



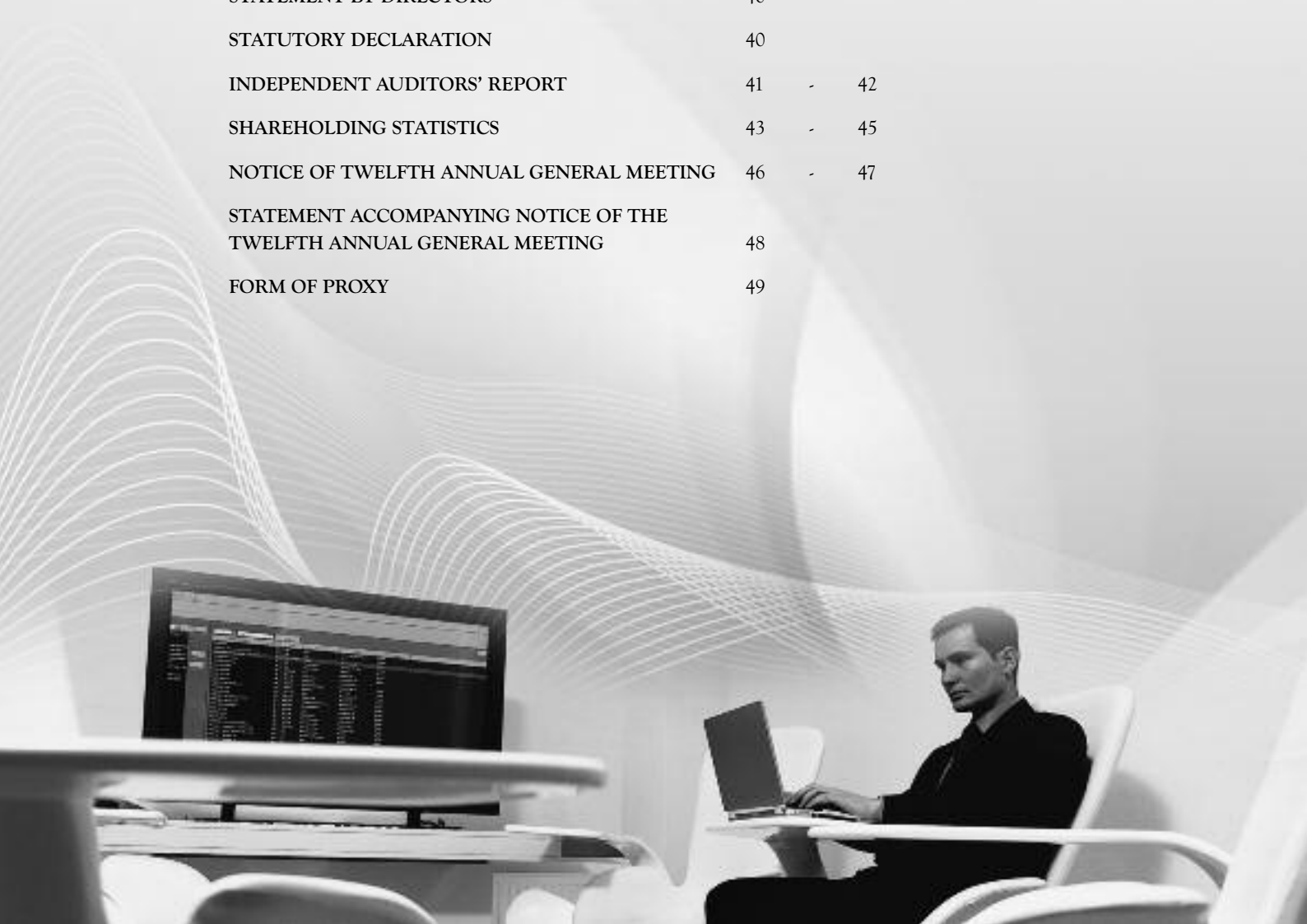
Palette
MULTIMEDIA BERHAD
(420099-K)

Annual Report 2008



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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 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur. Tel : 03-2264 8888 Fax : 03-2282 2733
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
REGISTRAR :	PFA Registration Services Sdn Bhd Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur. Tel : 03-2264 3883 Fax : 03-2282 1886
CORPORATE SOLICITORS :	Rajah, Lau & Associates B-13-13, Block B, 13th Floor, Unit 13, Megan Phileo Avenue, 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur . Tel : 03-2710 5585 Fax : 03-2710 5589
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

EG KAH YEE

Chairman / Managing Director

Mr. Eg Kah Yee, aged 49, 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.

Currently, he also sits on the board of directors of Anchor Bay Technology Inc., Key ASIC Berhad and various private limited companies.

EG KAA CHEE

Non-Independent & Non-Executive Director

Mr. Eg Kaa Chee, aged 45, 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 several companies and non-governmental organizations.

ABDUL RAZAK BIN DATO' HJ. IPAP

Independent Non-Executive Director

En. Abdul Razak Bin Dato' Hj. Ipap, aged 49, 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 54, 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 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 37, 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. He was re-designated as a Non-Independent Non-Executive Director of M-Mode Berhad on 1 December 2008.

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 11 years.

Dear Shareholders,

I am pleased as the Chairman of Palette Multimedia Berhad (“ Palette” or “ the Company”) to present the Annual Report and the Audited Financial Statements of the Group and the Company for the financial year ended (“FYE”) 31 December 2008.

Financial & Operational Performance

The Group has posted a net loss of RM5,121,064 as compared to a net profit of RM0.44million over last year. The losses were mainly due to provisions made to the impairment of intangible assets, doubtful debts and diminution in value of the inventories hold by the Group.

