



Palette Multimedia Berhad
(420056-K)

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CORPORATE INFORMATION

Palette
MULTIMEDIA BERHAD

BOARD OF DIRECTORS :	Eg Kah Yee (Managing Director) Sukhdev Singh A/L Banta Singh (Executive Director) Eg Kaa Chee (Non-Independent & Non-Executive Director) Abdul Razak Bin Dato' Haji Ipap (Independent Non-Executive Director) Chuan Wee Tze (Independent Non-Executive Director) (Resigned on 18 December 2006) Thong Kooi Pin (Independent Non-Executive Director) (Appointed on 18 December 2006)
COMPANY SECRETARIES :	Ng Yen Hoong (LS 008016) Loo Choon Keow (MAICSA NO. 7039252)
REGISTERED OFFICE :	Level 14, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan. Tel : 03-7725 2888 Fax : 03-7725 7791
PRINCIPAL PLACE OF BUSINESS :	Level 10, Menara Luxor, 6B Persiaran Tropicana, Tropicana Golf & Country Resort, 47410 Petaling Jaya, Selangor Darul Ehsan. Tel : 03-7806 1399 Fax : 03-7806 2599
AUDITOR :	Cheng & Co. (AF 0886) Chartered Accountants 18-2, Jalan 2/114, Kuchai Business Centre, Off Jalan Klang Lama, 58200 Kuala Lumpur. Tel : 03-7984 8988 Fax : 03-7984 4402
R&D OFFICE :	F05, 1st Floor, Block 1, Century Square, Cyberjaya.
REGISTRAR :	PFA Registration Services Sdn Bhd (19234-W) Level 13, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan. Tel : 03-7725 4888 Fax : 03-7722 2311
PRINCIPAL BANKERS :	Public Bank Bhd (6463-H) HSBC Bank Malaysia Bhd (127776-V)
STOCK EXCHANGE LISTING :	Bursa Malaysia Securities Berhad MESDAQ Market (Stock code : 0005)
CORPORATE WEBSITE :	www.palettemm.com

BOARD OF DIRECTORS

MR. EG KAH YEE
Managing Director

Mr. Eg Kah Yee, aged 47, is the founder, Chairman, Managing Director, Chief Executive Officer and Chief Technical Officer of Palette Multimedia Bhd. He obtained his Bachelor of Computer Science from West Virginia University, USA in 1983. He started his career as System Analyst with Phoenix Data Systems Inc., a Silicon Valley company in Santa Clara, California USA, where he developed VLSI Layout Verification System. In 1985, he joined Daisy Systems Corporation; a Silicon Valley company listed on NASDAQ based in Mountain View, California which he was the R&D Project Manager responsible for the development of second generation Digital Logic Simulator (DLSII) where he designed and implemented the simulation engine and DBMS. In 1988, he was promoted to be the Director of North Asia Region responsible for business in China, Hong Kong, Taiwan and Korea.

In 1990, he left Daisy Systems Corporation and joined Synopsys Inc., a Silicon Valley based startup pioneer in logic synthesis and High Level Design for ASIC and VLSI design. He started as the Regional Manager for South Asia Pacific Operations where he was responsible for the starting and growing of the business in Taiwan, Asean countries, India, Australia and New Zealand. The Company was listed on NASDAQ in 1992. He was later promoted to be the General Manager for Asia Pacific Operation where he was responsible for global business operation excluding America, Europe and Japan.

In 1996, he left Synopsys Inc. and started to invest and groom companies. He started Canvas Technology Inc. in Taiwan, a company specialize in Real Time Operating System (RTOS) for embedded designs where the team has done numerous co-development of set-top-boxes, networking products, PDA and defense systems. He has also invested in Silicon Vision Inc., a Silicon Valley company specialize in optical products, in Fremont, California together with two Venture Capitalists from Taiwan and a few high net-worth individuals from USA.

Presently, he is also an advisor for VC Partner, Inc. California, a venture capitalist and business consulting company. As a business advisor, his role is to provide business advise to the CEO of the VC Partner, Inc. for their Asian business on a part-time basis. Due to his contribution to Institute of Microelectronic of Tsin Hua University, Beijing, a top university in China, he was made an honorable Alumni of the University.

MR. EG KAA CHEE
Non-Independent & Non-Executive Director

Mr. Eg Kaa Chee, aged 43, was appointed as the Director of Palette Multimedia Bhd since 1997. He obtained his LLB from University of Malaya in 1989. He started his legal practice in 1990. He specialized in litigation and conveyancing. He is the senior partner of Rajah Lau & Associates. Presently he is the Legal Advisor for MCA Kepong Division, Persatuan Wu Malaysia, Koh Chow Association Malaysia, numerous companies and non-governmental organizations.

BOARD OF DIRECTORS

ABDUL RAZAK BIN DATO' HJ. IPAP
Independent Non-Executive Director

En. Abdul Razak bin Dato' Hj. Ipap, aged 47, was appointed as the Director of Palette Multimedia Bhd on 1 June 2001. He graduated with Bachelor of Science in Agribusiness from Universiti Pertanian Malaysia (currently known as Universiti Putra Malaysia) in 1988. He started his career by joining Shell Chemical Sdn Bhd as Trainee Executive in year 1986, responsible for sales development for the Company. In 1988, he joined United Engineers (M) Bhd as Business Development Executive where he was responsible for developing new sales and managing the existing project portfolio. From 1993 to 1995, he was attached to Sime Logistics Sdn Bhd as Manager in Operations and Marketing. In 1995, he joined Celcom (M) Sdn Bhd as Senior Manager (Logistics) responsible for the smooth flowing of the entire company's logistic and was subsequently promoted as the Vice President Logistics. He left Celcom in Year 2000 to start off his own career in IT business.

SUKHDEV SINGH A/L BANTA SINGH
Executive Director

Mr. Sukhdev Singh, aged 51, was appointed as the Executive Director of Palette Multimedia Bhd on 29 May 2006. He obtained his Bachelor of Computer Science from London in 1982. He started his career as a System Analyst and subsequently Project Manager for ICL, being involved in a variety of technical and project areas. He subsequently joined Hewlett Packard Singapore as a Network consultant covering Asia Pacific. Later on moving to other roles involving systems integration and finally heading HP's server marketing for Asean. He then joined Intel Asia Pacific in 1994, heading up Intel's distribution business in South Asia as the Regional Manager for South Asia. Subsequent to that he was involved in one of Asia's leading IT distribution companies for a number of years. He joined Palette Multimedia as General Manager based in Singapore in 2002. His core interests and speciality lie in the area of computer network design and security and he retains a direct involvement in some of the leading technologies in this sphere.

MR. THONG KOOI PIN
Independent Non-Executive Director

Mr. Thong Kooi Pin, aged 35, was appointed as the Independent Non-Executive Director of Palette Multimedia Bhd on 18 December 2006. He graduated with a professional degree in ACCA (Association of Chartered Certified Accountant) in 1998 and admitted as member of Malaysian Institute of Accountants as Chartered Accountant in year 2000. He further obtained his Master degree in business administration majoring in finance in year 2005 from Universiti Putra Malaysia. He also sits on the Board of M-Mode Berhad as the Executive Director since September 2005.

Eg Kah Yee and Eg Kaa Chee are brothers.

The directors do not have directorship in other public listed companies in Malaysia except as disclosed for Thong Kooi Pin.

CHAIRMAN'S STATEMENT

Dear shareholders,

I am pleased as the Chairman of Palette Multimedia Berhad to present the Annual Report and the Audited Financial Statements of the Group and the Company for the year ended 31 December 2006.

FINANCIAL & OPERATIONAL PERFORMANCE

The Group has posted a profit of RM 1.9 million as compared to a loss of RM 2.76 million over last year. The profits were mainly due to higher revenue and gross margin achieved in financial year ("FYE") 2006 as compared to FYE2005. I am pleased that the Group was able to achieve higher gross margin as a result of effort by the team in delivering high value added services in deploying wireless products and the confidence that our customers have on us as one of the best wireless infrastructure company in the region.

On the overseas forefront, The Group has expanded in providing its wireless services to ASEAN countries including Indonesia, Brunei, Thailand, Singapore and Vietnam. It has also expanded business to Middle East countries. For FYE2006, the contribution of the overseas revenue totaled to RM 16.3 million or 91%.

INDUSTRY OUTLOOK AND DEVELOPMENT

The trend towards high speed wireless broadband access continues to accelerate throughout the region. Malaysia witnessed the award of 4 new licenses for WiMAX in the 2.3 Ghz spectrum, adding to the existing players in the 2.5Ghz spectrum. This rollout will commence in the later half of 2007 and offers significant opportunities for WiMAX solution suppliers such as Palette Multimedia. Similar rollouts in ASEAN countries such as Indonesia will start within this year and are also slated to happen in India, Sri Lanka etc.

Another growth area will be the growing deployment of municipal surveillance systems. These are proven to be useful in combating crime and several major cities in Malaysia will rollout such systems with the most visible success so far being in Johor Baru (implemented by Palette Multimedia). In addition the allocation of the 4.9 Ghz band for security usage (Police & emergency services) will commence in 2007.

The focus on the VoIP market is shifting to VoIP over Wi-Fi especially for corporate customers with multi site offices. This is a solution centric space requiring significant development and integration capability and gives obvious and quick ROI to successful implementations. As the prevalence of dual mode GSM & Wi-Fi phones increases this will become the norm, eating away at the traditional PABX market. Another associated growth area is the provision of security and access control for such networks as the convergence of voice and data on the same corporate network infrastructure market it totally mission critical.

