd., which is involved in event management, and QE Advertising (M) Sdn. Bhd., which is an advertising agency. He is currently the Managing Director of Quest Entrepreneur Sdn. Bhd. and the Chief Executive Officer of QE Advertising (M) Sdn. Bhd. He is proficient in various languages including several Chinese dialects.

RAVINDRAN MARKANDU

Independent Non-Executive Director; 57 years of age; Malaysian

Ravindran Markandu was appointed to the Board of Tex Cycle Technology on 1 March 2007. Ravindran Markandu is a Fellow of the Institute of Chartered Accountants in England and Wales since 1976 and a member of the Malaysian Institute of Accountants. His previous employments include ten years with the UMW Group as Group Accountant initially and finally as Group Financial Controller of UMW Toyota Motor Sdn. Bhd., seven years with the Upali Group, the last position held being Executive Director, Malaysian Operations. In 1993 he accomplished a management buy-in of Bright Packaging Industry Berhad and successfully had the company listed on the Second Board of the Kuala Lumpur Stock Exchange in 1995. He left Bright Packaging in 1998, after having sold a substantial portion of his stake. He now provides financial consultancy and advisory services and through a family company he is involved in housing development and investment. He is also involved with a number of not-for-profit organisations, being the Honorary Secretary-General of the Kuala Lumpur and Selangor Indian Chamber of Commerce and Industry, Honorary Treasurer of the Bukit Damansara House Owners' Association, and a committee member of the Institute of Chartered Accountants in England and Wales, Kuala Lumpur City Group.

Additional information on Directors

Save for Ho Siew Choong, Ho Siew Weng and Ho Siew Cheong who are siblings, none of the Directors has any family relationship with any Directors and/or major shareholders of the Company. None of the Directors has any conflict of interest with the Company or has any conviction for offences within the past ten (10) years other than traffic offences, if any.

On behalf of the Board of Directors of Tex Cycle, I am pleased to present the Annual Report and Financial Statements of the Group for the financial year ended ("FYE") 31 December 2006.

Overview



During the financial year under review, the Group's customer base achieved continuous growth in its recycling services. As at 31 December 2006, the Group has approximately 1,205 customers, an increase of approximately 26.8% as compared to its customer base of 950 customers as at 31 December 2005. In line with the growth of its customer base, the Company achieved a revenue of about RM12.45 million in the FYE 31 December 2006, an increase of 15.21% as compared to that of the previous financial year.

Industry trend

According to Environmental Management & Research Association of Malaysia (Ensearch) as reported by the Pertubuhan Berita Nasional Malaysia on 17 August 2006, the environmental business sector in Malaysia is expected to grow by 15 percent next year due to the growing emphasis on waste reduction, recycling, recovery and sustainability by the government.

During the Ninth Malaysian Plan period, the Government will place emphasis on preventive measures to mitigate and minimise pollution. The promotion of sustainable natural resource management practices in relation to land, water, forest, energy and marine resource, will be intensified. There will also be closer cooperation with stakeholders and Non-Governmental Organisations in addressing environment and natural resource concerns. These efforts will enhance protection of the environment and conservation of natural resources and contribute towards improving the quality of life.

Based on the strengthening economic growth expected in 2007 and the favourable Government policies and legislation, the outlook for the Scheduled Waste recycling services industry is expected to be positive.

Utilisation of proceeds from the IPO

As at 31 December 2006, the Tex Cycle Group has utilised approximately 78.4% of the gross proceeds of RM9.9 million raised from the IPO for the following:-

- (i) To finance the capital expenditure for expansion;
- (ii) To partly finance the acquisition of land;
- (iii) To repay bank borrowings;
- (iv) To strengthen the Group's working capital; and
- (v) Payment of the listing expenses.

Financial Review

For FYE 31 December 2006, the Tex Cycle Group achieved revenue of about RM12.45 million, an increase of 15.20% as compared to that of the previous financial year. The Group profit before tax ("PBT") surged by about 10.28%, from RM4.3 million for the FYE 31 December 2005 to RM4.8 million for the FYE 31 December 2006. In line with the increase in PBT, the Group's profit after tax ("PAT") increased by 11.63%, from RM3.1 million to RM3.4 million.

The improvement in PBT and PAT was mainly attributed to greater demand for the Group's recycling services and chemical products.

Dividends

A final dividend of 5%, less 28% tax amounting to RM614,855, proposed in the previous financial was paid by the Company during the financial year.

In recognition of the Group's commendable performance, the Board is proposing a first and final dividend of 5% less 27% taxation on 170,793,000 ordinary shares, amounting to a total dividend payable of RM623,394 (0.36 sen net per ordinary share) in respect of the FYE 31 December 2006 subject to shareholders' approval at the forthcoming Annual General Meeting.

Corporate Developments

Tex Cycle is venturing into the development of its stake holders and as part of the corporate social responsibility, is bringing the environmental message across the board to local communities, contractors, customers and students.

Tex Cycle has strongly supported the activities carried out by the Department of Environment (DOE) throughout 2006. Tex Cycle was the proud co-sponsor with Department of Environment (DOE) in organizing an environmental camp for 100 students in Bagan Lalang. The camp managed to bring the approach of recycling, recovery and reuse (3Rs) to our younger generation. In addition to the activities organized by DOE, Tex Cycle also became the centre of technology and scheduled waste management visit. Tex Cycle received international visitors from Malaysian Technical Conference Programme on Environmental Management and Pollution Control (MTCP) which was organized by Environmental Institute of Malaysia ("EiMAS") for Asian environmental officers and Japan Electrical Manufacturers' Association (JEMA) and Japan Electronics and Information Technology Industries Association (JEITA) which was represented by Environmental Head of Departments for Japanese based manufacturing companies in Asia. The programme was able to provide technical insight on the alternative to the scheduled waste management.

Tex Cycle also had to show professional progress in parallel with the activities carried out. Tex Cycle was awarded with the Malaysian Canadian Business Council (MCBC) Industrial Excellence in Professional, Services Award – Silver. The award clearly represents the professionalism a scheduled waste management organization able to provide and compete among other industries.

Last year, Tex Cycle won the Prime Minister's Hibiscus Award for Notable Achievement in Environmental Performance for 2005/2006 and had the opportunity to participate again for the awards available in 2007/2008. It was also the first time Tex Cycle compiled a Sustainability Report – Environmental Reporting and had submitted the report for the Malaysia Environmental and Social Reporting Award (MESRA) award organized by Association of Chartered Certified Accountants (ACCA).

Finally, in order to stay ahead within the scheduled waste management industry, Tex Cycle completed its Life Cycle Analysis (LCA) report on the processes in order to further determine the areas which can be fully utilize its resources and improve in energy consumption and reduce in pollution emission.

Research and Development

During the financial year, Tex Cycle has completed the development of the "triple rinse" container cleaning system. The system is currently fully functional and is being used for the drum cleaning services. With the improved system, the revenue generated from contaminated containers had increased from RM2.04 million for the FYE 31 December 2005 to RM3.33 million for FYE 31 December 2006, which was equivalent to an increment of RM0.29 million or 14.24%.

The Research and Development ("R&D") team of Tex Cycle has completed its R&D into ways to convert the oily sludge containing heavy metals into inert silicious materials that can be used as oil binders in the oil and gas industries to absorb and stabilize oil sludge for easy disposal. Tex Cycle is currently in the progress to apply for a license for the treatment and conversion of the contaminants as well as looking for suitable location for the installation of the equipment for the treatment and conversion of the contaminants.

Apart from the abovementioned projects, the R&D team is currently exploring ways to convert used oil into bio-fuel and to convert used rags into floating oil absorbers. The required capital expenditure for these R&D projects have yet to be determined. However, the management of Tex Cycle is of the opinion that the R&D expenditure for the new projects would not be significant.

For the FYE 31 December 2006, we had spent approximately RM28,862, representing 0.23% of the Group's turnover on R&D.

Prospects for 2007

For the financial year ending 31 December 2007, the Group expects to penetrate further into electrical, chemical, aviation, oil and gas industries and furniture manufacturing industries for its recycling business. To cater for the expected expansion in capacity for its container cleaning business, the Group has acquired five additional lorries and four container cleaning machines from the proceeds raised from its public listing.

The Group as also applied for additional scheduled waste codes during the year to enable the Group to recycle additional waste categories. The additional waste codes added on the Group's existing license is expected to be included in the Group's business by May 2007. The new waste codes are expected to result in an improvement to the Group's revenue from the recycling business.

According to the Ninth Malaysia Plan, the Government will place emphasis on preventive measures to mitigate and minimise pollution during the Ninth Malaysia Plan period (2006-2010). The promotion of sustainable natural resource management practices in relation to land, water, forest, energy and marine resource, will be intensified. Therefore, the prospects of the Group's Scheduled Waste recycling business are expected to be favorable.

As for the Group's chemical products business, the Directors of Tex Cycle Technology expect continuous demand for chemical products from its defense industry customers. Therefore, the Directors of Tex Cycle Technology expect the Group to continue achieving satisfactory performance for the next financial year ending 31 December 2007.

Board changes

The Board on 1 March 2007 appointed Mr. Ravindran Markandu as Non-Executive Director. I believe with his experience in various established organizations, he will be able to contribute to the continued growth of the Group

Appreciation and acknowledgement

I would like to take this opportunity to express my sincere appreciation to all employees of the Group, whose untiring efforts and dedication have been crucial to the continued growth of the Group. My thanks also go to our shareholders, customers, business partners, bankers and regulatory authorities for their continued confidence, guidance and support.

On behalf of the Board

Ho Siew Choong

Executive Chairman

16 April 2007

Managing Director's Report

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Over the last eight years TEX CYCLE has grown significantly. From a humble beginning we have grown to be a well known Public listed Company with strong portfolio of assets, market position and people connected by shared values and common purpose.

Our aspiration has grown, so we are striving to be the preferred schedule waste recycling company in the region. We are doing all these in testing times when proper schedule waste management has declined with numerous illegal dumping and the spot light on our activities has become even brighter.

Our intention is therefore to report on more than just our financial performance and tell a broader story as clearly as we can, highlighting not only our achievements but also being open about the difficulties we encounter. Our aim is to provide a clear window through which policies, commitments and performance can be assessed, both by the outside world and by our employees.

We have created a report that provides a concise account of the main issues affecting the Schedule Waste Recycling business and explain how TEX CYCLE seeks to address them. We have sought to show how environmental, social and ethical issues help shape our business strategy that begins with our fundamental purpose to protect the environment and to maximize long term shareholder value.

This is a simple phrase, but one that makes complex demands. First, it demands that we develop a strategy that will give the company competitive advantage and so create value. Second, since it demands that shareholder value be maintained for a long term, it requires us to build a company that will endure a sustainable business, operating in a sustainable world.

Our strategy defines the destination- shareholder value- but the test of sustainability provides the reference by which we judge everything we do. It defines the path towards our destination. To be sustainable, a company cannot exist in isolation but must recognize and manage its wider impact and its contribution to society.

In practical terms, we do this by defining our core values, enshrining them in policies with real meaning and then applying through specific management processes and standards throughout all our activities. All these are carried out within a well-defined system of governance, details of which are clearly laid out.

Looking to more specific issues, as we manage the impact of our activities on the environment, we are driven by an aspiration to transcend trade-off between scheduled waste recycling improvements in living standards and environmental degradation. Our goal is to recycle scheduled waste and find ways to reuse them that do no long term damage to the planet or its people.

In 2003, this led to a series of actions including a more focused inquiry into what is required to eliminate or reduce emission and discharge from our own operations. In addition we have implemented program to reuse recovered water and heat from our operation which can be recognized for a broader global reduction targets. The principle of mutual advantage underpins our approach to relationships. Mutual advantage represents our aspiration that every contact a third party has with TEX CYCLE should bring advantage to them as well as to us. This applies as much to a Community, Country or Supplier as to Customers or Employees.

In 2003, two developments stood out as examples of our commitment to this principle. The first was the achievement of ISO 14001 certified by SIRIM Malaysia and the second was the successful implementation of 90 % of recovered water from our operation for reuse in our process.

In 2004 we were awarded the Selangor Environmental Award an highest award presented by the State Government to an organization which has the best environmental practices.



Tex Cycle management staff

In 2005 TEX CYCLE was listed in the Kuala Lumpur stock exchange. In the same year TEX CYCLE was awarded the SPECIAL PRIME MINISTER'S HIBISCUS AWARD for SME and Notable Achievement for overall.

In 2006 TEX CYCLE received the Silver Award by The Canadian Business Council for Professional Services.

Every year TEX CYCLE receives students from Institution of Higher Learning for Internship and also final year projects, we also work very closely with the Local Universities on R&D programs.

Our commitment to the society is through support and sponsoring of environmental awareness programs for school children, employees, suppliers, contractors, NGOs and other interested parties.

TEX CYCLE also encourages third party audits on its operations by Customers, Government Agencies, NGOs and other interested parties both from Local and International. Through this third party audit programs TEX CYCLE keeps abreast with the latest technologies in the Environmental Industry.

As we progress towards our goals, we will not get everything right all the time. We are grappling with difficult and complex issues in meeting the ever challenging environmental requirements. I am convinced that TEX CYCLE must be a force for good wherever we operate and that corporate responsibility must remain at the heart of our business.

I hope this report will provide a clearer picture of the actions we are taking to meet the world's needs for environmental protection while promoting human progress and preserving the natural environment. If there are ways we can improve our operations, please let us know. I hope it provides real insight as to what is at the core of TEX CYCLE.

Periasamy A/L Sinakalai

Managing Director

16 April 2007

Financial Highlight

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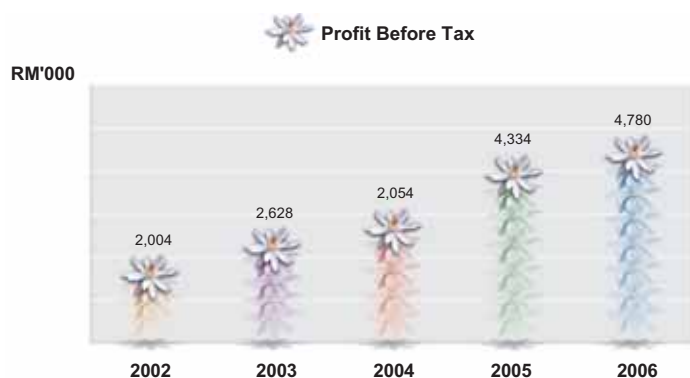
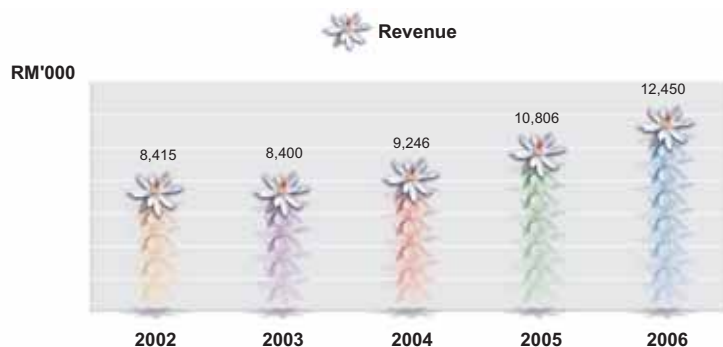
SUMMARISED GROUP INCOME STATEMENT

| FYE 31 December | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------------------------|-------------------|-------------------|-------------------|--------|--------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 8,415 | 8,400 | 9,246 | 10,806 | 12,450 |
| Profit before tax | 2,004 | 2,628 | 3,054 | 4,334 | 4,780 |
| Profit after tax | 1,344 | 1,729 | 2,121 | 3,081 | 3,440 |
| Net earnings per share (sen) | 1.07 [^] | 1.37 [^] | 1.69 [^] | 1.80 | 2.01 |

Notes:

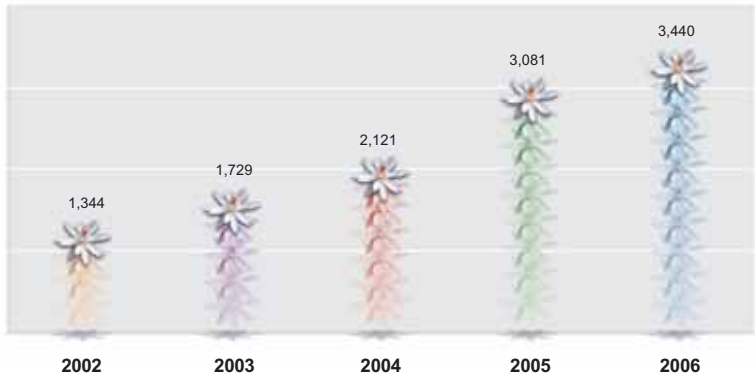
[^] Based on the number of ordinary shares assumed in issue after the acquisitions of TCSB, MKT and Metro Envy but before the public issue.

1. The figures for the FYE 31 December 2002 to 31 December 2004 are provided on the proforma consolidated basis on the assumption that the existing group structure of Tex Cycle had been in existence throughout the periods under review.



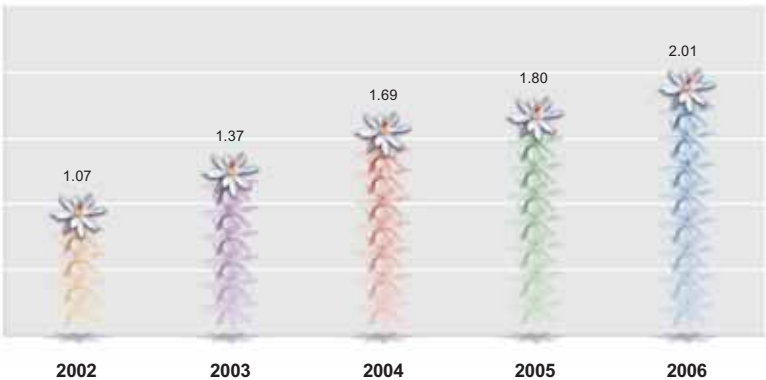
Profit After Tax

RM'000



Net earnings per share

Sen



Financial Highlight (cont'd)

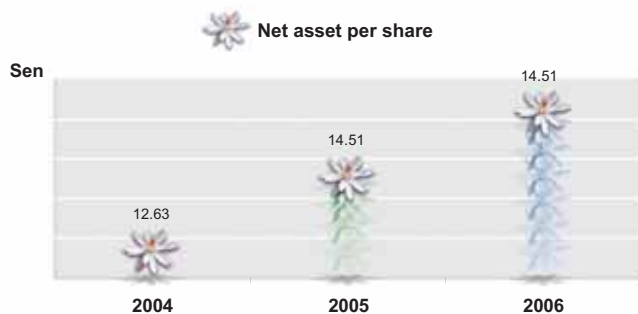
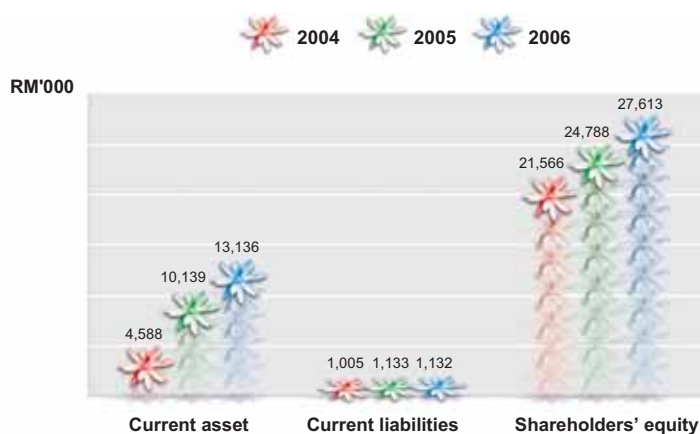
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SUMMARISED GROUP BALANCE SHEET

| FYE 31 December | 2004* | 2005 | 2006 |
|------------------------------|--------|--------|--------|
| | RM'000 | RM'000 | RM'000 |
| Current assets | 4,588 | 10,139 | 13,316 |
| Current liabilities | 1,005 | 1,133 | 1,132 |
| Shareholders' equity | 21,566 | 24,788 | 27,613 |
| Net earnings per share (sen) | 12.63 | 14.51 | 14.51 |

Note:

* Based on the Proforma Consolidated Balance Sheets of the Tex Cycle Group as at 31 December 2004 after taking into account the effect of the initial public offering and utilisation of proceeds.



Introduction

The Board of Directors (“Board”) of Tex Cycle Technology (M) Berhad adopts the best practice of corporate governance in conducting the business and affairs of the Company and the Group. The Board ensures that the highest standards of Corporate Governance are observed to ensure the Group’s continued progress and success as these would not only safeguard and enhance shareholders investment and value but at the same time protect the interests of other stakeholders.

In line with the Listing Requirements of Bursa Malaysia Securities Berhad, the Board wishes to report on the manner the Group has maintained the standards of corporate governance by supporting and implementing the prescriptions of the principles and best practices set out in the Malaysian Code of Corporate Governance (“Code”).

1. The Board of Directors

The Board is collectively responsible for promoting the success of the Group by directing and supervising its affairs. The key responsibilities include the primary responsibilities prescribed under the Best Practices Provision AA I in Part 2 of the Code. These cover a review of the strategic direction for the Group and overseeing the business operations of the Group, evaluating whether these are being properly managed.

a) Board Composition and Balance

The Board of Directors consists of a Chairman, a Managing Director and 7 directors, of who 3 are independent directors. The roles of the Chairman of the Board and Managing Director are segregated. Tex Cycle complies with the MESDAQ Listing Requirements on board composition. The profiles of each of the Directors are set out on page 4 to 6 of this Annual Report.

b) Re-Election of Directors

An election of Directors will take place each year where one-third of the Directors shall retire from office at each Annual General Meeting and shall be eligible to offer themselves for re-election. Directors who are appointed by the Board are subject to election by the shareholders at the next Annual General Meeting held following their appointments.

c) Board Meetings

During the financial year ended 31 December 2006, the Board met a total of 5 times. Details of the meetings are as follows:

| Executive Directors | Attendance |
|---|-------------------|
| Ho Siew Choong | 5/5 |
| Periasamy A/L Sinakalai | 5/5 |
| Lt. Gen. (R) Dato’ Jaffar Bin Mohamed | 5/5 |
| Yusseri Bin Said | 5/5 |
| Ho Siew Cheong | 5/5 |
| Ho Siew Weng | 5/5 |
| | |
| Non-Executive Directors | Attendance |
| General (R) Dato’ Seri Che Md Noor Bin Mat Arshad | 5/5 |
| Razali Bin Jantan | 5/5 |
| Ravindran Markandu (appointed on 1 March 2007) | N/A |

The meetings were held on 27 February 2006, 24 April 2006, 23 May 2006, 24 August 2006 and 16 November 2006 respectively.