Industry Outlook & Development.

The economic turmoil over the past months has had its impact on all industries. However one significant fact that has emerged is the willingness of various governments to continue to invest in IT and communications infrastructure. This has been a core focus for Palette over the past years and we anticipate good opportunities in this area.

The slowdown in WiMax rollouts has continued but this has had a positive effect on WiFi rollouts which have become a good (and cheaper) alternative for high speed data access. Palette has been succesful in securing a number of large projects in this area; however these are in the growing area of large scale WiFi deployments on a municipal and campus scale. We anticipate this business to accelerate in 2009 and given the rich portfolio of products in this area that we carry and we should see good growth.

Another key new area of focus for Palette is High Speed Broadband Networks where a new partnership with a major US player Adtran Corp has been signed. With this partnership Palette is better equipped to compete in the fast growing area of fiber and copper based broadband networks. We anticipate strong growth in high speed broadband deployments as governments are continuing to support such deployments with aggressive funding as a necessity to stay competitive for the future.

Prospects

The Telco industry remains our key focus and we feel that capital expenditure in this area will continue despite the overall economic downturn. To cushion the impact of the current economic turmoil, Palette is beginning to focus on the Defense and Security industry with solutions targeted at Federal customers. There will be an impact this year on our enterprise business as companies begin to cut back on spending but to some extent this may be offset by increased spending in the Telco space due to Government subsidies.

Our ability to customize solutions through the use of R&D team is beginning to show results, with one major win at a Malaysian Government-Linked Company (“GLC”) for nationwide deployment of a highly customized WiFi solution for enterprise use. We will focus on similar projects throughout this year as such projects have a recurring revenue life of a number of years usually.

The Palette R&D team has successfully developed a range of WiFi Mesh, Hotzone and Hotspot solutions and we will see the rollout to customers within this year with a positive impact on our revenue. The total R&D expenditure incurred by the Group for FYE 2008 was RM0.56 million.

For the coming year the R&D team will focus on low cost products targeted at large scale wireless broadband deployments and to accelerate this development we are partnering with key research institutes.

Appreciation

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

Thank you.

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 2008, four (4) board meetings were held and the details of each Directors' attendance are set out as follows:-

Directors	Meeting Attendance
Eg Kah Yee (Chairman)	4/4
Eg Kaa Chee	4/4
Abdul Razak Bin Dato' Hj. Ipap	4/4
Sukhdev Singh A/L Banta Singh	4/4
Thong Kooi Pin	4/4

(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 Director and two (2) Independent Non-Executive Directors. The Board is satisfied 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 2008 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	151.9	-
Fees	-	18.0
Benefit in kind	-	-
Total	151.9	18.0

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 terms 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 Ippap - 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 authorise 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 four (4) Audit Committee meetings held during the financial year ended 31 December 2008 and the attendance record are as follows:-

	Meeting attended
Abdul Razak Bin Dato' Haji Ipap	4/4
Eg Kaa Chee	4/4
Thong Kooi Pin	4/4

Summary of Activities of Committee

During the financial year ended 31 December 2008, 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 has recently appointed an in-house internal auditor reporting directly to the Audit Committee. The functions of the internal auditor are to ensure a regular review of the adequacy and integrity of its internal control system. The internal auditor will also be required to assist the Group in enhancing its existing risk management framework and adopting a risk-based approach.

The internal auditor will also require conducting regular and systematic reviews on all operating units and submitting an independent report to the Audit Committee for review and approval to ensure adequate coverage. There was no cost incurred for the internal audit functions for the FYE 31 December 2008 as the internal auditor was recently appointed.

The Board recognizes the importance of good corporate governance in discharging its responsibilities, protecting and enhancing shareholders' value through promoting and practicing 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 Bursa Securities and Malaysia Code on Corporate Governance ("Code").

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 verified there was no options granted for the year ended 31 December 2008.

STATEMENT OF INTERNAL CONTROL



1. Introduction

The Board is committed to maintain 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 2008.

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.

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 2008.

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 2008 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.

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 2008.

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
Loss for the year :-		
Attributable to equity holders of the Company	(5,123,796)	(3,311,946)
Attributable to minority interests	2,732	-
	<u>(5,121,064)</u>	<u>(3,311,946)</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

There were no changes in the issued and paid up capital of the Company during the financial year. There were no debentures issued during the financial year.

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 :

2008	No. of options over the ordinary shares of RM0.10 each in the Company			
	At 1.1.2008	Exercised	Lapsed	At 31.12.2008
Name of Option holders				
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

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.

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 1.1.2008	Bought	Sold	At 31.12.2008
Eg Kah Yee	- Direct interest	72,834,052	-	-	72,834,052
	- Indirect interest (1)	1,917,947	-	-	1,917,947
Eg Kaa Chee	- Direct interest	1,193,502	-	-	1,193,502
	- Indirect interest (2)	72,834,052	-	-	72,834,052
Thong Kooi Pin	- Direct interest	250	-	-	250

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

(2) Deemed interest through his brother, Eg Kah Yee's shareholding.

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

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefits 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 arisen 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").

