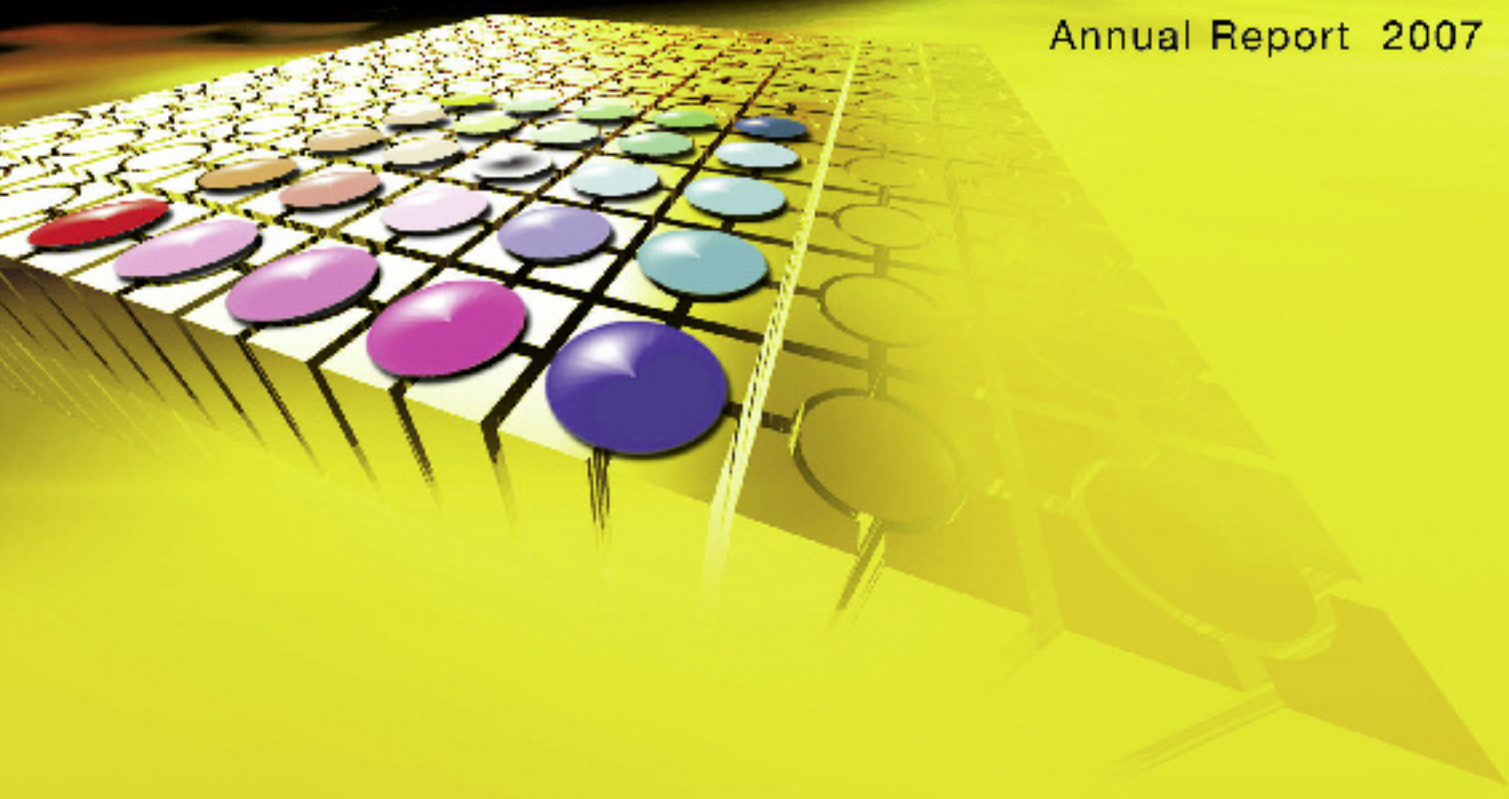


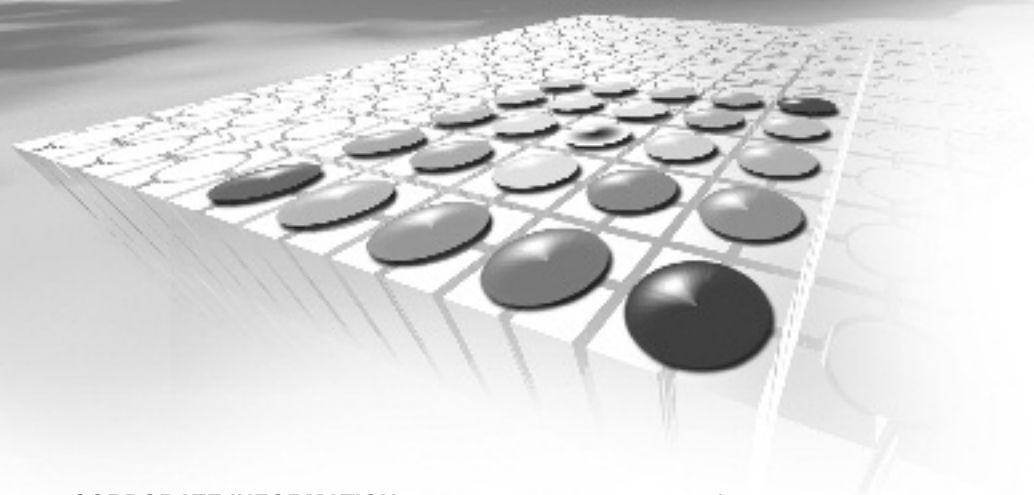


Palette
MULTIMEDIA BERHAD
(620796-K)

Annual Report 2007



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CORPORATE INFORMATION



BOARD OF DIRECTORS :	Eg Kah Yee (Chairman / Managing Director) Eg Kaa Chee (Non-Independent & Non-Executive Director) Abdul Razak Bin Dato' Haji Ipap (Independent Non-Executive Director) Sukhdev Singh A/L Banta Singh (Executive Director) Thong Kooi Pin (Independent Non-Executive Director)
COMPANY SECRETARIES :	Ng Yen Hoong (LS No. 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 : 03-7718 6188 Fax : 03-7725 7791
BUSINESS ADDRESS :	Lot 6.04 Level 6 KPMG Tower, 8, First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan. Tel : 03-7728 9880 Fax : 03-7728 1080
AUDITOR :	Cheng & Co. 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 Level 13, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan. Tel : 03-7718 6000 Fax : 03-7722 2311
PRINCIPAL BANKERS :	Public Bank Bhd HSBC Bank Malaysia Bhd
STOCK EXCHANGE LISTING :	Bursa Malaysia Securities Berhad (MESDAQ Market) Stock name : PALETTE Stock code : 0005
CORPORATE WEBSITE :	www.palettemm.com

BOARD OF DIRECTORS



EG KAH YEE

Chairman / Managing Director

Mr. Eg Kah Yee, aged 48, is the founder, Chairman / Managing Director of Palette Multimedia Berhad. 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. Currently, he also sits on the board of directors of Anchor Bay Technology Inc., Jaalaa Inc., Silterra Malaysia Sdn Bhd ("Silterra"), Atlantic Quantum Sdn Bhd ("AQSB"), Key ASIC Berhad and various private limited companies.

EG KAA CHEE

Non-Independent & Non-Executive Director

Mr. Eg Kaa Chee, aged 44, was appointed as the Director of Palette Multimedia Berhad 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 48, was appointed as the Director of Palette Multimedia Berhad 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 53, was appointed as the Executive Director of Palette Multimedia Berhad 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 the 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.

THONG KOOI PIN **Independent Non-Executive Director**

Mr. Thong Kooi Pin, aged 36, was appointed as the Independent Non-Executive Director of Palette Multimedia Berhad 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 Eg Kah Yee and Thong Kooi Pin.

None of the Directors and CEO have any conflict of interest with the Company and none of the Directors and CEO have any convictions for offences other than traffic offences, if any, in the past 10 years.

CHAIRMAN'S STATEMENT



Dear Shareholders,

I am pleased as the Chairman of Palette Multimedia Berhad ("Palette" or Company") to present the Annual Report and the Audited Financial Statements of the Company and the Group for the year ended 31 December 2007.