PROSPECTS

I am confident that the Group expects sales to grow in tandem with the growth in the wireless market in 2007. There are more wireless applications such as wireless surveillance, which are being adopted by customers and there will be more wireless applications gradually being adopted in the future. The Group is expanding its product into Voice over Wi-Fi ("Wireless Fidelity") ("VoWi-Fi") in the enterprise market and the adoption of VoWi-Fi by the enterprises will have significant influence over the growth of the Group. The Group is well positioned to capitalise on the market with the expertise and customer base that the Group has built up over the years.

Along with the wireless market, the Group is also focusing on the associated area of wireless security and has completed several research and development ("R&D") projects in this area, namely the release of Mobilette 4.0 Network access control system and the AMG II network access gateway.

These products, together with PMB's depth in wireless and Voice Over Internet Protocol ("VoIP") design, I believe this will position the Group very well to take advantage of the seismic shift happening in the enterprise voice market, with the ability to architect and supply solutions both to enterprises as well as to internet service providers ("ISP") and telecommunication companies serving such enterprise customers.

RESEARCH & DEVELOPMENT

In the aspect of R&D activities, focus has been given to VoIP over Wi-Fi and the proprietary Mobilette software. Mobilette 5.0 will expect to be deployed this year with the introduction of additional features for VoIP functions that targeted at all level of corporate users.

Apart from the Mobilette software, at the time of writing this statement, the Group has also commenced the R&D on AMG II network access gateway and bandwidth manager and it is expected to be marketed in year 2007.

APPRECIATION

I wish to record my sincere appreciation to all the members of the Board of Directors, valuable employees, our indispensable business partners and associates, for their effort, contribution and their continuous support to the Company.

Thank you,

EG KAH YEE
Chairman

CORPORATE GOVERNANCE STATEMENT

THE BOARD OF DIRECTORS

The Board of Directors is committed to ensuring that the highest standards of corporate governance are practiced throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of the Group.

The Board of Directors confirmed that the Group has complied with the best practices in corporate governance throughout the year ended 31 December 2006.

During the year ended 31 December 2006, four (4) Board meetings were held and attendance record are as follows:-

	Meetings Attended
Eg Kah Yee	4/4
Eg Kaa Chee	4/4
Abdul Razak Bin Dato' Hj. Ipap	4/4
Chuan Wee Tze	4/4
Sukhdev Singh A/L Banta Singh	3/4

BOARD BALANCE & COMPOSITION

The Board members of Palette come from diverse backgrounds ranging from business, marketing, legal and technical knowledge. This brings diversity and insightful depth to company leadership and management for the business.

The Board is made up of five (5) members as follows:-

- Two (2) Executive Directors
- Two (2) Independent, Non-Executive Director
- One (1) Non-Independent Non-Executive Director

The Board is satisfied that the current composition fairly reflects the investment of the shareholders and a balanced view of the Group's business.

BOARD RESPONSIBILITIES

The Board is responsible for the following:-

- Reviewing and adopting a strategic plan for the Group.
- Identifying risks and assuming an active role in ensuring implementation of appropriate systems to manage or mitigate risks;
- Review and approval of corporate plan, annual budget, quarterly and annual results, acquisitions and disposal of undertakings and properties of substantial value, major investments and financial decision;
- Succession planning;
- The protection and enhancement of long-term shareholders' value and interest of the stakeholders; and
- Reviewing the adequacy and the integrity of the Group's internal control systems and management information systems, including system for compliance with applicable laws, regulations, rules, directives and guidelines.

CORPORATE GOVERNANCE STATEMENT

SUPPLY OF INFORMATION

All Directors are provided with notices of meetings, setting out the agenda accompanied by a full set of Board Papers in sufficient time before each meeting to enable the Directors to have sufficient time to study them and be properly prepared for discussion and decision making. Minutes of Board meetings are maintained.

All directors of the Company whether in full Board or in their individual capacity, have accessed to all information within the Company and to seek independent professional advice where necessary and in appropriate circumstances, in furtherance of their duties.

The Directors have accessed to the advice and services of the Company Secretary who is responsible for ensuring the Board meeting procedures are followed and that applicable rules and regulations are complied with.

APPOINTMENTS TO THE BOARD AND RE-ELECTION

Each director must retire from office at least once in every three years and can offer himself 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 appointment.

DIRECTORS' TRAINING

The newly appointed directors, Mr. Sukhdev Singh A/L Banta Singh and Mr. Thong Kooi Pin have completed the Mandatory Accreditation Programme prescribed by the Bursa Malaysia Securities Berhad. The Directors will continue to undergo other relevant training programme as appropriate, to further enhance their skills and knowledge.

DIRECTORS' REMUNERATION

Directors' remuneration is evaluated by the Board. The Board has not set up a Remuneration Committee as the Board, as a whole, determines the remuneration of the Directors.

The aggregate remunerations of Directors for the financial year were categorised as follows:

	Basic Salary RM' 000	Fees RM' 000	Benefits- in-kind RM' 000	Total 2006 RM' 000	Total 2005 RM' 000
Executive	106.0	-	-	106.0	60.0
Non-Executives	-	18.0	-	18.0	22.5
	106.0	18.0	-	124.0	82.5

Number of Directors whose remuneration falls within the following bands are set-out below :-

Band of remuneration	Executive Directors	Non-Executive Directors
RM50,000 and below	-	4
RM50,0001 - RM100,000	2	-

CORPORATE GOVERNANCE STATEMENT

RELATIONSHIP WITH SHAREHOLDERS AND INVESTORS

The Board acknowledges the need for shareholders to be informed of all material business matters of the Company. The Annual General Meeting is the principal forum for dialogue with individual and institutional investors. At these meetings, the Chairman presents the progress and performance of the business and shareholders are given the opportunity to ask questions about the resolutions being proposed.

CONFLICTS OF INTEREST

To date, there has not been any conflict of interest exists between any of the directors and the Company. None of the director has been convicted of any offence in the past 14 years.

ACCOUNTABILITY AND AUDIT

(i) Financial Reporting and Statement of Director's Responsibilities in Financial Reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Group. The Audit Committee assists the Board in reviewing the quarterly report to Bursa Malaysia Securities Berhad and the Annual Report to shareholders to ensure its accuracy, adequacy and completeness.

A Statement on Directors' Responsibilities in preparing the Financial Statements is set out on page 9 of this Annual Report.

(ii) Internal Control

The Board acknowledges its responsibility for the Group's systems of internal controls and risk management and for reviewing the effectiveness of those systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. Any system can only provide a reasonable but not absolute assurance against material misstatement, loss or fraud.

The Statement on Internal Control, which provides an overview of the state of internal control within the Group is set out on page 13 of this Annual Report.

(iii) Relationship with Auditors

The Company through the Audit Committee has an appropriate and transparent relationship with its External Auditors.

CORPORATE GOVERNANCE STATEMENT

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

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

In preparing the financial statements, the Directors have:-

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that are reasonable and prudent;
- Ensured that all applicable accounting standards have been followed; and
- Prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Group and Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group to prevent and detect fraud and other irregularities.

ADDITIONAL DISCLOSURES AS REQUIRED UNDER THE LISTING REQUIREMENTS OF BURSA SECURITIES FOR THE MESDAQ MARKET

(a) Share Buy-backs

The Company did not carry out any share buybacks for the financial year under review.

(b) Options, Warrants or Convertible Securities

There were no options, warrants or convertible securities exercised during the financial year.

(c) Depository Receipt (DR)

During the financial year, the Company did not sponsor any DR Programme.

(d) Imposition of Sanctions and/or Penalty

There was no sanction and/or penalty imposed on the Company and its subsidiaries involving Directors or management by the relevant regulatory bodies during the financial year.

(e) Non-Audit Fees

The Company did not pay any amount of non-audit fees to external auditors or company affiliated to the auditors' firm for the financial year.

(f) Variation in Results

There were no deviation of 10% or more between the profit after taxation stated in the unaudited fourth quarter ended December 31, 2006 as announced and the audited financial statements of the Group for the financial year ended December 31, 2006.

CORPORATE GOVERNANCE STATEMENT

ADDITIONAL DISCLOSURES AS REQUIRED UNDER THE LISTING REQUIREMENTS OF BURSA SECURITIES FOR THE MESDAQ MARKET (CONT'D)

(g) Profit Forecast/Profit Guarantee

The Company did not provide any profit forecast/guarantee in any public documents during the financial year.

(h) Material Contracts

There were none other than disclosure in the account.

(i) Recurrent Related Party Transaction Statement

Name of Related Party	Nature of Transaction	Nature of Relationship	Amount of Transaction
Palette Computer Sdn Bhd ("PCSB")	Selling networking infrastructure components and services to PCSB by the Palette Group	Abdul Razak Bin Dato' Haji Ipap is a Non-Executive Director of Palette. He is also a Director and a shareholder of PCSB.	Aggregate value amounting to approximately RM0.706 million from June 30, 2006 to May 23, 2007

The above RRPT is not subject to the approval of the Company's shareholders.

However, the Company will seek the approval of its shareholders at the forthcoming Extraordinary General Meeting ("EGM") (the circular and notice to shareholders will be sent to the shareholders of Palette in due course) for the Group to enter into future RRPT with PCSB in view that the estimated value of RRPT will exceed five (5) percent of the percentage ratios under Rule 10.08 of the Listing Requirements.

(j) Corporate Social Responsibility Activities or Practices

The Company did not undertake any corporate social responsibility activities or practices during the financial year under review.

COMPOSITION AND DESIGNATION OF AUDIT COMMITTEE

1. Abdul Razak Bin Dato' Haji Ipap (Chairman to the Audit Committee)
(Independent Non-Executive Director)
2. Eg Kaa Chee
(Non-Independent & Non-Executive Director)
3. Chuan Wee Tze
(Independent Non-Executive Director) (Resigned on December 18, 2006)
4. Thong Kooi Pin
(Independent Non-Executive Director) (Appointed on December 18, 2006)

AUDIT COMMITTEE REPORT

TERM OF REFERENCE OF THE AUDIT COMMITTEE

MEMBERSHIP

The Audit Committee shall be appointed by the Board of Directors from among their number and shall be comprised of not fewer than 3 members of whom a majority shall be Independent Non-Executive Directors. A quorum shall be 2 members.