DIRECTORS' REPORT



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: 21 April 2009

BALANCE SHEET



AS AT 31 DECEMBER 2008

	Note	Group		Company	
		2008 RM	2007 RM	2008 RM	2007 RM
NON-CURRENT ASSETS					
Property, plant and equipment	5	153,152	228,032	145,378	213,724
Investment in subsidiaries	6	-	-	2,561,387	2,561,387
Intangible assets	7	18,331,757	20,438,879	17,344,045	19,634,127
Guarantee deposits		6,360	7,060	-	-
Receivables	8	12,931,935	12,931,935	12,931,935	12,931,935
CURRENT ASSETS					
Inventories	9	2,314,941	2,555,121	1,453,705	984,411
Trade and other receivables	10	7,738,234	20,449,727	17,955,672	28,811,712
Fixed deposit with licensed banks	11	2,567,181	2,221,173	2,567,181	2,221,173
Cash and bank balances		86,599	15,851	10,689	10,689
		<u>12,706,955</u>	<u>25,241,872</u>	<u>21,987,247</u>	<u>32,027,985</u>
LESS: CURRENT LIABILITIES					
Trade and other payables	12	16,552,277	25,219,455	17,752,140	25,918,724
Short term borrowings	13	647,490	1,505,235	647,490	1,497,156
Provision for taxation		1,476	1,171	-	-
		<u>17,201,243</u>	<u>26,725,861</u>	<u>18,399,630</u>	<u>27,415,880</u>
NET CURRENT (LIABILITIES) /ASSETS		<u>(4,494,288)</u>	<u>(1,483,989)</u>	<u>3,587,617</u>	<u>4,612,105</u>
		<u>26,928,916</u>	<u>32,121,917</u>	<u>36,570,362</u>	<u>39,953,278</u>
Financed by:					
Share capital	14	29,052,650	29,052,650	29,052,650	29,052,650
Share premium	15	4,296,261	4,296,261	4,296,261	4,296,261
Reserves	15	25,814	24,659	13,136	13,136
Accumulated (losses) / Retained profits	15	(6,492,733)	(1,368,937)	3,181,124	6,493,070
Equity attributable to equity holders of the company		<u>26,881,992</u>	<u>32,004,633</u>	<u>36,543,171</u>	<u>39,855,117</u>
Minority shareholders' interest	16	19,733	19,123	-	-
TOTAL EQUITY		<u>26,901,725</u>	<u>32,023,756</u>	<u>36,543,171</u>	<u>39,855,117</u>
Long term and deferred taxation					
Long term borrowings	17	27,191	98,161	27,191	98,161
		<u>26,928,916</u>	<u>32,121,917</u>	<u>36,570,362</u>	<u>39,953,278</u>

See the accompanying notes to the financial statements.

INCOME STATEMENT



FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Group		Company	
		2008 RM	2007 RM	2008 RM	2007 RM
Revenue	18	3,693,868	7,631,249	3,660,810	7,493,951
Cost of sales		<u>(2,631,497)</u>	<u>(4,952,909)</u>	<u>(1,911,559)</u>	<u>(4,418,373)</u>
Gross profit		1,062,371	2,678,340	1,749,251	3,075,578
Other operating income		96,500	47,737	89,611	42,593
Selling and distribution expenses		(197,814)	(224,479)	(125,204)	(152,995)
Administrative and general expenses		<u>(6,059,874)</u>	<u>(1,974,095)</u>	<u>(5,003,817)</u>	<u>(1,358,214)</u>
(Loss) / Profit from operations	19	<u>(5,098,817)</u>	<u>527,503</u>	<u>(3,290,159)</u>	<u>1,606,962</u>
Finance costs	20	<u>(21,787)</u>	<u>(90,084)</u>	<u>(21,787)</u>	<u>(90,084)</u>
(Loss) / Profit before taxation		<u>(5,120,604)</u>	<u>437,419</u>	<u>(3,311,946)</u>	<u>1,516,878</u>
Taxation	21	<u>(460)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net (loss) / profit for the financial year		<u><u>(5,121,064)</u></u>	<u><u>437,419</u></u>	<u><u>(3,311,946)</u></u>	<u><u>1,516,878</u></u>
(Loss) / Profit attributable to :					
Equity holders of the parent company		<u>(5,123,796)</u>	<u>436,680</u>	<u>(3,311,946)</u>	<u>1,516,878</u>
Minority interest		<u>2,732</u>	<u>739</u>	<u>-</u>	<u>-</u>
		<u><u>(5,121,064)</u></u>	<u><u>437,419</u></u>	<u><u>(3,311,946)</u></u>	<u><u>1,516,878</u></u>
Earnings per share (sen)					
- basic	22	(1.76)	0.16	-	-
- 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 2008

	Share Capital	Share Premium	Reserves	Accumulated Losses	Equity Attributable To Equity Holders Of The Company	Minority Interest	Total Equity
	RM	RM	RM	RM	RM	RM	RM
Group							
Balance at 1 January 2007	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 :-							
- Shares 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
Foreign exchange difference	-	-	1,155	-	1,155	(2,122)	(967)
Net loss for the financial year	-	-	-	(5,123,796)	(5,123,796)	2,732	(5,121,064)
Balance at 31 December 2008	29,052,650	4,296,261	25,814	(6,492,733)	26,881,992	19,733	26,901,725

	Share Capital	Share Premium	Reserves	Accumulated Losses / Retained Profits	Total
	RM	RM	RM	RM	RM
Company					
Balance at 1 January 2007	26,400,000	4,122,965	-	4,976,192	35,499,157
Issue of shares	2,641,150	173,296	-	-	2,814,446
Employee's Share Options Scheme :-					
- Shares issued	11,500	-	-	-	11,500
- Options granted	-	-	13,136	-	13,136
Net profit for the financial year	-	-	-	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
Net loss for the financial year	-	-	-	(3,311,946)	(3,311,946)
Balance at 31 December 2008	29,052,650	4,296,261	13,136	3,181,124	36,543,171