FINANCIAL & OPERATIONAL PERFORMANCE

The Group has posted a net profit after taxation of RM0.44 million as compared to a profit of RM1.72 million over last year. The decrease in the net profit after taxation were mainly due to lower revenue achieved in the financial year ("FYE") 2007 as compared to FYE2006. However, I am pleased that the Group was able to achieve higher gross margin as a result of effort by the team in securing and delivering high value added services in deploying wireless infrastructure projects. The achievement was compounded by 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 seen good growth in the regional business and the Group penetration into the Middle East and Indonesia markets.

INDUSTRY OUTLOOK AND DEVELOPMENT

Due to various reasons the adoption of WIMAX has been much slower than anticipated and this is not expected to change within 2008. This however has been balanced out to some extent by the acceleration of the usage of WiFi hotzones and hotspots. For the past few years this particular technology area was moribund but with the increasing proliferation of mobile devices such as PDAs, mini tablets and Smartphones there is a huge interest in providing an alternate high speed internet route for such users. This business has seen significant growth for Palette.

We continue to focus on providing high speed backhaul via microwave and Palette has seen significant wins in this area, including our first ever large scale project in Africa (Botswana). As network and cellular operators upgrade their networks to cope with the increasing demand for high speed broadband, this area is expected to continue its growth for several years to come.

Palette has gained significant experience in VOIP especially over wireless devices and this area is now exploding as users become aware of the ability to stay connected via VOIP at an enterprise level over diverse networks and access methods. We see more corporations building such networks as the savings and productivity gains are obvious and immediate.

The converged network trend is also highlighting the increasing demand of video over wired and wireless technologies. The explosion of services such as Youtube is just the first phase in what will become a transformation in the expectation and needs of users as regards video over the internet.

PROSPECTS

We see good opportunities in the year ahead both locally and regionally especially in the area of large hotzone deployment for major Telcos, ISPs and corporations and Palette has built a portfolio of technology partners which puts us at the leading edge of the ability to deploy such solutions.

In line with the increasing usage of PDAs and Smartphones for wireless network access, Palette is building new network access products which manage such access with high security and control. The R&D team is expected to rollout the first such products by mid 2008 with further enhancements over the coming year.

Palette over the past 5 years has built up a very strong level of expertise in designing and building high speed wireless networks, something reflected in the growth of our consulting business. Allied to the good portfolio of products, a strong network of resellers and partners, we are confident of a strong 2008. In addition new markets such as Australia and India are beginning to show revenue growth that should become a significant contributor to the group overall.

RESEARCH & DEVELOPMENT

The key focus on the R&D team is to build on previous experience and to come out with a suite of products focused on the mobile wireless access space. In addition, significant work is also being done on areas such as Digital Video Networks and the associated area of managing high speed networks. The first products will roll out in mid year 2008.

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 efforts, contributions and their continuous support to the Company.

Thank you

EG KAH YEE
Chairman

STATEMENT OF CORPORATE GOVERNANCE



The Board recognizes the importance of good corporate governance in discharging its responsibilities, protecting and enhancing shareholders' value through promoting and practising high standards of corporate governance throughout the Group. The Board adopts and applies the principles and best practices as governed by the Listing Requirements of the MESDAQ Market of Bursa Securities Berhad and Malaysian Code on Corporate Governance ("Code").

The following statements set out the Company's compliance with the principles of the Code.

A. Directors

(i) The Board

The Board is primarily responsible for the strategic directions of the Group and is scheduled to meet at least four (4) times a year. However, additional meetings may be convened as and when deemed necessary as determined by the members of the Board.

During the financial year ended 31 December 2007, five (5) board meetings were held and the details of each Directors' attendance are set out as follows:-

Directors	Meeting Attendance
Eg Kah Yee (Chairman)	5/5
Eg Kaa Chee	5/5
Abdul Razak Bin Dato' Hj. Ipap	5/5
Sukhdev Singh A/L Banta Singh	5/5
Thong Kooi Pin	5/5

(ii) Board Balance & Composition

The current Board has five (5) members comprising two (2) Executive Directors (including the Chairman / Managing Director), one (1) Non-Independent Non-Executive Directors and two (2) Independent Non-Executive Directors. The Board satisfies that the current composition fairly reflects the investment of shareholders and balance in view of the Group's business. Together, the Directors bring a wide range of experience relevant to the direction and objectives of the Group as they come from various different backgrounds ranging from business, marketing, legal and technical. A brief description of the background of each Director is presented on pages 3 to 4 of this Annual Report.

(iii) Supply of Information

The Board assumes the following responsibilities:-

- reviewing and adopting a strategic plan for the Group;
- identifying risks and assume active role in ensuring the implementation of appropriate systems to manage or mitigate these risks;
- succession planning, including appointing, training, fixing the compensation of the key managements;
- developing and implementing an investor relations programme or shareholder communications policy for the Group; and
- reviewing the adequacy and integrity of the Group's internal control systems and management information systems, including system for compliance with applicable laws, regulations, rules, directives and guidelines.

STATEMENT OF CORPORATE GOVERNANCE



All Directors including Independent Non-Executive Directors have full and timely access to information concerning the Company or other external information as they may feel necessary. Board papers and reports which include the Group's performance and major operational, financial and corporate information are distributed to the Directors with sufficient time prior to Board meetings to enable Directors to obtain further explanation, where necessary, in order to be properly briefed before the meeting.

Directors also have direct access to the advice and services of the Group's Company Secretary. The Board is advised and updated on statutory and regulatory requirements pertaining to their duties and responsibilities as well as appropriate procedures for management of meetings.

(iv) Appointment to the Board and Re-election

In accordance to the Company's Articles of Association, Directors appointed during the year is required to retire and seek election by shareholders at the following Annual General Meeting ("AGM") immediately after their appointment. The Articles also require one-third of the Directors to retire by rotation and seek re-election at each AGM and that each Director shall submit himself for re-election every three (3) years.

(v) Directors' Training

All Directors have attended conferences, seminar and training during the financial year ended 31 December 2007 in the area of financials, industry and technical update. For newly recruited Board member, the Company has in place an orientation and education programme to acquaint the incumbent with the overall set-up of the Group. All Board members are encouraged to attend any relevant training programme to further enhance their knowledge that enable them to discharge their responsibilities more effectively.

B. Director Remuneration

Director 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 remuneration of Directors for the financial year were categorised as follows:-

	Executive Directors (RM'000)	Non-Executive Directors (RM'000)
Basic salary	147.0	-
Fees	-	16.2
Benefit in kind	-	-
Total	147.0	16.2

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

Band of remuneration	Executive Directors	Non-Executive Directors
RM 50,000 and below	-	3
RM 50,001 - RM100,000	2	-
	2	3



C. Relationship with Shareholders

The Company maintains various methods of dissemination of information important to shareholders, stakeholders and the public at large through timely announcement of events, quarterly announcement of financial results and product information on the Company's various website.

The Company's AGM also provides an effective mean of face to face communication with the shareholders where they are encouraged to participate in the open question and answering session during the AGM. Shareholders are notified of the meeting and provided with a copy of the Company's Annual Report at least 21 days before the AGM in order for them to have sufficient time to read and understand the Company's financial and non-financial performance before the actual event takes place.

D. Accountability and Audit

(i) Financial Reporting

It is the Board's responsibility to ensure that the financial statements are prepared in accordance with the Companies Act, 1965 and the applicable approved accounting standards set by Malaysian Accounting Standard Board so as to present a balanced and fair assessment of the Group's financial position and prospects. The Directors are also responsible for keeping proper accounting records, safeguarding the assets of the Company and taking reasonable steps to prevent and enable detection of fraud and other irregularities.

In preparing the financial statements, the Directors have taken the necessary steps and actions as follows:-

- (a) selecting suitable accounting policies and then applying them consistently;
- (b) stating whether applicable accounting standards have been followed;
- (c) making judgements and estimates that are reasonable and prudent; and
- (d) preparing the financial statements on a going concern basis, having made reasonable enquiries and assessment on the resources of the Company on its ability to continue further business in foreseeable future.