The members of the Audit Committee shall elect a chairman from among their member who is not an executive director or employees of the Company or any related corporation. The chairman elected shall be subjected to endorsement by the Board.

If a member of the Audit Committee resigns, dies or for any reason ceases to be a member with the results that the number is reduced below 3, the Board of Directors shall, within 3 months of that event, appoint such number of new members as may be required to make up the minimum number of 3 members.

NOTICE OF MEETING AND ATTENDANCE

The agenda for Audit Committee meetings shall be circulated before each meeting to members of the Committee. The Committee may require the external auditors and any official of the Company to attend any of its meetings as it determined. The external auditors shall have the right to appear and be heard at any meetings of the Audit Committee and shall appear before the Committee when required to do by the Committee.

The Company Secretary of the Company shall be the Secretary of the Committee.

There were four Audit Committee meetings held during the financial year ended 31 December 2006 and the attendance record are as follows:-

	Meetings attended
Abdul Razak Bin Dato' Hj Ipap	4/4
Eg Kaa Chee	4/4
Chuan Wee Tze	4/4

AUDIT COMMITTEE

AUTHORITY

The Audit Committee is authorized to investigate any activity of the Company within its terms of reference and all employees shall be directed to co-operate with any request made by the Committee. The Committee shall be empowered to retain persons having special competence as necessary to assist the Committee in fulfilling its responsibilities.

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Audit Committee shall be:-

- to consider the appointment of the external auditors, the audit fees and any question of resignation or dismissal;
- to oversee all matters pertaining to audit including the review of the audit plan and report;
- to discuss problems and reservations arising from the interim and final results, and any matters the external auditors may wish to discuss (in absence of management where necessary);
- to keep under review the effectiveness of internal control systems, and in particular review the external auditors management letter and management's response;
- to review all transactions between the Company and its related company and disclosure on possible conflict of interest in the Company's annual reports with the Audit Committee commenting on all related transactions; and
- to consider other matters, act upon the Board of Directors request to investigate and report on any issues or concerns in regard to management of the Group, as defined.

Employees' Share Option Scheme (ESOS)

The ESOS or Option Committee was established on 3 January 2006 following the implementation of the ESOS. Members of the Option Committee comprise of :-

Eg Kah Yee	Chairman/ Managing Director
Sukhdev Singh A/L Banta Singh	Executive Director
Abdul Razak Bin Dato' Haji Ipap	Independent Non-Executive Director

The objectives of the Option Committee are to :

- assist the Board of the Company in discharging its responsibilities relating to the implementation of the ESOS in accordance with the relevant laws and regulations including the By-Law.
- carry out functions relating to the ESOS assigned by the Board of the Company.
- oversees the Management's implementation of the Scheme with regard to the eligibility of employees participate in ESOS, offer date, basis of allotment and option allocations after taking into considerations the performance, number of years of service and the employees' contribution to the Group.

The audit committee has reviewed and verified that the allocation of share option pursuant to the ESOS for the year ended 31 December 2006 was made in accordance with the criteria set out in the By-Law of ESOS. There was no options granted to the Non-Executive Directors. There was no options exercised under the ESOS during the financial year ended 31 December 2006.

One (1) meeting was held during the financial year ended 31 December 2006 with full attendance from all the Option Committee members.

INTERNAL AUDIT FUNCTIONS

Currently, the Group does not maintain an Internal Audit Department as the economic scale of the Group is still relatively small. However, periodical audits were carried out by the head quarter based on the internal audit program covering all the units and branches operations.

The audit report findings will be forwarded to Audit Committee for approval together with any recommendation to address the weaknesses found.

A number of minor internal control weaknesses were identified during the year, all of which have been, or are being addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's annual report.

INTERNAL CONTROL STATEMENT

RESPONSIBILITY

The Board of Directors recognizes the importance of sound internal controls and risk management practices to good corporate governance. The Board affirms its overall responsibility for the Group's systems of internal controls and risk management, and for reviewing the adequacy and integrity of those systems. However, such systems are designed to manage rather than eliminate the business risk totally. It should be noted that any system could provide only reasonable, and not absolute assurance against material misstatement or fraud.

The Group has in place an on-going process to identify, evaluate, monitor and manage any significant risks through the internal controls set out in order to attain a reasonable assurance that business objective has been met. These controls are regularly reviewed by the Board and subject to continuous improvement.

RISK MANAGEMENT FRAMEWORK & ASSESSMENT

The Board has established an organization with clearly defined lines of accountability and delegated authority.

A risk analysis of the Group is conducted on quarterly basis and necessary measures being put up to assess and monitor the impacts on the operation and business. The audit program is being continuously updated at least once a year to accommodate changes in the assessment of risk to ensure that proper direction and focus of the business process is not interrupted.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

The other key elements of the Group's internal control systems are described below:

- Monthly monitoring of results against budget, with major variances being follow up and management action taken, where necessary;
- Regular and comprehensive information provided to management, covering financial performance and key business indicators, such as staff utilization and operations efficiency;
- Regular visits to operating branches by the member of the Board and senior management; and
- Quarterly performance meeting with all key personnel of the operating branches to address weaknesses found and improve efficiency.



DIRECTORS' REPORT

The directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Company is principally involved in investment holding and design, development and marketing of information technology related products and services. The principal activities of the subsidiaries are set out in Note 5 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group RM	Company RM
Profit for the year :-		
Attributable to equity holders of the Company	1,724,703	2,709,142
Attributable to minority interests	<u>(1,729)</u>	<u>-</u>
	<u>1,722,974</u>	<u>2,709,142</u>

DIVIDEND

No dividend was paid or declared during the financial year and the directors do not recommend any dividend to be paid for the financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year except as disclosed in the financial statements.

ISSUE OF SHARES AND DEBENTURES

During the financial year,

- there were no changes in authorised capital of the Company;
- there were no changes in issued and paid-up capital of the Company; and
- there were no issue of debentures by the Company.

EMPLOYEE SHARE OPTION SCHEME

The Company implemented an ESOS on April 7, 2004 for a period of 10 years. The ESOS is governed by the by-laws which were approved by the shareholders.

Details of ESOS are set out in Note 26 (iii) to the financial statements.

The name of the option holders and the number of options granted to them during the year, are set out below :-

Name of Option holders	At	Granted	Exercised	At
	1.1.2006			31.12.2006
Charles Chin Shen En	100,000	-	-	100,000
Cheng Teck Ee	100,000	-	-	100,000
Daniel Chew Khoh Jin	100,000	-	-	100,000
Hee Tai Wui	200,000	-	-	200,000
Liew Wai Han	100,000	-	-	100,000
Mohd Naa'im B. Saad	50,000	-	-	50,000
Mohd Zambri Bin Ismail	30,000	-	-	30,000
Naveen Kumar Alaparathi	80,000	-	-	80,000
Norhasshila A. Rahim	50,000	-	-	50,000
Rahimi Binti Burhanudin	40,000	-	-	40,000
Richard Liew Vun Loong	50,000	-	-	50,000
Ng Geok Lui	1,500,000	-	-	1,500,000
Samrat Harishankar Barari	100,000	-	-	100,000
Wong Fui Fong	30,000	-	-	30,000
Yong Siew Mee	50,000	-	-	50,000
See Lee Ming	1,400,000	-	-	1,400,000
Balasubramanyam Chamarahalli Ranganathan	100,000	-	-	100,000
Lee Man Soon	500,000	-	-	500,000
Sukhdev Singh A/L Banta Singh	1,000,000	-	-	1,000,000
Eg Kah Yee	2,430,000	-	-	2,430,000
Eg Kaa Chee	200,000	-	-	200,000

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances that would further require the writing off of bad debts, or additional allowance for doubtful debts in the financial statements of the Group and of the Company.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

CURRENT ASSETS

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, including their value as shown in the accounting records of the Group and of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances that would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

CONTINGENT AND OTHER LIABILITIES

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

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

No contingent liability or other liability of the Group and of the Company has become enforceable or is likely to become enforceable within the period of twelve (12) 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 its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company, which would render any amounts stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

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

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group and of the Company for the financial year.

DIRECTORS

The directors who served since the date of the last report are as follows :-

Eg Kah Yee	
Eg Kaa Chee	
Abdul Razak Bin Dato' Haji Ipap	
Chuan Wee Tze	(Resigned on 18.12.2006)
Sukhdev Singh A/L Banta Singh	(Appointed on 29.05.2006)
Thong Kooi Pin	(Appointed on 18.12.2006)

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year are as follows:-

Number of ordinary shares of RM0.25 each in Palette Multimedia Berhad

		At 1.1.2006	Bought	Sold	At 31.12.2006
Eg Kah Yee	- Direct interest	50,134,921	-	1,500,000	48,634,921
	- Indirect interest (1)	767,179	-	-	767,179
Eg Kaa Chee	- Direct interest	477,401	-	-	477,401
	- Indirect interest (2)	50,134,921	-	1,500,000	48,634,921

- (1) Deemed interest through his substantial shareholding in Digital Season Sdn. Bhd. and by virtue of his brother Eg Kaa Chee's shareholding.
 (2) Deemed interest through his brother, Eg Kah Yee's shareholding.

By virtue of their interests in the Company, Eg Kah Yee and Eg Kaa Chee are deemed to have interests in shares in the subsidiaries to the extent of the Company interest, in accordance with Section 6A of the Companies Act, 1965.

None of the other directors holding office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements, or the fixed salary of a full-time employee 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 the director is a member, or with a company in which the director has a substantial financial interest except for any benefits which may be deemed to arise from transactions entered into the ordinary course of business with companies in which certain directors have substantial financial interests as disclosed in Note 23 to the financial statements.