The agenda and issues discussed were prepared and circulated before each meeting. Minutes of the Board meetings are maintained by the Company Secretary.

All Directors have access to the advice of the Company Secretary, independent professional advisors, and internal/external auditors in appropriate circumstances at the Company's expense.

d) Duties and Responsibilities

The board assumes the following responsibilities:

- Reviewing and adopting a strategic plan for the Group;
- Overseeing the conduct of the Group's business to evaluate whether the business is being properly managed;
- Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks;
- Succession planning, including appointing, training, fixing the compensation of and where appropriate replacing Management;
- Developing and implementing an investor relations programme or shareholder communications policy for the Group and
- Reviewing the adequacy and integrity of the Group's internal control systems and management information systems, including system for compliance with applicable laws, regulations, rules, directives and guidelines.

e) Supply of Information

Each Board Member receives regular reports, including a comprehensive review and analysis of the Group's performance. Prior to each Board meeting, the directors are sent an agenda and full set of Board papers for each agenda item to be discussed at the meeting. This is issued in sufficient time to enable the directors to obtain further explanations, where necessary.

Guidelines are in place concerning the content presentation and delivery of papers to the Board for each Board meeting so that the directors have access to all information within the Company, whether as full board or in their individual capacity, in furtherance of their duties.

The directors also have direct access to the advice and services of the Group's Company Secretary who is responsible for ensuring that the Board procedures are followed.

f) Nomination and Remuneration Committee

In line with the Best Practices of the Code of Corporate Governance, the Board has set up the Nomination and Remuneration Committee. The committee comprises a majority of Independent Non-Executive Directors as its members. The committee is responsible for identifying and recommending to the Board suitable nominees for Board appointments, and assists the Board in determining the Directors' remuneration. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

The present members of the Nominating Committee of the Company are:

- i. Razalin Bin Jantan (Chairman)
- ii. General (R) Dato' Seri Che Md Noor Bin Met Arshad

Attendance of Nominating Committee

The details of the attendance of each Nominating Committee member in the Nominating Committee meeting held during the financial year ended 31 December 2006 are as follows:

| Directors | Total number of meeting held | Number of meeting attended |
|---|------------------------------|----------------------------|
| Razali Bin Jantan | 2 | 2/2 |
| General (R) Dato' Seri Che Md Noor Bin Met Arshad | 2 | 2/2 |

Note

*The meeting was held on 27 February 2006 and 3 April 2006

Attendance of Remuneration Committee

The details of the attendance of each Remuneration Committee member in the Remuneration Committee meeting held during the financial year ended 31 December 2006 are as follows:

| Directors | Total number of meeting held | Number of meeting attended |
|---|------------------------------|----------------------------|
| General (R) Dato' Seri Che Md Noor Bin Met Arshad | 3 | 3/3 |
| Razali Bin Jantan | 3 | 3/3 |
| Periasamy A/L Sinakalai | 3 | 3/3 |

Note

*The meeting was held on 16 January 2006, 3 April 2006 and 16 November 2006.

The remuneration package of Executive Directors during the financial year ended 31 December 2006 comprises a combination of basic salary (inclusive of statutory employer contributions to the Employees Provident Fund), and benefits-in-kind (such as traveling allowance and chauffeurs as applicable).

The Non-Executive Directors are paid allowance.

The composition and range of remuneration package received by the Directors during the financial year is as follows

| Executive Directors | | | Non - Executive Directors |
|---------------------|-----------------------|-----------------|---------------------------|
| Salary (RM) | Benefits-in-Kind (RM) | Fee (RM) | Allowance (RM) |
| 333,000 | 204,142 | 96,000 | 32,000 |
| RM | | No Of Directors | |
| | | Executive | Non-Executive |
| 0 – 10,000 | | 0 | 0 |
| 10,001 – 100,000 | | 3 | 2 |
| 100,001 – 200,000 | | 2 | 0 |
| 200,001 – 300,000 | | 1 | 0 |

g) Directors' Training

All the Directors have attended the Mandatory Accreditation Programme, except for Mr. Ravindran Markandu who was appointed on 1 March 2007. In addition, every director undergoes continuous training to equip himself with the necessary knowledge, and to keep abreast with developments, to effectively discharge his duties as a director and for that purpose he attends such training in compliance with the requirements as prescribed by Bursa Malaysia Securities Berhad.

2. Shareholders

a) Dialogue with Investors

Recognizing the importance of timely dissemination of information to shareholders and other informed of major developments of the Company and the information is communicated to them through the following:

b) Investors Relations

Along with good corporate governance practices, the Company has embarked on appropriate corporate policies to provide greater disclosure and transparency through all its communications with the public, the shareholders and investors.

The company strives to promote and encourage bilateral communication with its shareholders through participation at its general meetings and also ensure timely dissemination of any information to the investors, analysts and public at large. The company always maintain and promote transparency in our business activities and to continually keep the shareholders and the public well-informed on the Company's activities.

The Group maintains the following website that allows all shareholders and investors access to information about the Group :-

www.texcycle.com.my

c) General Meetings

The Annual General Meeting (AGM) is an important forum where communications with shareholder are effectively conducted. Shareholders will be notified of the meeting together with a copy of the Company's Annual Report at least twenty one (21) days before the meeting. Shareholders are encouraged to participate in the proceedings and ask questions about the resolutions being proposed and the operations of the Group.

The external auditors are also present to provide their professional and independent clarification, if required, on issues highlighted by the shareholders.

3. Accountability and Audit

a) Financial Reporting

The quarterly financial results and annual financial statements are reviewed by the Audit Committee and approved by the Board of Directors before releasing to the Bursa Malaysia Securities Berhad.

The Directors aim to present a balanced assessment of the Group's position and prospects in the interim and annual financial statements. The details of the Group and Company's financial statements for the FYE 31 December 2006 are set out on pages 58 to 99 of this Annual Report.

b) Internal Control

The Board has overall responsibility for maintaining a system of internal control that provides reasonable assurance of effective and efficient operations, and compliance with laws and regulations, as well as with internal procedures and guidelines.

The Statement on Internal Control, which provides an overview of the state of the internal controls within Group, is set out on page 24 of this Annual Report.

c) Relationship with the Auditors

The Company has established a transparent arrangement with the auditors to meet their professional requirements. From time to time, the auditors highlight to the Audit Committee and Board of Directors on matters that require the Board's attention. Annual appointment or re-appointment of the external auditor is via shareholder's resolution at the AGM on the recommendation of the Board.

d) Directors' Responsibility Statement

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which are in accordance with the applicable approved accounting standards and that give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flow of the Group and Company for the financial year.

The Directors are satisfied in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2006, the Group has used the appropriate accounting policies and applied them consistently. The directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

4. Additional Compliance Information**a) Utilisation of Proceeds (as at 31 December 2006)**

The utilisation of proceeds raised from the IPO was as follows:

| | IPO Proceeds RM'000 | Amount Utilised RM'000 | Balance Unutilised RM'000 |
|------------------------------|---------------------------|------------------------------|---------------------------------|
| R & D Expenditure | 3,500 | 3,500 | - |
| Regional Expansion | 2,870 | 1,436 | 1,434 |
| Equipment Upgrading | 1,320 | 1,239 | 81 @ |
| Working Capital | 710 | 710 | - |
| Listing Expenses | 1,500 | 878 | 622 # |
| Total | 9,900 | 7,763 | 2,137 |

@ All the bank borrowings had been paid off by 31 October 2005. The unutilised amount has been utilised for the working capital of the Tex Cycle Group.

Excess listing proceeds due to earlier payment of listing expenses prior to the date of listing. The unutilised amount has been utilised for the working capital of the Tex Cycle Group.

Statement on Corporate Governance (cont'd)

Annual Report 2006

b) Share Buybacks

There was no share buyback during the financial year.

c) Option , Warrants or Convertible Securities

No options, warrants or convertible securities were issued during the financial year.

d) American Depository Receipt (“ADR”) or Global Depository Receipt (“GDR”) Programme.

The company did not sponsor or participate in any ADR or GDR programme during the financial year.

e) Imposition of Sanctions and Penalties

There were no sanctions and penalties by relevant regulatory authorities during the financial year.

f) Non Audit Fees

There were no non audit fees paid to external auditors for the financial year.

g) Variance in Results, Profit Estimate, Forecast or Projection

There was no material variances between the results for the financial year and the unaudited results previously announced on 26 February 2007.

There were no profit estimates, forecast or projection that has been previously announced by the Company during the financial year.

h) Profit Forecast and Profit Guarantees

The Company did not issue any profit forecast or profit guarantee for the year ended 31 December 2006.

i) Material Contracts

None of the Directors and major shareholders had any material contract with the Company and/ or its subsidiaries during financial year.

j) Recurrent Related Party Transactions (“RRPT”)

There were no material RRPT of a revenue or trading nature between the Company and its related parties as at 31 December 2006.

k) Revaluation Of Landed Properties

The Company did not revalue its property, plant and equipment and does not have a policy on the revaluation of its landed properties.

l) Imposition of Sanctions/ Penalties

During the FYE 31 December 2006, there were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management by the relevant regulatory bodies.

MEMBERSHIP AND MEETINGS

The Audit Committee is appointed by the Board amongst its members and consists of three (4) members, the majority of whom are Independent Directors.

The Audit Committee comprises the following members:

Chairman

General (R) Dato' Seri Che Md Noor Bin Mat Arshad
Independent Non-Executive Director

Members

Ho Siew Choong
Executive Chairman

Razali Bin Jantan
Independent Non-Executive Director

Ravindran Markandu
Independent Non-Executive Director

During the year, the Committee held a total of five (5) meetings, on 27 February 2006, 24 April 2006, 23 May 2006, 24 August 2006 and 16 November 2006 respectively. The Financial Controller, Internal Auditors and External Auditors, if any will also invited and attended the Audit Committee meetings.

The details of attendance of the attendance of the Audit Committee members are as follows:

| Committee Members | Meeting Attendance |
|---|--------------------|
| General (R) Dato' Seri Che Md Noor Bin Mat Arshad | 5/5 |
| Ho Siew Choong | 5/5 |
| Razali Bin Jantan | 5/5 |
| Ravindran Markandu (Appointed on 1 March 2007) | N/A |

SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

The main activities undertaken by the Audit Committee during the FYE 31 December 2006 included the following:

- (a) Reviewed the quarterly unaudited financial and annual audited financial statements of the Group and the Company including the announcements pertaining thereto, before recommending to the Board for their approval and release of the Groups results to Bursa Securities.
- (b) Reviewed with external auditors on their audit planning memorandum on the statutory audit of the Group for the financial year ended 31 December 2006.
- (c) Reviewed and discussed with the external auditors of their audit findings inclusive of system evaluation, audit fees, issues raised and management letter together with management's response.
- (d) Reviewed the internal audit plan;
- (e) Reviewed the internal audit reports presented and considered the findings of internal audit through the review of the internal audit reports tabled and management responses thereof;
- (f) Review the effectiveness of the Group's system of internal control;
- (g) Review the Company's compliance with the MESDAQ Listing Requirements, applicable Approved Accounting Standards and other relevant legal and regulatory requirements; and
- (h) Report to the Board on its activities and significant findings and results.

INTERNAL AUDIT FUNCTION

Tex Cycle Technology has appointed Messrs Focus Internal Audit Solution (“Internal Auditor”), a professional firm of qualified accountants, to undertake the internal audit function. The role of the Internal Auditor is to provide the Committee with independent and objective reports on the system and state of internal controls of the Company.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

1. Membership

The Audit Committee shall be appointed by the Board from amongst the Directors and shall consist of not less than three (3) members, the majority of whom shall be Independent Directors with an appropriate mix of skills and experience. The Chief Executive Officer shall not be a member of the Audit Committee.

If a member of the Audit Committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board of Directors shall, fill the vacancy within two (2) months, but in any case not later than three (3) months.

2. Chairman

The Chairman of the Committee shall be an Independent Director appointed by the Board. He shall report on each meeting of the Committee to the Board.

3. Secretaries

The Company Secretaries shall be the Secretaries of the Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation to the Committee members prior to each meeting.

The Secretaries shall also be responsible for keeping the minutes of meetings of the Audit Committee and circulating them to the Committee members and to the other members of the Board.

4. Meetings and Quorum

Meetings shall be held not less than four (4) times a year as and when the Audit Committee deems necessary.

A minimum of two (2) members present shall form a quorum. In the event that the Chairman is unable to attend a meeting, a member of the Audit Committee shall be nominated as Chairman of the meeting. The nominated Chairman shall be an Independent Director.

The Committee may invite other Directors and employees to the meeting to brief the Audit Committee on issues that are incorporated into the agenda.

Upon the request of the auditors, the Chairman of the Audit Committee shall convene a meeting of the Committee to consider any matter the external auditors believe should be brought to the attention of the Directors or shareholders.

Significant results and findings from the Audit Committee’s deliberation shall be put in writing and issued to the Board. The Audit Committee shall submit an annual report to the Board summarising its activities and significant findings during the year.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE (continued)

5. Authority and Rights

The Audit Committee has ensured that, wherever necessary and reasonable for the performance of its duties, in accordance with the procedure determined by the Board and at the cost of the Company:

- (i) It has authority to investigate any matter within its terms of reference;
- (ii) It has the resources which are required to perform its duties;
- (iii) It has full and unrestricted access to any information pertaining to the Group;
- (iv) It has direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- (v) It is able to obtain independent professional or other advice; and
- (vi) It is able to convene meetings with the external auditors, excluding the attendance of the executive members of the Group, whenever deemed necessary.

6. Functions and Duties

The Audit Committee shall, amongst others, discharge the following functions:

- (i) To consider the appointment of the external auditors, the audit fee and any question of resignation or dismissal;
- (ii) To discuss with the external auditors before the audit commences, the nature and scope of the audit and ensure coordination where more than one audit firm is involved;
- (iii) To discuss with the external auditors the evaluation of the system of internal controls and the assistance given by the employees to the external auditors;
- (iv) To review and report to the Board if there is reason (supported) to believe that the external auditors are not suitable for reappointment;
- (v) To review the quarterly results and annual financial statements prior to the approval by the Board, focusing particularly on:
 - Any changes in the accounting policies and practices;
 - Significant issues arising from the audit;
 - Major judgmental area;
 - The going concern assumption; and
 - Compliance with accounting standards and other statutory and legal requirements;
- (vi) To discuss problems and reservations arising from interim and final audits and any matter the auditors may wish to discuss (in the absence of management where necessary);
- (vii) To review the external auditor's management letter and management's response;
- (viii) To do the following in relation to the internal audit function:
 - Review the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work;
 - Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate action is taken in the recommendations of the internal audit function;
 - Review any appraisal or assessment of the performance of members of the internal audit function;
 - Approve any appointment or termination of senior staff members of the internal audit function; and
 - Keep itself informed of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his/her reason for resignation;
- (ix) To consider any related party transactions that may arise within the Group or the Company;
- (x) To consider the major findings of internal investigations and the management's response; and
- (xi) To consider other topics as defined by the Board.

Statement on Internal Control

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The Board of Directors recognizes its responsibilities over the Company's system of internal controls, covering all its financial and operating activities to safeguard shareholders' investment and the Company's assets. The Board has an established ongoing process for identifying, evaluating and managing the significant risks encountered by the Company. The Board through its Audit Committee regularly reviews this process. In view of the limitations inherent in any system of internal controls, the system is designed to manage, rather than to eliminate, the risk of failure to achieve the Company's corporate objectives.

The Audit Committee assists the Board to review the adequacy and integrity of the system of internal controls in the Company and to ensure that an appropriate mix of techniques is used to obtain the level of assurance required by the Board. The Board is pleased to provide the following statement, which outlines the nature and scope of internal control of the Group during the financial year ended 31 December 2006.

(i) **Control Environment**

The Group has an organisation structure that is aligned to business requirements. The internal control mechanism is embedded in the various work processes at appropriate levels in the Company. The MD is accountable for ensuring the existence and effectiveness of internal control and provide leadership and direction to senior management on the manner the Company controls its businesses, the state of internal control and its activities. In developing the internal control systems, consideration is given to the overall control environment of the Company, assessment of financial and operational risks and an effective monitoring mechanism.

(ii) **Internal Audit**

The Internal Audit team independently reviews the risk identification procedures and control processes implemented by the management, conducts audits that encompasses reviewing critical areas that the Company faces, and reports to the Audit Committee on a periodic basis. Any significant weaknesses identified during the reviews together with the improvement measures to strengthen the internal controls were reported to the Audit Committee. Reports on internal audit findings, together with recommendations for Management actions, are reviewed by the Audit Committee.

(iii) **Information and Communication**

While the Management has full responsibility in ensuring the effectiveness of internal control, which it establishes, the Board of Directors has the authority to assess the state of internal control as it deems necessary. In doing so, the Board has the right to enquire information and clarification from Management as well as to seek inputs from the Audit Committee, external and internal auditors, and other experts at the expense of the Company.

(iv) **Risk Management**

Risk management is firmly embedded in the Group's management system and is every employee's responsibility as the Group firmly believes that risk management is critical for the Group's continued profitability and the enhancement of shareholder value. The Group has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group throughout the financial year under review by the management. This is to ensure that all high risks are adequately addressed at various levels within the Group.

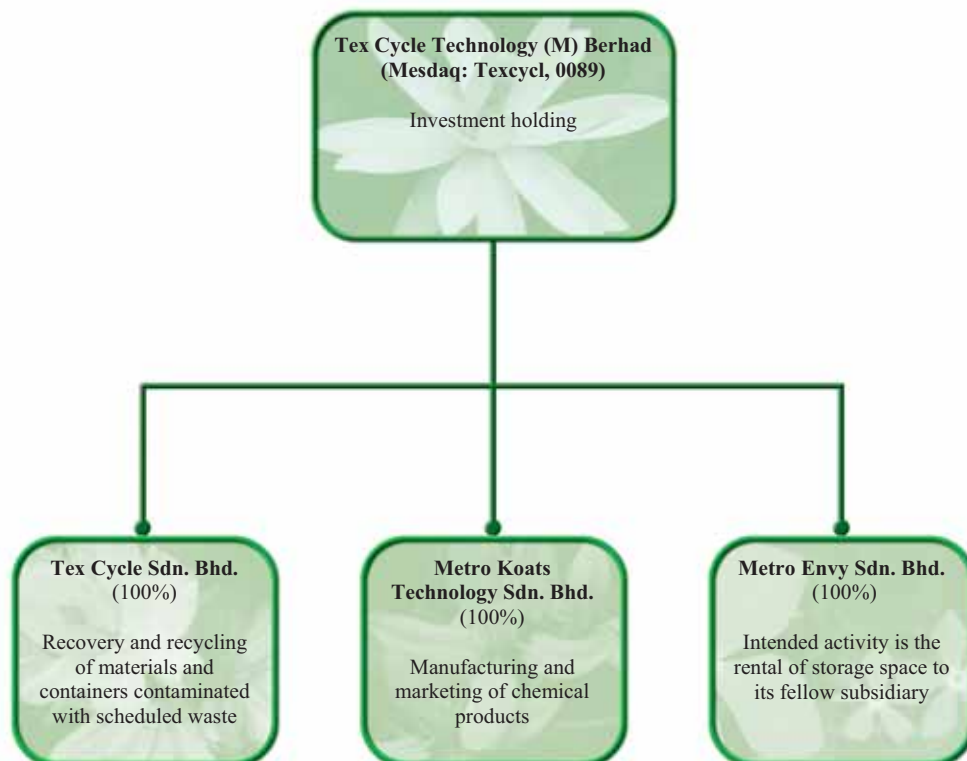


TCSB's head office

Tex Cycle Technology (M) Berhad (“Tex Cycle Technology” or “Company”) was incorporated in Malaysia as a private limited company on 17 February 2004 under the Companies Act, 1965 under the name Tex Cycle Technology (M) Sdn. Bhd. On 11 March 2004, it was converted into a public company and assumed its present name. The Company was established to become the investment holding company of Tex Cycle Sdn. Bhd. (“Tex Cycle”), Metro Koats Technology Sdn. Bhd. (“Metro Koats”) and Metro Envy Sdn. Bhd. (“Metro Envy”) (collectively referred to as “Tex Cycle Group” or “Group”) in conjunction with the listing of Tex Cycle on the MESDAQ Market of Bursa Malaysia Securities Berhad (“Bursa Securities”) on 27 July 2005.

The corporate structure and principal activities are as follows:

GROUP STRUCTURE



METRO KOATS TECHNOLOGY SDN. BHD.

Mission

- To be recognized internationally as a premier camouflage company.
- To continually develop more unique camouflage products.
- To assist the Defence Ministry call for more locally developed and manufactured defence related products.

Introduction

An all-Malaysian company, Metro Koats Technology Sdn Bhd was incorporated in 1995 to manufacture specialized paint. Noting a general absence of homegrown defence products, Metro Koats devoted its resources to the development of camouflage products for tactical military applications. Specifically, developing and manufacturing camouflage products that are fully acclimatized to our tropical environment; immediately benefiting the Malaysian Armed Forces.