(ii) Internal Control

The Board acknowledges its overall responsibility for maintaining a sound system of internal controls to safeguard shareholders' investment and the Group's assets. However, the Board recognizes that such system is structured to manage rather than eliminate the possibility of encountering risk of failure to achieve corporate objectives.

The Statement of Internal Controls is set out on page 12 of the Annual Report providing an overview of the state of internal controls within the Group.

(iii) Relationships With Auditors

The Board has established a transparent relationship with the external auditors through the Audit Committee, which has been accorded the authority to communicate directly with the external auditors. The auditors in turn are able to highlight matters which require the attention of the Board effectively to the Audit Committee in term of compliance with the accounting standards and other related regulatory requirements.

E. Corporate Social Responsibilities

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



The Audit Committee was established with the primary objective to provide assistance to the Board in fulfilling its fiduciary responsibilities relating to the corporate governance and practices for the Group, to improve the business efficiency and enhance the independent role of external and internal auditors.

1. Composition of Audit Committee

The present members of the Audit Committee comprise of:-

Chairman

Abdul Razak Bin Dato' Haji Ipap - Independent Non-Executive Director

Members

Eg Kaa Chee - Non-Independent Non-Executive Director

Thong Kooi Pin - Independent Non-Executive Director

2. Terms of Reference

A. Composition

The Committee shall be appointed by the Board of Directors from amongst its members which fulfils the following requirements:-

- (i) shall comprise not less than 3 members;
- (ii) the majority shall be independent directors;
- (iii) all members must be non-executive directors; and
- (iv) at least one member:
 - (a) must be a member of the Malaysian Institute of Accountants; or
 - (b) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
 - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
 - (c) fulfils such other requirements as prescribed or approved by the Exchange.

In the event of any vacancy in the audit committee resulting in the non-compliance of the above, the Board shall within three (3) months appoint new members as required to make up the minimum numbers.

B. Authority

The Audit Committee is empowered by the Board to investigate, deliberate, discuss and review any activity within its terms of reference and access to any resources within the Company which are required to perform its duties without any restriction. The Committee is authorised to have direct communication channels with the external auditors and person(s) carrying out the internal audit function or convene meetings with them excluding the attendance of the executive members of the Company whenever is deemed necessary.

The Committee is also authorised to obtain independent/external professional or other advices and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

C. Functions and Duties

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

- 1) To review the following and report the same to the Board:-
 - (i) The audit plan before the audit commences, the evaluation of the system of internal controls and the audit report with the external auditors.
 - (ii) The appointment of the external auditor, the audit fee and any question of resignation or dismissal.



- (iii) The quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
 - changes in or implementation of major accounting policy changes;
 - significant and unusual events; and
 - compliance with accounting standards and other legal requirements.
 - (iv) Problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary).
 - (v) The external auditors' management letter and management's response.
- 2) To do the following, in relation to the internal audit function:-
- (i) review the adequacy of the scope, functions competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - (ii) review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function.
- 3) To review any related party transaction and conflict of interest situation that may arise within the Company and Group including any transaction, procedure or course of conduct that raises questions of management integrity.
- 4) Monitor the Group's compliance with relevant laws, regulations and code of conduct.

D. Retirement and Resignation

In the event of any vacancy in the Audit Committee, the Company shall fill in the vacancy within two (2) months, but in any case not later than three (3) months.

E. Meetings

The members of the Committee shall select a Chairman from among their members who is an Independent Non-Executive Director and majority of members present must be Independent Directors in order to form a quorum in the audit committee meeting.

Any member may at any time, and the head of group finance and the Company Secretary shall on the requisition of any of the members or the external auditors summon a meeting. The Committee shall meet on at least four (4) occasions each year. The external auditors may request a meeting if they consider this necessary.

Except in the case of any emergency, reasonable notice of every meeting shall be given in writing and the notice of each meeting shall be served to any member entitled personally or by sending it via fax or through post or by courier or by email to such member to his registered address as appearing in the Register of Directors, as the case may be.

In addition to the Committee members, meetings would normally be attended by a representative of the external auditors, the financial controller and head of internal audit at the invitation of the Committee. Other Board members may also attend the Audit Committee meetings only at the Committee's invitation.

The Committee should meet with the internal/external auditors without executive board members present at least twice a year. A resolution put to the vote of the meeting shall be decided on a show of hands. In the case of an equality of votes, the Chairman shall be entitled to a second or casting vote. The minutes of meetings shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting and shall be circulated to the Committee and the Board of Directors.

The minutes of meetings shall be taken by the Company Secretary and be kept at the Company's Registered Office.



3. Summary of Meeting and Activities Undertaken

There were five Audit Committee meetings held during the financial year ended 31 December 2007 and the attendance record are as follows:-

	Meeting attended
Abdul Razak Bin Dato' Haji Ipap	5/5
Eg Kaa Chee	5/5
Thong Kooi Pin	5/5

Summary of Activities of Committee

During the financial year ended 31 December 2007, the Committee has carried out the following activities:-

- reviewed the quarterly reports and audited financial statements of the Group prior to submission to the Board for consideration and approval;
- in conjunction with the quarterly reports, review is made for the Company's compliance with the Listing Requirement, MASB and applicable regulatory requirements.
- reviewed the related party transactions entered into by the Group;
- reviewed the fees of the external auditors;
- consider the re-appointment of external auditors;
- reviewed with the external auditors the audit plan, scope of work and audit report; and
- reviewed the management letter issues and Management's response.

4. Internal Audit Function

The Board is still in the process of establishing and identifying the suitable candidate for the Internal functions to report directly to the Audit Committee. The internal audit function is to ensure a regular review of the adequacy and integrity of its internal control system. They will also be required to assist the Group in enhancing its existing risk management framework and adopting a risk-based approach.

They will also require to conduct regular and systematic reviews on all operating units and submit an independent report to the Audit Committee for review and approval to ensure adequate coverage.

5. Employees' Share Option Scheme (ESOS)

The ESOS or Option Committee was established following the implementation of the ESOS.

Members of the Option Committee comprise of:-

Members

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 the share allocation pursuant to the ESOS for the year ended 31 December 2007 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.

STATEMENT OF INTERNAL CONTROL



1. Introduction

The Board is committed to maintaining a sound system of internal control of the Company and is pleased to provide the following statement, which outlines the nature and scope of internal control of the Company during the year.

2. Board Responsibilities

The Board of Directors recognizes the importance of sound internal controls and risk management in safeguarding the assets of the Group. 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 objectives have been met. These controls are regularly reviewed by the Board and subject to continuous improvement.

3. Internal Control Framework

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

A risk analysis of the Group is conducted on a regular basis including constantly reviewing the process in identifying, evaluating and putting up necessary action to assess and monitor the impacts of the risk on the operation and business. The process requires management to comprehensively identify and assess all types of risks in terms of likelihood and magnitude of impact as well as to address the adequacy and application of mechanisms in place to manage, mitigate, avoid or eliminate these risks.

The process encompasses assessments and evaluations at business unit process level before being examined on a Group perspective.

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

- Monthly monitoring of operational results against the budget for the Board's review and discussion;
- Regular and comprehensive information provided to the Board, covering financial performance and key business indicators;
- Regular updates of internal policies and procedures, to reflect changing risks or resolve operational efficiencies; and
- Regular management meeting with all key personnel of respective department to address weaknesses and improve efficiency.

The Board is of the view that there is no significant breakdown or weaknesses in the system of internal control of the Group that may have material impact against the operations of the Group for the financial year ended 31 December 2007.

4. Conclusion

Although the Board is of the view that the present internal control is adequately in place to safeguard the Company's assets and sufficient to detect any fraud or irregularities, the Board is on a constant watch for any improvement that may strengthen its current system from time to time.

ADDITIONAL COMPLIANCE INFORMATION



1. Non-Statutory Audit Fees

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

2. Option, Warrant and Convertible Securities

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

3. Material Contracts

There were none other than as disclosed in the Audited Financial Statements for the year ended 31 December 2007.

4. Recurrent Related Party Transactions ("RRPT")

All Recurrent Related Party Transactions entered into by the Group during the financial year are disclosed in Note 24 to the Financial Statements in page 37 of this Annual Report.