CASH FLOW STATEMENT



FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Note	Group		Company	
		2008 RM	2007 RM	2008 RM	2007 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss) / Profit before taxation		(5,120,604)	437,419	(3,311,946)	1,516,878
Adjustments for:					
Amortisation		171,420	75,050	127,543	75,050
Depreciation of property, plant and equipment		76,350	90,529	70,601	55,906
Gain on disposal of property, plant and equipment		-	(4,154)	-	-
Impairment of intangible assets		2,500,000	-	2,500,000	-
Interest income		(89,543)	(42,590)	(89,543)	(42,590)
Interest expense		21,787	90,084	21,787	90,084
Share - based compensation		-	13,136	-	13,136
Unrealised (loss) / gain on foreign exchange		(422)	1,225	-	-
Bad debts written off		2,135,193	-	1,606,172	-
Operating (loss) / profit before working capital changes		(305,819)	660,699	924,614	1,708,464
Decrease / (Increase) in inventories		240,180	560,308	(469,294)	39,560
Decrease / (Increase) in trade and other receivables		10,576,300	(9,065,267)	9,249,868	(9,759,933)
(Decrease) / Increase in trade and other payables		(8,667,178)	9,090,094	(8,166,584)	9,099,847
Cash generated from operations		1,843,483	1,245,834	1,538,604	1,087,938
Interest paid		(21,787)	(90,084)	(21,787)	(90,084)
Development cost paid		(563,008)	(480,834)	(337,236)	(262,465)
Net cash generated from operating activities		1,258,688	674,916	1,179,581	735,389
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(2,760)	(141,277)	(2,480)	(140,627)
Proceeds from disposal of property, plant and equipment		-	4,500	-	-
Interest income received		89,543	42,590	89,543	42,590
Net cash generated from / (used in) investing activities		86,783	(94,187)	87,063	(98,037)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of term loans		(65,125)	(59,832)	(65,125)	(59,832)
Net proceeds from issue of share capital		-	2,825,946	-	2,825,946
Net cash generated from / (used in) financing activities		(65,125)	2,766,114	(65,125)	2,766,114
Net increase in cash and cash equivalents		1,280,346	3,346,843	1,201,519	3,403,466
Cash and cash equivalents at beginning of financial year		793,182	(2,553,661)	796,099	(2,607,367)
Cash and cash equivalents at end of financial year	23	2,073,528	793,182	1,997,618	796,099

See the accompanying notes to the financial statements.

FOR THE YEAR ENDED 31 DECEMBER 2008

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 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.
- (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 2008 were 17 and 6 (2007: 21 and 8).
- (v) The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 21 April 2009.

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.

FOR THE YEAR ENDED 31 DECEMBER 2008

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 5-20 years of their expected benefits.

FOR THE YEAR ENDED 31 DECEMBER 2008

(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 but are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash - generating unit level.

(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:

	2008 RM	2007 RM
Foreign currency:		
1000 Indonesia Rupiah	0.318	0.353

FOR THE YEAR ENDED 31 DECEMBER 2008

(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 2008

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 NEW AND REVISED FRS

On 1 January, 2008, the Group and the Company adopted the following revised FRSs, amendment to FRS and interpretations :-

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2	Members' Shares in Co - operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach Under FRS 129 2004 - Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2

The revised FRS, amendment to FRS and Interpretations above do not have any significant impact on the financial statements of the Group and of the Company.

At the date of authorisation of these financial statements, the following new FRSs and Interpretations were issued but not yet effective and have not been applied by the Company :

FRS, Amendments to FRS and interpretations		Effective for financial periods beginning on or after
FRS 4	Insurance Contracts	1 January, 2010
FRS 7	Financial Instruments : Disclosures	1 January, 2010
FRS 8	Operating Segments	1 July, 2009
FRS 139	Financial Instruments : Recognition and Measurement	1 January, 2010
IC Interpretation 9	Reassessment of Embedded Derivatives	1 January, 2010
IC Interpretation 10	Interim financial reporting and impairment	1 January, 2010

The Group and the Company are exempted from disclosing the possible impact, if any, to the financial statements upon initial application of FRS 139.

The other new FRS and Interpretations above are expected to have no significant impact on the financial statements of the Group and of the Company upon their initial application.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 DECEMBER 2008

5. PROPERTY, PLANT AND EQUIPMENT

Group	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Total RM
Net book value					
At 1 January 2008	14,748	690	16,377	196,217	228,032
Additions	1,707	-	474	579	2,760
Depreciation charge	(5,005)	(140)	(7,748)	(63,457)	(76,350)
Capitalised to development cost	(1,290)	-	-	-	(1,290)
At 31 December 2008	10,160	550	9,103	133,339	153,152
At 31 December 2008					
Cost	1,623,197	98,238	199,968	653,001	2,574,404
Accumulated depreciation	(1,613,037)	(97,688)	(190,865)	(519,662)	(2,421,252)
Net book value	10,160	550	9,103	133,339	153,152
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

Company	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Total RM
Net book value					
At 1 January 2008	9,372	684	13,409	190,259	213,724
Additions	1,427	-	474	579	2,480
Depreciation charge	(3,250)	(140)	(6,279)	(60,932)	(70,601)
Capitalised to development cost	(225)	-	-	-	(225)
At 31 December 2008	7,324	544	7,604	129,906	145,378
At 31 December 2008					
Cost	842,957	95,338	178,382	580,713	1,697,390
Accumulated depreciation	(835,633)	(94,794)	(170,778)	(450,807)	(1,552,012)
Net book value	7,324	544	7,604	129,906	145,378
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