Neither during nor at the end of the financial year was the Group or the Company a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SIGNIFICANT EVENTS

The significant events involving the Group and the Company during the financial year are disclosed in Note 26 to the financial statements.

AUDITORS

The auditors, Cheng & Co., have expressed their willingness to continue in office.

SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS

EG KAH YEE
Director

**ABDUL RAZAK BIN
DATO' HAJI IPAP**
Director

Kuala Lumpur
Date: 27 April 2007

BALANCE SHEETS

AS AT DECEMBER 31, 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
NON-CURRENT ASSETS					
Property, plant and equipment	4	178,645	411,364	129,003	196,436
Investment in subsidiaries	5	-	-	2,561,387	2,561,387
Intangible assets	6	20,032,080	19,600,464	19,446,712	19,213,331
Guarantee deposits		7,840	7,700	-	-
Receivables	7	12,944,815	12,944,815	12,944,815	12,944,815
CURRENT ASSETS					
Inventories	8	3,115,429	3,837,574	1,023,971	1,409,342
Trade and other receivables	9	11,371,580	8,970,401	19,038,899	16,073,625
Fixed deposit with licensed banks	10	1,182,947	1,181,304	1,182,947	1,181,304
Cash and bank balances		54,271	36,194	565	565
		<u>15,724,227</u>	<u>14,025,473</u>	<u>21,246,382</u>	<u>18,664,836</u>
LESS: CURRENT LIABILITIES					
Trade and other payables	11	16,129,361	15,871,664	16,818,877	16,544,058
Short term borrowings	12	3,847,336	4,026,347	3,847,336	4,026,347
Provision for taxation		1,300	1,277	-	-
		<u>19,977,997</u>	<u>19,899,288</u>	<u>20,666,213</u>	<u>20,570,405</u>
NET CURRENT (LIABILITIES) / ASSETS		<u>(4,253,770)</u>	<u>(5,873,815)</u>	<u>580,169</u>	<u>(1,905,569)</u>
		<u>28,909,610</u>	<u>27,090,528</u>	<u>35,662,086</u>	<u>33,010,400</u>
Financed by:					
Share capital	13	26,400,000	26,400,000	26,400,000	26,400,000
Share premium	14	4,122,965	4,122,965	4,122,965	4,122,965
Reserves	14	8,868	(144,309)	-	-
Accumulated (losses) / Retained profits	14	(1,805,617)	(3,530,320)	4,976,192	2,267,050
		<u>28,726,216</u>	<u>26,848,336</u>	<u>35,499,157</u>	<u>32,790,015</u>
Minority shareholders' interest	15	20,465	21,807	-	-
Total Equity		<u>28,746,681</u>	<u>26,870,143</u>	<u>35,499,157</u>	<u>32,790,015</u>
LONG TERM AND DEFERRED TAXATION					
Long term borrowings	16	162,929	220,385	162,929	220,385
		<u>28,909,610</u>	<u>27,090,528</u>	<u>35,662,086</u>	<u>33,010,400</u>

See the accompanying notes to the financial statements.

INCOME STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
Revenue	17	17,922,037	5,004,977	17,478,982	4,605,743
Cost of sales		(13,883,597)	(5,268,583)	(13,510,506)	(4,785,553)
Gross profit / (loss)		<u>4,038,440</u>	<u>(263,606)</u>	<u>3,968,476</u>	<u>(179,810)</u>
Other operating income		36,782	48,700	26,672	36,338
Selling and distribution expenses		(97,487)	(208,259)	(47,846)	(126,362)
Administrative and general expenses		(2,086,580)	(2,175,080)	(1,069,979)	(1,240,382)
Profit / (Loss) from operations	18	<u>1,891,155</u>	<u>(2,598,245)</u>	<u>2,877,323</u>	<u>(1,510,216)</u>
Finance costs	19	(168,181)	(156,972)	(168,181)	(156,972)
Profit / (Loss) before taxation		<u>1,722,974</u>	<u>(2,755,217)</u>	<u>2,709,142</u>	<u>(1,667,188)</u>
Taxation	20	-	(288)	-	-
Net profit / (loss) for the financial year		<u><u>1,722,974</u></u>	<u><u>(2,755,505)</u></u>	<u><u>2,709,142</u></u>	<u><u>(1,667,188)</u></u>
Profit / (Loss) attributable to :-					
Equity holders of the parent company		1,724,703	(2,756,559)	2,709,142	(1,667,188)
Minority interest		(1,729)	1,054	-	-
		<u><u>1,722,974</u></u>	<u><u>(2,755,505)</u></u>	<u><u>2,709,142</u></u>	<u><u>(1,667,188)</u></u>
Earnings per share (sen)					
- basic	21	1.6	(2.6)	-	-
- par value of 25 sen per share					
- diluted	21	N/A	N/A	-	-
- par value of 25 sen per share					

See the accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2006

Group	Share	Share	Reserves	Accumulated		Minority	Total
	Capital	Premium		Losses/	Retained		
	RM	RM		Profits	Total		
Balance at January 1, 2005	26,400,000	4,122,965	53,017	(773,761)	29,802,221	22,007	29,824,228
Foreign exchange reserves	-	-	(197,326)	-	(197,326)	(1,254)	(198,580)
Net profit for the financial year	-	-	-	(2,756,559)	(2,756,559)	1,054	(2,755,505)
Balance at December 31, 2005	26,400,000	4,122,965	(144,309)	(3,530,320)	26,848,336	21,807	26,870,143
Foreign exchange difference	-	-	153,177	-	153,177	387	153,564
Net profit for the financial year	-	-	-	1,724,703	1,724,703	(1,729)	1,722,974
Balance at December 31, 2006	26,400,000	4,122,965	8,868	(1,805,617)	28,726,216	20,465	28,746,681

Company	Share	Share	Reserves	Accumulated		Minority	Total
	Capital	Premium		Losses/	Retained		
	RM	RM		Profits	Total		
Balance at January 1, 2005	26,400,000	4,122,965	-	3,934,238	34,457,203	-	34,457,203
Net loss for the financial year	-	-	-	(1,667,188)	(1,667,188)	-	(1,667,188)
Balance at December 31, 2005	26,400,000	4,122,965	-	2,267,050	32,790,015	-	32,790,015
Net profit for the financial year	-	-	-	2,709,142	2,709,142	-	2,709,142
Balance at December 31, 2006	26,400,000	4,122,965	-	4,976,192	35,499,157	-	35,499,157

CASH FLOW STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit / (Loss) before taxation		1,722,974	(2,755,217)	2,709,142	(1,667,188)
Adjustments for:					
Amortisation		75,050	75,050	75,050	75,050
Bad debts written off		-	10,439	-	10,439
Depreciation of property, plant and equipment		237,876	272,513	73,581	95,842
Gain on disposal of property, plant and equipment		-	(2,000)	-	(2,000)
Interest income		(26,672)	(8,348)	(26,672)	(8,348)
Interest expense		168,181	156,972	168,181	156,972
Unrealised gain on foreign exchange		153,448	(198,196)	-	-
Operating profit / (loss) before working capital changes		2,330,857	(2,448,787)	2,999,282	(1,339,233)
Decrease in inventories		722,145	1,116,962	385,371	569,318
(Increase) / Decrease in trade and other receivables		(2,401,179)	(9,925,899)	(2,965,274)	(10,696,940)
Increase / (Decrease) in trade and other payables		257,697	(2,158,606)	274,819	(2,086,420)
Cash generated from / (used in) operations		909,520	(13,416,330)	694,198	(13,553,275)
Interest paid		(168,181)	(156,972)	(168,181)	(156,972)
Taxation paid		-	(288)	-	-
Development cost paid		(505,675)	(606,544)	(308,431)	(375,169)
Net cash generated from / (used in) operating activities		235,664	(14,180,134)	217,586	(14,085,416)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(6,148)	(222,555)	(6,148)	(201,888)
Proceeds from disposal of property, plant and equipment		-	2,000	-	2,000
Interest income received		26,672	8,348	26,672	8,348
Net cash generated from / (used in) investing activities		20,524	(212,207)	20,524	(191,540)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of term loans		(54,342)	(51,863)	(54,341)	(51,863)
Net cash used in financing activities		(54,342)	(51,863)	(54,341)	(51,863)
Net increase / (decrease) in cash and cash equivalents		201,846	(14,444,204)	183,769	(14,328,819)
Cash and cash equivalents at beginning of financial year		(2,755,507)	11,688,697	(2,791,136)	11,537,683
Cash and cash equivalents at end of financial year	22	(2,553,661)	(2,755,507)	(2,607,367)	(2,791,136)

See the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

1. GENERAL INFORMATION

- (i) The Company is principally involved in investment holding, design, development and marketing of information technology related products and services. The principal activities of the subsidiaries are set out in Note 5 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.
- (ii) The registered office of the Company is located at Level 14, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan.
- (iii) The principal place of business of the Company is located at Level 10, Menara Luxor, 6B, Persiaran Tropicana, Tropicana Golf & Country Resort, 47410 Petaling Jaya, Selangor Darul Ehsan.
- (iv) The number of employees of the Group and of the Company as at December 31, 2006 were 25 and 8 (2005: 24 and 5).
- (v) The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on April 27, 2007.

2. BASIS OF ACCOUNTING

(a) Basis of preparation

The financial statements of the Group and Company have been prepared in accordance with MASB Approved Accounting Standards for entities other than private entities. The financial statements have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies.

The preparation of financial statements in conformity with the MASB Approved Accounting Standards for entities other than private entities requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the directors' best knowledge of current events and actions, actual results may differ.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

(i) Standards, amendments to published standards and interpretations that are effective.