The Challenge

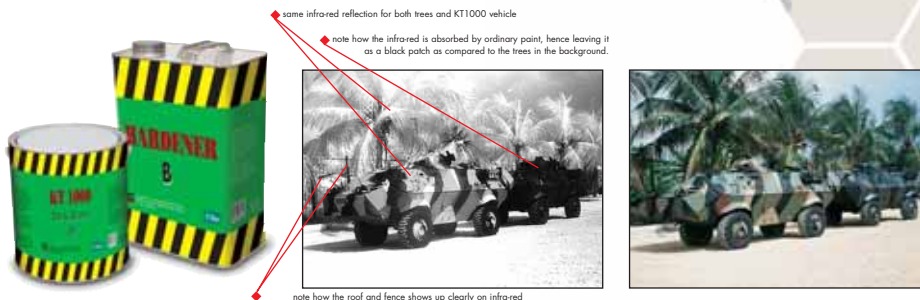
In view of today's advanced technology in electronic surveillance and image enhancers, the ability to detect beyond the visual range of the human eye (400-740 nm) has become the norm. For even the simplest and the most widely used electronic visual enhancer in the battlefield, the night-vision goggles has a detection range that is well beyond the human visual range. On the extreme end, electromagnetic radar wave has the ability to penetrate not just through darkness and atmospheric impedance but also through materials. The urgent need to counter these devices is evermore crucial in deciding the outcome of a conflict.

Today, with strong encouragement and support from the Ministry of Defence, Metro Koats has further strengthened its position in this specialized field of tactical military camouflage by developing a whole range of products working in a broadband electromagnetic spectrum.

Metro Koats whole range of products seamlessly combine to form an integrated broadband camouflage system (Metro Koats Total Camouflage System) which when used in service will seriously hinder the effectiveness of today's electronic detectors and weapon system - giving that decisive edge needed.

Visual and Near Infra red Reflecting camouflage paint

- Fast drying time – 10 minutes
- "wet-on-wet" application
- 2 component polyurethane system, fully tropicallized
- Visual and Near infrared camouflaging characteristics
- Dead matt surface

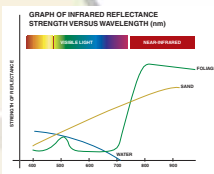


METRO KOATS TOTAL CAMOUFLAGE SYSTEM

a complete solution to all tactical military visual, infra-red and radar camouflage requirements

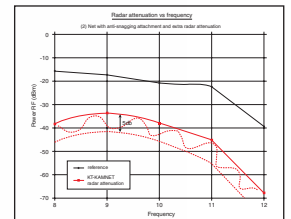
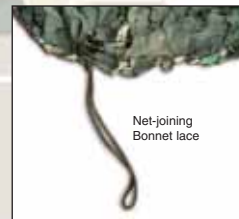
Windscreen camouflage

- Pre-matched colors
- Visual and infrared camouflaging
- See-through
- Glint reduction



Broadband camouflage nets

- 100% rot proof
- No metal parts
- Camouflage in visual, near infra, far infra-red
- Radar scattering capability up to millimeter wave
- Dead matt surface



Flexible surface camouflage

- Ready to use
- Matching colors to the body paint
- Visual and infrared camouflaging



Corporate Profile (cont'd)

Annual Report 2006

METRO ENVY SDN. BHD.

Metro Envy was incorporated on 16 January 2004 and the intended activity is the rental of storage space to its fellow subsidiary.

TEX CYCLE SDN. BHD.

Mission

Tex Cycle Sdn Bhd has grown to become one of the leading scheduled waste recycling service provider in Malaysia. All this is achieved through determination and passion in persuading the company's vision and mission.

1. Clients

We offer excellent customer services, focusing on professional advice and customer satisfaction.

2. Employee

We treat our employees as our price asset and ensures that their safety is always given first priority.

3. Environment

We maintain a clean, safe and conducive working environment.

4. Technology

We seek continuous up-grading and improvement in our existing cutting edge technologies.

5. Research and development (R&D)

We constantly engage into innovative research and development projects to ensure sustainable business growth.

6. Social responsibility

We share our vision and ideology with stewards of non-government organization and hundreds of school children yearly. We too generously discharge our social obligation to those whom are less fortunate.

The results in achieving the full potential of our vision and mission will encourage a continuously growing business that will leave a legacy of achievement that is not only good for our future employees, customers as well as the stake holders of Tex Cycle.

The reality of a growing industry in waste management in Malaysia has sparked the growth for improvement in Tex Cycle in order to be the leader in the industry. Since Tex Cycle is considered to be the end user for the waste generators in terms of scheduled waste, therefore the wastes generated from the processes in Tex Cycle are extremely crucial if the wastes seeped into the environment.

The competition in the scheduled wastes management industry is getting tougher by the day. It is no longer possible to depend on existing technology to compete with other contactors. Furthermore, waste generators are producing complicated chain of waste which needs new technology to clean these materials. Tex Cycle is always looking forward in order to have a better edge of the industry.



Tex Cycle's Services

Tex Cycle started as a small industry recycling and recovery of contaminated rags in 1984, when contaminated waste was unintentionally dumped in landfills or burned indiscriminately at obscure places. At present, Tex Cycle specialises in recycling and recovery of scheduled waste. Besides working closely with the Department of Environment in bring awareness on scheduled waste management among waste generators and contractors, Tex Cycle also shares the same vision of the Department of Environment to continuously protect the land we live on. Tex Cycle has developed to earn pioneer status in the recycling of scheduled waste management and became an exemplary of a centre of scheduled waste management. Tex Cycle practices and acts on the worldwide effort of waste management, living the motto of “reduce, reuse, recover, recycle”.

Tex Cycle collects used materials directly from companies in the electronics, engineering, automobile, oil and gas, printing and other manufacturing industries, all of which use rags, wipes and gloves which are soiled with grease, inks, solvents and whatever substance imaginable. Such wastes are now highly regulated and have to be disposed off, at sites permitted by the Department Of Environmental (DOE) and handled only by licensed contractors. Every year, the ever-increasing hundreds of tons of soiled rags, wiper cloths, gloves and containers are transported by our licensed fleet of trucks to Tex Cycle for decontamination. Furthermore, Tex Cycle provides an alternative solution to incineration which helps to reduce the impact on landfills and handling of scheduled waste without any attempt to recover, reuse and recycle. Damaged materials can also be converted into safe recyclable products, fit for use.



Tex Cycle's Product



TC Wiper Clothes

TC wipes were designed for the durability, 100% cotton, static free, recyclable and good ability to absorb grease, oil and chemicals. The TC wipes were introduced to assist industries to manage the purchasing cost of rags and wipes and the disposal cost of these contaminated materials.

Gloves

Tex Cycle collects used cotton, rubber and leather gloves directly from companies in the electronics, engineering, automobile, oil & gas, printing and other manufacturing industries. Our job is to remove contaminants from the soiled gloves so that they can be reused. Damaged materials can also be converted into safe recyclable products, fit for reuse



Pad Sewn Rags

Commonly used by many industries, the rags are made mainly from waste rags. It is affordable and can be recycled at the same time.



Triple Rinse System

The 'triple rinse system' container decontamination system, fully developed in-house by Tex Cycle has the ability to clean containers from sizes as small as tin cans up to large 200 litres (44 gallons) bunghole and open drums. The process is fully automatic and enclosed to prevent the spread of contaminations, hence ensuring the safety of the workers and the environment. All the contaminants are easily removed, especially from the insides of 'hard-to-reach' large bunghole drums by the system's unique 'aqua-scrubber' action using a combined media of chemical, water and air. The contaminants are then passed through the wastewater treatment system where they are concentrated into sludge for further treatment.



Spill-Kit Absorbent

TC soap-up, spill absorbent material TC pillow and boom which is made from 100% recycle material, good absorbent rate, easy to use. It is recyclable and minimum impact to the environment.



Waste to stay: The Questions to Industrial Wastes

► What is Scheduled Waste?

Scheduled wastes are defined as any waste prescribed by the Minister in the regulations as scheduled wastes (Environmental Quality ACT 1974). In other term, scheduled wastes are defined as toxic or industrial wastes which are deemed harmful to the environment. Scheduled waste similar to solid waste can be found at homes, school and industries but since the amount produced from industries are in a larger scale thus classifying the scheduled wastes from industries under strict regulations by the Department of Environment (DOE).



► Disposing of Scheduled Wastes

Scheduled wastes must not be disposed in solid waste landfills because the chemical and heavy metals content in the scheduled waste will gradually seeped into the ground water reserve through leakage or leaching, over a period of time. Furthermore exposure of the scheduled waste to elements such as rain and sun will cause more unwanted reaction and water runoff into nearby water source.

Contaminated land and water with scheduled wastes will only burden the surrounding community and clean water source. Incidents whereby local communities have to be evacuated due to illegal dumping of scheduled wastes and rationing fresh water supply due to heavy contamination from upstream at water treatment plants are scenarios experienced by residents of Malaysia. These few examples are the irresponsible action of industries of disposing the scheduled wastes into local landfills.

The cost required remediating contaminated land and water is very high and time consuming. Therefore, it is always advisable to dispose scheduled waste appropriately.

► The Dangers of Scheduled Wastes

Scheduled wastes that seeped into the ground and water source may remain in the natural surrounding for a very long period of time. The danger of these wastes is not felt immediately but will only impact to human health over a period of time. Many researches, local and international have discovered the side effects of scheduled wastes such as cancers and deformed birth.



Residential areas which built on contaminated land or receiving water from contaminated source are always in danger of suffering the impacts of scheduled wastes. The sad reality is that the impact is not always felt within that generation by always by their next generation. It is a crime to illegally dispose hazardous waste but is there a crime to pay if ignorance is the cause of the crime.

► **Functions of Tex Cycle Sdn Bhd?**

Tex Cycle is a company that specializes in recycling and recovery of scheduled waste. It was formed in 1984, a time when contaminated waste was unintentionally dumped in landfills or burned indiscriminately at obscure places. Since then, the company has developed to earn pioneer status in the recycling of schedule waste. Tex Cycle practices and acts on the worldwide effort of waste management, living the motto of “reduce, reuse, recover, recycle”.

Tex Cycle discourages waste disposed to incineration or landfill. The practice of waste minimization and using the latest art in technology provides great opportunity for recovering raw materials from waste. At present, only 5% of the overall incoming material is generated as waste.

► **Problems with Landfill**

Klang Valley is known to have faced severe problems regarding spaces for landfills and managing the landfills. Besides that, allocation of landfill location is vitally important ensuring the site is not located near water source or upstream of fresh water source. Another major concern is mismanaged of landfills or illegal landfills which may be one of the main causes of land contamination when the wastes leach toxic liquids.

Regardless of solid or scheduled wastes, managing the landfills will cost a lot and sooner and it will be a risk to reuse the land for agriculture or residential purposes. Although the scheduled wastes are incinerated, the ash will be needed to be disposed in secured landfill and managed for a number of years.



► **Scheduled Wastes as Raw Materials**

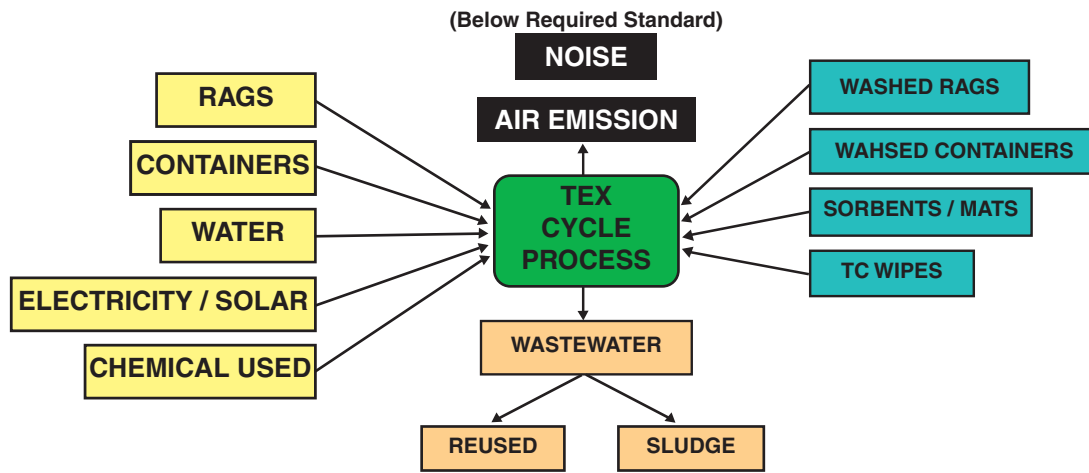
The entire business in Tex Cycle revolves around managing scheduled wastes therefore, scheduled wastes from industries are considered as raw material for Tex Cycle business. As a professional recycler, Tex Cycle collects used materials directly from companies which use rags, wipes, gloves and containers.

The contaminated materials will be cleaned appropriately and either return to the industries or sent for recycling. Since managing scheduled wastes is a major concern for the DOE, Tex Cycle has taken many steps in advance to comply with the legislation and strive to be the leader in the industry by grasping environmental awards and certificates.



Waste for Tomorrow: The Story in Tex Cycle

The industries in Malaysia are developing rapidly and therefore scheduled wastes will also be generated progressively. The management of scheduled wastes appropriately will be an added advantage for Malaysia to be competitive among other Asian countries. Scheduled waste can always be generated again into raw materials as proven in Tex Cycle. Since Tex Cycle is receiving and handling scheduled wastes on a daily basis, Tex Cycle has to be aware of the input of materials and output in the form of waste, products and emissions.



► Input

- Chemicals – Inline with the company’s policy to reduce the consumption of chemicals by improving the efficiency of the chemical consumption and reducing the usage of hazardous chemicals in the processes.
- Raw materials – Contaminated rags/gloves/wipes and containers received from the waste generators are sent for segregation before decontamination process. By separating the dirtier contaminated materials from the less contaminated helps to improve the cost, time and efficiency of the cleaning process.
- Energy – Since Tex Cycle operation is located in a very strategic location with a constant supply of natural sunlight from dawn to dusk, solar power cells were used to heat the water which will then be used in the decontamination process.
- Water – The water from the decontamination process is sent for cleaning and polishing in the wastewater treatment plant located in Tex Cycle premises. The clean water is not discharged into the storm drain but reused for the following cleaning process of the contaminated materials. The water is monitored on a periodic basis to ensure its quality and effectiveness of the wastewater treatment plant.

► **Output**

Emission – The air, water and noise surrounding Tex Cycle facility are monitored according to the license requirements. The results of the monitoring show that the working condition within and around Tex Cycle facility is healthy.

Plastic bags – Unfortunately, internal logistic uses a lot of plastic bags to segregate and store contaminated and clean materials. The plastics were identified as an environmental impact and action was taken in order to minimize this impact. Starch degrading plastic bags made with tapioca powder are now being used within the plant. These bags will gradually degrade within 9-12 months if left under the sun.

Damaged – Materials such as rags, wipes and gloves which have already been cleaned but are damaged will be converted into useful products rather than disposing off.

► **Looking forward**

The environmental business in Tex Cycle does not only look into the profit margin generated from the recycling and recovery of scheduled waste but also conserving the resources and minimization of pollution.

TEX CYCLE Environmental Management Programme (EMP) Projects Since 2000

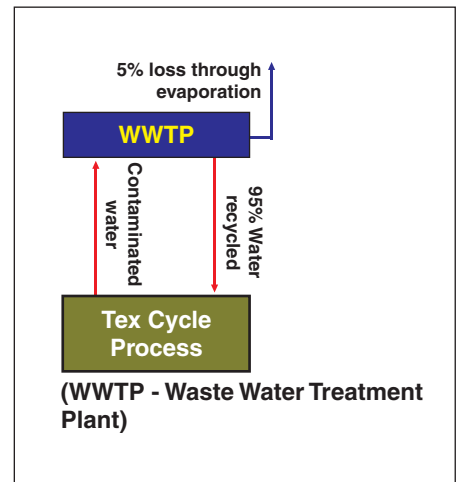
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------|------|------|------|------|------|------|------|------|
| Solar power | → | | | | | | | |
| Scheduled waste | → | | | | | | | |
| Plastic bags | | | → | | | | | |
| Sludge I | | | | → | | | | |
| Sludge II | | | | | | → | | |

The important aspects in Tex Cycle processes are evaluated and given thorough consideration before operation in order to reduce the environmental impacts and conserve the natural resources.

Water

In the recycling process at Tex Cycle, water is a major natural resource used both at the recycling of contaminated rags and gloves and the washing of contaminated containers.

Tex Cycle’s goal and objective was to recover and reuse the treated water in the recycling process thus reducing the consumption of water from Jabatan Bekalan Air supply. All of the water used in production is recycled back into the processes and only 5% is loss to evaporation.



Plastic bags

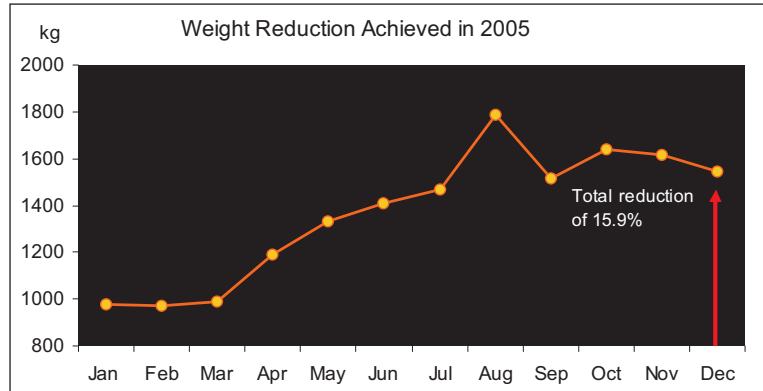
One of the main impact assessment risk on Tex Cycle was the use of plastic bags which are used for storing, collection and delivery of contaminated materials in the plant.

In 2003, starch degrading technology plastic bags was introduced to replace the plastic bags. The degradable bags will naturally degrade if left under the sun within 9-12 months. The impact towards the environment was reduced therefore living the company's environmental policy in conserving the environment.

Sludge

Sludge is generated from wastewater treatment process and this scheduled waste is disposed to Kualiti Alam Sdn Bhd. As per the analysis on Tex Cycle's sludge, there was a high content of moisture.

The objective and target for 2004 was to reduce the volume of sludge being sent to Kualiti Alam Sdn Bhd. The wastewater treatment plant was equipped with a dryer to dry the compressed sludge. The volume of sludge being sent to Kualiti Alam Sdn Bhd was reduced and this indirectly contributes towards pollution reduction, energy and cost saving.



The weight of the sludge was reduced by 30% within two years. The target of reducing the weight was achieved in 2005. The moisture content of the sludge was initially about 58% in total weight.

Scheduled waste

The recycling operation in Tex Cycle conform to the 4Rs – reduce, reuse, recycle and recovery. Recycling helps to conserve the usage of natural resources especially water while reusing helps to achieve waste minimization and reduces pollution of land, air and water. Recovered materials which have been converted into industrial products such as TC Soak-Ups and floor mats help to save landfill space and inline with most customers Environmental Management Programme (EMP) objectives.

Solar energy

Electricity was previously used for heating water in the washing process. Tex Cycle has installed solar panels for the heating of the water and therefore reduces the consumption of electricity.

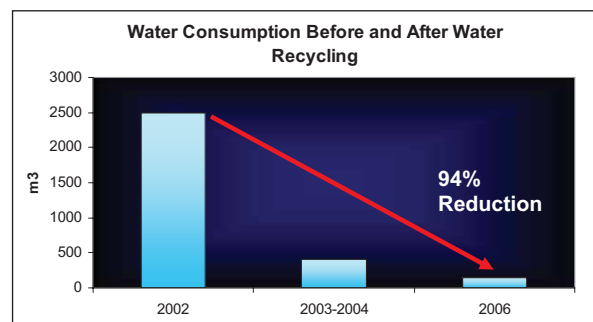


Solar panels

Latest EMP

The EMP for 2006 was to reduce the amount of scheduled waste sent for incineration. Different environmental solutions were ventured into such as converting the sludge into renewable energy or converting the sludge into industrial products. By mid 2006, collaboration with local university showed that the sludge contains high content of carbon and suitable for improving soil condition for plant growth. Certified lab analysis also confirms that the sludge after binding process did not leach any of the metal content, therefore proving to be safe for municipal landfill.

The EMP for the year 2007 is ongoing by finding the ideal amount of processed sludge mix with compost and soil for plant growth and also as oil absorbents.

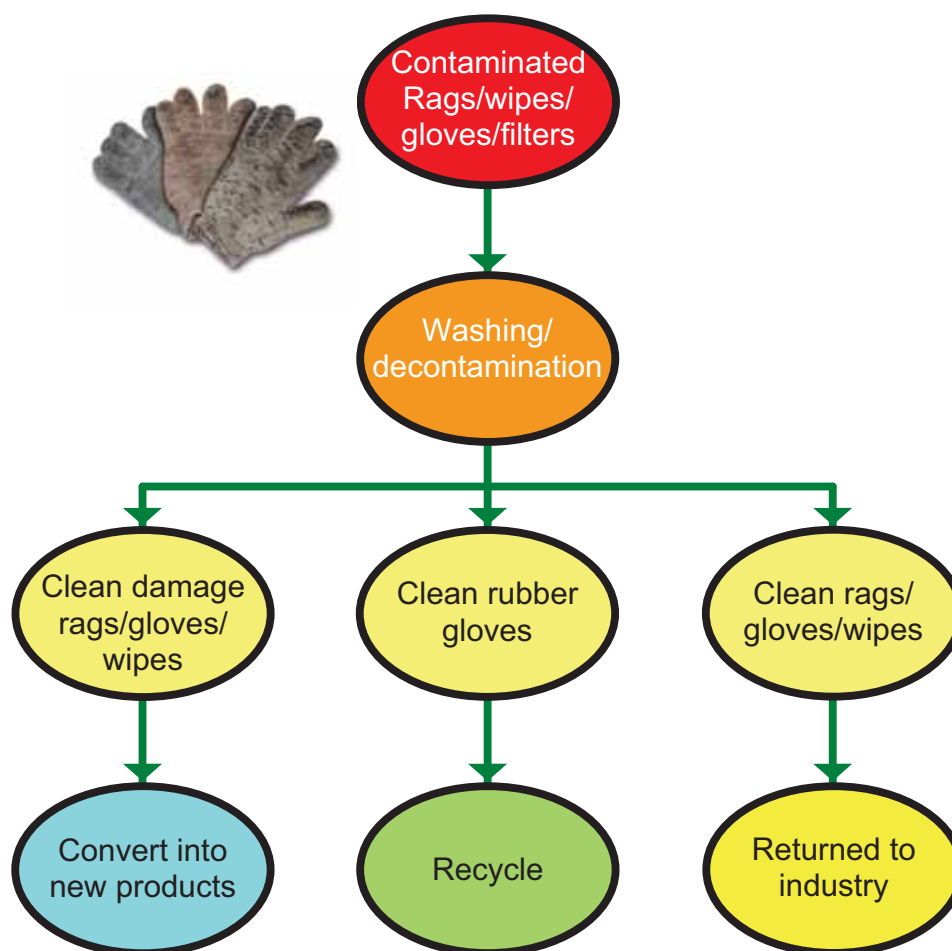


Waste as Raw Materials: Feeding Tex Cycle Processes

▶ Contaminated rags/wipes/gloves/filters – Scheduled waste code SW410

Industry contaminated wastes such as rags/wipes/gloves/filters are actually raw materials for the processes for Tex Cycle. Tex Cycle was established in 1984 before the enforcement of the Environmentally Quality Acts (EQA) 1989. At that time, Tex Cycle main business is in collecting and decontaminating the rags/gloves/wipes for reused by the industry.