FOR THE YEAR ENDED 31 DECEMBER 2008

6. INVESTMENT IN SUBSIDIARIES

	2008 RM	Company 2007 RM
Unquoted shares, at cost	2,561,387	2,561,387
	<u>2,561,387</u>	<u>2,561,387</u>

Details of the subsidiary companies are as follows:-

Name of Company	Country of Incorporation	Group's Effective Interest		Principal Activities
		2008	2007	
Paletta System Sdn. Bhd.	Malaysia	100%	100%	Development and marketing IT product.
PT Paletta Multimedia*	Indonesia	99%	99%	Selling hardware and IT consulting

*Audited by another firm of auditors

7. INTANGIBLE ASSETS

	Intellectual Property and License Right RM	Development cost RM	Total RM
Group			
Cost at 1 January 2008	17,000,000	3,814,129	20,814,129
Additions during the year	-	563,008	563,008
Reclassification	-	1,290	1,290
Impairment of intangible assets	(2,500,000)	-	(2,500,000)
Cost at 31 December 2008	<u>14,500,000</u>	<u>4,378,427</u>	<u>18,878,427</u>
Less : Cumulative Amortisation			
At 1 January 2008	-	(375,250)	(375,250)
Charge for the year	-	(171,420)	(171,420)
At 31 December 2008	-	(546,670)	(546,670)
Balance at 31 December 2008	<u>14,500,000</u>	<u>3,831,757</u>	<u>18,331,757</u>
Balance at 31 December 2007	<u>17,000,000</u>	<u>3,438,879</u>	<u>20,438,879</u>
Amortisation at 31 December 2007	<u>-</u>	<u>75,050</u>	<u>75,050</u>

FOR THE YEAR ENDED 31 DECEMBER 2008

7. INTANGIBLE ASSETS

	Intellectual Property and License Right RM	Development Cost RM	Total RM
Company			
Cost at 1 January 2008	17,000,000	3,009,377	20,009,377
Additions during the year	-	337,236	337,236
Reclassification	-	225	225
Impairment of loss	(2,500,000)	-	(2,500,000)
Cost at 31 December 2008	<u>14,500,000</u>	<u>3,346,838</u>	<u>17,846,838</u>
Less : Cumulative Amortisation			
At 1 January 2008	-	(375,250)	(375,250)
Charge for the year	-	(127,543)	(127,543)
At 31 December 2008	-	(502,793)	(502,793)
Balance at 31 December 2008	<u>14,500,000</u>	<u>2,844,045</u>	<u>17,344,045</u>
Balance at 31 December 2007	<u>17,000,000</u>	<u>2,634,127</u>	<u>19,634,127</u>
Amortisation at 31 December 2007	<u>-</u>	<u>75,050</u>	<u>75,050</u>

8. RECEIVABLES

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Non-current assets				
Cash at bank	<u>12,931,935</u>	<u>12,931,935</u>	<u>12,931,935</u>	<u>12,931,935</u>

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

9. INVENTORIES

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
At costs:				
Hardware	2,309,306	2,542,402	1,453,705	977,327
Software	5,635	12,719	-	7,084
	<u>2,314,941</u>	<u>2,555,121</u>	<u>1,453,705</u>	<u>984,411</u>

During the financial year, the Group had written off RM 475,737 (2007 : RM 439,295) of inventories which are recognised as an expense in the income statement.

FOR THE YEAR ENDED 31 DECEMBER 2008

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Trade receivables	6,046,846	19,090,975	4,581,983	16,047,518
Other receivables	282,679	154,275	282,679	154,275
Deposits	1,403,309	1,199,077	1,394,223	1,189,691
Prepayments	5,400	5,400	-	-
Amount due from subsidiaries	-	-	11,696,787	11,420,228
	<u>7,738,234</u>	<u>20,449,727</u>	<u>17,955,672</u>	<u>28,811,712</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 (2007: 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	
	2008 RM	2007 RM	2008 RM	2007 RM
Trade payables	16,276,910	24,881,840	15,550,587	23,649,814
Accrued expenses	260,894	323,142	202,303	269,660
Amount due to subsidiaries	-	-	1,984,777	1,984,777
Amount due to directors	14,473	14,473	14,473	14,473
	<u>16,552,277</u>	<u>25,219,455</u>	<u>17,752,140</u>	<u>25,918,724</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.

13. SHORT TERM BORROWINGS

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Current:				
Bank overdraft (secured)	580,252	852,842	580,252	844,763
Bankers' acceptance	-	591,000	-	591,000
Current portion of:				
Long term loan (Note 17)	67,238	61,393	67,238	61,393
	<u>647,490</u>	<u>1,505,235</u>	<u>647,490</u>	<u>1,497,156</u>

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

FOR THE YEAR ENDED 31 DECEMBER 2008

14. SHARE CAPITAL

	No. of shares	Group and Company	
		Par Value RM	Value RM
AUTHORISED :			
Balance at 31 December 2007	500,000,000	0.10	50,000,000
Balance at 31 December 2008	<u>500,000,000</u>	0.10	<u>50,000,000</u>
2008			
Issued and fully paid - up :			
Balance at 31 December 2008	<u>290,526,500</u>	0.10	<u>29,052,650</u>
2007			
Issued and fully paid - up :			
Balance at 1 January 2007	105,600,000	0.25	26,400,000
Issued during the year :-			
- Exercise of share options	46,000	0.25	11,500
- Private placement	<u>9,082,000</u>	0.25	<u>2,270,500</u>
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	<u>3,706,500</u>	0.10	<u>370,650</u>
Balance at 31 December 2007	<u>290,526,500</u>	0.10	<u>29,052,650</u>

The ordinary share of RM 0.25 each were sub - dividend into RM 0.10 per ordinary share in year 2007.