The new accounting standards, amendments to published standards effective for the Company's financial period beginning on or after January 1, 2006 where applicable, are as follows :-

FRS 1	First - time adoption of Financial Reporting Standards
FRS 2	Share - based payment
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	Impairments of assets
FRS 138	Intangible assets

Amendments to FRS 119 ²⁰⁰⁴ Employees Benefits

All the changes in accounting policies have been made in accordance with the transition provisions in the respective standards, amendments to published standards and interpretations.

The adoption of FRSs did not have a material impact on the presentation of financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted.

The new standards, amendments to published standards and interpretations that are mandatory for the Group's financial periods beginning on or after January 1, 2007 or later periods, but which the Group has not early adopted, are as follows :-

FRS 139 Financial Instruments : Recognition and measurement (effective date yet to be determined by Malaysian Accounting Standards Board). This new standards established principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non - financial items. Hedge accounting is permitted only under strict circumstances. The Group will apply this standards when effective.

(b) Basis of consolidation

Subsidiaries are those corporations, partnerships or other entities (including special purpose entities) in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated using the purchase method of accounting.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de - consolidated from the date that control ceases. The cost of an acquisition is measured as fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Basis of consolidation (Cont'd)

Minority interest represent that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries's equity since that date.

Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated, Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Property, plant and equipment and depreciation

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

The straight line method is used to write off the cost of the following assets over the term of its estimated useful lives at the following principal annual rates :-

	Rate (%)
Office equipment	20
Furniture and fittings	20
Computer equipment and software	20
Renovation	20

(d) Impairment of assets

The carrying amount of the Group's assets, other than assets arising from inventories and financial assets (other than investments in subsidiaries and associates) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash - generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, 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 risk specific to the asset. For an assets that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversed is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Investments in subsidiaries

Investments in subsidiaries are held on a long term basis and are stated at cost. Provision for any permanent diminution in value is only made if the directors are of the opinion that the diminution is permanent.

(f) Research and development cost

Research and development costs are expensed in the period in which they are incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Other development expenditure is recognised as an expense when incurred.

Development costs that have been capitalised are amortised from the commencement of the commercial production of the product or process is available for sale or use to which they relate on the straight line basis over a period of 20 years of their expected benefits.

(g) Treatment of Intellectual Property (IP) and Licence Right

IP and Licence Right have been capitalised as permanent items as they have indefinite life pursuant to the agreement for continuous technical upgrading support from the vendor. Therefore, the IP and Licence Right have not been amortised.

(h) Inventories

Inventories include computer equipment and software products purchased for resale. Inventories are valued at the lower of cost and net realisable value. Cost is determined on the first - in - first - out method and comprises the original purchase price plus cost incurred in bringing the inventories to their present location.

(i) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

(j) Revenue recognition

Revenue from the sale of goods is recognised when significant risk and rewards of ownership are transferred to the buyer (generally on delivery, satisfactory installation and acceptance) and if any on performance of services.

Other operating income mainly consist of interest income, trade interest income and research and development income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated in Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average rates. Foreign exchange differences arising on translation are included in the foreign exchange reserve in shareholders' equity.

The closing rate used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows :-

	2006 RM	2005 RM
Foreign currency :		
1000 Indonesia Rupiah	0.392	0.385

(l) Income tax

The tax expense in the income statement represents the aggregate amounts of current tax and deferred tax included in the determination of net profit or loss for the year.

On the balance sheet date deferred tax liability is recognised for taxable temporary differences while a deferred tax asset is only recognised for deductible temporary differences, unutilised tax losses and unutilised tax credits to the extent that it is probable that taxable profit will be available in future against which the deductible temporary differences, tax losses and tax credits can be utilised. No deferred tax is recognised for temporary differences arising from :

- (i) goodwill for which amortization is not deductible for tax purposes, or
- (ii) negative goodwill which is treated as deferred income, or
- (iii) the initial recognition of an asset or liability which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured based on tax consequences that would follow from the manner in which the asset or liability is expected to be recovered or settled, and based on the tax rates enacted at the balance sheet date that are expected to apply to the period when the asset is realised or when the liability settled.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, whether in the same or a different period, directly to equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances, demand deposits, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subjects to an insignificant risk of changes in value.

(n) Financing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred.

(o) Employee benefits

(i) Short term employee benefits

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

(ii) Post - employment benefits

The Group has post - employment benefits schemes in accordance with local conditions and practices in the countries in which it operates. This benefit plan is defined contribution plans.

(iii) Defined contribution plans

The Group contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share - based compensation

The Group operates an equity - settled, share - based compensation plan for the employees of the Group. The fair value of the employee services received in exchange for the grant off the share options is recognised as an expense in the income statement over the vesting periods of the grant with a corresponding increase in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non - market vesting conditions (for example, profitability and sales growth targets). Non - market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

4. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Total RM
Group					
Net book value					
At January 1, 2006	197,033	1,794	37,690	174,847	411,364
Additions	2,148	-	4,000	-	6,148
Depreciation charge	(159,185)	(1,777)	(18,131)	(58,783)	(237,876)
Capitalised to development cost	(991)	-	-	-	(991)
At December 31, 2006	<u>39,005</u>	<u>17</u>	<u>23,559</u>	<u>116,064</u>	<u>178,645</u>
At December 31, 2006					
Cost	1,615,489	98,403	209,190	525,775	2,448,857
Accumulated depreciation	(1,576,484)	(98,386)	(185,631)	(409,711)	(2,270,212)
Net book value	<u>39,005</u>	<u>17</u>	<u>23,559</u>	<u>116,064</u>	<u>178,645</u>
At December 31, 2005					
Cost	1,613,341	98,403	205,190	525,775	2,442,709
Accumulated depreciation	(1,416,308)	(96,609)	(167,500)	(350,928)	(2,031,345)
Net book value	<u>197,033</u>	<u>1,794</u>	<u>37,690</u>	<u>174,847</u>	<u>411,364</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Total RM
Company					
Net book value					
At January 1, 2006	20,653	1,547	22,185	152,051	196,436
Additions	2,148	-	4,000	-	6,148
Depreciation charge	(16,194)	(1,540)	(10,202)	(45,645)	(73,581)
At December 31, 2006	<u>6,607</u>	<u>7</u>	<u>15,983</u>	<u>106,406</u>	<u>129,003</u>
At December 31, 2006					
Cost	835,530	94,638	173,577	450,536	1,554,281
Accumulated depreciation	(828,923)	(94,631)	(157,594)	(344,130)	(1,425,278)
Net book value	<u>6,607</u>	<u>7</u>	<u>15,983</u>	<u>106,406</u>	<u>129,003</u>
At December 31, 2005					
Cost	833,381	94,638	169,577	450,536	1,548,132
Accumulated depreciation	(812,728)	(93,091)	(147,392)	(298,485)	(1,351,696)
Net book value	<u>20,653</u>	<u>1,547</u>	<u>22,185</u>	<u>152,051</u>	<u>196,436</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

5. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2006 RM	2005 RM
Unquoted shares, at cost	2,561,387	2,561,387
	<u>2,561,387</u>	<u>2,561,387</u>

Details of the subsidiary companies are as follows :-

Name of Company	Country of Incorporation	Group's effective interest		Principal activities
		2006	2005	
Palette System Sdn. Bhd.	Malaysia	100 %	100 %	Development and marketing IT product.
PT Palette Multimedia*	Indonesia	99 %	99 %	Development and marketing IT product.

*Audited by another firm of auditors

6. INTANGIBLE ASSETS

	Intellectual Property and License Right RM	Development cost RM	Total RM
Group			
Cost at 1.1.2006	17,000,000	2,825,614	19,825,614
Additions during the year	-	505,675	505,675
Reclassification	-	991	991
Cost as at 31.12.2006	<u>17,000,000</u>	<u>3,332,280</u>	<u>20,332,280</u>
Less : Cumulative Amortisation			
At 1.1.2006	-	(225,150)	(225,150)
Charge for the year	-	(75,050)	(75,050)
At 31.12.2006	-	(300,200)	(300,200)
Balance at 31.12.2006	<u>17,000,000</u>	<u>3,032,080</u>	<u>20,032,080</u>
Balance at 31.12.2005	<u>17,000,000</u>	<u>2,600,464</u>	<u>19,600,464</u>
Amortisation at 31.12.2005	-	75,050	75,050

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

6. INTANGIBLE ASSETS (CONT'D)

	Intellectual Property and License Right RM	Development cost RM	Total RM
Company			
Cost at 1.1.2006	17,000,000	2,438,481	19,438,481
Additions during the year	-	307,440	307,440
Reclassification	-	991	991
Cost at 31.12.2006	17,000,000	2,746,912	19,746,912
Less : Cumulative Amortisation			
At 1.1.2006	-	(225,150)	(225,150)
Charge for the year	-	(75,050)	(75,050)
At 31.12.2006	-	(300,200)	(300,200)
Balance at 31.12.2006	17,000,000	2,446,712	19,446,712
Balance at 31.12.2005	17,000,000	2,213,331	19,213,331
Amortisation at 31.12.2005	-	75,050	75,050

7. RECEIVABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Non-current assets				
Cash at bank	12,944,815	12,944,815	12,944,815	12,944,815

This amount held by the Company is not available for use by the Group [Refer Note 26 (i)].

8. INVENTORIES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
At costs :				
Hardware	3,101,700	3,836,569	1,016,887	1,409,342
Software	13,729	1,005	7,084	-
	3,115,429	3,837,574	1,023,971	1,409,342

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Trade receivables	10,220,140	7,713,837	6,980,772	4,418,583
Other receivables	179,962	173,210	167,376	173,210
Deposits	968,198	1,078,834	968,198	1,066,248
Prepayments	3,280	4,520	-	-
Amount due from subsidiaries	-	-	10,922,553	10,415,584
	<u>11,371,580</u>	<u>8,970,401</u>	<u>19,038,899</u>	<u>16,073,625</u>

The amount due from subsidiaries, principally trade transactions which is unsecured, non - interest bearing and have no fixed terms of repayment.