5. Sanctions or Penalties

There were no sanctions or material penalties imposed by any regulatory body to the Company and its subsidiary, Directors or management.

6. Variance in Result

There was no material variation between the audited results for the financial year ended 31 December 2007 and the unaudited results previously announced for the similar period.

7. Profit Guarantees

There is no profit guarantees committed by the Company to any party.

8. Revaluation Policy

The Company and its subsidiary do not own any landed property and therefore, there is no revaluation policy being adopted or put in place.

9. American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") Programme

During the financial year, the Company did not sponsor any ADR or GDR programme

10. Share Buy-backs

The Company did not carry out any share buy-backs for the financial year under review.

11. Status of Utilisation of Proceeds

Palette undertook a private placement of up to 10% of its issued and paid-up share capital during the FYE 2007 ("Private Placement"). The total gross proceeds raised from the Private Placement and the status of the utilisation of the proceeds is as follows:-

Purpose	Proposed Utilisation	Actual Utilisation	Balance Unutilised	
	RM'000	RM'000	RM'000	%
Working capital	2,654	2,654	-	-
Private Placement expenses	160	160	-	-
Total	2,814	2,814	-	-

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 2007.

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 6 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	436,680	1,516,878
Attributable to minority interests	739	-
	<u>437,419</u>	<u>1,516,878</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, the authorised share capital of the Company of RM50,000,000 comprising 200,000,000 ordinary shares of RM0.25 each was subdivided into ordinary shares of RM0.10 each.

In addition, the issued and paid-up share capital of the Company was increased from RM26,400,000 comprising 105,600,000 ordinary shares of RM0.25 each to RM29,052,650 comprising 290,526,500 ordinary shares of RM0.10 each by way of :-

- (i) the issue of 46,000 new ordinary shares of RM0.25 each of the Company pursuant to the exercise of options granted under the Employees' Share Option Scheme ("ESOS") at the option price of RM0.25 per share for cash;
- (ii) the issue of 9,082,000 new ordinary shares of RM0.25 each of the Company pursuant to a private placement on 2 July 2007, at the issue price of RM0.265 per share in cash for working capital purposes;
- (iii) the subdivision of the issued and paid-up share capital of 114,728,000 ordinary shares of RM0.25 each into 286,820,000 ordinary shares of RM0.10 each on the basis of 2¹/₂ new ordinary shares of RM0.10 each for every 1 existing ordinary share of RM0.25 each; and

All shares issued during the year rank pari passu in all respects with the existing shares of the Company at the time of the issues.

- (iv) the issue of 3,706,500 new ordinary shares of RM0.10 each of the Company pursuant to a private placement on 11 July 2007, at the issue price of RM0.11 per share for cash for the purpose of working capital.

DIRECTORS' REPORT



EMPLOYEE SHARE OPTION SCHEME

The Company implemented an ESOS on 7 April 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 14 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 :

2007	No. of options over the ordinary shares of RM0.25 each in the Company			Balance prior to adjustment for share split *
	At 1.1.2007	Granted	Exercised	
Name of Option holders				
Hee Tai Wui	200,000	-	-	200,000
Liew Wai Han	100,000	-	-	100,000
Mohd Zambri Bin Ismail	30,000	-	-	30,000
Norhasshila A. Rahim	50,000	-	-	50,000
Rahimi Binti Burhanudin	40,000	-	-	40,000
Ng Geok Lui	1,500,000	-	-	1,500,000
See Lee Ming	1,400,000	-	-	1,400,000
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

Name of Option holders	No. of options over the ordinary shares of RM0.10 each in the Company			At 31.12.2007
	Balance after adjustment for share split *	Granted	Exercised	
Hee Tai Wui	500,000	-	-	500,000
Liew Wai Han	250,000	-	-	250,000
Mohd Zambri Bin Ismail	75,000	-	-	75,000
Norhasshila A. Rahim	125,000	-	-	125,000
Rahimi Binti Burhanudin	100,000	-	-	100,000
Ng Geok Lui	3,750,000	-	-	3,750,000
See Lee Ming	3,500,000	-	-	3,500,000
Lee Man Soon	1,250,000	-	-	1,250,000
Sukhdev Singh A/L Banta Singh	2,500,000	-	-	2,500,000
Eg Kah Yee	6,075,000	-	-	6,075,000
Eg Kaa Chee	500,000	-	-	500,000

* Share split of 2¹/₂ new ordinary shares of RM0.10 for every 1 existing ordinary shares of RM0.25 each.



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 which 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.

DIRECTORS' REPORT



ITEM 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
Sukhdev Singh A/L Banta Singh
Thong Kooi Pin

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 or its related corporations during the financial year are as follows:-

Number of ordinary shares of RM0.10 each in Palette Multimedia Berhad

		At 1.1.2007	Bought	Sold	At 31.12.2007
Eg Kah Yee	- Direct interest	121,587,302 *	3,371,750 *	52,746,750 *	72,212,302
	- Indirect interest (1)	1,917,947 *	-	-	1,917,947
Eg Kaa Chee	- Direct interest	1,193,502 *	-	-	1,193,502
	- Indirect interest (2)	121,587,302 *	3,371,750 *	52,746,750 *	72,212,302

* Adjusted to reflect the effect the share split on the basis of two and a half (2¹/₂) new ordinary shares of RM0.10 each for every one (1) ordinary shares of RM0.25 each.

- (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' REPORT



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 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 24 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 apart from the Employees Shares Option Scheme ("ESOS").

SIGNIFICANT EVENTS

The significant events involving the Group and the Company during the financial year are disclosed in Note 27 to the financial statements.

AUDITOR

The auditor, 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: 22 April 2008

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	Group		Company	
		2007 RM	2006 RM	2007 RM	2006 RM
NON-CURRENT ASSETS					
Property, plant and equipment	5	228,032	178,645	213,724	129,003
Investment in subsidiaries	6	-	-	2,561,387	2,561,387
Intangible assets	7	20,438,879	20,032,080	19,634,127	19,446,712
Guarantee deposits		7,060	7,840	-	-
Receivables	8	12,931,935	12,944,815	12,931,935	12,944,815
CURRENT ASSETS					
Inventories	9	2,555,121	3,115,429	984,411	1,023,971
Trade and other receivables	10	20,449,727	11,371,580	28,811,712	19,038,899
Fixed deposit with licensed banks	11	2,221,173	1,182,947	2,221,173	1,182,947
Cash and bank balances		15,851	54,271	10,689	565
		<u>25,241,872</u>	<u>15,724,227</u>	<u>32,027,985</u>	<u>21,246,382</u>
LESS: CURRENT LIABILITIES					
Trade and other payables	12	25,219,455	16,129,361	25,918,724	16,818,877
Short term borrowings	13	1,505,235	3,847,336	1,497,156	3,847,336
Provision for taxation		1,171	1,300	-	-
		<u>26,725,861</u>	<u>19,977,997</u>	<u>27,415,880</u>	<u>20,666,213</u>
NET CURRENT (LIABILITIES) /ASSETS		<u>(1,483,989)</u>	<u>(4,253,770)</u>	<u>4,612,105</u>	<u>580,169</u>
		<u>32,121,917</u>	<u>28,909,610</u>	<u>39,953,278</u>	<u>35,662,086</u>
Financed by:					
Share capital	14	29,052,650	26,400,000	29,052,650	26,400,000
Share premium	15	4,296,261	4,122,965	4,296,261	4,122,965
Reserves	15	24,659	8,868	13,136	-
Accumulated (losses) / Retained profits	15	(1,368,937)	(1,805,617)	6,493,070	4,976,192
		<u>32,004,633</u>	<u>28,726,216</u>	<u>39,855,117</u>	<u>35,499,157</u>
Minority shareholders' interest	16	19,123	20,465	-	-
TOTAL EQUITY		<u>32,023,756</u>	<u>28,746,681</u>	<u>39,855,117</u>	<u>35,499,157</u>
LONG TERM AND DEFERRED TAXATION					
Long term borrowings	17	98,161	162,929	98,161	162,929
		<u>32,121,917</u>	<u>28,909,610</u>	<u>39,953,278</u>	<u>35,662,086</u>