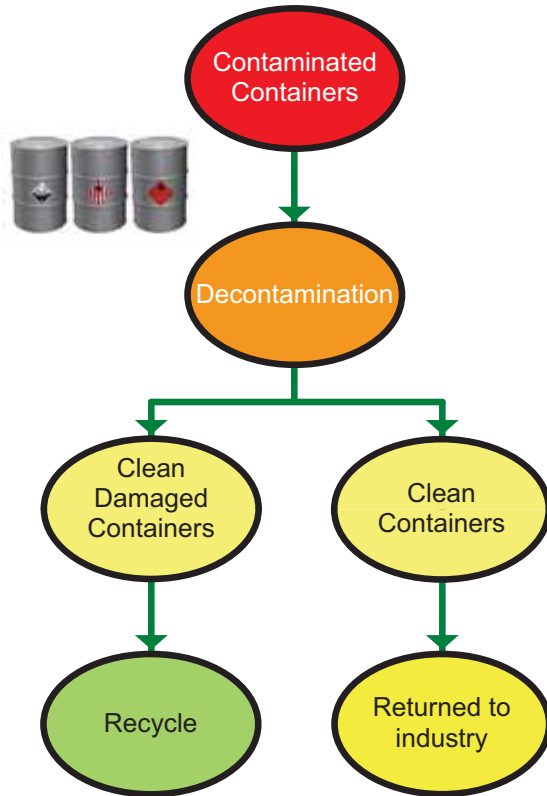
Without the awareness of the industry in recycling and reusing the rags/wipes/gloves/filters, Tex Cycle will cease to exist. The nature of business in Tex Cycle depends on the industry for raw materials and in return, conserves the environment and maximizes the natural resources and finally supports the environmental programmes of these industries.



Process Flow for Contaminated Rags/wipes/gloves/filters

► **Contaminated containers/drums – Scheduled waste code SW409**

Containers from all sizes contaminated from the industries are collected by licensed Tex Cycle trucks. These contaminated materials are sent to Tex Cycle premises for decontamination. Tex Cycle uses the 'Triple Rinse' system to clean these contaminated materials and once cleaned, these containers will either be returned to industries (end users) or sent for recycling.



Process Flow for Contaminated Containers

► **The Development of the Triple Rinse System**

The 'triple rinse system' container decontamination system, fully developed in-house by Tex Cycle has the ability to clean containers from sizes as small as tin cans up to large 200 litres (44 gallons) bunghole and open drums. The process is fully automatic and enclosed to prevent the spread of contaminations, hence ensuring the safety of the workers and the environment. All the contaminants are easily removed, especially from the insides of 'hard-to-reach' large bunghole drum by the system's unique 'aqua-scrubber' action using a combined media of chemical, water and air. The contaminants are then passed through the wastewater treatment system where they are concentrated into sludge for further treatment.

The 'triple rinse system' method of washing containers is an internationally accepted way of ensuring proper washing of contaminated containers and is also fully encouraged and accepted by the local authority.



Waste is Resourceful

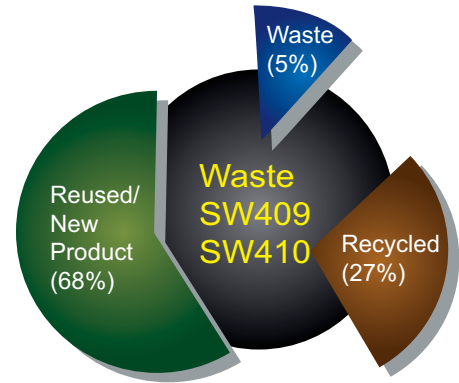
Tex Cycle has already been practicing waste minimization and implemented 4Rs (Recycle, Reduce, Reuse, Recover) throughout the process with the intention of conserving the environment. Only 5% of the total incoming material is generated as waste, 27% of the material received and recovered will be sent for recycling while the rest will be decontaminated and either reused as clean material and returned to the customer or converted into new products for the industry.

The Life Cycle Assessment (LCA) analysis was carried out on Tex Cycle processes to further determine the areas which can be fully utilize its resources and improve in energy consumption and reduce in pollution emission. The LCA analysis managed to provide the insight to the followings;

- To provide complete as possible the picture of how Tex Cycle activities interact with the environment
- To identify major environmental impacts of a process and the hot spot emissions contributing to those impacts.
- To identify inefficient process and improve the system in order to minimize waste.
- To compare the environmental benefits and drawbacks of Tex Cycle products and services.
- To contribute to the understanding of the overall consequences of our activities, decision and choices.
- To obtain information for environmental performance improvements.

The competitive market within the scheduled waste industry in Malaysia is also another factor which encouraged Tex Cycle to carry out a LCA analysis. Tex Cycle has always been the best in the industry and we intend to maintain as the main industrial player. The LCA analysis will provide the opportunity to improve business performances by prioritizing capital investment.

LCA analysis also provides the transparency required by the stakeholders especially regulators on the impacts of the materials, products and processes of Tex Cycle on the environment.



Waste is Innovation

Tex Cycle provides the service in removing contaminants from the soiled materials so that the materials can be reused. Clean damaged materials can also be converted into safe recyclable products, fit for reuse.

The facility in Tex Cycle is designed to handle the logistics, storage and processes involved in scheduled waste management. Besides running a recovery facility for rags, wipes, gloves and containers, Tex Cycle also provide the solution to minimize the cost of purchasing and disposing of rags and wipes.

TC wipes were designed for the durability, 100% cotton, static free and ability to absorb grease and oil. The TC wipes were introduced to assist industries to manage the purchasing cost of rags and wipes and the disposal cost of these contaminated materials.



► How TC Wipes service work?

- Based on the factors like the number of employees using wiper cloths, your usage of another wiping product or your usage with another service, we estimate your requirements for TC wiper cloths.
- After we have agreed on your expected usage, we determine the number of TC wiper cloths assigned to your account to support that level of usage. The quantity is called your inventory.
- Your inventory should include enough wipes so that you do not run out of stock at any time in between the pick up and delivery cycle.
- Each delivery, we pick up the wipes that you have used, count them in our plant, and have them replaced immediately.
- It is normal that some cloths will be lost in use in your plant. It is very common that 2%-10% of your monthly usage will be lost. These units are usually accidentally thrown in the trash or pilfered.
- To prevent shortage we provide an automatic replacement programme that replaces lost or pilfered cloths. (Excess losses will be charged)
- We will work with your employee to help control wiper cloth loss by providing training, cloth conservation posters and quarterly usage recaps.
- It is the job of our Service Representative to monitor your weekly usage, inventory and losses so that you always have an adequate supply of clean cloth, at the lowest cost.
- If you need extra cloths, we will deliver within Peninsular Malaysia usually within 24 hours.



► Benefit in using TC wipes

- Reusable with minimum environmental impact, aligned with most company environmental goals.
- Requires minimum handling and reduces liaising with contractors on purchasing and disposing of the contaminated materials.
- Cost reduction on inventory – comparison between conventional non-reusable rags against Tex Cycle reusable wipes.

| Comparison | Conventional Rags | Tex Cycle Wipes |
|--|---|---------------------------|
| Assume 1 worker uses 10 pcs of rags / day | | |
| 6 days | 60 pcs | 60 pcs |
| 26 days | 260 pcs | 120 pcs* |
| 8 months** | 2080 pcs | 120 pcs |
| Quality | Mixture of synthetic material-non-biodegradable | 100% cotton biodegradable |

* 60pcs weekly exchange=120pcs in-use / month
 ** Tex Cycle wipes will last 8 months=120pcs

► **Type of Tex Cycle Reusable Wipes:**



TC wipes



TC Sewn-Pads

► **TC Soak-Ups (Absorbent material used in spillage kit)**

Clean damaged gloves/rags/wipes which are not suitable for industry use will be converted into absorbent kit. These absorbent materials are highly recommended due to its clean production concept. The absorbents are reusable, economical and have minimum environmental impact.

Once used to clean up a spillage, the contaminated absorbent materials must be placed in a leak proof container/bag and labeled as contaminated material. The absorbent materials will be decontaminated through the washing process in Tex Cycle and subsequently made into new absorbent material.



TC Pillow



TC Boom

► Research and Development

Tex Cycle main aim is to minimize the amount of waste dispose from the plant. Research and development to generate useful industrial products from the waste has been carried out in the year 2006.

► Oil Absorbents

Damaged cotton materials such as rags and gloves are broken down into fibers, processed and convert into absorbents. These fiber absorbents are designed to absorb oil on water and maintain its buoyancy throughout the process of cleaning up.

This new product will be marketed to cater for oil spills on drains rivers, lakes and sea.



0 Seconds



15 Seconds



30 Seconds

In order to minimize the amount of sludge being sent for incineration, the next Research and Development was carried out on the sludge generated from the wastewater treatment plant. The sludge is process and displayed oil absorbing characteristic. The sludge will be ideal to absorb oil spillage on land and research is still being carried out to find methods to recovery the absorbed oil.



0 Seconds



20 Seconds

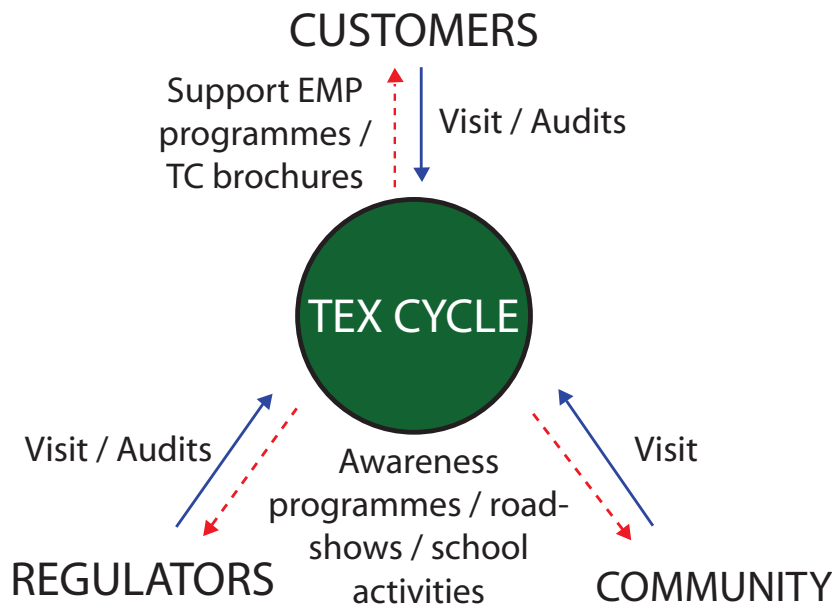


40 Seconds

Waste is Communication: Communicate to Stake Holders

► Communication of Product/Service Information

Tex Cycle encourages the participants of our stakeholders in Tex Cycle environmental activities. The activities are regard as communication between Tex Cycle with the community, regulators and customers.



Customers

New customers are welcomed to visit Tex Cycle process and experience the methodology flow of the recycling and recovery of scheduled waste management available in Tex Cycle. Confirmed customers carrying out audits are also taken to the line for inspection on the conformance of the recycling and recovery of scheduled waste, as stated in the documents. Customers have the experience to view the recycling and recovery process and understand the difficulties faced by Tex Cycle staff if the scheduled waste is not managed appropriately from the waste generators.

Customers are also given brochures explaining the activities carried out by Tex Cycle. The brochures contain information on the products and services, environmental programmes and further information regarding scheduled waste management and regulations. Information similar to the brochures can also be obtained from Tex Cycle's website. The website is updated on the latest events carried out by Tex Cycle and contains useful information such as links to relevant government bodies.

Tex Cycle also carries out joint activities with customers in order to achieve the customers' EMP projects. Such activities promote environmental awareness among the customers' staffs and provide the opportunity for Tex Cycle to share its services and products information. Some of these events require Tex Cycle booth to be displayed. The customers' contractors and suppliers have also the opportunity to understand the process of recycling and recovery of scheduled waste.

Community

The environmental programmes prepared by Tex Cycle encourages the community especially school children to practice 3Rs in schools and at homes. Tex Cycle conference room is able to accommodate group of 60 people and is equipped with training facilities. Students from school are exposed to the different types of recycling available in Malaysia and the difference between solid wastes from scheduled waste. Besides that, students also learn facts about landfill, the waste ratio generated by Malaysian and the importance of conserving fresh water.

Occasionally, we receive groups from societies and clubs such as Rotary Club on environmental awareness visit. Adult groups are given an informative presentation on the processes, services, products and activities carried out in Tex Cycle. Finally, the group is taken to the production floor and the processes are explained in detail. Usually, the awareness programme will be ended with a question and answer session.

Regulators

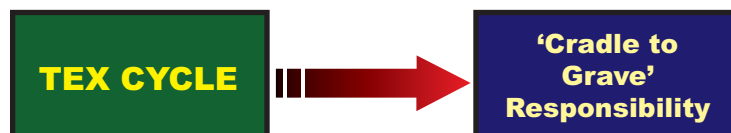
Similar to customers' visit and audits, regulators from DOE, Department of Safety and Health (DOSH) and other governing bodies visit Tex Cycle. Occasionally Tex Cycle facility is used as a learning ground for new officers on the recycling and recovery process for scheduled waste. The visit and audits help Tex Cycle management to improve the facility while the regulators given the opportunity to understand the services and products generated in Tex Cycle.

Besides supporting regulatory bodies on the environmental road-shows / environmental week, Tex Cycle also co-sponsor together with DOE in organising environmental awareness camp for students. The students have the opportunity to learn different environment biodiversities, differences between scheduled waste from solid waste and the 3Rs which can be practiced in schools and at homes.

Tex Cycle is a member of Environmental Management and Research Association of Malaysia (ENSEARCH) and Association of Scheduled Waste Recyclers (ANSWERS) which provides the opportunity for the scheduled waste contractors to interact with the regulatory agents. ANSWERS helps to communicate to the regulators on the issues faced by the scheduled waste contractors.

Tex Cycle has been selected for the venue for international visits by the regulator bodies. The programme encourages the exchange of knowledge on the technologies used in recycling and recovery of scheduled waste. Many international visitors are impressed with the facility and creativity on products generated in Tex Cycle.

Waste is Participation: Returning the Benefits to Society



► Services

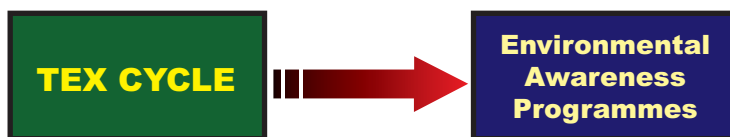
Global Positioning System (GPS) is installed in all Tex Cycle trucks therefore providing assurance to community and enforcement officers on the location and logistic of the scheduled waste. Provide higher esteem and integrity to the scheduled waste management industry and an accountability of the 'cradle to grave' system for the waste contractors.

► Trained Personnel

Tex Cycle staff are trained internally on the standard operating procedures to handle emergency situation for example chemical spillage. The staff are also exposed to cross training with customers on mock emergency exercises. The training will be carried out either here in Tex Cycle premises or at the customer's side. These trainings help to provide an opportunity for Tex Cycle's staff to access their own knowledge against customer's method of training.



Training development



► School Programmes

Tex Cycle encourages students especially from higher secondary school to visit and participate in Tex Cycle School Environmental programmes. Tex Cycle has prepared a couple of educational programmes which can be adapted for schools' field activity on environmental awareness. Students will have the opportunity to understand the process of a scheduled waste recycling and recovery plant, hands-on group activities on creating new products from household waste, understand the benefits and opportunity to start a 3Rs programme in their own school.



Environmental visit
from SMK Desa
Perdana



If a school displays interest in having a green area within its premises, Tex Cycle will be honoured to provide consultations and sponsor projects on condition that the project is carried out by the students themselves. Working gloves are also provided to the students by Tex Cycle. These gloves are clean cotton gloves which are no longer needed by the industry. After use, the gloves will be collected and returned to Tex Cycle for cleaning and reused.

► Community Awareness

Tex Cycle also welcomes participating community members which are keen in environmental awareness programmes. The programmes are divided between adult and school groups. Adult groups are given a detailed presentation on the history, processes and relevant information on Tex Cycle, followed by a plant tour and finally Q&A session. The programme provides an alternative perspective on the concept of recycling and awareness towards scheduled waste management. The message in this programme is to encourage community to be responsible for their own environmental health and should not always depend on the government for enforcement.



Joint fund raising project between SMK Desa Perdana and Victory Home for a charitable cause



Environmental awareness visit by Rotary Club of Pudu and Suria Music School

► National Service

Tex Cycle was one of the hosts for the 2006 National Service trainees on environmental programme. The presentation presented was similar to the school presentation format.



National Service in Tex Cycle 2006

► Local University

Tex Cycle always hosted university research and internship. Tex Cycle supports the universities by providing research funds and required information for the research related with the industry.

► Customer EMP

Support customers' EMS, ISO14001 certification and environmental programme by assisting customers with their regulation and compliance issues regarding to contaminated rags/wipes/gloves and containers, recycling and environmental awareness campaign. The benefits of working with customers will be felt by both in industry and also within the community.



Acknowledgement from customers for Tex Cycle support

Tex Cycle has participated in the Selangor state and national Environmental week (MASM) exhibition, bringing scheduled waste management awareness to community within Selangor and the whole of Peninsular Malaysia.

Recently, Tex Cycle collaborated with Selangor DOE in bringing environmental awareness to the youths by co-organizing an environmental camp during the state environmental week.



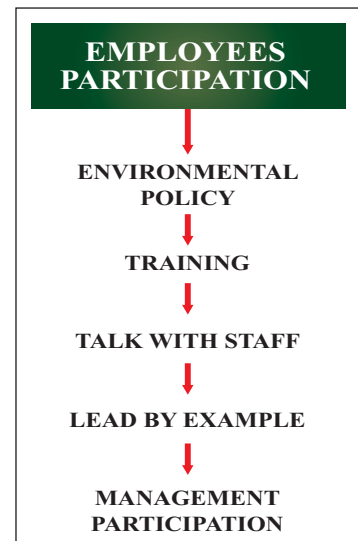
Joint organizer with DOE Selangor - 'Kesedaran Alam Sekitar' in conjunction with 'Minggu Alam Sekitar 2006'

► Employee Participation

Tex Cycle management acknowledges that the staff important stakeholders of Tex Cycle therefore they should be aware of the environmental policy and the environmental objectives.

Employees are informed on the meaning of the environmental policy, importance of the objectives and the purposes of the activities carried out which prevent pollution and minimize waste. The importance of legal compliance is also emphasized during these training because the processes carried out by Tex Cycle are governed by the EQA 1974. The activities carried out are consistent with the policy.

New employees are trained during the induction training on the company's environmental policy, environmental conversation activities and importance of recycling and recovering scheduled waste. Training carried out on a continuous stage helps to clear doubt and encourages staff to participate in the activities in Tex Cycle.



Internal Training

Management level staff are also often seen on the production line during office hours, not because of quality issues but rather conversing with the staff. Letting the staff understand the importance of the recovery and recycling process further encourages the staff to ensure that the objectives of Tex Cycle are achieved. Seeing the management involved directly in the process increases the transparency between management and staff. Therefore, providing confidence and trust to the staff in supporting the company's environmental policy.

The activities in Tex Cycle are participated by all staff including management. Management staff do not exclude themselves from these activities but rather participate in them.

► Employee Reward and Recognition

Tex Cycle practices staff development by improving the skills of the staff through training, appreciation in the form of awards and encourages family oriented events. The staff will be evaluated on a yearly basis and all staff are given the opportunity to participate in the trainings, based on the assessment from their supervisors, depending on their skills and experiences. The family members are also given the opportunity to participate in Tex Cycle activities and learn to practice the 3Rs through events in the Family/Recycling Day and Annual Dinner.

Rewards and recognition to the staff:

- Employee of the quarter
- Company's share distribution when it was public listed on Bursa Saham
- Competition regarding Environmental, Safety and Health issues learned in the internal trainings.
- Award given to the section/area which complies to the audit checklist
- Family Day gathering and activities
- Competition and activities which involve staff members and their family, therefore making their family part of the community in Tex Cycle.
- Annual dinner
- Promotions / bonus
- Incentives for full attendance
- Recognition to long service staff



Tex Cycle staff



Depa-Raya Lunch. Prepared by the Muslim and Hindu staff -open house in Tex Cycle



Recycling Day / Family Day - Winners of Tex Cycle Quizzes, Best Audited Lorry. Farewell to staff



Annual Dinner - family activities/competition, lucky draws and employee of the year, best attendance

Waste is Competition: The Awards and Achievements

Management and Environmental Award

Tex Cycle aims to change the perspective of the public regarding the image of a scheduled waste recycling and recovery plant. Tex Cycle has practiced pollution control, waste minimization and promoting environmental awareness as part of the company's policy and main goal. The awards achieved are evidence that Tex Cycle is aiming high to be a role model in the scheduled waste management industry.