10. FIXED DEPOSIT WITH LICENSED BANKS

Included in fixed deposit of the Group and of the Company are amounts in total of RM1,000,000 (2005 : RM1,000,000) pledged to the licensed bank for banking facilities extended to the Group and the Company.

11. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Trade payables	15,762,809	15,593,707	14,523,340	14,348,280
Accrued expenses	352,079	263,484	296,287	211,726
Amount due to subsidiaries	-	-	1,984,777	1,969,579
Amount due to directors	14,473	14,473	14,473	14,473
	<u>16,129,361</u>	<u>15,871,664</u>	<u>16,818,877</u>	<u>16,544,058</u>

The amount due to subsidiaries principally trade transactions which are unsecured, and have no fixed terms of repayment.

The amount due to directors are unsecured, interest free and have no fixed terms of repayment.

The trade payables above include an amount of RM11,037,183.25 when is involved in dispute as per Note 26 [1].

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

12. SHORT TERM BORROWINGS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Current :				
Bank overdraft (secured)	1,404,879	1,232,005	1,404,879	1,232,005
Bankers' acceptance	2,386,000	2,741,000	2,386,000	2,741,000
Current portion of :				
Long term loan (Note 16)	56,457	53,342	56,457	53,342
	<u>3,847,336</u>	<u>4,026,347</u>	<u>3,847,336</u>	<u>4,026,347</u>

The bankers' acceptance facilities are secured by way of personal guarantee by the Company directors. The bank overdraft of the Group and of the Company are secured by way of fixed deposits pledged to the licensed banks.

13. SHARE CAPITAL

	Group and Company	
	2006 RM	2005 RM
Ordinary shares of RM0.25/- each Authorised :	<u>50,000,000</u>	<u>50,000,000</u>
Issued and fully paid - up :	<u>26,400,000</u>	<u>26,400,000</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

14. SHARE PREMIUM AND RESERVES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Non - distributable reserves				
(a) Share premium	<u>4,122,965</u>	<u>4,122,965</u>	<u>4,122,965</u>	<u>4,122,965</u>
(b) Foreign exchange reserves				
At January 1	(144,309)	53,017	-	-
Currency translation difference	153,177	(197,326)	-	-
At December 31	<u>8,868</u>	<u>(144,309)</u>	<u>-</u>	<u>-</u>
(c) Accumulated losses / Retained profits	<u>(1,805,617)</u>	<u>(3,530,320)</u>	<u>4,976,192</u>	<u>2,267,050</u>

Movements in retained profits are disclosed in the statement of changes in equity.

15. MINORITY SHAREHOLDERS' INTEREST

This consist of the minority shareholders' proportion of share capital and reserve of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

16. LONG TERM BORROWINGS

	Group and Company	
	2006	2005
	RM	RM
Current :		
Term loan (Note 12)	56,457	53,342
Non - current :		
Long term loan	162,929	220,385
	<u>219,386</u>	<u>273,727</u>

The term loan bear interest at 8.30% to 10.05% per annum and are secured as follows :-

- (a) By way of third party, second and third loan agreement of RM 500,000 each and existing Deed of Assignment over the landed properties.
- (b) To additionally guaranteed by the Company directors.
- (c) To be corporate guaranteed by Palette Corporation Sdn. Bhd.

The loan is repayable as follows :

	Group and Company	
	2006	2005
	RM	RM
Current :		
Within two years	56,457	53,342
Within two and five years	127,271	109,165
	35,658	111,220
	<u>219,386</u>	<u>273,727</u>

17. REVENUE

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Sale of goods	<u>17,922,037</u>	<u>5,004,977</u>	<u>17,478,982</u>	<u>4,605,743</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

18. PROFIT / (LOSS) FROM OPERATIONS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
The following items have been charged / (credited) in arriving at profit / (loss) from operations :-				
Audit fee	14,000	18,576	8,000	6,000
Amortisation of development cost	75,050	75,050	75,050	75,050
Bad debts written off	-	10,439	-	10,439
Director's remuneration	123,804	82,500	93,804	52,500
Depreciation of property, plant and equipment	237,876	272,513	73,581	95,842
Interest expenses	168,181	156,972	168,181	156,972
Inventories written off	-	870,724	-	613,624
Rental expenses	159,553	198,458	111,253	172,558
Gain on disposal of property, plant and equipment	-	(2,000)	-	(2,000)
Net on exchange (gain) / loss - Realised	182,326	(8,375)	15,065	(8,375)
Interest income	(26,672)	(8,348)	(26,672)	(8,348)
(a) Directors' remuneration:				
Fees	18,016	22,500	18,016	22,500
Salary	105,788	60,000	75,788	30,000
	<u>123,804</u>	<u>82,500</u>	<u>93,804</u>	<u>52,500</u>

The details of emoluments for the directors of the Group and of the Company received / receivable for the financial year by category and in bands of RM 50,000 are as follows:-

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Non - executive directors				
Below RM 50,000	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>
Executive director				
Below RM 50,000	-	-	1	1
RM 50,000 - RM 100,000	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

19. FINANCE COSTS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Bankers' acceptance interest	147,966	134,279	147,966	134,279
Term loan interest	20,215	22,693	20,215	22,693
	<u>168,181</u>	<u>156,972</u>	<u>168,181</u>	<u>156,972</u>

20. TAXATION

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Tax charge for the financial year				
Malaysia - underprovision in previous year	-	288	-	-
	<u>-</u>	<u>288</u>	<u>-</u>	<u>-</u>

The effective tax rate of the Group is lower than that of the statutory tax rate mainly due to the non provision of income tax by a subsidiary which has unabsorbed business losses carried forward during the financial year and the Company which has been granted an income tax free period of up to five years as a result of it being awarded the Multimedia Super Corridor ("MSC") status on October 6, 2000. The Company is in the progress of renewing the second term of the pioneer status.

21. EARNINGS PER SHARE

Basic earnings per share for the financial year is arrived at dividing the Group's profit after taxation of RM 1,722,974 [2005 : RM (2,756,559)] by the 105,600,000 [2005 : 105,600,000] ordinary shares of RM 0.25 each in issue during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

22. CASH AND EQUIVALENTS

For the purpose of the cash flow statements, cash and cash equivalent comprise the followings:-

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Fixed deposit with licensed banks	1,182,947	1,181,304	1,182,947	1,181,304
Cash at bank	48,772	31,639	565	565
Cash on hand	5,499	4,555	-	-
Deposits, cash and bank balances	1,237,218	1,217,498	1,183,512	1,181,869
Bank overdrafts	(1,404,879)	(1,232,005)	(1,404,879)	(1,232,005)
Bankers' acceptance	(2,386,000)	(2,741,000)	(2,386,000)	(2,741,000)
	<u>(2,553,661)</u>	<u>(2,755,507)</u>	<u>(2,607,367)</u>	<u>(2,791,136)</u>

23. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party in making financial and operating decisions.

Some of the Company's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in the financial statements. The balances are without fixed repayment terms and interest unless stated otherwise.

Significant transaction with related parties are as follows :-

	2006 RM	2005 RM
Subsidiary Company		
Palette System Sdn Bhd.		
Sale of goods	175,327	381,231
Purchases of goods	<u>32,672</u>	<u>296,655</u>

Significant outstanding balances at the balance sheet date, arising from :

Sale and purchases of goods and services and advances	<u>10,922,553</u>	<u>10,415,584</u>
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

23. RELATED PARTY TRANSACTIONS (CONT'D)

	2006 RM	2005 RM
PT Palette Multimedia		
Significant outstanding balances at the balance sheet date, arising from :		
Sale and purchases of goods	<u>(1,984,777)</u>	<u>(1,969,579)</u>
Director Palette Computer Sdn. Bhd. in which Abdul Razak Bin Dato' Haji Ipap (Director of the Company), is a director		
Sale of goods	<u>475,236</u>	<u>594,686</u>
Significant outstanding balances at the balance sheet date, arising from :		
Sales of goods	<u>192,060</u>	<u>225,516</u>
Director Palette Internet Sdn. Bhd. in which Eg Kah Yee, and Eg Kaa Chee (Director of the Company), is a director		
Sale of goods and services	<u>-</u>	<u>-</u>
Significant outstanding balances at the balance sheet date, arising from :		
Sale of goods and services	<u>2,182</u>	<u>2,182</u>
Director Key ASIC Sdn. Bhd. in which Eg Kah Yee (Director of the Company), is a director		
Sale of goods and services	<u>15,000</u>	<u>-</u>
Significant outstanding balances at the balance sheet date, arising from :		
Sale of goods and services and advances	<u>2,029</u>	<u>-</u>

The above transactions have been entered into in the normal course of business and have been established under mutually agreed term arranged with the related parties.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

24. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its market, credit, liquidity and cash flow and currency risk.

(b) Market risk

The Group has in place policies to manage its competitive risks from its competitors in providing better services. Hence the Group regularly takes part in various research to develop better and more attractive packages or products.

(c) Credit risk

The Group has a credit policy in place and the exposure to credit risk is monitored on a going basis.

(d) Liquidity and cash flow risk

Prudent liquidity management requires the Group to minimise the mismatch of financial assets and liabilities and to maintain sufficient funds for contingent funding requirement of working capital. Due to the dynamic nature of business, the Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

(e) Currency risk

The Group is exposed to currency risk as a result of the foreign currency transactions entered into by a subsidiary other than its functional currency. The Group policy is to minimise the exposure of overseas operating subsidiary to transaction risk by matching local currency income against local currency costs.

(f) Fair Values

The carrying amounts of the financial assets and liabilities of the Group and the Company, approximate their fair value due to the relatively short term maturities of these balances.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

25. SEGMENTAL INFORMATION

Segment information is presented in report of the Group's geographical segment. Inter-segment pricing is determined based on negotiated terms.