See the accompanying notes to the financial statements.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Group		Company	
		2007 RM	2006 RM	2007 RM	2006 RM
Revenue	18	7,631,249	17,922,037	7,493,951	17,478,982
Cost of sales		(4,952,909)	(13,883,597)	(4,418,373)	(13,510,506)
Gross profit		2,678,340	4,038,440	3,075,578	3,968,476
Other operating income		47,737	36,782	42,593	26,672
Selling and distribution expenses		(224,479)	(97,487)	(152,995)	(47,846)
Administrative and general expenses		(1,974,095)	(2,086,580)	(1,358,214)	(1,069,979)
Profit from operations	19	527,503	1,891,155	1,606,962	2,877,323
Finance costs	20	(90,084)	(168,181)	(90,084)	(168,181)
Profit before taxation		437,419	1,722,974	1,516,878	2,709,142
Taxation	21	-	-	-	-
Net profit for the financial year		437,419	1,722,974	1,516,878	2,709,142
Profit attributable to :					
Equity holders of the parent company		436,680	1,724,703	1,516,878	2,709,142
Minority interest		739	(1,729)	-	-
		437,419	1,722,974	1,516,878	2,709,142
Earnings per share (sen)					
- basic	22	0.16	0.65	-	-
- par value of 10 sen per share					
- diluted	22	N/A	N/A	-	-
- par value of 10 sen per share					

See the accompanying notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

	Share Capital	Share Premium	Reserves	Accumulated Losses/ Retained Profits	Total	Minority Interest	Total Equity
	RM	RM	RM	RM	RM	RM	RM
Group							
Balance at 1 January 2006	26,400,000	4,122,965	(144,309)	(3,530,320)	26,848,336	21,807	26,870,143
Foreign exchange reserves	-	-	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 31 December 2006	26,400,000	4,122,965	8,868	(1,805,617)	28,726,216	20,465	28,746,681
Issue of shares	2,641,150	173,296	-	-	2,814,446	-	2,814,446
Employee's Share Options Scheme :-							
- Share issued	11,500	-	-	-	11,500	-	11,500
- Options granted	-	-	13,136	-	13,136	-	13,136
Foreign exchange difference	-	-	2,655	-	2,655	(2,081)	574
Net profit for the financial year	-	-	-	436,680	436,680	739	437,419
Balance at 31 December 2007	29,052,650	4,296,261	24,659	(1,368,937)	32,004,633	19,123	32,023,756

	Share Capital	Share Premium	Reserves	Accumulated Losses/ Retained Profits	Total	Minority Interest	Total Equity
	RM	RM	RM	RM	RM	RM	RM
Company							
Balance at 1 January 2006	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 31 December 2006	26,400,000	4,122,965	-	4,976,192	35,499,157	-	35,499,157
Issue of shares	2,641,150	173,296	-	-	2,814,446	-	2,814,446
Employee's Share Options Scheme :-							
- Share issued	11,500	-	-	-	11,500	-	11,500
- Options granted	-	-	13,136	-	13,136	-	13,136
Net profit for the financial year	-	-	-	1,516,878	1,516,878	-	1,516,878
Balance at 31 December 2007	29,052,650	4,296,261	13,136	6,493,070	39,855,117	-	39,855,117

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	Group		Company	
		2007 RM	2006 RM	2007 RM	2006 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		437,419	1,722,974	1,516,878	2,709,142
Adjustments for:					
Amortisation		75,050	75,050	75,050	75,050
Depreciation of property, plant and equipment		90,529	237,876	55,906	73,581
Gain on disposal of property, plant and equipment		(4,154)	-	-	-
Interest income		(42,590)	(26,672)	(42,590)	(26,672)
Interest expense		90,084	168,181	90,084	168,181
Share - based compensation		13,136	-	13,136	-
Unrealised gain on foreign exchange		1,225	153,448	-	-
Operating profit before working capital changes		660,699	2,330,857	1,708,464	2,999,282
Decrease in inventories		560,308	722,145	39,560	385,371
Increase in trade and other receivables		(9,065,267)	(2,401,179)	(9,759,933)	(2,965,274)
Increase in trade and other payables		9,090,094	257,697	9,099,847	274,819
Cash generated from operations		1,245,834	909,520	1,087,938	694,198
Interest paid		(90,084)	(168,181)	(90,084)	(168,181)
Development cost paid		(480,834)	(505,675)	(262,465)	(308,431)
Net cash generated from operating activities		674,916	235,664	735,389	217,586
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(141,277)	(6,148)	(140,627)	(6,148)
Proceeds from disposal of property, plant and equipment		4,500	-	-	-
Interest income received		42,590	26,672	42,590	26,672
Net cash generated from / (used in) investing activities		(94,187)	20,524	(98,037)	20,524
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of term loans		(59,832)	(54,342)	(59,832)	(54,341)
Net proceeds from issue of share capital		2,825,946	-	2,825,946	-
Net cash generated from / (used in) financing activities		2,766,114	(54,342)	2,766,114	(54,341)
Net increase in cash and cash equivalents		3,346,843	201,846	3,403,466	183,769
Cash and cash equivalents at beginning of financial year		(2,553,661)	(2,755,507)	(2,607,367)	(2,791,136)
Cash and cash equivalents at end of financial year	23	793,182	(2,553,661)	796,099	(2,607,367)

See the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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 6 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 SS 21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan.
- (iii) The principal place of business of the Company is located at Lot 6.04 Level 6 KPMG Tower, 8, First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan.
- (iv) The number of employees of the Group and of the Company as at 31 December 2007 were 21 and 8 (2006: 25 and 8).
- (v) The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 22 April 2008.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved Financial Reporting Standards in Malaysia and the provision of the Companies Act 1965.

3. SIGNIFICANT ACCOUNTING POLICIES

- (a) The financial statements of the Group and of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies.
- (b) The preparation of financial statements in conformity with the applicable Approved Financial Reporting Standards in Malaysia and the provision of the Companies Act 1965 requires the directors to use 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 Group's accounting policies. Although these estimates and judgement are based on the directors' best knowledge of current events and actions, actual results may differ.

(c) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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.

(d) **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

(e) **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.

(f) **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.

(g) **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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(h) **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.

(i) **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.

(j) **Trade and other receivables**

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

(k) **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.

(l) **Functional and presentation currency**

The separate financial statements of each entity in the Group are measured using the functional currency which is the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional 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:

	2007	2006
	RM	RM
Foreign currency:		
1000 Indonesia Rupiah	0.353	0.392

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

(m) **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.

(n) **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 subject to an insignificant risk of changes in value.

(o) **Financing costs**

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

(p) **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 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 of 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.

FOR THE YEAR ENDED 31 DECEMBER 2007

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.

4. CHANGE IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF REVISED FRS

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

On 1 January 2007, the Group and the Company adopted the following applicable FRS mandatory for the financial year beginning 1 January 2007 :

- FRS 124 Related Party Disclosures

The adoption of FRS 124 has no material impact on the financial statements of the Group and the Company. Certain comparative figures have been restated or reclassified to comply with additional disclosure requirements.

(b) Standards that are not yet effective and have not been early adopted

The Company have considered all published standards not yet effective.

The new accounting standards that are relevant and mandatory for the Group's and the Company's financial periods beginning on or after 1 January 2008 or later periods, but which the Group and the Company have not early adopted, are as follows :-

- FRS 107 Cash flows statements
- FRS 112 Income taxes
- FRS 118 Revenue
- FRS 134 Interim financial reporting
- FRS 137 Provisions, contingent liabilities and contingent assets
- FRS 139 Financial instruments; Recognition and Measurement
(Effective date yet to be determined by MASB)

With the exception of FRS 139, the amendments to published standards are not expected to have a material impact on the financial statements.