- ISO 14001 – Tex Cycle was awarded with the ISO 14001 certification in March 2003.
- Tex Cycle is the winner of the year 2004 “Anugerah Alam Sekitar” award, the Industry Environmental Award for SME is the highest award given out by the Selangor State Government
- Prime Minister Hibiscus Award 2005/2006 (SMI Special Award)
- Malaysian Canadian Business Council (MCBC) Industrial Excellence in Professional, Services Award 2006 Silver



Prime Minister Hibiscus Award 2005/2006 (SMI Special Award)



Malaysian Canadian Business Council (MCBC) Industrial Excellence in Professional, Services Award 2006 Silver



ISO 14001 – Tex Cycle was awarded with the ISO 14001 certification in March 2003

Concern on Staff Health and Safety/Environmental Development

► Production staff

will be trained on the importance of using Personal Protective Equipment (“PPE”) in the working area, safety and environmental requirements in their area, packaging and labeling according to the Packaging & Labeling Req, relevant standard operation procedures (SOP) which are work related, pollution prevention and housekeeping, recycling tips, chemical handling, activities which are related to the company’s Environment Management Programme (“EMP”) target, the use of Material safety Data Sheet (MSDS) and LPG gas leaking emergency drill and action needed to detect leakage.

► Drivers

will be trained on the importance of using PPE in the working area and customers side, safety and environmental requirements, labeling according to the Packaging & Labeling Req 1997, relevant SOP which are work related, chemical handling, activities which are related to the company’s EMP target, the use of MSDS and customers’ environmental and safety requirements.

► Admin staff

will be trained on the company’s safety and environmental requirements, housekeeping, recycling tips and energy saving techniques in the office.

► All floor staff

will be trained on emergency drill such as chemical spillage, fire evacuation drill (for all staff) and use of fire extinguisher.

► External training:

- Chemical handling badge by National Institute for Occupational Safety and Health for the drivers.
- Gas leaking check and safety measures by the gas supplier to the production staff.
- Chemical handling and safety requirements by CCM Chemicals Sdn. Bhd. for the production staff.
- Customers’ safety and environmental training and requirements which are held at the customers’ site.

► Health Monitoring

Medical screening is carried for all staff members once a year as part of the safety programme in Tex Cycle. It is important for the staff to be aware of their health status especially working in an environment managing scheduled waste. Furthermore, it will provide reassurance and confidence for the staff to carry our daily task in the work place knowing that their health is top priority in Tex Cycle.



IN-House Trainings by Supplier/Contrator

| Health, Safety and Environmental Figures | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|------|------|------|------|------|
| Number of environmental incidents | 0 | 0 | 0 | 0 | 0 |
| Industrial incidents resulting in staff absent from work | 0 | 0 | 0 | 0 | 0 |
| Rate of absence through illness (less than one year of work, %) | 4.2 | 5.3 | 5.3 | 5.5 | 5.8 |

Statistic on Tex Cycle environmental incidents and staffs’ health

Miles Stone

Tex Cycle experienced an exciting 2006 with lots of challenges and achievements. The milestone explained here briefly highlights the important events occurred in Tex Cycle



February 2006

Robert Bosch environmental audit

June 2006

Toyota environmental audit

March 2006

Environmental educational awareness programme visit to Tex Cycle from National Service participants.

August 2006

SMK Desa Perdana environmental awareness programme at Tex Cycle



April 2006

Department of Environment (DOE) Selangor visit



May 2006

Department of Environment (DOE) Wilayah Persekutuan visit

Shin-Etsu (M) Malaysia environmental audit

August 2006

Recycling Day - environmental awareness programme for the staff



Family Day - environmental activities for staff and family members



Technical visit by Malaysian Technical Environmental Programme (MTEP): Environmental Management and Pollution Control (ASEAN officers)



September 2006

Joint fund raising project to raise fund for a charitable cause between SMK Desa Perdana with Victory Home in Tex Cycle.



October 2006

Pudu Rotary Club members environmental awareness programme visit to Tex Cycle



Malaysian Canadian Business Council (MCBC) Industrial Excellence in Professional, Services Award – Silver



November 2006

Suria Music School environmental awareness programme visit to Tex Cycle



Co-sponsor with DOE Selangor in organising Environmental Awareness Camp for youths in Bagan Lalang



Visit by The Japan Electrical Manufacturers' Association (JEMA) and Japan Electronics and Information Technology Industries Association (JEITA) on awareness in scheduled waste management



December 2006

Tex Cycle first Corporate Social Responsibility (CSR) Report – Sustainability: Environmental Report

Participation in the ACCA- MESRA Corporate Social Responsibility Award

Participation in the Prime Minister Hibiscus Award 2007/2008

Tex Cycle Annual Dinner 2006 – Tex Cycle Garden



Collaborated with University Malaya in completing the Life Cycle Analysis (LCA) report for Tex Cycle processes

DENSO Japan & Malaysia visit on scheduled waste management





FINANCIAL STATEMENTS

For the year ended 31 December 2006

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Directors' Report

Annual Report 2006

TEX CYCLE TECHNOLOGY (M) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors of **TEX CYCLE TECHNOLOGY (M) BERHAD** have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended December 31, 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiary companies are disclosed in Note 14 to the Financial Statements.

There have been no significant changes in the nature of the activities of the Company and its subsidiary companies during the financial year.

RESULTS OF OPERATIONS

The results of operations of the Group and of the Company for the financial year are as follows:

| | The Group RM | The Company RM |
|--------------------------------|-------------------------|---------------------------|
| Profit before tax | 4,779,699 | 1,125,212 |
| Income tax expense | <u>(1,339,797)</u> | <u>(322,000)</u> |
| Net profit for the year | <u>3,439,902</u> | <u>803,212</u> |

In the opinion of the directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

A final dividend of 5%, less 28% tax amounting to RM614,855, proposed in the previous financial year and dealt with in the previous directors' report was paid by the Company during the financial year.

The directors propose a final dividend of 5%, less 27% tax, amounting to RM623,394 in respect of the financial year ended December 31, 2006. The proposed dividend is subject to the approval by the shareholders at the forthcoming Annual General Meeting of the Company and has not been included as a liability in the Financial Statements.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the Financial Statements.

ISSUE OF SHARES AND DEBENTURES

The Company has not issued any new shares or debentures during the financial year.

SHARE OPTIONS

No options have been granted by the Company to any parties during the financial year to take up unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Company. As of the end of the financial year, there were no unissued shares of the Company under options.

OTHER FINANCIAL INFORMATION

Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

At the date of this report, the directors are not aware of any circumstances:

- (a) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- (d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Group and of the Company for the succeeding financial year.

Directors' Report (cont'd)

Annual Report 2006

DIRECTORS

The following directors served on the Board of the Company since the date of the last report:

Ho Siew Choong
Periasamy A/L Sinakalai
Lt. General (R) Dato' Jaffar Bin Mohamed
Yusseri Bin Said
Ho Siew Cheong
Ho Siew Weng
General (R) Dato' Seri Che Md Noor Bin Mat Arshad
Razali Bin Jantan
Ravindran Markandu (appointed on 1.3.2007)

In accordance with Article 80 of the Company's Articles of Association, Messrs. Ho Siew Cheong and General (R) Dato' Seri Che Md Noor Bin Mat Arshad retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Mr. Ravindran Markandu, who was appointed to the Board since the last Annual General Meeting, retires under Article 85 of the Company's Articles of Association and, being eligible, offers himself for re-election.

In accordance with Section 129(2) of the Companies Act 1965, Lt. General (R) Dato' Jaffar bin Mohamed retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' INTERESTS

The shareholdings in the Company and in related company of those who were directors at the end of the financial year, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, are as follows:

| | Number of ordinary shares of RM0.10 each | | | Balance as of 31.12.2006 |
|--|--|--------|------|--------------------------|
| | Balance as of 1.1.2006 | Bought | Sold | |
| Shares in the Company | | | | |
| Direct Interest | | | | |
| Lt. General (R) Dato' Jaffar Bin Mohamed | 5,805,840 | - | - | 5,805,840 |
| Yusseri Bin Said | 4,350,130 | - | - | 4,350,130 |
| Ho Siew Cheong | 3,842,065 | - | - | 3,842,065 |
| Ho Siew Choong | 7,818,803 | - | - | 7,818,803 |
| Ho Siew Weng | 2,087,597 | - | - | 2,087,597 |
| Periasamy A/L Sinakalai | 7,599,965 | - | - | 7,599,965 |

| | Number of ordinary shares of RM1.00 each | | | Balance as of 31.12.2006 |
|---|--|--------|------|--------------------------|
| | Balance as of 1.1.2006 | Bought | Sold | |
| Shares in the holding company, Can Cycle Sdn. Bhd. | | | | |
| Direct Interest | | | | |
| Ho Siew Choong | 2,948 | - | - | 2,948 |
| Periasamy A/L Sinakalai | 3,036 | - | - | 3,036 |
| Ho Siew Cheong | 1,418 | - | - | 1,418 |
| Ho Siew Weng | 1,290 | - | - | 1,290 |

By virtue of their interests in the shares of the holding company, the above directors are deemed to have an interest in the shares of the Company and of all related companies to the extent the holding company has an interest.

Other than as disclosed above, the directors do not have any other interest in the shares of the Company or in its related companies during and at the end of the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the directors of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by directors as disclosed in the Financial Statements or the fixed salary of full-time employees of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

During and at the end of the financial year, no arrangement subsisted to which the Company was a party whereby directors of the Company might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

HOLDING COMPANY

The Company is a subsidiary of Can Cycle Sdn. Bhd., a company incorporated in Malaysia, which is also regarded by the directors as the ultimate holding company.

AUDITORS

The auditors, Messrs. Deloitte & Touche, have indicated their willingness to continue in office.

Signed on behalf of the Board
in accordance with a resolution of the Directors,



PERIASAMY A/L SINAKALAI



HO SIEW CHOONG

Kuala Lumpur,
April 16, 2007

Report of the Auditors

Annual Report 2006

REPORT OF THE AUDITORS TO THE MEMBERS OF

TEX CYCLE TECHNOLOGY (M) BERHAD

(Incorporated in Malaysia)

We have audited the accompanying balance sheets as of December 31, 2006 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report. The financial statements of the Group and of the Company for the preceding financial year ended December 31, 2005 were audited by another firm of auditors whose report dated April 24, 2006 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the state of affairs of the Group and of the Company as of December 31, 2006 and of the results and the cash flows of the Group and of the Company for the year ended on that date; and
 - (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary companies have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements, and we have received satisfactory information and explanations as required by us for these purposes.

Our auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under Sub-section (3) of Section 174 of the Act.

DELOITTE & TOUCHE

AF 0834

Chartered Accountants

LAI CAN YIEW

2179/09/07 (J)

Partner

April 16, 2007

**TEX CYCLE TECHNOLOGY (M) BERHAD
AND ITS SUBSIDIARY COMPANIES**
(Incorporated in Malaysia)

**INCOME STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | Note(s) | The Group | | The Company | |
|------------------------------------|---------|-------------|-------------|-------------|------------|
| | | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Revenue | 5 & 6 | 12,450,227 | 10,806,095 | 1,150,000 | 1,580,000 |
| Cost of sales | | (4,183,878) | (3,316,334) | - | - |
| Gross profit | | 8,266,349 | 7,489,761 | 1,150,000 | 1,580,000 |
| Other operating income | | 717,603 | 260,643 | - | 28,309 |
| Selling and distribution costs | | (391,414) | (458,275) | - | - |
| Administrative expenses | | (2,750,621) | (2,093,714) | (121,424) | (61,366) |
| Other operating expenses | | (1,249,831) | (807,972) | - | - |
| Profit from operations | 7 | 4,592,086 | 4,390,443 | 1,028,576 | 1,546,943 |
| Finance costs | 8 | (11,025) | (87,674) | - | - |
| Interest income | | 198,638 | 31,199 | 96,636 | - |
| Profit before tax | | 4,779,699 | 4,333,968 | 1,125,212 | 1,546,943 |
| Income tax expense | 10 | (1,339,797) | (1,252,582) | (322,000) | (442,400) |
| Net profit for the year | | 3,439,902 | 3,081,386 | 803,212 | 1,104,543 |
| Earnings per ordinary share | | | | | |
| Basic (sen) | 11 | 2.01 | 2.19 | | |

The accompanying Notes form an integral part of the Financial Statements.

Balance Sheets

Annual Report 2006

**TEX CYCLE TECHNOLOGY (M) BERHAD
AND ITS SUBSIDIARY COMPANIES**
(Incorporated in Malaysia)

**BALANCE SHEETS
AS OF DECEMBER 31, 2006**

| | Note | The Group | | The Company | |
|--|------|-------------------|-------------------|-------------------|-------------------|
| | | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| ASSETS | | | | | |
| Non-current Assets | | | | | |
| Property, plant and equipment | 12 | 9,846,423 | 9,923,875 | - | - |
| Investment property | 13 | 5,452,790 | 5,556,160 | - | - |
| Investment in subsidiary companies | 14 | - | - | 10,579,282 | 10,579,282 |
| Goodwill on consolidation | 15 | 583,937 | 583,937 | - | - |
| Total Non-current Assets | | 15,883,150 | 16,063,972 | 10,579,282 | 10,579,282 |
| Current Assets | | | | | |
| Inventories | 16 | 269,195 | 378,499 | - | - |
| Trade receivables | 17 | 3,534,713 | 3,181,222 | - | - |
| Other receivables and prepaid expenses | 17 | 378,111 | 300,936 | 5,266 | 1,000 |
| Amount owing by subsidiary companies | 18 | - | - | 8,773,003 | 8,495,091 |
| Cash and bank balances | 19 | 9,134,122 | 6,278,859 | 3,070,179 | 3,167,751 |
| Total Current Assets | | 13,316,141 | 10,139,516 | 11,848,448 | 11,663,842 |
| Total Assets | | 29,199,291 | 26,203,488 | 22,427,730 | 22,243,124 |

(Forward)

Balance Sheets (cont'd)

Annual Report 2006

| | Note | The Group | | The Company | |
|---|------|------------|------------|-------------|------------|
| | | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| EQUITY AND LIABILITIES | | | | | |
| Capital and Reserves | | | | | |
| Issued capital | 20 | 17,079,300 | 17,079,300 | 17,079,300 | 17,079,300 |
| Reserves | 21 | 10,534,045 | 7,708,998 | 5,327,181 | 5,138,824 |
| Total Equity | | 27,613,345 | 24,788,298 | 22,406,481 | 22,218,124 |
| Non-current Liabilities | | | | | |
| Hire-purchase payables – non-current portion | 22 | 122,654 | 34,926 | - | - |
| Deferred tax liabilities | 23 | 331,670 | 247,292 | - | - |
| Total Non-current Liabilities | | 454,324 | 282,218 | - | - |
| Current Liabilities | | | | | |
| Trade payables | 24 | 102,493 | 106,973 | - | - |
| Other receivables and accrued expenses | 24 | 934,678 | 847,435 | 21,249 | 25,000 |
| Hire-purchase payables – current portion | 22 | 94,451 | 178,564 | - | - |
| Total Current Liabilities | | 1,131,622 | 1,132,972 | 21,249 | 25,000 |
| Total Liabilities | | 1,585,946 | 1,415,190 | 21,249 | 25,000 |
| Total Equity and Liabilities | | 29,199,291 | 26,203,488 | 22,427,730 | 22,243,124 |

The accompanying Notes form an integral part of the Financial Statements.

Statements of Changes in Equity

Annual Report 2006

**TEX CYCLE TECHNOLOGY (M) BERHAD
AND ITS SUBSIDIARY COMPANIES**
(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006**

| The Group | Issued capital RM | Share premium RM | Reserve on consolidation RM | Unappropriated profit/ (Accumulated loss) RM | Total RM |
|--|----------------------|---------------------|--------------------------------|--|-------------------|
| Balance as of January 1, 2005 | 20 | - | - | (489,911) | (489,891) |
| Acquisition of subsidiary companies | - | - | 589,545 | - | 589,545 |
| Issues of shares | 17,079,280 | 5,400,000 | - | - | 22,479,280 |
| Listing expenses | - | (878,483) | - | - | (878,483) |
| Fair value adjustment | - | - | 6,461 | - | 6,461 |
| Net profit for the year | - | - | - | 3,081,386 | 3,081,386 |
| Balance as of December 31, 2005 | 17,079,300 | 4,521,517 | 596,006 | 2,591,475 | 24,788,298 |

(Forward)

Statements of Changes in Equity (cont'd)

Annual Report 2006

| The Group | Note | Issued capital RM | Share premium RM | Reserve on consolidation RM | Unappropriated profit RM | Total RM |
|---|------|----------------------|---------------------|--------------------------------|-----------------------------|-------------------|
| Balance as of January 1, 2006 | | 17,079,300 | 4,521,517 | 596,006 | 2,591,475 | 24,788,298 |
| As previously reported | | - | - | (596,006) | 596,006 | - |
| Effect of change in accounting policy - Adoption of FRS 3 | 2 | | | | | |
| As restated | | 17,079,300 | 4,521,517 | - | 3,187,481 | 24,788,298 |
| Dividends paid | 25 | - | - | - | (614,855) | (614,855) |
| Net profit for the year | | - | - | - | 3,439,902 | 3,439,902 |
| Balance as of December 31, 2006 | | <u>17,079,300</u> | <u>4,521,517</u> | <u>-</u> | <u>6,012,528</u> | <u>27,613,345</u> |

(Forward)

Statements of Changes in Equity (cont'd)

Annual Report 2006

| The Company | Note | Issued capital RM | Share premium RM | Unappropriated profit/ loss) RM | Total RM |
|--|------|----------------------|---------------------|---------------------------------------|-------------|
| Balance as of January 1, 2005 | | 20 | - | (487,236) | (487,216) |
| Issues of shares | | 17,079,280 | 5,400,000 | - | 22,479,280 |
| Listing expenses | | - | (878,483) | - | (878,483) |
| Net profit for the year | | - | - | 1,104,543 | 1,104,543 |
| Balance as of December 31, 2005 | | 17,079,300 | 4,521,517 | 617,307 | 22,218,124 |
| Balance as of January 1, 2006 | | 17,079,300 | 4,521,517 | 617,307 | 22,218,124 |
| Dividends paid | 25 | - | - | (614,855) | (614,855) |
| Net profit for the year | | - | - | 803,212 | 803,212 |
| Balance as of December 31, 2006 | | 17,079,300 | 4,521,517 | 805,664 | 22,406,481 |

The accompanying Notes form an integral part of the Financial Statements.

**TEX CYCLE TECHNOLOGY (M) BERHAD
AND ITS SUBSIDIARY COMPANIES**
(Incorporated in Malaysia)

**CASH FLOW STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | The Group | | The Company | |
|---|------------------|------------------|------------------|-----------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| CASH FLOWS FROM/ (USED IN) OPERATING ACTIVITIES | | | | |
| Net profit for the year | 3,439,902 | 3,081,386 | 803,212 | 1,104,543 |
| Adjustments for: | | | | |
| Income tax expense recognised in profit or loss | 1,339,797 | 1,252,582 | 322,000 | 442,400 |
| Allowance for doubtful debts | 54,084 | - | - | - |
| Allowance for doubtful debts no longer required | (71,002) | - | - | - |
| Bad debts written off | 1,387 | 16,619 | - | - |
| Depreciation of: | | | | |
| Property, plant and equipment | 852,864 | 668,803 | - | - |
| Investment property | 103,370 | 102,840 | - | - |
| Gain on disposal of property, plant and equipment | (2,800) | (11,500) | - | - |
| Dividend income | - | - | (1,150,000) | (1,580,000) |
| Finance costs | 11,025 | 87,674 | - | - |
| Interest income | (198,638) | (31,199) | (96,636) | - |
| Operating Profit/(Loss) Before Working Capital Changes | 5,529,989 | 5,167,205 | (121,424) | (33,057) |
| (Increase)/Decrease in: | | | | |
| Inventories | 109,304 | (156,134) | - | - |
| Trade receivables | (337,960) | (1,178,003) | - | - |
| Other receivables and prepaid expenses | (183,528) | 492,807 | - | (980) |
| Amount owing by subsidiary companies | - | - | - | (5,357,493) |

(Forward)

Cash Flow Statements (cont'd)

Annual Report 2006

| | The Group | | The Company | |
|---|-------------|-------------|-------------|-------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Increase/(Decrease) in: | | | | |
| Trade payables | (4,480) | 12,457 | - | - |
| Other payables and accrued expenses | 87,243 | (361,920) | (3,751) | (462,236) |
| Cash Generated From/ (Used In) Operations | 5,200,568 | 3,976,412 | (125,175) | (5,853,766) |
| Interest paid | (11,025) | (87,674) | - | - |
| Income tax paid | (1,149,066) | (1,273,883) | (4,266) | - |
| Net Cash From/(Used In) Operating Activities | 4,040,477 | 2,614,855 | (129,441) | (5,853,766) |
| CASH FLOWS FROM/ (USED IN) INVESTING ACTIVITIES | | | | |
| Decrease in amount owing by subsidiary companies | - | - | 550,088 | - |
| Purchase of property, plant and equipment and investment property (Note a) | (588,412) | (4,879,334) | - | - |
| Acquisition of subsidiary companies (Note b) | - | 1,025,482 | - | - |
| Proceeds from disposal of property, plant and equipment | 2,800 | 11,500 | - | - |
| Interest received | 198,638 | 31,199 | 96,636 | - |
| Increase in short-term deposits pledged | (4,403) | (128,881) | - | - |
| Net Cash From/(Used In) Investing Activities | (391,377) | (3,940,034) | 646,724 | - |

(Forward)

Cash Flow Statements (cont'd)

Annual Report 2006

| | Note | The Group | | The Company | |
|---|------|------------|-------------|-------------|------------|
| | | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES | | | | | |
| Dividends paid | | (614,855) | - | (614,855) | - |
| Payment of listing expenses | | - | (878,483) | - | (878,483) |
| Proceeds from issue of shares | | - | 9,900,000 | - | 9,900,000 |
| Repayment of term loan | | - | (1,320,089) | - | - |
| Payment of hire-purchase payables | | (183,385) | (226,271) | - | - |
| Net Cash From/(Used In) Financing Activities | | (798,240) | 7,475,157 | (614,855) | 9,021,517 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 2,850,860 | 6,149,978 | (97,572) | 3,167,751 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 6,149,978 | - | 3,167,751 | - |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 26 | 9,000,838 | 6,149,978 | 3,070,179 | 3,167,751 |

Note a

Purchase of property, plant and equipment and investment property during the financial year were through the following:

| | The Group | | The Company | |
|---------------------------------|------------|------------|-------------|------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Payment by cash | 588,412 | 4,879,334 | - | - |
| Satisfied by issuance of shares | - | 2,000,000 | - | - |
| Finance by hire-purchase | 187,000 | 127,000 | - | - |
| | 775,412 | 7,006,334 | - | - |

(Forward)

Cash Flow Statements (cont'd)

Annual Report 2006

Note b

Analysis of assets and liabilities of subsidiary companies acquired are as follows:

| | The Group 2005 RM |
|---|----------------------------------|
| Property, plant and equipment | 9,245,344 |
| Inventories | 222,365 |
| Trade receivables | 2,019,838 |
| Other receivables and prepaid expenses | 621,483 |
| Cash and cash equivalents | 1,025,482 |
| Trade payables | (94,516) |
| Other payables and accrued expenses | (719,444) |
| Hire-purchase payables | (312,761) |
| Bank borrowings | (1,320,089) |
| Tax liabilities | (21,860) |
| Deferred tax liabilities | (118,601) |
| | <hr/> |
| Net assets acquired | 10,547,241 |
| Goodwill on consolidation * | 621,584 |
| Reserve on consolidation * | (589,545) |
| | <hr/> |
| Total purchase consideration | 10,579,280 |
| Less: Purchase consideration satisfied through the issue of ordinary shares | (10,579,280) |
| Less: Cash and bank balances | (1,025,482) |
| | <hr/> |
| Cash flow on acquisition, net of cash and cash equivalents acquired | <u>(1,025,482)</u> |

- * During the financial year ended December 31, 2005, fair value adjustment to goodwill amounting to RM37,647 were made in relation to overprovision of tax payable of RM25,023 and deferred tax liabilities of RM12,624, and fair value adjustment to reserve on consolidation amounting to RM6,461 were made in relation to underprovision of tax payable of RM2,363 netted off with overprovision of deferred tax liabilities of RM8,824.