	Revenue		Profit / (loss) before tax	
	2006 RM	2005 RM	2006 RM	2005 RM
Major segment by country				
- Revenue from external customer				
Malaysia	17,922,037	5,004,977	1,895,872	(2,860,579)
Indonesia	-	-	(172,898)	105,362
- Inter segment Revenue				
Malaysia	207,999	677,886	-	-
	<u>18,130,036</u>	<u>5,682,863</u>	<u>1,722,974</u>	<u>(2,755,217)</u>
Eliminations	(207,999)	(677,886)	-	-
	<u>17,922,037</u>	<u>5,004,977</u>	<u>1,722,974</u>	<u>(2,755,217)</u>

No segment information provided on an industry basis as the Group and the Company is principally engaged in development and marketing of information technology related products and services.

26. SIGNIFICANT EVENTS

- (i) On May 14, 2004 the Company filed a legal suit at the High Court of Kuala Lumpur for defects of goods valued at RM 3.6 million against a supplier of the Company, which is a public listed company in Taiwan, specialising in manufacturing computer and multimedia related products. A sum of RM 12,944,815.39 which is involved in this dispute has been reflected in the Company's receivables in non-current assets.
- (ii) The Company has on December 26, 2006 announced via Public Investment Bank Berhad to undertake two (2) corporate proposals as follows :
 - (a) Proposed Share Split involving the subdivision of every one (1) existing issued and fully paid-up ordinary share of RM 0.25 each into two and a half (2 1/2) new ordinary shares of RM 0.10 each ("Proposed share split")

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

26. SIGNIFICANT EVENTS (CONT'D)

The proposed share split shall involve the subdivision of every one (1) existing and fully paid - up ordinary share of RM 0.25 in the Company into two and a half (2 1/2) new ordinary shares of RM 0.10 each held by the shareholders of the Company whose names appear in the record of depositors as at the close of business on a date to be determined by the board and which will be announced after all the relevant approvals for the proposed share split have been obtained. The Company has obtained approvals from Securities Commission ("SC") and Bursa Securities respectively on February 6, 2007 and February 14, 2007. The proposed share split is now pending the approval from shareholders before it can be implemented.

- (b) Proposed private placement of up to 15% of the issued and paid up share capital of the Company ("Proposed private placement").

The Company has submitted its application to SC on the February 2, 2007. The Proposed share split and proposed private placement are not inter-conditional.

- (c) Proposed amendment to the Memorandum of Association of the Company to facilitate the implementation of the proposed share split and proposed private placement.

The proposed amendment shall involve the alteration of the authorised share capital of the Company of RM 50,000,000 divided into 200,000,000 Palette's shares into RM 50,000,000 dividend into 500,000,000 split share in the Memorandum of Association of the Company. The proposed amendment is pending the approval from the shareholders.

(iii) Employee Share Option Scheme

The Company implemented an Employee Share Option Scheme ("ESOS") which came into effect on April 7, 2004 for a period of ten years. The ESOS is governed by the by - laws which were approved by the shareholders.

Share options are granted to directors and to selected employees. The exercise price under the ESOS is the average of the mean market quotation of the shares of the Company as quoted in the Daily Official List issued by the Bursa Malaysia Securities Berhad for the five market days preceding the offer date, or the par value of the shares of the Company of RM 0.25, whichever is the higher.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

26. SIGNIFICANT EVENTS (CONT'D)

Options are conditional on the employee completing one year's service (the vesting period). The options are exercisable starting one year from the grant date and have a contractual term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The persons whom the options have been granted have no right to participate by virtue of the options in any share issue of any other company.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows :-

	<u>Year ended 31.12.2006</u>		<u>Year ended 31.12.2005</u>	
	Average exercise price RM / share	Options	Average exercise price RM / share	Options
Granted	0.25	8,210,000	-	-
At end of year	0.25	8,210,000	-	-

The options outstanding at year end has exercise prices of RM 0.25.

Options granted during the period will expire on April 5, 2014.

27. SUBSEQUENT EVENT

On March 2, 2007, the Company has increased its issued and paid-up share capital from RM 26,400,000 to RM 26,411,500 through a private placement at an issue price of RM 0.25 per share for cash, for additional working capital purpose.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

28. CHANGES IN ACCOUNTING POLICIES

The list of new accounting Standards amendments to published standards and interpretations on existing standards that are effective for the Company's accounting periods beginning on or after January 1, 2006 is set out in Note 3 (a) .

29. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with the current financial year's presentation.

	Group		Company	
	As Restated	As Previously Stated	As Restated	As Previously Stated
BALANCE SHEET	RM	RM	RM	RM
Non-current assets				
Receivables	12,944,815	-	12,944,815	-
Current assets				
Cash and bank balance	36,194	12,981,009	565	12,945,380

The sum of RM 12,944,815 has been reclassified from cash and bank balances to receivables as per the Note 26 (i).

STATEMENT BY DIRECTORS

Palette
MULTIMEDIA BERHAD

We, EG KAH YEE and ABDUL RAZAK BIN DATO' HAJI IPAP, being two of the directors of PALETTE MULTIMEDIA BERHAD, do hereby state that, in our opinion, the financial statements as set out on pages 15 to 44, are drawn up in accordance with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2007 and of the results of its operation and cash flows of the Group and of the Company for the year ended on that date.

EG KAH YEE
Director

ABDUL RAZAK BIN
DATO' HAJI IPAP
Director

Kuala Lumpur,
Date: April 27, 2007

STATUTORY DECLARATION

Palette
MULTIMEDIA BERHAD

I, EG KAH YEE, I/C No. : 600713-10-6737 being the director primarily responsible for the financial management of PALETTE MULTIMEDIA BERHAD, do solemnly and sincerely declare that the financial statements as set out on pages 15 to 44, are to the best of my knowledge and belief, 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
EG KAH YEE, I/C No: 600713-10-6737
at Kuala Lumpur in the Federal Territory
on April 27, 2007

Before me

EG KAH YEE
Director

S. Siva Ahnathan
No. W293
Commissioner for Oaths

REPORT OF THE AUDITORS

Palette
MULTIMEDIA BERHAD

CHENG & CO.
Firm No : AF - 0886
Chartered Accountants (Malaysia)
18-2, Jalan 2/114, Kuchai Business Centre, Off Jalan Klang Lama, 58200 Kuala Lumpur.

REPORT OF THE AUDITORS TO THE MEMBERS OF
PALETTE MULTIMEDIA BERHAD
(Incorporated in Malaysia)
Company No: 420056-K

We have audited the financial statements as set out on pages 15 to 41. The preparation of the financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements based on our audit.

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 that the financial statements are free of material misstatement. Our audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements.

We believe our audit provides a reasonable basis for our opinion. In our opinion :-

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable 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 at December 31, 2007 and their results and cash flows for the financial year ended on that date; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purpose of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

Other than the qualification on the foreign subsidiary on the appropriateness of preparing the financial statements on a going concern basis. The auditor's report on the financial statements of the subsidiaries were not subjected to any qualification and do not include any comment made under subsection 3 of section 174 of the Companies Act, 1965.

CHENG & CO.
Firm No: AF-0886No.
Chartered Accountants (Malaysia)
18-2, Jalan 2/114, Kuchai Business Centre,
Off Jalan Klang Lama, 58200 Kuala Lumpur

DR PAUL CHENG CHAI LIOU
Partner
No. Kelulusan 1561/03/09 (J)

Kuala Lumpur,
Date: April 27, 2007

NOTICE OF TENTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Tenth Annual General Meeting of the Company will be held at Crystal Crown Hotel, 12 Lorong Utara A, 46200 Petaling Jaya, Selangor Darul Ehsan on Friday, 22 June 2007 at 3.00 p.m. to transact the following business:-

AGENDA

ORDINARY BUSINESS

- 1) To receive the Audited Financial Statements for the financial year ended 31 December 2006 together with the Reports of the Directors and Auditors thereon. (Resolution 1)
- 2) To approve the payment of Directors' Fees for the financial year ended 31 December 2006. (Resolution 2)
- 3) To re-elect Eg Kaa Chee who retires pursuant to Article 67 of the Company's Articles of Association. (Resolution 3)
- 4) To re-elect Thong Kooi Pin who retires pursuant to Article 72 of the Company's Articles of Association. (Resolution 4)
- 5) To re-appoint Messrs Cheng & Co. as Auditors of the Company to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. (Resolution 5)

SPECIAL BUSINESS

To consider and, if thought fit, to pass, with or without modifications, the following Ordinary / Special Resolutions:-

- 6) ORDINARY RESOLUTION (Resolution 6)

Authority To Allot And Issue Shares

"THAT pursuant to Section 132D of the Companies Act, 1965, the Directors of the Company be and are hereby empowered to allot and issue shares in the Company at any time and upon such terms and conditions for such purposes as the Directors may in their absolute discretion deem fit provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company unless revoked or varied by the Company at a general meeting."

NOTICE OF TENTH ANNUAL GENERAL MEETING

7) ORDINARY RESOLUTION

(Resolution 7)

Proposed Granting of Options to Sukhdev Singh @ Banta Singh, the Executive Director of Palette Multimedia Berhad pursuant to the Employees' Share Option Scheme ("ESOS") of Palette Multimedia Berhad.

"THAT, the Board of Directors of the Company be and is hereby authorized at any time and from time to time to offer and to grant to Sukhdev Singh @ Banta Singh, the Executive Director of the Company, options to subscribe for such number of new ordinary shares of the Company under the ESOS subject to the provisions:-

- (i) that not more than fifty percent (50%) of the new ordinary shares under the ESOS shall be allocated, in aggregate, to eligible Executive Directors and senior management of the Company and its subsidiaries; and
- (ii) not more than ten percent (10%) of the new ordinary shares available under the ESOS would be allocated to any individual person, who singly or collectively through connected person, holds twenty percent (20%) or more of the issued and paid-up share capital of Palette Multimedia Berhad,

and also subject to such terms and conditions and/or any adjustments which may be made in accordance with the provision of the By-Laws of the ESOS."