The Group and the Company have relied on the transitional provisions of FRS 139 not to disclose the possible impact that the application of FRS 139 will have on the Group's and the Company's financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 DECEMBER 2007

5. 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 1 January 2007	39,005	17	23,559	116,064	178,645
Additions	6,000	700	4,980	129,597	141,277
Depreciation charge	(29,242)	(23)	(11,823)	(49,441)	(90,529)
Capitalised to development cost	(1,015)	-	-	-	(1,015)
Disposal	-	(4)	(339)	(3)	(346)
At 31 December 2007	14,748	690	16,377	196,217	228,032
At 31 December 2007					
Cost	1,621,490	98,238	199,494	652,422	2,571,644
Accumulated depreciation	(1,606,742)	(97,548)	(183,117)	(456,205)	(2,343,612)
Net book value	14,748	690	16,377	196,217	228,032
At 31 December 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	39,005	17	23,559	116,064	178,645
Company					
Net book value					
At 1 January 2007	6,607	7	15,983	106,406	129,003
Additions	6,000	700	4,330	129,597	140,627
Depreciation charge	(3,235)	(23)	(6,904)	(45,744)	(55,906)
At 31 December 2007	9,372	684	13,409	190,259	213,724
At 31 December 2007					
Cost	841,530	95,338	177,908	580,134	1,694,910
Accumulated depreciation	(832,158)	(94,654)	(164,499)	(389,875)	(1,481,186)
Net book value	9,372	684	13,409	190,259	213,724
At 31 December 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	6,607	7	15,983	106,406	129,003

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 DECEMBER 2007

6. INVESTMENT IN SUBSIDIARIES

	Company	
	2007 RM	2006 RM
Unquoted shares, at cost	2,561,387	2,561,387
	2,561,387	2,561,387

Details of the subsidiary companies are as follows:-

Name of Company	Country of incorporation	Group's effective interest		Principal activities
		2007	2006	
Palette System Sdn. Bhd.	Malaysia	100%	100%	Development and marketing IT product.
PT Palette Multimedia*	Indonesia	99%	99%	Selling hardware and IT consulting

*Audited by another firm of auditors

7. INTANGIBLE ASSETS

	Intellectual Property and License Right	Development cost	Total
	RM	RM	
Group			
Cost at 1 January 2007	17,000,000	3,332,280	20,332,280
Additions during the year	-	480,834	480,834
Reclassification	-	1,015	1,015
Cost at 31 December 2007	17,000,000	3,814,129	20,814,129
Less : Cumulative Amortisation			
At 1 January 2007	-	(300,200)	(300,200)
Charge for the year	-	(75,050)	(75,050)
At 31 December 2007	-	(375,250)	(375,250)
Balance at 31 December 2007	17,000,000	3,438,879	20,438,879
Balance at 31 December 2006	17,000,000	3,032,080	20,032,080
Amortisation at 31 December 2006	-	75,050	75,050

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 DECEMBER 2007

7. INTANGIBLE ASSETS (Continued)	Intellectual Property and License Right RM	Development cost RM	Total RM
Company			
Cost at 1 January 2007	17,000,000	2,746,912	19,746,912
Additions during the year	-	262,465	262,465
Cost at 31 December 2007	<u>17,000,000</u>	<u>3,009,377</u>	<u>20,009,377</u>
Less : Cumulative Amortisation			
At 1 January 2007	-	(300,200)	(300,200)
Charge for the year	-	(75,050)	(75,050)
At 31 December 2007	-	(375,250)	(375,250)
Balance at 31 December 2007	<u>17,000,000</u>	<u>2,634,127</u>	<u>19,634,127</u>
Balance at 31 December 2006	<u>17,000,000</u>	<u>2,446,712</u>	<u>19,446,712</u>
Amortisation at 31 December 2006	<u>-</u>	<u>75,050</u>	<u>75,050</u>

8. RECEIVABLES

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Non-current assets				
Cash at bank	<u>12,931,935</u>	<u>12,944,815</u>	<u>12,931,935</u>	<u>12,944,815</u>

This amount held by the Company is not available for use by the Group. [Refer Note 27 (i)].

9. INVENTORIES

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
At costs:				
Hardware	2,542,402	3,101,700	977,327	1,016,887
Software	12,719	13,729	7,084	7,084
	<u>2,555,121</u>	<u>3,115,429</u>	<u>984,411</u>	<u>1,023,971</u>

During the financial year, the Group had written off RM439,295 of inventories which are recognised as an expense in the income statement.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 DECEMBER 2007

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Trade receivables	19,090,975	10,220,140	16,047,518	6,980,772
Other receivables	154,275	179,962	154,275	167,376
Deposits	1,199,077	968,198	1,189,691	968,198
Prepayments	5,400	3,280	-	-
Amount due from subsidiaries	-	-	11,420,228	10,922,553
	<u>20,449,727</u>	<u>11,371,580</u>	<u>28,811,712</u>	<u>19,038,899</u>

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

11. FIXED DEPOSIT WITH LICENSED BANKS

Included in fixed deposit of the Group and of the Company are amounts in total of RM1,000,000 (2006: RM1,000,000) pledged to the licensed banks for banking facilities extended to the Group and the Company.

12. TRADE AND OTHER PAYABLES

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Trade payables	24,881,840	15,762,809	23,649,814	14,523,340
Accrued expenses	323,142	352,079	269,660	296,287
Amount due to subsidiaries	-	-	1,984,777	1,984,777
Amount due to directors	14,473	14,473	14,473	14,473
	<u>25,219,455</u>	<u>16,129,361</u>	<u>25,918,724</u>	<u>16,818,877</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 RM11,087,183.25 which is involved in dispute as per Note 27(i).

13. SHORT TERM BORROWINGS

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Current:				
Bank overdraft (secured)	852,842	1,404,879	844,763	1,404,879
Bankers' acceptance	591,000	2,386,000	591,000	2,386,000
Current portion of:				
Long term loan (Note 17)	61,393	56,457	61,393	56,457
	<u>1,505,235</u>	<u>3,847,336</u>	<u>1,497,156</u>	<u>3,847,336</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 deposit pledged to the licensed banks.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 DECEMBER 2007

14. SHARE CAPITAL

	Group and Company		
	No. of shares	Par Value RM	Value RM
AUTHORISED :			
Balance at 31 December 2006	200,000,000	0.25	50,000,000
Share split and balance at 31 December 2007	<u>500,000,000</u>	0.10	<u>50,000,000</u>
ISSUED AND FULLY PAID-UP :			
Balance at 31 December 2006	105,600,000	0.25	26,400,000
Issued during the year :-			
- Exercise of share options	46,000	0.25	11,500
- Private placement	9,082,000	0.25	2,270,500
Balance before share split	<u>114,728,000</u>	0.25	<u>28,682,000</u>
Balance after share split	286,820,000	0.10	28,682,000
Issued during the year :-			
- Private placement	3,706,500	0.10	370,650
Balance at 31 December 2007	<u>290,526,500</u>	0.10	<u>29,052,650</u>

The ordinary share of RM0.25 each were sub-dividend into RM0.10 per ordinary share during the financial year.

Employee Share Option Scheme

The Company implemented an Employee Share Option Scheme ("ESOS") which came into effect on 7 April 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 RM0.25, whichever is the higher.

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.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 DECEMBER 2007

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

	Year ended 31.12.2007		Year ended 31.12.2006	
	Average exercise price RM / share	Options	Average exercise price RM / share	Options
At beginning of year	-	8,210,000 Granted	0.25	8,210,000
Exercised	0.25	(46,000)	-	-
Balance prior to adjustment for share split	<u>0.25</u>	<u>8,164,000</u>	<u>0.25</u>	<u>8,210,000</u>
Balance after adjustment for share split	0.10	20,410,000		
Lapsed	0.10	(1,785,000)		
At end of year	<u>0.10</u>	<u>18,625,000</u>		

The options outstanding at year end has exercise prices of RM0.10. Options granted during the period will expire on 5 April 2014.