The accompanying Notes form an integral part of the Financial Statements.

**TEX CYCLE TECHNOLOGY (M) BERHAD
AND ITS SUBSIDIARY COMPANIES**
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and listed on the MESDAQ Market of Bursa Malaysia Securities Berhad.

The principal activity of the Company is investment holding.

The principal activities of the subsidiary companies are disclosed in Note 14.

There have been no significant changes in the nature of the activities of the Company and its subsidiary companies during the financial year.

The registered office of the Company is located at Unit 07-02, Level 7, Menara Luxor, Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The principal place of business of the Company is located at 8, Jalan TPK 2/3, Taman Perindustrian Kinrara, 47100 Puchong, Selangor Darul Ehsan, Malaysia.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been authorised by the Board of Directors for issuance on April 16, 2007.

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board (“MASB”) approved accounting standards in Malaysia.

Changes in Accounting Policies

In the current financial year, the Group and the Company adopted all of the new and revised Financial Reporting Standards (“FRS”) issued by MASB that are relevant to its operations and effective for annual periods beginning on or after January 1, 2006 as follows:

| | |
|---------|---|
| FRS 3 | Business Combinations |
| FRS 101 | Presentation of Financial Statements |
| FRS 102 | Inventories |
| FRS 108 | Accounting Policies, Changes in Accounting Estimates and Errors |
| FRS 110 | Events After the Balance Sheet Date |
| FRS 116 | Property, Plant and Equipment |
| FRS 121 | The Effects of Changes in Foreign Exchange Rates |
| FRS 127 | Consolidated and Separate Financial Statements |
| FRS 132 | Financial Instruments: Disclosure and Presentation |
| FRS 133 | Earnings per Share |
| FRS 136 | Impairment of Assets |
| FRS 140 | Investment Property |

The application of the revised FRS 101 has resulted in a change in the presentation of the balance sheets and cash flow statements. The changes in presentation have been applied retrospectively.

With the exception of FRS 3, FRS 136 and FRS 140 as explained below, the adoption of the other revised FRSs above did not result in substantial changes to the Group's accounting policies.

Goodwill and Reserve on Consolidation

In prior years, goodwill on consolidation is stated at cost less any impairment losses and was subject to impairment testing only when there were indications of impairment. Reserve on consolidation is not amortised and is included as part of non-distributable reserves under shareholders' equity.

With the adoption of FRS 3 and FRS 136 on January 1, 2006, goodwill is tested annually for impairment, including in the year of its initial recognition, or more frequently when there is an indication that the cash-generating unit to which goodwill was allocated may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Also, with the adoption of FRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid, the excess is recognised immediately in the income statements. In accordance with the transitional provisions of FRS 3, the Group's reserve on consolidation was derecognised on January 1, 2006 upon adoption of FRS 3 with a corresponding adjustment to the opening balance of unappropriated profit.

Investment Property

In prior years, leasehold land and building held to earn rentals or for capital appreciation or both and not occupied by the Group was classified as property, plant and equipment and was stated at cost less accumulated depreciation and any impairment losses.

With the adoption of FRS 140 on January 1, 2006, such leasehold land and building is reclassified as investment property. The Group has chosen to apply the cost model under FRS 140 and accordingly, investment property is stated at cost less accumulated depreciation and any impairment losses.

The reclassification of the asset as investment property has been accounted for retrospectively and as disclosed in Notes 12 and 13, certain comparative amounts have been restated.

Accounting Standards Issued but Not Effective

The following new and revised FRSs and amendments and interpretations have been issued but not yet effective until future periods:

Relevant to the Group's Operations

| | |
|---------|--|
| FRS 117 | Leases |
| FRS 124 | Related Party Disclosures |
| FRS 139 | Financial Instruments: Recognition and Measurement |

FRS 117 is effective for accounting periods beginning on or after October 1, 2006 and requires the classification of leasehold land as prepaid lease payments. Such prepaid lease payments will be amortised evenly over the lease term of the land. The Group will apply this standard from financial period beginning January 1, 2007.

FRS 124 is effective for accounting periods beginning on or after October 1, 2006 and will affect the identification of related parties and some other related party disclosures. The Group will apply this standard from financial period beginning January 1, 2007.

The effective date of FRS 139 is yet to be determined by MASB. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group will apply this standard when it becomes effective.

Not Relevant to the Group's Operations

FRS6 Exploration for and Evaluation of Mineral Resources (effective January 1, 2007)

Amendment to FRS 119₂₀₀₄ Employee Benefits - Actuarial Gains and Losses, Group Plan and Disclosures (effective January 1, 2007)

Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation (effective July 1, 2007)

IC Interpretation 1 Changes in Existing Decommissioning, Restoration & Similar Liabilities (effective July 1, 2007)

IC Interpretation 2 Members' Shares in Co-operative Entities & Similar Instruments (effective July 1, 2007)

IC Interpretation 5 Right to Interests arising from Decommissioning, Restoration & Environmental Rehabilitation Funds (effective July 1, 2007)

IC Interpretation 6 Liabilities arising from Participating in a Specific Market - Waste Electrical & Electronic Equipment (effective July 1, 2007)

IC Interpretation 7 Applying the Restatement Approach under FRS 129₂₀₀₄ Financial Reporting in Hyperinflationary Economies (effective July 1, 2007)

IC Interpretation 8 Scope of IFRS 2 (effective July 1, 2007)

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention.

Basis of Consolidation

The consolidated financial statements include the audited financial statements of the Company and of all subsidiary companies made up to the end of the financial year. Subsidiary companies are those companies in which the Group owns, directly or indirectly, more than 50% of the equity share capital or where it has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiary companies are consolidated using the acquisition method of accounting. On acquisition, the assets and liabilities of the relevant subsidiary companies are measured at their fair values at the date of acquisition. The interest of minority shareholder is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiary companies acquired or disposed off during the financial year are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as applicable.

All significant intercompany transactions and balances are eliminated on consolidation.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired business exceeds the cost of the business combination, the excess is recognised immediately in the income statements.

Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Revenue of the Company consists of dividend income received or receivable from subsidiary companies.

Revenue of the subsidiary companies consists mainly of income from provision of waste recovery and recycling services, income from rental of recycled products and gross invoiced value of goods sold net of discounts and returns.

Revenue in respect of provision of waste recovery and recycling services is recognised when the services are rendered.

Revenue in respect of rental of recycled products is recognised on an accrual basis.

Revenue in respect of sales of goods is recognised upon delivery of products and when the risks and rewards of ownership have passed.

Dividend from subsidiary companies is recognised when the shareholder's right to receive payment is established.

Rental income from investment property is recognised on a straight-line basis over the lease term.

Interest income is recognised on an accrual basis.

Foreign Currencies

The financial statements of the Group and of the Company are presented in Ringgit Malaysia, the currency of the primary economic environment in which the Company and its subsidiary companies operate (its functional currency).

In preparing the financial statements of Group and of the Company, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statements for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statements for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Employee Benefits

Wages, salaries, paid annual leaves, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

Certain subsidiary companies make statutory contributions to an approved provident fund and contributions are charged to the income statements. Once the contributions have been paid, there are no further payment obligations. The approved provident fund is a defined contribution plan.

Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the "liability" method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statements, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Gain or loss arising from the disposal of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the income statements.

Freehold land is not depreciated. All other assets are depreciated on a straight-line method to write-off the cost of the various assets over their estimated useful lives at the following annual rates:

| | |
|---|------------------------------------|
| Freehold buildings | 2% |
| Leasehold land and buildings | Over the lease term of 99 years |
| Office equipment and furniture and fittings | 10% - 20% |
| Motor vehicles | 20% |
| Computers | 20% - 40% |
| Factory equipment and electrical installation | 10% - 20% |

Investment Property

Investment property, comprising certain long-term leasehold land and building, is held for long-term rental yields or for capital appreciation or both, and is not occupied by the Group.

Investment property is stated at cost less accumulated depreciation and any impairment losses.

On disposal of an investment property, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal, it shall be derecognised (eliminated from the balance sheets). The difference between the net disposal proceeds and the carrying amount is recognised in the income statements.

Investment property is depreciated on the straight-line method over the lease term of 61 years.

Property, Plant and Equipment Under Hire-Purchase Arrangements

Property, plant and equipment acquired under hire-purchase arrangements are capitalised in the financial statements and the corresponding obligations treated as liabilities. Finance charges are allocated to the income statements to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

Investment in Subsidiary Companies

Investment in subsidiary companies, which is eliminated on consolidation, is stated at cost less any impairment losses in the Company's financial statements.

Goodwill on Consolidation

Goodwill on consolidation represents the excess of the cost of acquisition of subsidiary companies over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary companies at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary company, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Impairment of Assets Excluding Goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statements, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statements, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are valued at the lower of cost (determined on the "first-in, first-out" basis) and net realisable value. The cost of raw materials comprises the original purchase price plus cost incurred in bringing the inventories to their present location. The cost of work-in-progress and finished goods comprises the cost of raw materials, direct labour and a proportion of production overheads. Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion. In arriving at net realisable value, due allowance is made for damaged, obsolete or slow moving inventories.

Receivables

Receivables are stated at nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

Provisions

Provisions are made when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

Cash Flow Statements

The Group and the Company adopt the indirect method in the preparation of the cash flow statements.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risk of changes in value.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**(i) Critical judgements in applying the Group's accounting policies**

In the process of applying the Group's accounting policies, which are described in Note 3 above, management is of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial statements.

(ii) Key sources of estimation uncertainty

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period other than as follows:

Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was RM583,937 and no impairment loss was recognised during the current financial year. Details of the value in use calculation are provided in Note 15.

Notes to the Financial Statements (cont'd)

Annual Report 2006

5. REVENUE

| | The Group | | The Company | |
|--|-------------------|-------------------|------------------|------------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Provision of waste recovery and recycling services | 8,867,516 | 7,303,233 | - | - |
| Rental of recycled products | 2,131,301 | 2,310,163 | - | - |
| Sales of goods | 1,451,410 | 1,192,699 | - | - |
| Dividend income from subsidiary companies | - | - | 1,150,000 | 1,580,000 |
| | <u>12,450,227</u> | <u>10,806,095</u> | <u>1,150,000</u> | <u>1,580,000</u> |

6. OPERATING COSTS APPLICABLE TO REVENUE

The operating costs, classified by nature, applicable to revenue are as follows:

| Note | The Group | | The Company | |
|---|------------------|------------------|----------------|---------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Direct costs on services rendered | 2,472,155 | 2,003,491 | - | - |
| Raw materials and consumables used | 834,560 | 620,672 | - | - |
| Changes in inventories of work-in-progress and finished goods | 57,720 | (156,134) | - | - |
| Directors' remuneration | 9 | 665,142 | 536,790 | 32,000 |
| Staff costs | 1,847,371 | 1,452,802 | - | 12,000 |
| Depreciation of: | | | | |
| Property, plant and equipment | 12 | 852,864 | 668,803 | - |
| Investment property | 13 | 103,370 | 102,840 | - |
| Other operating expenses | 1,742,562 | 1,447,031 | 89,424 | 49,366 |
| | <u>8,575,744</u> | <u>6,676,295</u> | <u>121,424</u> | <u>61,366</u> |

Staff costs include salaries, bonuses, contributions to Employees Provident Fund ("EPF") and all other staff related expenses. Contributions to EPF by the Group during the financial year amounted to RM117,080 (2005: RM137,946).

7. PROFIT FROM OPERATIONS

Profit from operations is arrived at after the following charges/(credits):

| | The Group | | The Company | |
|---|------------|------------|-------------|------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Allowance for doubtful debts | 54,084 | - | - | - |
| Auditors' remuneration: | | | | |
| Statutory audit: | | | | |
| Current year | 45,000 | 40,000 | 20,000 | 20,000 |
| Underprovision in prior years | - | 5,800 | - | 3,800 |
| Other services | 5,000 | 5,000 | 5,000 | 5,000 |
| Rental of premises | 15,400 | 4,950 | - | - |
| Bad debts written off | 1,387 | 16,619 | - | - |
| Realised loss on foreign exchange | 468 | 184 | - | - |
| Rental income from investment property | (564,000) | (220,400) | - | - |
| Allowance for doubtful debts no longer required | (71,002) | - | - | - |
| Gain on disposal of property, plant and equipment | (2,800) | (11,500) | - | - |
| Interest income | - | (28,309) | - | (28,309) |
| Bad debts recovered | - | (434) | - | - |

Direct operating expenses arising from the investment property during the financial year amounted to RM 32,455 (2005: RM 11,790).

8. FINANCE COSTS

| | The Group | |
|----------------|---------------|---------------|
| | 2006 RM | 2005 RM |
| Interest on: | | |
| Bank overdraft | - | 4,245 |
| Term loan | - | 57,169 |
| Hire-purchase | 11,025 | 26,260 |
| | <u>11,025</u> | <u>87,674</u> |

Notes to the Financial Statements (cont'd)

Annual Report 2006

9. DIRECTORS' REMUNERATION

| | The Group | | The Company | |
|-------------------------------|----------------|----------------|---------------|---------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Executive directors: | | | | |
| Salaries and other emoluments | 537,142 | 452,790 | - | - |
| Fees | 96,000 | 72,000 | - | - |
| Non-executive directors: | | | | |
| Fees | 16,000 | - | 16,000 | - |
| Other emoluments | 16,000 | 12,000 | 16,000 | 12,000 |
| | <u>665,142</u> | <u>536,790</u> | <u>32,000</u> | <u>12,000</u> |

The number of directors of the Company whose total remuneration during the year falls within the following bands is as follows:

| | Number of Directors | |
|--------------------------|---------------------|----------|
| | 2006 | 2005 |
| Executive Directors: | | |
| RM150,001 - RM200,000 | 3 | 1 |
| RM50,001 - RM100,000 | 2 | 4 |
| Below RM50,000 | 1 | 1 |
| Non-Executive Directors: | | |
| Below RM50,000 | <u>2</u> | <u>2</u> |

10. INCOME TAX EXPENSE

| | The Group | | The Company | |
|-------------------------------------|------------------|------------------|----------------|----------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Estimated tax payable: | | | | |
| Current year | 1,256,267 | 1,102,443 | 322,000 | 442,400 |
| Overprovision in prior year | (848) | - | - | - |
| | <u>1,255,419</u> | <u>1,102,443</u> | <u>322,000</u> | <u>442,400</u> |
| Deferred tax liabilities (Note 23): | | | | |
| Current year | 69,419 | 150,139 | - | - |
| Underprovision in prior year | 14,959 | - | - | - |
| | <u>84,378</u> | <u>150,139</u> | <u>-</u> | <u>-</u> |
| | <u>1,339,797</u> | <u>1,252,582</u> | <u>322,000</u> | <u>442,400</u> |

A reconciliation of income tax expense applicable to profit before tax at the applicable statutory income tax rate to income tax expense at the effective income tax rate is as follows:

| | The Group | | The Company | |
|--|------------|------------|-------------|------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Profit before tax | 4,779,699 | 4,333,968 | 1,125,212 | 1,546,943 |
| Tax at the applicable statutory tax rate of 28% (2005: 28%) | 1,338,316 | 1,213,511 | 315,059 | 433,144 |
| Tax effects of: | | | | |
| Lower tax rate applicable to Malaysian small and medium scale industries | (109,731) | (67,811) | - | - |
| Expenses that are not deductible in determining taxable profit | 97,101 | 106,882 | 6,941 | 9,256 |
| Under/(Over)provision in prior year: | | | | |
| Current tax | (848) | - | - | - |
| Deferred tax | 14,959 | - | - | - |
| | 1,339,797 | 1,252,582 | 322,000 | 442,400 |

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year by the number of/weighted average number of ordinary shares in issue during the financial year.

| | The Group | |
|--|-------------|-------------|
| | 2006 RM | 2005 RM |
| Net profit for the year (RM) | 3,439,902 | 3,081,386 |
| Weighted average number of ordinary shares in issue (units of RM0.10 each) | 170,793,000 | 140,792,161 |
| Basic earnings per share (sen) | 2.01 | 2.19 |

The Group has no potential ordinary shares in issue as at balance sheet date and therefore, no diluted earnings per share is presented.

Notes to the Financial Statements (cont'd)

Annual Report 2006

12. PROPERTY, PLANT AND EQUIPMENT

| The Group | Leasehold/ freehold land and buildings RM | Office equipment and furniture and fittings RM | Factory equipment and electrical installation RM | Motor vehicles RM | Computers RM | Total RM |
|--|---|--|--|-------------------------|-----------------|-------------|
| Cost | | | | | | |
| As of January 1, 2005 | - | - | - | - | - | - |
| Acquisition of subsidiary companies | 6,429,666 | 235,987 | 1,956,585 | 598,466 | 24,640 | 9,245,344 |
| Additions | 13,225 | 20,382 | 731,829 | 570,786 | 11,112 | 1,347,334 |
| Disposals | - | - | - | (77,000) | - | (77,000) |
| Reclassifications | - | (3,100) | - | - | 3,100 | - |
| As of December 31, 2005 | 6,442,891 | 253,269 | 2,688,414 | 1,092,252 | 38,852 | 10,515,678 |
| Additions | - | 65,546 | 164,135 | 518,712 | 27,019 | 775,412 |
| Disposals | - | - | - | (32,379) | - | (32,379) |
| Write-offs | - | - | (4,536) | - | - | (4,536) |
| As of December 31, 2006 | 6,442,891 | 318,815 | 2,848,013 | 1,578,585 | 65,871 | 11,254,175 |

(Forward)

Notes to the Financial Statements (cont'd)

Annual Report 2006

| The Group | Leasehold/ freehold land and buildings RM | Office equipment and furniture and fittings RM | Factory equipment and electrical installation RM | Motor vehicles RM | Computers RM | Total RM |
|-------------------------------------|---|--|--|-------------------------|-----------------|-------------|
| Accumulated Depreciation | | | | | | |
| As of January 1, 2005 | - | - | - | - | - | - |
| Charge for the year | 65,580 | 41,568 | 323,816 | 220,513 | 17,326 | 668,803 |
| Disposals | - | - | - | (77,000) | - | (77,000) |
| Reclassifications | - | (103) | - | - | 103 | - |
| As of December 31, 2005 | 65,580 | 41,465 | 323,816 | 143,513 | 17,429 | 591,803 |
| Charge for the year | 65,622 | 47,052 | 405,084 | 315,123 | 19,983 | 852,864 |
| Disposals | - | - | - | (32,379) | - | (32,379) |
| Write-offs | - | - | (4,536) | - | - | (4,536) |
| As of December 31, 2006 | 131,202 | 88,517 | 724,364 | 426,257 | 37,412 | 1,404,752 |
| Net Book Value | | | | | | |
| As of December 31, 2006 | 6,311,689 | 230,298 | 2,123,649 | 1,152,328 | 28,459 | 9,846,423 |
| As of December 31, 2005 | 6,377,311 | 211,804 | 2,364,598 | 948,739 | 21,423 | 9,923,875 |

Included in property, plant and equipment of the Group are motor vehicles acquired under hire-purchase arrangements with net book value amounting to RM550,179 (2005: RM519,714).

Notes to the Financial Statements (cont'd)

Annual Report 2006

The land title to certain freehold land and buildings of the Group with net book value amounting to RM1,536,035 (2005: RM1,550,703) has not been discharged by the bank and the land title to certain leasehold land and buildings with net book value amounting to RM4,775,654 (2005: RM4,826,608) has been submitted to the land office for the discharge procedure.