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 preceeding 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.

FOR THE YEAR ENDED 31 DECEMBER 2008

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

	<u>Year ended 31.12.2008</u>		<u>Year ended 31.12.2007</u>	
	<u>Average exercise price</u> RM / share	<u>Options</u>	<u>Average exercise price</u> RM / share	<u>Options</u>
At beginning of year	0.10	18,625,000	-	8,210,000
Lapsed	-	-	0.25	(46,000)
At end of the year	<u>0.10</u>	<u>18,625,000</u>	<u>0.25</u>	<u>8,164,000</u>
			Balance after adjustment for share split	0.10 20,410,000
			Lapsed	0.10 (1,785,000)
			At end of the year	<u>0.10</u> <u>18,625,000</u>

The options outstanding at year end has exercise prices of RM 0.10.
Options granted during the period will expire on 5 April, 2014.

15. SHARE PREMIUM AND RESERVES

	<u>Group/Company</u>			
	<u>2008</u> RM	<u>2007</u> RM	<u>2008</u> RM	<u>2007</u> RM
(a) Share premium				
Balance as January 1	4,296,261	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>4,296,261</u>		
(b) ESOS reserves				
	<u>2008</u> RM	<u>2007</u> RM	<u>2008</u> RM	<u>2007</u> RM
Options granted	13,136	13,136	13,136	13,136
(c) Foreign exchange reserves				
	<u>2008</u> RM	<u>2007</u> RM	<u>2008</u> RM	<u>2007</u> RM
At January 1	11,523	8,868	-	-
Currency translation difference	1,155	2,655	-	-
At December 31	<u>12,678</u>	<u>11,523</u>	<u>-</u>	<u>-</u>
(d) Accumulated losses / Retained profits	<u>(6,492,733)</u>	<u>(1,368,937)</u>	<u>3,181,124</u>	<u>6,493,070</u>

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

FOR THE YEAR ENDED 31 DECEMBER 2008

16. MINORITY SHAREHOLDERS' INTEREST

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

17. LONG TERM BORROWINGS

	Group	/ Company
	2008	2007
	RM	RM
Current:		
Term Loan (Note 13)	67,238	61,393
Non-current:		
Long term loan	27,191	98,161
	<u>94,429</u>	<u>159,554</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 Paletta Corporation Sdn. Bhd.

	Group	/ Company
	2008	2007
	RM	RM
The loan is repayable as follow:		
Current	67,238	61,393
Within two years	27,191	98,161
	<u>94,429</u>	<u>159,554</u>

18. REVENUE

	Group		Company	
	2008	2007	2008	2007
	RM	RM	RM	RM
Sale of goods	<u>3,693,868</u>	<u>7,631,249</u>	<u>3,660,810</u>	<u>7,493,951</u>

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED 31 DECEMBER 2008

19. (LOSS) / PROFIT FROM OPERATIONS

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
The following items have been charged/(credited) in arriving at (loss) / profit from operations:				
Audit fee	13,000	14,000	8,000	8,000
Amortisation	171,420	75,050	127,543	75,050
Bad debts written off	2,135,193	-	1,606,172	-
Director's remuneration	169,882	163,248	139,882	133,248
Depreciation of property, plant and equipment	76,350	90,529	70,601	55,906
Impairment of intangible assets	2,500,000	-	2,500,000	-
Interest expenses	21,787	90,084	21,787	90,084
Inventories written off	475,737	439,295	-	-
Rental expenses	119,744	114,848	119,744	104,445
Gain on disposal of property, plant and equipment	-	(4,154)	-	-
Foreign exchange loss - Realised	35,692	254,266	35,692	254,266
Interest income	(89,543)	(42,590)	(89,543)	(42,590)
	<u>169,882</u>	<u>163,248</u>	<u>139,882</u>	<u>133,248</u>
(a) Directors' remuneration:				
Fees	18,000	16,210	18,000	16,210
Salary	151,882	147,038	121,882	117,038
	<u>169,882</u>	<u>163,248</u>	<u>139,882</u>	<u>133,248</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	
	2008 RM	2007 RM	2008 RM	2007 RM
Non-executive directors				
Below RM50,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
Executive director				
Below RM50,000	-	-	1	1
RM50,000 - RM100,000	<u>2</u>	<u>2</u>	<u>1</u>	<u>1</u>

20. FINANCE COSTS

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Bankers' acceptance interest	12,356	75,360	12,356	75,360
Term loan interest	9,431	14,724	9,431	14,724
	<u>21,787</u>	<u>90,084</u>	<u>21,787</u>	<u>90,084</u>

FOR THE YEAR ENDED 31 DECEMBER 2008

21. TAXATION

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Tax charge for the financial year				
Foreign Tax	460	-	-	-
	<u>460</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	
	2008	2007
Earnings per ordinary share of RM0.10 each is calculated as follows :-		
Basic :-		
Net (loss) / profit for the year attributable to equity holders of the parent company	(5,123,796)	436,680
Basic earnings per share	(1.76) sen	0.16 sen
Weighted average number of shares		
Issued ordinary shares at January 1	290,526,500	264,000,000
Effect of private placement	-	13,205,750
Effect of ESOS	-	95,833
	<u>290,526,500</u>	<u>277,301,583</u>

23. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2008 RM	2007 RM	2008 RM	2007 RM
Fixed deposit with licensed banks	2,567,181	2,221,173	2,567,181	2,221,173
Cash at bank	81,437	10,689	10,689	10,689
Cash on hand	5,162	5,162	-	-
Deposits, cash and bank balances	<u>2,653,780</u>	<u>2,237,024</u>	<u>2,577,870</u>	<u>2,231,862</u>
Bank overdrafts	(580,252)	(852,842)	(580,252)	(844,763)
Bankers' acceptance	-	(591,000)	-	(591,000)
	<u>2,073,528</u>	<u>793,182</u>	<u>1,997,618</u>	<u>796,099</u>

FOR THE YEAR ENDED 31 DECEMBER 2008

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:

	2008 RM	2007 RM
Subsidiary Company		
Palette System Sdn. Bhd.		
Sale of goods	5,864	1,216
Purchases of goods	461	12,116

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

Sale and purchases of goods and services and advances	<u>11,696,787</u>	<u>11,420,228</u>
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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>
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Director

Palette Computer Sdn. Bhd.

in which Abdul Razak Bin Dato' Haji Ipap (Director of the Company), is a director

Sale of goods	108,849	195,857
Purchases of goods	-	10,500

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

Sale and purchases of goods	<u>122,432</u>	<u>(51,041)</u>
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Director

Palette Internet Sdn. Bhd.

in which Eg Kah Yee, and Eg Kaa Chee (Director of the Company), is a director

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

Sale of goods and services	<u>2,182</u>	<u>2,182</u>
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Director

Key ASIC Berhad

in which Eg Kah Yee (Director of the Company), is a director

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

Sale of goods and services and advances	<u>1,529</u>	<u>1,529</u>
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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.

FOR THE YEAR ENDED 31 DECEMBER 2008

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		(Loss) / Profit before tax	
	2008	2007	2008	2007
	RM	RM	RM	RM
Major segment by country				
- Revenue from external customer				
Malaysia	3,693,868	7,631,249	(5,114,911)	442,733
Indonesia	-	-	(5,693)	(5,314)
- Inter segment				
Malaysia	6,326	13,332	-	-
	<u>3,700,194</u>	<u>7,644,581</u>	<u>(5,120,604)</u>	<u>437,419</u>
Eliminations	(6,326)	(13,332)	-	-
	<u>3,693,868</u>	<u>7,631,249</u>	<u>(5,120,604)</u>	<u>437,419</u>

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 2008

27. SIGNIFICANT EVENTS

On 14 May, 2004 the Company filed a legal suit at the High Court of Kuala Lumpur for defects of goods valued at RM 3.6 million against a supplier of the Company, which is a public listed company in Taiwan, specialising in manufacturing computer and multimedia related products. A sum of RM 12,944,815.39 which is involved in this dispute has been reflected in the Company's receivables in non-current assets.

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 Financial Reporting 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 2008 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: 21 April 2009

STATUTORY DECLARATION

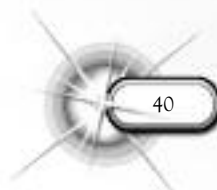
I, **SUKHDEV SINGH A/L BANTA SINGH**, I/C No: 551111-04-5203, being the director primarily responsible for the financial management of **PALETTE MULTIMEDIA BERHAD**, do solemnly and sincerely declare that the financial statements as set out on pages 19 to 39, are to the best of my knowledge and belief, 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 21 April 2009

Before me

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

S. Siva Ahnathan
No. W293
Commissioner for Oaths



REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Palette Multimedia Berhad, which comprise the balance sheet as at 31 December, 2008 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 19 to 39.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards in Malaysia and the Companies Act, 1965. This responsibility includes : designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error ; selecting and applying appropriate accounting policies ; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards in Malaysia and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December, 2008 and their performance and cash flow for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following :-

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all subsidiaries of which we have not acted as auditors which are indicated in Note 6 to the financial statements.
- (c) 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 purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) Other than the qualification on the foreign subsidiary on the appropriateness of preparing the financial statements on a going concern basis, the audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174 (3) of the Act.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
PALETTE MULTIMEDIA BERHAD (Company No. 420056 K)
(Incorporated in Malaysia)



This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

CHENG & CO.

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

YAP PENG BOON

Partner
No. Kelulusan 2118/12/10(J)

Kuala Lumpur,
Date: 21 April 2009

SHAREHOLDING STATISTICS



Shareholding Statistics as at 06 April 2009

Authorised Share Capital	:	RM50,000,000.00
Issued and fully paid-up Share Capital	:	RM29,052,650.00
Class of Shares	:	Ordinary shares of RM0.10 each
Voting Rights	:	1 vote per ordinary share

Analysis of Shareholdings

As at 06 April 2009

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares Held
1 to 99 Shares	19	0.826	877	0.000
100 to 1,000 Shares	266	11.565	85,572	0.029
1,001 to 10,000 Shares	554	24.086	3,295,500	1.134
10,001 to 100,000 Shares	1,135	49.347	43,411,702	14.942
100,001 to 14,526,324 Shares (*)	325	14.130	171,520,547	59.037
14,526,325 and above (**)	1	0.043	72,212,302	24.855
Total	2,300	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 06 April 2009

No.	Shareholders	No. of Shares	%
1.	Eg Kah Yee	72,212,302	24.855
2.	See Lee Ming	8,265,800	2.845
3.	Ng Geok Lui	6,642,000	2.286
4.	Teo Kin Swee	5,509,250	1.896
5.	HDM Nominees (Tempatan) Sdn Bhd - Pledged securities account for Chee Pei Pei (M14)	5,056,250	1.740
6.	ACE Partner Group Limited	4,916,700	1.692
7.	Lee Kin Hin	4,322,750	1.487