15. SHARE PREMIUM AND RESERVES

	Group/Company				
	2007		2006		
	RM	RM	RM	RM	
(a) Share premium					
Balance as January 1		4,122,965		4,122,965	
Premium of RM0.015 per share arising on issue of 9,082,000 new ordinary shares		136,230		-	
Premium of RM0.01 per share arising on issue of 3,706,500 new ordinary shares		37,066		-	
Balance as December 31		<u>4,296,261</u>		<u>4,122,965</u>	
(b) ESOS reserves					
		Group		Company	
		2007	2006	2007	2006
		RM	RM	RM	RM
Options granted		<u>13,136</u>	<u>-</u>	<u>13,136</u>	<u>-</u>
(c) Foreign exchange reserves					
At January 1		8,868	(144,309)	-	-
Currency translation difference		2,655	153,177	-	-
At December 31		<u>11,523</u>	<u>8,868</u>	<u>-</u>	<u>-</u>
(d) Accumulated losses / Retained profits		<u>(1,368,937)</u>	<u>(1,805,617)</u>	<u>6,493,070</u>	<u>4,976,192</u>

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

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 DECEMBER 2007

16. MINORITY SHAREHOLDERS' INTEREST

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

17. LONG TERM BORROWINGS

	Group / Company	
	2007	2006
	RM	RM
Current:		
Term Loan (Note 13)	61,393	56,457
Non-current:		
Long term loan	98,161	162,929
	<u>159,554</u>	<u>219,386</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 RM500,000 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.

	Group / Company	
	2007	2006
	RM	RM
The loan is repayable as follow:		
Current:	61,393	56,457
Within two years:	98,161	127,271
Within two and five years:	-	35,658
	<u>159,554</u>	<u>219,386</u>

18. REVENUE

	Group		Company	
	2007	2006	2007	2006
	RM	RM	RM	RM
Sale of goods	<u>7,631,249</u>	<u>17,922,037</u>	<u>7,493,951</u>	<u>17,478,982</u>

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 DECEMBER 2007

19. PROFIT FROM OPERATIONS

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
The following items have been charged/(credited) in arriving at profit from operations:				
Audit fee	14,000	14,000	8,000	8,000
Amortisation of development cost	75,050	75,050	75,050	75,050
Director's remuneration	163,248	123,804	133,248	93,804
Depreciation of property, plant and equipment	90,529	237,876	55,906	73,581
Interest expenses	90,084	168,181	90,084	168,181
Inventories written off	439,295	-	-	-
Rental expenses	114,848	159,553	104,445	111,253
Gain on disposal of property, plant and equipment	(4,154)	-	-	-
Net on exchange loss - Realised	254,266	182,326	254,266	15,065
Interest income	(42,590)	(26,672)	(42,590)	(26,672)
(a) Directors' remuneration:				
Fees	16,210	18,016	16,210	18,016
Salary	147,038	105,788	117,038	75,788
	<u>163,248</u>	<u>123,804</u>	<u>133,248</u>	<u>93,804</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 RM50,000 are as follows:-

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Non-executive directors				
Below RM50,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
Executive director				
Below RM50,000	-	-	-	-
RM50,000 - RM100,000	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

20. FINANCE COSTS

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Bankers' acceptance interest	75,360	147,966	75,360	147,966
Term loan interest	14,724	20,215	14,724	20,215
	<u>90,084</u>	<u>168,181</u>	<u>90,084</u>	<u>168,181</u>

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 DECEMBER 2007

21. TAXATION

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Tax charge for the financial year	-	-	-	-
Current year's provision	-	-	-	-
	<u>-</u>	<u>-</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 6 October 2000. The extension of Pioneer Status for the Company has been approved by authorities concerned for another five year period from the date of expiry of the first five year period (30 September 2005) in accordance with the Bill of Guarantees provided to all MSC Malaysia Status companies.

22. EARNINGS PER SHARE

	Group	
	2007	2006
Earnings per ordinary share of RM0.10 each is calculated as follows :-		
Basic :-		
Net profit for the year attributable to equity holders of the parent company	431,419	1,722,974
Basic earnings per share	0.16 sen	0.65 sen
Weighted average number of shares		
Issued ordinary shares at January 1	264,000,000	264,000,000 *
Effect of private placement	13,205,750	-
Effect of ESOS	95,833	-
	<u>277,301,583</u>	<u>264,000,000 *</u>

* Adjusted to reflect the effect of the share split.

23. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Fixed deposit with licensed banks	2,221,173	1,182,947	2,221,173	1,182,947
Cash at bank	10,689	48,772	10,689	565
Cash on hand	5,162	5,499	-	-
Deposits, cash and bank balances	<u>2,237,024</u>	<u>1,237,218</u>	<u>2,231,862</u>	<u>1,183,512</u>
Bank overdrafts	(852,842)	(1,404,879)	(844,763)	(1,404,879)
Bankers' acceptance	(591,000)	(2,386,000)	(591,000)	(2,386,000)
	<u>793,182</u>	<u>(2,553,661)</u>	<u>796,099</u>	<u>(2,607,367)</u>

NOTES TO THE FINANCIAL STATEMENTS



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24. 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:

	2007	2006
	RM	RM
Subsidiary Company		
Palette System Sdn. Bhd.		
Sale of goods	1,216	175,327
Purchases of goods	12,116	32,672
	<u>11,420,228</u>	<u>10,922,553</u>
Significant outstanding balances at the balance sheet date, arising from:		
Sale and purchases of goods and services and advances	<u>11,420,228</u>	<u>10,922,553</u>
PT Palette Multimedia		
Significant outstanding balances at the balance sheet date, arising from:		
Sale and purchases of goods	<u>(1,984,777)</u>	<u>(1,984,777)</u>
Director		
Palette Computer Sdn. Bhd.		
in which Abdul Razak Bin Dato' Haji Ipap (Director of the Company), is a director		
Sale of goods	195,857	475,236
Purchases of goods	10,500	-
	<u>(51,041)</u>	<u>192,060</u>
Significant outstanding balances at the balance sheet date, arising from:		
Sale and purchases of goods	<u>(51,041)</u>	<u>192,060</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>2,182</u>	<u>2,182</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 Berhad		
in which Eg Kah Yee (Director of the Company), is a director		
Sale of goods and services	-	15,000
	<u>1,529</u>	<u>2,029</u>
Significant outstanding balances at the balance sheet date, arising from:		
Sale of goods and services and advances	<u>1,529</u>	<u>2,029</u>

The above transaction has 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 31 DECEMBER 2007

25. 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.

26. 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 before tax	
	2007 RM	2006 RM	2007 RM	2006 RM
Major segment by country				
- Revenue from external customer				
Malaysia	7,631,249	17,922,037	442,733	1,895,872
Indonesia	-	-	(5,314)	(172,898)
- Inter segment				
Malaysia	13,332	207,999	-	-
	7,644,581	18,130,036	437,419	1,722,974
Eliminations	(13,332)	(207,999)	-	-
	7,631,249	17,922,037	437,419	1,722,974

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



FOR THE YEAR ENDED 31 DECEMBER 2007

27. SIGNIFICANT EVENTS

- (i) On 14 May 2004, the Company filed a legal suit at the High Court of Kuala Lumpur for defects of goods valued at RM3.6 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 RM12,944,815.39 which is involved in this dispute has been reflected in the Company's receivables in non-current assets.
- (ii) On 2 July 2007, the Company via a private placement, issued 9,082,000 new ordinary shares of RM0.25 each at an issue price of RM0.265 per share in cash for working capital purposes.
- (iii) On 4 July 2007, the issued and paid up share capital of the Company of 114,728,000 ordinary shares of RM0.25 each was sub-divided into 286,820,000 ordinary shares of RM0.10 each on the basis of 2 1/2 new ordinary shares of RM0.10 each for every 1 ordinary share of RM0.25 each.
- (iv) On 11 July 2007, the Company via a private placement, issued 3,706,500 new ordinary shares of RM0.10 each at an issue price of RM0.11 per share.
- (v) On 30 August 2007, the Company entered into a Memorandum of Understanding with a third party to provide high bandwidth internet access service for wired and wireless networks within a township area and a building in Petaling Jaya.

28. COMPARATIVE FIGURES

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



STATEMENT BY DIRECTORS

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 19 to 39 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 31 December 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.

SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS

EG KAH YEE
Director

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

Kuala Lumpur,
Date: 22 April 2008

STATUTORY DECLARATION

I, **SUKHDEV SINGH A/L BANTA SINGH**, I/C No: 551111-04-5203, 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 19 to 39, 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 the above named
SUKHDEV SINGH A/L BANTA SINGH
at Kuala Lumpur in the Federal Territory
on this 22 April 2008

Before me

**SUKHDEV SINGH A/L
BANTA SINGH**
Director

S. Siva Ahnanthan
No. W293
Commissioner for Oaths

REPORT OF 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 19 to 39. The preparation of the financial statements are the responsibility of the Company's directors. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

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 Financial Reporting 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 31 December 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-0886

Chartered Accountants (Malaysia)

DR PAUL CHENG CHAI LIU

Partner

No. Kelulusan 1561/03/09 (J)

Kuala Lumpur,

Date: 22 April 2008

SHAREHOLDING STATISTICS



Shareholding Statistics as at 9 April 2008

Authorised Share Capital	:	RM50,000,000.00
Issued and fully paid-up Share Capital	:	RM29,052,650
Class of Shares	:	Ordinary shares of RM0.10 each
Voting Rights	:	1 vote per ordinary share

Analysis of Shareholdings

As at 9 April 2008

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares Held
1 to 99 Shares	17	0.717	777	0.000
100 to 1,000 Shares	265	11.186	85,972	0.029
1,001 to 10,000 Shares	568	23.976	3,363,800	1.157
10,001 to 100,000 Shares	1,191	50.274	45,125,502	15.532
100,001 to 14,526,324 Shares (*)	327	13.803	169,738,147	58.424
14,526,325 to and above (**)	1	0.042	72,212,302	24.855
Total	2,369	100.000	290,526,500	100.000

Remark : * - Less than 5% of issued shares
 ** - 5% and above of issued shares

30 Largest Shareholders

As at 9 April 2008

No.	Shareholders	No. of Shares	%
1.	Eg Kah Yee	72,212,302	24.856
2.	Ng Geok Lui	6,642,000	2.286
3.	See Lee Ming	6,602,500	2.273
4.	HDM Nominees (Tempatan) Sdn Bhd - Pledged securities account for Chee Pei Pei (M14)	5,056,250	1.740
5.	Teo Kin Swee	5,041,750	1.735
6.	ACE Partner Group Limited	4,914,500	1.692
7.	Lee Kin Hin	3,873,850	1.333

SHAREHOLDING STATISTICS



8.	JF APEX Nominees (Tempatan) Sdn Bhd - Pledged securities account for Voon Sze Lin	3,708,200	1.276
9.	EB Nominees (Tempatan) Sdn Bhd - Pledged securities account for Lim Aik Hoe (SFC)	3,125,000	1.076
10.	Yap Pin Ho	3,060,000	1.053
11.	Ong Nyoke Lian	2,875,000	0.990
12.	RHB Nominees (Tempatan) Sdn Bhd - Pledged securities account for Lee Kin Hin	2,832,250	0.975
13.	Goh King Wang	2,500,000	0.861
14.	Kan Shee Hoa	2,500,000	0.861
15.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Teo Hoo Seng	2,500,000	0.861
16.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Teo Cheng Tuan Donald	2,500,000	0.861
17.	Woo Wai Mun	2,500,000	0.861
18.	Public Nominees (Tempatan) Sdn Bhd - Pledged securities account for Yew Hwa Hin (E-BMM)	2,440,000	0.840
19.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Tan See Tee	2,371,750	0.816
20.	Lim Lae Yong	2,280,100	0.785
21.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Tan Tiong Beng	2,250,000	0.774
22.	Ong Hock Siong @ Benny Ong Hock Siong	2,192,250	0.755
23.	Chai Yoke Peng	2,022,800	0.696
24.	Chin Lai Hong	1,709,700	0.588
25.	Chuan Tsui Ju	1,522,500	0.524
26.	HDM Nominees (Tempatan) Sdn Bhd - Pledged securities account for Chew Kam Weng (M15)	1,500,000	0.516
27.	Jyuo-Min Shyu	1,250,000	0.430
28.	Tan Ooi Chai	1,194,500	0.411
29.	Eg Kaa Chee	1,193,502	0.410
30.	Khor Yeow Peng @ Khor Yau Peng	1,170,000	0.402

Total		155,540,704	53.537
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SHAREHOLDING STATISTICS



Substantial Shareholders

As at 9 April 2008 (As per the Register of Substantial Shareholders)

No.	Directors	Direct Shareholdings		Indirect Shareholdings	
		No. of Shares Held	%	No. of Shares Held	%
1.	Eg Kah Yee	72,834,052	25.07	1,917,947 ¹	0.66

¹ Deemed interested by virtue of his interest in Digital Season Sdn Bhd pursuant to Section 6A of the Companies Act, 1965 and through his brother, Eg Kaa Chee.

Directors' Shareholdings

As at 9 April 2008 (As per the Register of Directors' Shareholding)

No.	Directors	Direct Shareholdings		Indirect Shareholdings	
		No. of Shares Held	%	No. of Shares Held	%
1.	Eg Kah Yee	72,834,052	25.070	1,917,947 ¹	0.660
2.	Eg Kaa Chee	1,193,502	0.411	72,834,052 ²	25.070
3.	Abdul Razak Bin Dato' Haji Ipap	0	0	0	0
4.	Sukhdev Singh A/L Banta Singh	0	0	0	0
5.	Thong Kooi Pin	250	0	0	0

¹ Deemed interested by virtue of his interest in Digital Season Sdn Bhd pursuant to Section 6A of the Companies Act, 1965 and through his brother, Eg Kaa Chee.

² Deemed interested through his brother, Eg Kah Yee.

NOTICE OF ELEVENTH ANNUAL GENERAL MEETING



NOTICE IS HEREBY GIVEN that the Eleventh Annual General Meeting of the Company will be held at One World Hotel at First Avenue, Bandar Utama City Centre, 47800 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 10 June 2008 at 11:00 a.m. to transact the following business :-

AGENDA

ORDINARY BUSINESS

- 1) To receive the Audited Financial Statements for the financial year ended 31 December 2007 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 2007. **(Resolution 2)**
- 3) To re-elect Eg Kah Yee who retires pursuant to Article 119 of the Company's Articles of Association. **(Resolution 3)**
- 4) To re-elect Abdul Razak Bin Dato' Haji Ipap who retires pursuant to Article 119 of the Company's Articles of Association. **(Resolution 4)**
- 5) To re-appoint Messrs Cheng & Co. as Auditors of the Company and 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 Resolution :-

- 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."

7) 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 No. 008016)
LOO CHOON KEOW (MAICSA No. 7039252)
Company Secretaries

Petaling Jaya
16 May 2008

NOTICE OF ELEVENTH 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 : Authority to Directors to Allot and Issue Shares**

The Ordinary Resolution proposed under 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 Annual General Meeting.

STATEMENT ACCOMPANYING NOTICE OF THE ELEVENTH ANNUAL GENERAL MEETING

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

FORM OF PROXY



Number of shares held:	
------------------------	--

I/We **NRIC/Company No**

(Full name in block capital)

of

(Full name address)

being a member/members of **PALETTE MULTIMEDIA BERHAD** hereby appoint of

..... or failing whom,

(Full name in block capital)

..... 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 Eleventh Annual General Meeting of the Company to be held at One World Hotel at First Avenue, Bandar Utama City Centre, 47800 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 10 June 2008 at 11:00 a.m. and at any adjournment thereof or failing.

RESOLUTIONS	*FOR	*AGAINST
ORDINARY BUSINESS		
1. To receive the Audited Financial Statements for the financial year ended 31 December 2007 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 2007.		
3. To re-elect Eg Kah Yee who retires pursuant to Article 119 of the Company's Articles of Association.		
4. To re-elect Abdul Razak Bin Dato' Haji Ipap who retires pursuant to Article 119 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.		

(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

Dated this day of 2008

Notes:-

- (i) A member entitled to attend and vote at the meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
- (ii) Where a member is an authorised nominee as defined under the Securities Industries (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, this form 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 SS 21/58, 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

Level 14, Uptown 1,
No. 1, Jalan SS21/58, Damansara Uptown,
47400 Petaling Jaya,
Selangor Darul Ehsan.
Tel : 03-7718 6188 Fax : 03-7725 7791

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