13. INVESTMENT PROPERTY

| | The Group | |
|----------------------------------|------------------|------------------|
| | 2006 | 2005 |
| | RM | RM |
| Net Book Value | | |
| At beginning of year | 5,556,160 | - |
| New acquisition | - | 5,659,000 |
| Depreciation charge for the year | (103,370) | (102,840) |
| At end of year | <u>5,452,790</u> | <u>5,556,160</u> |
| Cost | 5,659,000 | 5,659,000 |
| Accumulated depreciation | (206,210) | (102,840) |
| Net book value | <u>5,452,790</u> | <u>5,556,160</u> |

The fair value of the investment property was estimated at RM 5,900,000 (2005: RM 5,900,000) based on valuation by an independent professionally qualified valuers, City Valuers and Consultants Sdn. Bhd.. Valuations were based on current prices in an active market for the property.

14. INVESTMENT IN SUBSIDIARY COMPANIES

| | The Company | |
|---------------------------|--------------------|-------------------|
| | 2006 | 2005 |
| | RM | RM |
| Unquoted shares - at cost | <u>10,579,282</u> | <u>10,579,282</u> |

Details of the subsidiary companies, which are all incorporated in Malaysia, are as follows:

| Name of Company | Effective Equity Interest | | Principal Activities |
|----------------------------------|---------------------------|------|---|
| | 2006 | 2005 | |
| | % | % | |
| Tex Cycle Sdn. Bhd. | 100 | 100 | Recovery and recycling of can and scheduled waste |
| Metro Koats Technology Sdn. Bhd. | 100 | 100 | Manufacturing and marketing of chemical products |
| Metro Envy Sdn. Bhd. | 100 | 100 | Intended activity is the rental of storage space to its fellow subsidiary company |

Notes to the Financial Statements (cont'd)

Annual Report 2006

In 2005, the Company acquired certain subsidiary companies as part of the Company's listing exercise on the MESDAQ Market of Bursa Malaysia Securities Berhad. The effects of these acquisitions on the financial results of the Group in the previous financial year were as follows:

Post-acquisition results of subsidiary companies acquired:

| | The Group 2005 RM |
|-------------------------|----------------------------------|
| Revenue | 10,806,095 |
| Profit before tax | 4,279,470 |
| Net profit for the year | <u>3,111,441</u> |

The effects of these acquisitions on the financial position of the Group as at the end of the previous financial year were as follows:

| | The Group 2005 RM |
|--|----------------------------------|
| Property, plant and equipment | 9,923,875 |
| Inventories | 378,499 |
| Trade receivables | 3,181,222 |
| Other receivables and prepaid expenses | 301,621 |
| Cash and bank balances | 3,035,514 |
| Trade payables | (106,973) |
| Other payables and accrued expenses | (655,095) |
| Hire-purchase payables | (213,490) |
| Deferred tax liabilities | <u>(247,292)</u> |
| Group's share of net assets | <u>15,597,881</u> |

15. GOODWILL ON CONSOLIDATION

| | The Group | |
|--|--------------------|--------------------|
| | 2006 RM | 2005 RM |
| At beginning of year | 583,937 | - |
| Arising from acquisition of subsidiary companies | - | 621,584 |
| Fair value adjustments | - | <u>(37,647)</u> |
| At end of year | <u>583,937</u> | <u>583,937</u> |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating unit ("CGU") that is expected to benefit from that business combination. Before recognition of any impairment losses, the carrying amount of goodwill had been allocated to Tex Cycle Sdn. Bhd. as one single CGU.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Notes to the Financial Statements (cont'd)

Annual Report 2006

The recoverable amount of the CGU is determined from value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rate, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rate using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the CGU.

The growth rates and changes in selling prices and direct costs are based on expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next 1 years and extrapolates cash flows for the following 2 years based on estimated growth rate of 8 %. This rate does not exceed the average long-term growth rate for the relevant markets.

16. INVENTORIES

| | The Group | |
|------------------|----------------|----------------|
| | 2006 | 2005 |
| | RM | RM |
| Raw materials | 160,587 | 212,171 |
| Work-in-progress | 6,545 | 9,253 |
| Finished goods | 102,063 | 157,075 |
| | <u>269,195</u> | <u>378,499</u> |

17. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

Trade receivables consist of:

| | The Group | |
|------------------------------------|------------------|------------------|
| | 2006 | 2005 |
| | RM | RM |
| Trade receivables | 3,592,787 | 3,261,342 |
| Less: Allowance for doubtful debts | (58,074) | (80,120) |
| | <u>3,534,713</u> | <u>3,181,222</u> |

Trade receivables represent amounts receivable for provision of waste recovery and recycling services, rental of recycled products and sales of goods. The credit period granted to customers ranges from 30 to 90 days (2005: 30 to 90 days).

Other receivables and prepaid expenses consist of:

| | The Group | | The Company | |
|---------------------|----------------|----------------|--------------|--------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Other receivables | 248,487 | 10,902 | - | - |
| Refundable deposits | 50,782 | 104,955 | 1,000 | 1,000 |
| Prepayments | 6,874 | 6,758 | - | - |
| Tax recoverable | 71,968 | 178,321 | 4,266 | - |
| | <u>378,111</u> | <u>300,936</u> | <u>5,266</u> | <u>1,000</u> |

18. HOLDING COMPANY AND RELATED PARTY TRANSACTIONS

The Company is a subsidiary of Can Cycle Sdn. Bhd., a company incorporated in Malaysia, which is also regarded by the directors as the ultimate holding company.

Amount owing by subsidiary companies, which arose mainly from advances and payments on behalf, is unsecured, interest-free and has no fixed terms of repayment.

Significant transactions of advances and payments on behalf undertaken with subsidiary companies during the financial year are as follows:

| | The Company | |
|--|----------------|------------------|
| | 2006 RM | 2005 RM |
| Advances to subsidiary companies: | | |
| Metro Envy Sdn. Bhd. for acquisition of land | - | 5,500,000 |
| Tex Cycle Sdn. Bhd. for acquisition of plant and machineries | 638,412 | 688,574 |
| | <u>638,412</u> | <u>688,574</u> |
| Repayment of term loan on behalf of: | | |
| Tex Cycle Sdn. Bhd. | - | 926,606 |
| Metro Koats Technology Sdn. Bhd. | - | 312,702 |
| | <u>-</u> | <u>1,239,308</u> |

Notes to the Financial Statements (cont'd)

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19. CASH AND BANK BALANCES

| | The Group | | The Company | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Cash on hand and at banks | 1,260,784 | 697,933 | 1,660 | 34,241 |
| Short-term deposits with: | | | | |
| Unit trust management company | 7,740,054 | 5,452,045 | 3,068,519 | 3,133,510 |
| Licensed bank | 133,284 | 128,881 | - | - |
| | <u>9,134,122</u> | <u>6,278,859</u> | <u>3,070,179</u> | <u>3,167,751</u> |

Short-term deposits with a licensed bank of the Group amounting to RM133,284 (2005: RM128,881) are pledged as security for bank guarantees amounting to RM74,244 (2005: RM74,244).

The short-term deposits earn interest at rates ranging from 2.65% to 3.41% (2005: 2.65% to 3.00%) per annum and have average maturity periods ranging from 7 to 202 days (2005: 7 to 142 days).

20. SHARE CAPITAL

| | The Group and The Company | |
|--|------------------------------|-------------------|
| | 2006 RM | 2005 RM |
| Authorised: | | |
| Ordinary shares of RM0.10 each | | |
| At beginning of year: | | |
| 200,000,000 as of January 1, 2006; | 20,000,000 | 100,000 |
| 1,000,000 as of January 1, 2005 | | |
| Created during the year: | | |
| Nil in 2006; 199,000,000 in 2005 | - | 19,900,000 |
| At end of year: | | |
| 200,000,000 as of December 31, 2006 and 2005 | <u>20,000,000</u> | <u>20,000,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of RM0.10 each | | |
| At beginning of year: | | |
| 170,793,000 as of January 1, 2006; | 17,079,300 | 20 |
| 200 as of January 1, 2005 | | |
| Issued during the year: | | |
| Nil in 2006; 170,792,800 in 2005 | - | 17,079,280 |
| At end of year: | | |
| 170,793,000 as of December 31, 2006 and 2005 | <u>17,079,300</u> | <u>17,079,300</u> |

21. RESERVES

| | The Group | | The Company | |
|---------------------------|-------------------|------------------|------------------|------------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Non-Distributable: | | | | |
| Share premium | 4,521,517 | 4,521,517 | 4,521,517 | 4,521,517 |
| Reserve on consolidation | - | 596,006 | - | - |
| | 4,521,517 | 5,117,523 | 4,521,517 | 4,521,517 |
| Distributable: | | | | |
| Unappropriated profit | 6,012,528 | 2,591,475 | 805,664 | 617,307 |
| | <u>10,534,045</u> | <u>7,708,998</u> | <u>5,327,181</u> | <u>5,138,824</u> |

Share Premium

| | The Group and The Company | |
|---|------------------------------|------------------|
| | 2006 RM | 2005 RM |
| At beginning of year | 4,521,517 | - |
| Arising from public issue of 45,000,000 new ordinary shares of RM0.10 each at a premium of RM0.12 per share during the year | - | 5,400,000 |
| Listing expenses | - | (878,483) |
| At end of year | <u>4,521,517</u> | <u>4,521,517</u> |

Reserve on Consolidation

Reserve on consolidation represents the excess of the Group's interest in the fair values attributable to the identifiable net assets of certain subsidiary companies at the effective date of acquisition over the cost of investment.

As explained in Note 2, the Group's reserve on consolidation was derecognised on January 1, 2006 upon adoption of FRS 3 with a corresponding adjustment to the opening balance of unappropriated profit.

Unappropriated Profit

Distributable reserves are those available for distribution as cash dividends. Based on the estimated tax credits available and the prevailing tax rate applicable to dividends, the entire unappropriated profit of the Company as of December 31, 2006 is available for distribution by way of cash dividends without additional tax liability being incurred.

Notes to the Financial Statements (cont'd)

Annual Report 2006

22. HIRE-PURCHASE PAYABLES

| | The Group | |
|--|----------------|---------------|
| | 2006 RM | 2005 RM |
| Total outstanding | 231,038 | 224,255 |
| Less: Interest-in-suspense | (13,933) | (10,765) |
| Principal outstanding | 217,105 | 213,490 |
| Less: Amount due within 12 months (shown under current liabilities) | (94,451) | (178,564) |
| Non-current portion | <u>122,654</u> | <u>34,926</u> |

The non-current portion is payable as follows:

| | The Group | |
|------------------------------------|----------------|---------------|
| | 2006 RM | 2005 RM |
| Financial year ending December 31: | | |
| 2007 | - | 34,926 |
| 2008 | 62,592 | - |
| 2009 | 60,062 | - |
| | <u>122,654</u> | <u>34,926</u> |

The effective borrowing rates of the hire-purchase obligations range from 2.53% to 6.50% (2005: 3.30% to 6.50%) per annum.

23. DEFERRED TAX LIABILITIES

| | The Group | |
|---|----------------|----------------|
| | 2006 RM | 2005 RM |
| At beginning of year | 247,292 | - |
| Acquisition of subsidiary companies | - | 118,601 |
| Adjustment to goodwill/reserve on consolidation | - | (21,448) |
| Transfer from income statements (Note 10) | 84,378 | 150,139 |
| At end of year | <u>331,670</u> | <u>247,292</u> |

The deferred tax liabilities represent the tax effects of temporary differences in respect of property, plant and equipment.

24. **TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES**

Trade payables comprise amounts outstanding for trade purchases. The average credit period granted to the Group for trade purchases ranges from 30 to 90 days (2005: 30 to 90 days).

Other payables and accrued expenses consist of:

| | The Group | | The Company | |
|---------------------------|----------------|----------------|---------------|---------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Other payables | 336,517 | 487,072 | 21,249 | 25,000 |
| Accrued expenses | 309,886 | 72,088 | - | - |
| Amount owing to directors | 288,275 | 288,275 | - | - |
| | <u>934,678</u> | <u>847,435</u> | <u>21,249</u> | <u>25,000</u> |

Amount owing to directors, which arose mainly from advances and payments on behalf, is unsecured, interest-free and has no fixed terms of repayment.

25. **DIVIDENDS**

A final dividend of 5%, less 28% tax amounting to RM614,855, proposed in respect of the previous financial year and dealt with in the previous directors' report was paid by the Company during the financial year. Gross dividend per share during the year is Nil (2005: 0.5 sen).

The directors propose a final dividend of 5%, less 27% tax, amounting to RM623,394 in respect of the financial year ended December 31, 2006. The proposed dividend is subject to the approval by the shareholders at the forthcoming Annual General Meeting of the Company and has not been included as a liability in the Financial Statements.

26. **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

| | The Group | | The Company | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Cash on hand and at banks | 1,260,784 | 697,933 | 1,660 | 34,241 |
| Short-term deposits with: | | | | |
| Unit trust management company | 7,740,054 | 5,452,045 | 3,068,519 | 3,133,510 |
| Licensed bank | 133,284 | 128,881 | - | - |
| | <u>9,134,122</u> | <u>6,278,859</u> | <u>3,070,179</u> | <u>3,167,751</u> |
| Less: Non cash equivalents: | | | | |
| Fixed deposits pledged (Note 19) | (133,284) | (128,881) | - | - |
| | <u>9,000,838</u> | <u>6,149,978</u> | <u>3,070,179</u> | <u>3,167,751</u> |

27. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The operations of the Group are subject to a variety of financial risks, including foreign currency risk, interest rate risk, credit risk, liquidity risk and cash flow risk. The Group has taken measures to minimise the Group's exposure to risks and/or costs associated with the financing, investing and operating activities of the Group.

(i) **Foreign currency risk**

The Group undertakes transactions in foreign currencies with certain foreign entities and therefore is exposed to foreign currency risk.

(ii) **Interest rate risk**

The Group is exposed to interest rate risk through the impact of rate changes on short-term deposits. The interest rates for short-term deposits are disclosed in Note 19. The interest rates for the hire-purchase payables, which are fixed at the inception of the hire-purchase arrangements, are disclosed in Note 22.

(iii) **Credit risk**

The Group is exposed to credit risk mainly from trade receivables. The Group extends credit to its customers based on careful evaluation of the customers' financial condition and credit history.

The credit risk of a subsidiary company is concentrated on a single defence industry customer. The said subsidiary company is dependent on the defence industry customer for the purchase of its chemical products and due to this dependency on the defence industry customer for revenue, any late or non-payment by the defence industry customer may have an adverse impact on the cash flows and/or profits of the Group.

(iv) **Liquidity risk**

The Group practises prudent liquidity risk management to minimise the mismatch of financial assets and liabilities.

(v) **Cash flow risk**

The Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

Financial Assets

The Group's principal financial assets are trade and other receivables, and cash and bank balances.

The Company's principal financial assets also include amount owing by subsidiary companies.

The accounting policies applicable to the major financial assets are as disclosed in Note 3.

Financial Liabilities and Equity Instruments

Debts and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement.

Significant financial liabilities of the Group include trade and other payables, and hire-purchase payables which are stated at their nominal values.

Equity instruments are recorded at the proceeds received net of direct issue costs.

Fair Values of Financial Assets and Financial Liabilities***Cash and cash equivalents, trade and other receivables, trade and other payables, hire-purchase payables and intercompany indebtedness***

The carrying amounts approximate fair values because of the short maturity period for these instruments, or the discount rate based on the prevailing market interest rate used in estimating fair value has not changed significantly.

28. **SEGMENT INFORMATION****Business Segments**

For management purposes, the Group is organised into the following operating divisions:

| Industry Segment | Description |
|---------------------------------|---|
| Investment holding | Investment activities in investment property and unquoted securities held by the Group on a long-term basis |
| Recovery and recycling services | Provision of waste recovery and recycling services, and rental of recycled products |
| Manufacturing | Manufacturing and marketing of chemical products |

Geographical Segments

No information on geographical segments is presented as the Group operates solely in Malaysia.

Notes to the Financial Statements (cont'd)

Annual Report 2006

| The Group 2006 | Investment holding RM | Recovery and recycling services RM | Manufacturing RM | Eliminations RM | Total RM |
|--|-----------------------------|---|---------------------|--------------------|-------------|
| Revenue | | | | | |
| External customers | - | 10,998,817 | 1,451,410 | - | 12,450,227 |
| Inter-segment sales | 1,150,000 | - | 343,845 | (1,493,845) | - |
| Total revenue | 1,150,000 | 10,998,817 | 1,795,255 | (1,493,845) | 12,450,227 |
| Results | | | | | |
| Segment results | 254,477 | 4,153,077 | 184,532 | - | 4,592,086 |
| Finance costs | | | | | (11,025) |
| Interest income | | | | | 198,638 |
| Profit before tax | | | | | 4,779,699 |
| Income tax expense | | | | | (1,339,797) |
| Net profit for the year | | | | | 3,439,902 |
| Consolidated Balance Sheet | | | | | |
| Assets | | | | | |
| Segment assets | 9,412,987 | 16,607,141 | 3,107,195 | - | 29,127,323 |
| Unallocated corporate assets | | | | | 71,968 |
| Consolidated total assets | | | | | 29,199,291 |
| Liabilities | | | | | |
| Segment liabilities | 373,177 | 527,332 | 353,767 | - | 1,254,276 |
| Unallocated corporate liabilities - Deferred tax liabilities | | | | | 331,670 |
| Consolidated total liabilities | | | | | 1,585,946 |
| Other Information | | | | | |
| Capital expenditures (Note 12) | 220,712 | 547,140 | 7,560 | - | 775,412 |
| Depreciation (Notes 12 & 13) | 110,727 | 772,627 | 72,880 | - | 956,234 |

(Forward)

Notes to the Financial Statements (cont'd)

Annual Report 2006

| The Group 2005 | Investment holding RM | Recovery and recycling services RM | Manufacturing RM | Eliminations RM | Total RM |
|--|--------------------------------------|---|-----------------------------|----------------------------|---------------------|
| Revenue | | | | | |
| External customers | - | 9,613,396 | 1,192,699 | - | 10,806,095 |
| Inter-segment sales | 1,580,000 | - | 191,217 | (1,771,217) | - |
| Total revenue | 1,580,000 | 9,613,396 | 1,383,916 | (1,771,217) | 10,806,095 |
| Results | | | | | |
| Segment results | 54,497 | 4,163,402 | 172,544 | - | 4,390,443 |
| Finance costs | | | | | (87,674) |
| Interest income | | | | | 31,199 |
| Profit before tax | | | | | 4,333,968 |
| Income tax expense | | | | | (1,252,582) |
| Net profit for the year | | | | | 3,081,386 |
| Consolidated Balance Sheet | | | | | |
| Assets | | | | | |
| Segment assets | 8,807,263 | 14,486,465 | 2,731,439 | - | 26,025,167 |
| Unallocated corporate assets | | | | | 178,321 |
| Consolidated total assets | | | | | 26,203,488 |
| Liabilities | | | | | |
| Segment liabilities | 192,340 | 623,206 | 352,352 | - | 1,167,898 |
| Unallocated corporate liabilities - Deferred tax liabilities | | | | | 247,292 |
| Consolidated total liabilities | | | | | 1,415,190 |
| Other Information | | | | | |
| Capital expenditures (Note 12 & 13) | 5,569,000 | 1,271,784 | 75,550 | - | 7,006,334 |
| Depreciation (Notes 12 & 13) | 102,840 | 596,021 | 72,782 | - | 771,643 |

Notes to the Financial Statements (cont'd)

Annual Report 2006

29. CAPITAL COMMITMENTS

As of December 31, 2006, the Group has the following capital commitments in respect of the acquisition of property, plant and equipment:

| | 2006 RM | The Group 2005 RM |
|-----------------------------|--------------------------|--|
| Approved and contracted for | <u>156,000</u> | <u>72,924</u> |

Statement by Directors and Declaration by the Officer Primarily Responsible for the Financial Management of the Company

Annual Report 2006

TEX CYCLE TECHNOLOGY (M) BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

The directors of **TEX CYCLE TECHNOLOGY (M) BERHAD** state that, in their opinion, the accompanying balance sheets and statements of income, cash flows and changes in equity are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysia Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as of December 31, 2006 and of the results of their businesses and the cash flows of the Group and of the Company for the year ended on that date.

Signed in accordance with
a resolution of the Directors,



PERIASAMY A/L SINAKALAI



HO SIEW CHOONG

Kuala Lumpur,
April 16, 2007

DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF THE COMPANY

I, **GERALDINE HII SIAW WEI**, the officer primarily responsible for the financial management of **TEX CYCLE TECHNOLOGY (M) BERHAD**, do solemnly and sincerely declare that the accompanying balance sheet and statements of income, cash flows and changes in equity are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed **GERALDINE HII SIAW WEI**
at **KUALA LUMPUR** this 16th day of April,
2007

GERALDINE HII SIAW WEI

Before me,

SOH AH KAU (NO. W315)
COMMISSIONER FOR OATHS
KUALA LUMPUR, MALAYSIA.