8) SPECIAL RESOLUTION

(Resolution 8)

Proposed Amendments to the Articles of Association of the Company.

"THAT the proposed amendments to the Articles of Association of the Company as contained in the Appendix I which is attached in the Circular to shareholders dated 31 May 2007 be approved.

AND THAT the Directors be and are hereby authorized to assent to any modifications, variations and/or amendments as may be required by the relevant authorities and to do all acts and things and take all steps as may be considered recurring to give full effect to the proposed amendments to the Articles of Association of the Company."

- 9) To transact any other business of which due notice shall have been given in accordance with the Companies Act, 1965.

By Order of the Board

NG YEN HOONG [LS 008016]
LOO CHOON KEOW [MAICSA 7039252]
Company Secretaries

Petaling Jaya
31 May 2007

NOTICE OF TENTH ANNUAL GENERAL MEETING

NOTES:-

- (i) A member entitled to attend and vote at the meeting is entitled to appoint a proxy and vote in his/her stead. A proxy need not be a member of the Company.
- (ii) Where a member is an authorized nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
- (iii) If the appointer is a corporation, the Form of Proxy must be executed under its Common Seal or under the hand of its attorney duly authorized.
- (iv) The Form of Proxy must be deposited at the Registered Office of the Company at Level 14, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time appointed for holding the meeting.

EXPLANATORY NOTE ON SPECIAL BUSINESS

1. Ordinary Resolution 6: **Authority to Directors to Allot and Issue Shares**
The Proposed Resolution 6, if passed, will give the Directors the authority to allot and issue new ordinary shares up to an amount not exceeding 10% of the issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority will commence from the date of this Annual General Meeting and unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.
2. Ordinary Resolution 7: **Proposed Granting of Options to Sukhdev Singh @ Banta Singh**
The Proposed Ordinary Resolution 7, if passed, will empower the Directors to issue shares to Sukhdev Singh @ Banta Singh, the Executive Director of Palette Multimedia Berhad pursuant to the exercise of options under the ESOS.
3. Special Resolution 8: **Proposed Amendments to the Articles of Association of the Company**
The relevant information on the Proposed Amendments of Articles of Association is set out in the Circular to Shareholders dated 31 May 2007 which is despatched together with the Company's 2006 Annual Report. The Proposed Amendments to the Articles of Association of the Company will bring the Articles of Association of the Company in line with the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market.

STATEMENT ACCOMPANYING NOTICE OF THE TENTH ANNUAL GENERAL MEETING

Palette
MULTIMEDIA BERHAD

Details of Directors who are standing for re-election in Agenda 3 and 4 of the Notice of the Tenth Annual General Meeting are set out in the Profile of Directors appearing on pages 3 to 4 of this Annual Report.

SHAREHOLDING STATISTICS

Shareholding Statistics as at 23 April 2007

Authorised Share Capital	:	RM50,000,000.00
Issued and fully paid-up Share Capital	:	RM26,411,500.00
Class of Shares	:	Ordinary shares of RM0.25 each
Voting Rights	:	1 vote per ordinary share

Analysis of Shareholdings As at 23 April 2007

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares Held
1 to 99 Shares	4	0.264	100	0.000
100 to 1,000 Shares	412	27.230	175,000	0.165
1,001 to 10,000 Shares	654	43.225	3,707,900	3.509
10,001 to 100,000 Shares	362	23.925	13,410,100	12.693
100,001 to 5,282,299 Shares	79	5.221	29,318,379	27.751
5,282,300 to and above	2	0.132	59,034,521	55.879
Total	1,513	100.000	105,646,000	100.000

30 Largest Shareholders As at 23 April 2007 (As per the Register of Members)

No.	Shareholders	No. of Shares	%
1.	Eg Kah Yee	48,634,921	46.035
2.	Lembaga Tabung Haji	10,399,600	9.843
3.	HDM Nominees (Tempatan) Sdn Bhd - Pledged securities account for Chee Pei Pei	2,022,500	1.914
4.	ACE Partner Group Limited	1,965,800	1.860
5.	Kenanga Nominees (Tempatan) Sdn Bhd - Pledged securities account for Eg Kah Yee	1,348,700	1.276
6.	Yap Pin Ho	1,224,000	1.158
7.	RHB Nominees (Tempatan) Sdn Bhd - Pledged securities account for Lee Kin Hin	1,132,900	1.072
8.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Teo Hoo Seng	1,000,000	0.946

SHAREHOLDING STATISTICS

No.	Shareholders	No. of Shares	%
9.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Teo Cheng Tuan Donald	1,000,000	0.946
10.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Tan See Tee	948,700	0.897
11.	RHB Capital Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Salbiah Binti Shuib	900,000	0.851
12.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Tan Tiong Beng	900,000	0.851
13.	Ong Hock Siong @ Benny Ong Hock Siong	876,900	0.830
14.	Chuan Tsui Ju	609,000	0.576
15.	Teo Kin Swee	576,900	0.546
16.	Beh Teik Hup	560,000	0.530
17.	ECM Libra Avenue Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Loh Kok Yeow	500,000	0.473
18.	Jyuo-Min Shyu	500,000	0.473
19.	Eg Kaa Chee	477,401	0.451
20.	Lim Chin Huat	471,100	0.445
21.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Ng Ser Miang	450,000	0.425
22.	TA Nominees (Tempatan) Sdn Bhd - Pledged securities account for Tan Ser Lay	446,000	0.422
23.	Tan Eng Huat	411,000	0.389
24.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Tan Kah Hock	400,000	0.378
25.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Low Hui Goh	350,000	0.331
26.	Lee Kin Hin	349,900	0.331
27.	Yong Gim Beng	320,000	0.302
28.	Tan Chor Theng	319,000	0.301
29.	Digital Season Sdn Bhd	289,778	0.274
30.	Cheang Swee Ying	285,600	0.270
	Total	79,669,700	75.411

SHAREHOLDING STATISTICS

Substantial Shareholders

As at 23 April 2007 (As per the Register of Members and Pursuant to Section 69E of the Companies Act, 1965)

No.	Name of Shareholders	No. of Shares Held			
		Direct Interest	%	Indirect Interest	%
1.	Eg Kah Yee	49,983,621	47.312	289,778 ¹	0.274
				477,401 ²	0.451
2.	Lembaga Tabung Haji	10,399,600	9.843	-	-

Directors' Shareholdings

As at 23 April 2007 (As per the Register of Directors' Shareholding)

No.	Name of Directors	No. of Shares Held			
		Direct Interest	%	Indirect Interest	%
1.	Eg Kah Yee	49,983,621	47.312	289,778 ¹	0.274
				477,401 ²	0.451
2.	Eg Kaa Chee	477,701	0.451	49,983,621 ²	47.312
3.	Abdul Razak Bin Dato' Hj. Ipap	-	-	-	-
4.	Sukhdev Singh a/l Banta Singh	-	-	-	-
5.	Thong Kooi Pin	100	-	-	-

Notes:

¹ Deemed interest by virtue of his substantial interest in Digital Season Sdn Bhd

² Deemed interest pursuant to Section 122A(1)(a) of the Companies Act, 1965

FORM OF PROXY

No. of shares held	
---------------------------	--

I/We
(Full Name in Capital Letters)

of.....
(Full Address)

being a member(s) of **PALETTE MULTIMEDIA BERHAD** ("Company") hereby appoint.....

.....
(Full Name in Capital Letters)

of.....

or failing him/her, the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the Tenth Annual General Meeting of the Company to be held at Crystal Crown Hotel, 12 Lorong Utara A, Off Jalan Utara, 46200 Petaling Jaya, Selangor Darul Ehsan on Friday, 22 June 2007 at 3.00 p.m. and at any adjournment thereof.

RESOLUTIONS		*FOR	*AGAINST
ORDINARY BUSINESS			
1.	To receive the Audited Financial Statements for the financial year ended 31 December 2006 together with the Reports of the Directors and Auditors thereon.		
2.	To approve the payment of Directors' Fees for the financial year ended 31 December 2006.		
3.	To re-elect Eg Kaa Chee who retires pursuant to Article 67 of the Company's Articles of Association.		
4.	To re-elect Thong Kooi Pin who retires pursuant to Article 72 of the Company's Articles of Association.		
5.	To appoint Messrs Cheng & Co. as Auditors of the Company to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.		
SPECIAL BUSINESS			
6.	Authority to the Directors to allot and issue shares pursuant to Section 132D of the Companies Act, 1965		
7.	Proposed Granting of Options to Sukhdev Singh @ Banta Singh		
8.	Proposed Amendments of Articles of Association		

(Please indicate with an "X" in the space provided above how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.)

Signature of
Shareholder(s) or Common Seal

Signed this day of 2007

NOTES:-

- (i) A member entitled to attend and vote at the meeting is entitled to appoint a proxy and vote in his/her stead. A proxy need not be a member of the Company.
- (ii) Where a member is an authorized nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
- (iii) If the appointer is a corporation, the Form of Proxy must be executed under its Common Seal or under the hand of its attorney duly authorized.
- (iv) The Form of Proxy must be deposited at the Registered Office of the Company at Level 14, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time appointed for holding the meeting.

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STAMP

Company Secretary
PFA Corporate Services Sdn Bhd
Level 14, Uptown 1,
No. 1, Jalan SS21/58, Damansara Uptown,
47400 Petaling Jaya, Selangor Darul Ehsan.
Tel : 03-7725 2888 Fax : 03-7725 7791

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