Statement of Directors' Shareholding

Annual Report 2006

As at 30 April 2007

The interest of the Directors in the shares of the Company (both direct and indirect) as at 30 April 2007 are as follows:

| Name of Directors | < ———Direct——— > | | < ———Indirect——— > | |
|---|------------------|------|--------------------|--------|
| | No. of Shares | % | No. of Shares | % |
| Ho Siew Choong | 7,818,803 | 4.58 | 82,104,559 | *48.07 |
| Periasamy A/L Sinakalai | 7,599,965 | 4.45 | 82,104,559 | *48.07 |
| Lt. Gen. (R) Dato' Jaffar Bin Mohamed | 5,805,840 | 3.40 | - | - |
| Yusseri Bin Said | 4,350,130 | 2.55 | - | - |
| Ho Siew Cheong | 3,842,065 | 2.25 | 82,104,559 | *48.07 |
| Ho Siew Weng | 2,087,597 | 1.22 | 82,104,559 | *48.07 |
| General (R) Dato' Seri Che Md Noor Bin Mat Arshad | - | - | - | - |
| Razali Bin Jantan | - | - | - | - |

* Deemed interest by virtue of their interest in Can Cycle Sdn. Bhd. pursuant to Section 6A(4) of the Companies Act, 1965

Analysis on Shareholdings

Annual Report 2006

As at 30 April 2007

SHARE CAPITAL

| | |
|-------------------------------------|-----------------------------------|
| Authorised Share Capital | : RM20,000,000.00 |
| Issued and Fully Paid Share Capital | : RM17,079,300.00 |
| Class of Shares | : Ordinary Shares of RM0.10 each |
| Voting Rights | : One (1) vote per Ordinary Share |

DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|--|---------------------|---------------|--------------------|---------------|
| 1-99 | 3 | 0.26 | 171 | 0.00 |
| 100 to 1,000 | 80 | 6.86 | 61,800 | 0.04 |
| 1,001 to 10,000 | 633 | 54.24 | 3,606,100 | 2.11 |
| 10,001 to 100,000 | 366 | 31.36 | 13,006,800 | 7.62 |
| 100,001 to less than 5% of issued shares | 84 | 7.20 | 72,013,570 | 42.16 |
| 5% and above of issued shares | 1 | 0.08 | 82,104,559 | 48.07 |
| | <u>1,167</u> | <u>100.00</u> | <u>170,793,000</u> | <u>100.00</u> |

SUBSTANTIAL SHAREHOLDERS

| Name of Substantial Shareholders | < ———Direct——— > | | < ———Indirect——— > | |
|--------------------------------------|------------------|-------|--------------------|--------|
| | No. of Shares | % | No. of Shares | % |
| Can Cycle Sdn. Bhd. | 82,104,559 | 48.07 | - | - |
| CIMSEC Nominees (Tempatan) Sdn. Bhd. | 9,728,332 | 5.70 | - | - |
| Ho Siew Choong | 7,818,803 | 4.58 | 82,104,559 | *48.07 |
| Periasamy A/L Sinakalai | 7,599,965 | 4.45 | 82,104,559 | *48.07 |
| Ho Siew Cheong | 3,842,065 | 2.25 | 82,104,559 | *48.07 |
| Ho Siew Weng | 2,087,597 | 1.22 | 82,104,559 | *48.07 |

* Deemed interest by virtue of their interest in Can Cycle Sdn. Bhd. pursuant to Section 6A(4) of the Companies Act, 1965

Analysis on Shareholdings (cont'd)

Annual Report 2006

As at 30 April 2007

LIST OF THIRTY (30) LARGEST SHAREHOLDERS

| <u>NO</u> | <u>NAME</u> | <u>SHARES</u> | <u>%</u> |
|-----------|--|--------------------|--------------|
| 1 | Can Cycle Sdn. Bhd. | 82,104,559 | 48.07 |
| 2 | Ho Siew Choong | 7,818,803 | 4.58 |
| 3 | Periasamy A/L Sinakalai | 7,599,965 | 4.45 |
| 4 | ECM Libra Avenue Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Jaafar Bin Mohamed | 5,805,840 | 3.40 |
| 5 | Yusseri Bin Said | 4,350,130 | 2.55 |
| 6 | Abdul Aziz Bin Hashim | 4,000,000 | 2.34 |
| 7 | CIMSEC Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Ho Siew Cheong | 3,546,065 | 2.08 |
| 8 | Ho Mah Lee @ Ho Chwee Keng | 3,301,000 | 1.93 |
| 9 | Aiza Bt Abdul Aziz | 3,000,000 | 1.76 |
| 10 | DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Exempt An For Deutsche Bank AG Singapore (PWM TEMPATAN) | 2,721,000 | 1.59 |
| 11 | M & A Nominee (Tempatan) Sdn. Bhd. Pledged Securities Account For Fready A/L Joseph | 2,370,000 | 1.39 |
| 12 | RHB Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Lee Yuen Kong | 1,984,000 | 1.16 |
| 13 | CIMSEC Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Ho Siew Kee | 1,837,670 | 1.08 |
| 14 | CIMSEC Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Ho Siew Weng | 1,791,597 | 1.05 |
| 15 | AFFIN Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Tan Meng Leng | 1,457,500 | 0.85 |
| 16 | TA Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Soong Ik Lin | 1,062,000 | 0.62 |
| 17 | AMSEC Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Wong Kian Teck | 1,040,100 | 0.61 |
| 18 | MIDF SISMA Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Azril Akmar Bin Attan Akmar | 785,000 | 0.46 |
| 19 | Soong Ik Lin | 780,000 | 0.46 |
| 20 | MERCSEC Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account For Wong Kian Teck | 760,800 | 0.45 |
| 21 | Cheong Yoke Sim | 714,000 | 0.42 |
| 22 | Cartaban Nominees (Asing) Sdn. Bhd Exempt An For Credit Agricole (SUISSE) SA | 703,000 | 0.41 |
| 23 | CIMSEC Nominees (Tempatan) Sdn. Bhd. CIMB for Ahmad Jauhari Bin Yahya (PB-IU) | 670,000 | 0.39 |
| 24 | CIMSEC Nominees (Tempatan) Sdn. Bhd. CIMB for Kamaluddin Bin Abdullah (PB-IU) | 670,000 | 0.39 |
| 25 | CIMSEC Nominees (Tempatan) Sdn. Bhd. CIMB for Marinah Bt Mahathir (PB-IU) | 660,000 | 0.39 |
| 26 | AMSEC Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Lee Puan Yan | 524,000 | 0.31 |
| 27 | Ng Huat Tian | 500,000 | 0.29 |
| 28 | Public Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Abdul Razak Bin Jaafar (E-KLC) | 484,000 | 0.28 |
| 29 | HDM Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Chai Yee Wah (M09) | 477,300 | 0.28 |
| 30 | Chai Yee Wah | 448,400 | 0.26 |
| | TOTAL | 143,966,729 | 84.29 |

**List of Properties
As at 31 December 2006**

| Location | Description/ Existing Use | Land Area (Square Metres) | Built-up Area (Square Metres) | Approximate Age of Building | Tenure | Net Book Value @ 31 December 2006 RM | Year of Acquisition |
|--|--|---------------------------------|--|-----------------------------------|--|---|------------------------|
| TCSB No. 8 Jalan TPK 2/3, Taman Perindustrian Kinrara, 47100 Puchong, Selangor (PT 24401, HSM 23155, Mukim and District of Petaling, Selangor) | Double storey factory, where the upper level is used as office space / Tex Cycle's headquarters and recycling facility | 2,108.29 | 1,100 | 10 years | 99 years leasehold up to 18 January 2093 | 2,172,790 | 1999 |
| No. 7, Jalan TPK 2/4, Taman Perindustrian Kinrara, 47100 Puchong, Selangor (PT 24405, HSM 23159, Mukim and District of Petaling, Selangor) | Double storey fully enclosed factory/ Recycling and storage facility | 1,980.34 | 1,980.34 | 10 years | 99 years leasehold up to 18 January 2093 | 2,602,863 | 2002 |
| MKT No. 13 Jalan BP 4/1, Pusat Perindustrian Bukit Puchong, Bandar Bukit Puchong, 47100 Puchong, Selangor (PT 43325, HSD 128758, Mukim and District of Petaling, Selangor) | Single storey factory with a double storey office building / Metro Koats' headquarters, manufacturing and storage facility | 2,033 | 550 | 2 year | Freehold | 1,536,036 | 2003 |

List of Properties (cont'd)

Annual Report 2006

| Location | Description/ Existing Use | Land Area (Square Metres) | Built-up Area (Square Metres) | Approximate Age of Building | Tenure | Net Book Value @31December 2006 RM | Year of Acquisition |
|---|--|---------------------------------|--|-----------------------------------|---|---|------------------------|
| Metro Envy Lot 35604, Jalan Kuchai Lama, 58200 Kuala Lumpur (PN 1433, Lot 35604, Mukim and District of Kuala Lumpur, State of Wilayah Persekutuan) | Triple storey factory cum office building / Rented to third party^ | 48,22.7 | 3,668.65 | 10 years | 99 years leasehold up to 25 May 2065 | 5,452,790 | 2005 |

^ Rented for RM47,000 per month. Pursuant to the tenancy agreements, the tenants covenant at all times to keep the demised premises and the appurtenances thereof including the doors plate glass and other windows fixtures fastenings wires waste water drain and other pipes and sanitary and water apparatus therein in good and substantial repair and condition throughout the tenancy period (damage by fire and such other shall be irrecoverable in consequence of any act or default of the tenant their servants or agents only excepted) and to renew and replace from time to time all fixtures fittings and appurtenances in the demised premises and the aforesaid court which may become or be beyond repair at any time during or at the expiration be sooner determination of the tenancy period.

TEX CYCLE TECHNOLOGY (M) BERHAD

(Company No.: 642619-P)

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Third Annual General Meeting of **TEX CYCLE TECHNOLOGY (M) BERHAD (Company No.: 642619-P)** will be held at **8.30 a.m.** on **Monday, 18 June 2007** at the **Kinrara 1, Level 1, Kinrara Golf Club, Jalan Kinrara 6, Bandar Kinrara, 47100 Puchong, Selangor Darul Ehsan** for the following purposes:

ORDINARY BUSINESS:

1. To receive the Audited Financial Statements for the year ended 31 December 2006 together with the Reports of the Directors and Auditors thereon. *Resolution 1*
2. To declare a First and Final Dividend of 0.5 sen per share less 27% Income Tax in respect of the financial year ended 31 December 2006. *Resolution 2*
3. To approve the payment of Directors' fees for the year ended 31 December 2006. *Resolution 3*
4. To re-elect the following Directors who are retiring under Article 80 of the Articles of Association:
 - a) Ho Siew Cheong *Resolution 4*
 - b) General (R) Dato' Seri Che Md Noor B. Mat Arshad *Resolution 5*
5. To re-elect Mr. Ravindran A/L Markandu, the Director who is retiring under Article 85 of the Articles of Association. *Resolution 6*
6. To re-elect Lt. Gen. (R) Dato' Jaffar Bin Mohamed, the Director who is retiring under Section 129(2) of the Companies Act, 1965. *Resolution 7*
7. To re-appoint Messrs Deloitte & Touche as the Company's Auditors and to authorise the Board of Directors to fix their remuneration. *Resolution 8*

SPECIAL BUSINESS:

8. To consider and, if thought fit, pass with or without modifications, the following Ordinary Resolution: *Resolution 9*

Ordinary Resolution

- **Authority to Directors to Allot and Issue Shares Pursuant to Section 132D of the Companies Act, 1965**

“**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorised to issue shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed ten per centum of the issued and paid-up share capital of the Company for the time being, subject always to the approvals of the relevant regulatory authorities.”

Notice of Annual General Meeting (cont'd)

Annual Report 2006

Special Resolution Amendments to Articles of Association

“THAT the proposed alterations, modifications, amendments or deletions to the Articles of Association of the Company as contained in Appendix A be hereby approved.”

Resolution 10

ANY OTHER BUSINESS:

9. To transact any other business for which due notice shall have been given in accordance with the Company's Articles of Association and the Companies Act, 1965.

Resolution 11

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS HEREBY GIVEN THAT a First and Final Dividend of 0.5 sen per share less 27% Income Tax in respect of the financial year ended 31 December 2006 will be payable on 26 July 2007 to Depositors registered in the Record of Depositors at the close of business on 11 July 2007.

A Depositor shall qualify for entitlement only in respect of:

- Shares transferred to the Depositor's Securities Account before 4.00 p.m. on 11 July 2007 in respect of ordinary transfers; and
- Share bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

**NG YIM KONG (LS 0008343)
WONG YOUN KIM (MAICSA 7018778)
Company Secretaries**

Petaling Jaya
25 May 2007

Notes:

- A member of the Company entitled to attend and vote at the Meeting may appoint a proxy or proxies (or being a corporate member, a corporate representative) to attend and vote in his stead. A proxy may but need not be a member of the Company.*
- Where a member appoints two (2) or more proxies, the appointments shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.*
- The instrument appointing a proxy in the case of an individual shall be signed by the appointer or his attorney or in the case of a corporation executed under its common seal or signed on behalf of the corporation by its attorney or by an officer duly authorised.*

4. *The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or executed must be deposited at the Company Secretary's Office at Strategy Corporate Secretariat Sdn. Bhd., Unit 07-02, Level 7, Menara Luxor, 6B Persiaran Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.*

5. **Explanatory Notes on Special Business**

Resolution pursuant to Section 132D of the Companies Act, 1965

The Ordinary Resolution proposed under item 8, if passed will give the Directors of the Company from the date of the above Meeting, authority to allot and issue ordinary shares for the unissued capital of the Company for such purposes as the Directors consider would be in the best interest of the Company. This authority will, unless revoked or varied by the Company in General Meeting, expire at the next Annual General Meeting.

Resolution 10 Amendment to Articles of Association

The Special Resolution proposed under item 8 is to amend the Company's Articles of Association in line with the amendments in the Listing Requirements of Bursa Malaysia Securities Berhad for the Mesdaq Market.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

1) The Director who are standing for re-election at the Third Annual General Meeting are as follows:

- a) Ho Siew Cheong
- b) General (R) Dato' Seri Che Md Noor B. Mat Arshad
- c) Ravindran A/L Markandu
- d) Lt. Gen. (R) Dato' Jaffar Bin Mohamed

The profiles of the Directors who are standing for re-election are set out in page 60 of this Annual Report.

2) The details of attendance of the Directors of the Company at Board of Directors' Meeting held during the financial year ended 31 December 2006 are disclosed in the Corporate Governance Statement set out in page 15 of this Annual report.

3) The details of the Third Annual General Meeting are as follows:

Place : Kinrara 1, Level 1, Kinrara Golf Club
Jalan Kinrara 6, Bandar Kinrara
47100 Puchong, Selangor Darul Ehsan

Date : Monday, 18 June 2007

Time : 8.30 a.m.

Interpretation

Approved Market Place

A stock exchange which is specified to be an approved market place in the Securities Industry (Central Depositories) (Exemption) (No. 2) Order, 1998.

30. Transfer of securities. The transfer of any securities or class of securities of the Company shall be by way of book entry by the Bursa Depository in accordance with the Rules of the Bursa Depository and, notwithstanding sections 103 and 104 of the Act, and any exemption that may be made from compliance with subsection 107C(1) of the Act, the Company shall be precluded from registering and effecting any transfer of such Securities.

34. Suspension of registration. The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine, provided always that such registration shall not be suspended for more than thirty (30) days in any year. The Company shall give Bursa Securities prior written notice and publication in a daily newspaper circulating in Malaysia of the period of the intended suspension or closure and the purposes thereof, which notice shall be at least twelve (12) market days or such number of days as may be prescribed by Bursa Securities. In relation to the closure, the Company shall give written notice, in accordance with the Rules, to the Bursa Depository to prepare the appropriate Record of Depositors.

55(1) Notice of meeting.

(b) (except in respect of an adjourned meeting adjourned for less than thirty (30) days) be given by advertisement in at least one (1) national daily newspaper published in Malaysia; and

55(3) The Company shall also request the Bursa Depository in accordance with the Rules, to issue a Record of Depositors as at a date not less than three (3) market days before the General Meeting (hereinafter referred to as “the General Meeting Record of Depositors”).

Interpretation

Approved Market Place

A stock exchange which is specified to be an approved market place **pursuant to an exemption Order made under Section 62A of the Securities Industry (Central Depositories) Act 1991.**

30. Transfer of securities. The transfer of any securities or class of securities of the Company shall be by way of book entry by the Bursa Depository in accordance with the Rules of the Bursa Depository and, notwithstanding sections 103 and 104 of the Act, **but subject to Subsection 107C(2) of the Act** and any exemption that may be made from compliance with subsection 107C(1) of the Act, the Company shall be precluded from registering and effecting any transfer of such Securities.

34. Suspension of registration. The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine, provided always that such registration shall not be suspended for more than thirty (30) days in any year. The Company shall give Bursa Securities prior written notice and publication in a daily newspaper circulating in Malaysia of the period of the intended suspension or closure and the purposes thereof, which notice shall be at least ten (10) market days or such number of days as may be prescribed by Bursa Securities **from time to time.** In relation to the closure, the Company shall give written notice, in accordance with the Rules, to the Bursa Depository to prepare the appropriate Record of Depositors.

55(1) Notice of meeting.

(b) (except in respect of an adjourned meeting adjourned for less than thirty (30) days) be given by advertisement in at least one (1) **nationally circulated Bahasa Malaysia or English** daily newspaper published in Malaysia; and

55(3) The Company shall also request the Bursa Depository in accordance with the Rules, to issue a Record of Depositors as at **the latest date which is reasonably practicable which shall in any event be** not less than three (3) market days before the General Meeting (hereinafter referred to as “the General Meeting Record of Depositors”).

89. Office of Directors vacated in certain cases.

The office of Director shall become vacant if the Director:-

- (a) ceases to be a Director by virtue of the Act;
- (b) becomes bankrupt or makes any arrangement or composition with its creditors generally;
- (c) becomes prohibited from being a Director by reason of any order made under the Act;
- (d) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental disorder;
- (e) resigns his office by notice in writing to the Company;
- (f) is absent from more than 50% of the total Board of Directors' meetings held during a financial year;
- (g) without the consent of the Company in General Meeting holds any other office of profit under the Company except that of Managing Director or Manager;
- (h) is directly or indirectly interested in any contract or proposed contract with the Company and fails to declare the nature of his interest in the manner required by the Act.

98. Appointment of Alternate Directors . Any Director with the approval of the majority of other co-Directors may appoint any person (whether a Member of the Company or not) to be an Alternate Director in his place during such period as he thinks fit. Any person while he so holds office as an Alternate Director shall be entitled to receive notices of all meetings of the Directors and to attend and vote thereat accordingly, and to exercise all the powers of the appointer in his place. An Alternate Director shall not require any share qualification, and shall ipso facto vacate office if the appointer vacates office as a Director or removes the appointee from office. Any appointment or removal under this regulation shall be effected by notice in writing under the hand of the Director making the same.

89. Office of Directors vacated in certain cases.

The office of Director shall become vacant if the Director, **during his term of office:-**

- (a) ceases to be a Director by virtue of the Act;
- (b) becomes bankrupt or makes any arrangement or composition with its creditors generally;
- (c) becomes prohibited from being a Director by reason of any order made under the Act;
- (d) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental disorder;
- (e) resigns his office by notice in writing to the Company;

deleted

- (f) without the consent of the Company in General Meeting holds any other office of profit under the Company except that of Managing Director or Manager;
- (g) is directly or indirectly interested in any contract or proposed contract with the Company and fails to declare the nature of his interest in the manner required by the Act.

98. Appointment of Alternate Directors . Any Director with the approval of the majority of other co-Directors may appoint any person (whether a Member of the Company or not) to **act as his** Alternate Director in his place during such period as he thinks fit. Any person while he so holds office as an Alternate Director shall be entitled to receive notices of all meetings of the Directors and to attend and vote thereat accordingly, and to exercise all the powers of the appointer in his place. An Alternate Director shall not require any share qualification, and shall ipso facto vacate office if the appointer vacates office as a Director or removes the appointee from office. Any appointment or removal under this regulation shall be effected by notice in writing under the hand of the Director making the same.



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Third Annual General Meeting

I/We, _____
of _____
being a member/members of **TEX CYCLE TECHNOLOGY (M) BERHAD** hereby appoint* the Chairman of the meeting
or _____
of _____
or failing whom _____
of _____
as my/our Proxy(ies) to vote for me/us and on my/our behalf at the Third Annual General Meeting of the Company to be held at 8.30 a.m. on 18 June 2007 at the Kinrara 1, Level 1, Kinrara Golf Club, Jalan Kinrara 6, Bandar Kinrara, 47100 Puchong, Selangor Darul Ehsan and at any adjournment thereof.

*My/*Our proxy(ies) is/are to vote as indicated below:-

| | Resolutions | For | Against |
|--------------------------|--|--|---------|
| ORDINARY BUSINESS | | | |
| 1. | To receive the Audited Financial Statements for the year ended 31 December 2006 together with the Directors' and Auditors' Reports thereon. | <i>Ordinary Resolution 1</i> | |
| 2. | To declare a First and Final Dividend of 0.5 sen per share less 27% Income Tax in respect of the financial year ended 31 December 2006. | <i>Ordinary Resolution 2</i> | |
| 3. | To approve the payment of Directors' fees for the year ended 31 December 2006. | <i>Ordinary Resolution 3</i> | |
| 4. | To re-elect the following Directors who are retiring under Article 80 of the Company's Articles of Association:- a) Mr. Ho Siew Cheong b) General (R) Dato' Seri Che Md Noor B. Mat Arshad | <i>Ordinary Resolution 4</i> <i>Ordinary Resolution 5</i> | |
| 5. | To re-elect Mr. Ravindran A/L Markandu, the Director who is retiring under Article 85 of the Company's Article Association. | <i>Ordinary Resolution 6</i> | |
| 6. | To re-elect Lt. Gen. (R) Dato' Jaffar Bin Mohamed, the Director who is retiring under Section 129(2) of the Companies Act, 1965. | <i>Ordinary Resolution 7</i> | |
| 7. | To re-appoint Messrs. Deloitte & Touche as the Company's Auditors and to authorise the Board of Directors to fix their remuneration. | <i>Ordinary Resolution 8</i> | |
| SPECIAL BUSINESS | | | |
| 8. | (i) Authority to Directors to allot and issue shares pursuant to Section 132D of the Companies Act, 1965. | <i>Ordinary Resolution 9</i> | |
| | (ii) Amendments to Articles of Association | <i>Ordinary Resolution 10</i> | |

[Please indicate with (X) how you wish your vote to be casted. If no specific direction as to voting is given, the proxy will vote or abstain at his/her discretion]

| |
|----------------------------------|
| Number of ordinary shares held : |
| |

Dated thisday of.....2007

Signature/Common Seal of Shareholder(s)

[* Delete if not applicable]

Notes:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint proxy/proxies, to attend and vote instead of him. A proxy may but need not be a member of the Company, and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
2. Where a member appoints two (2) or more proxies, the appointments shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notorially certified copy of that power or authority shall be deposited at the Company Secretary's Office at Strategy Corporate Secretariat Sdn Bhd, Unit 07-02, Level 7, Menara Luxor, 6B Persiaran Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

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STAMP

The Company Secretary

TEX CYCLE TECHNOLOGY (M) BERHAD (642619-P)
Unit 07-02, Level 7, Menara Luxor
6B Persiaran Tropicana
47410 Petaling Jaya
Selangor Darul Ehsan

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