SHAREHOLDING STATISTICS



8.	Yap Pin Ho	3,060,000	1.053
9.	Ong Nyoke Lian	2,875,000	0.989
10.	RHB Nominees (Tempatan) Sdn Bhd - Pledged securities account for Lee Kin Hin	2,812,250	0.967
11.	Ooi Bee Eng	2,800,000	0.963
12.	Goh King Wang	2,501,000	0.860
13.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Teo Hoo Seng	2,500,000	0.860
14.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Teo Cheng Tuan Donald	2,500,000	0.860
15.	Teoh Chew Seng	2,500,000	0.860
16.	Woo Wai Mun	2,500,000	0.860
17.	Public Nominees (Tempatan) Sdn Bhd - Pledged securities account for Yew Hwa Hin (E-BMM)	2,409,500	0.829
18.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Tan See Tee	2,371,750	0.816
19.	Kan Shee Hoa	2,370,000	0.815
20.	Lim Lae Yong	2,280,100	0.784
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	0.754
23.	Chai Yoke Peng	2,022,800	0.696
24.	Chin Lai Hong	2,009,700	0.691
25.	Trade Pioneer Limited	1,640,750	0.564
26.	JF APEX Nominees (Tempatan) Sdn Bhd - Pledged securities account for Voon Sze Lin	1,528,200	0.526
27.	Chuan Tsui Ju	1,522,500	0.524
28.	Ng Dee Voo	1,400,000	0.481
29.	Jyuo-Min Shyu	1,250,000	0.430
30.	RHB Capital Nominees (Tempatan) Sdn Bhd - Pledged securities account for Sew Chooi Lan (CEB)	1,197,200	0.412
Total		157,418,052	54.183

Substantial Shareholders

As at 6 April 2009 (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	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 6 April 2009 (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	25.07	1,917,947	0.66
2.	Eg Kaa Chee	1,193,502	0.411	72,834,052	25.07
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 TWELFTH ANNUAL GENERAL MEETING



NOTICE IS HEREBY GIVEN that the Twelfth Annual General Meeting of the Company will be held at Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 27 May 2009 at 9.00 a.m. to transact the following business :-

AGENDA

ORDINARY BUSINESS

1.	To receive the Audited Financial Statements for the financial year ended 31 December 2008 together with the Reports of the Director's and Auditor's thereon.	(Please refer to Explanatory Note 1)
2.	To approve the payment of Directors' fees for the financial year ended 31 December 2008.	(Resolution 1)
3.	To re-elect Sukhdev Singh A/L Banta Singh who retires pursuant to Article 119 of the Company's Articles of Association.	(Resolution 2)
4.	To re-elect Thong Kooi Pin who retires pursuant to Article 119 of the Company's Articles of Association.	(Resolution 3)
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 4)

SPECIAL BUSINESS

To consider and' if thought fit, to pass, with or without modifications, the following Ordinary Resolution :-		
6.	ORDINARY RESOLUTION 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."	(Resolution 5)

By Order of the Board

NG YEN HOONG (LS No. 008016)
LOO CHOON KEOW (MAICSA No. 7039252)
Company Secretaries

Kuala Lumpur
5 May 2009

NOTICE OF TWELFTH 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 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the meeting.*

EXPLANATORY NOTE ON SPECIAL BUSINESS

1. Audited Financial Statements For The Year Ended 31 December 2008. The item is meant for discussion only as the provision of Section 169(1) of the Companies Act, 1965 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this Agenda is not put forward for voting.
2. Ordinary Resolution : Authority to Directors to Allot and Issue Shares
The Ordinary Resolution proposed under Resolution 5, if passed, will give the Directors the authority to allot and issue new ordinary shares up to an amount not exceeding 10% of the issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority will commence from the date of this Annual General Meeting and unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

STATEMENT ACCOMPANYING NOTICE OF THE TWELFTH ANNUAL GENERAL MEETING



Details of Directors who are standing for re-election in Agenda 3 and 4 of the Notice of the Twelfth 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.
(PLEASE USE BLOCK CAPITAL)

of
(Full Address)

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

of or failing whom,

..... 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 Twelfth Annual General Meeting of the Company to be held at Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 27 May 2009 at 9.00 a.m. and at any adjournment thereof.

AGENDA				
ORDINARY BUSINESS				
1.	To receive the Audited Financial Statements for the financial year ended 31 December 2008 together with the Reports of the Directors and Auditors thereon.			
	RESOLUTION	RESOLUTION	*FOR	*AGAINST
2.	To approve the payment of Directors' Fees for the financial year ended 31 December 2008.	1		
3.	To re-elect Sukhdev Singh a/l Banta Singh who retires pursuant to Article 119 of the Company's Articles of Association.	2		
4.	To re-elect Thong Kooi Pin who retires pursuant to Article 119 of the Company's Articles of Association.	3		
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.	4		
SPECIAL BUSINESS				
6.	Authority to the Directors to allot and issue shares pursuant to Section 132D of the Companies Act, 1965	5		

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

.....
 Signature of Shareholder(s) or Common Seal

Signed this..... day of..... 2009

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 authorized 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 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the meeting.**

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STAMP

Company Secretary

Palette Multimedia Berhad (420056-K)

Level 18, The Gardens North Tower, Mid Valley City,
Lingkaran Syed Putra, 59200 Kuala Lumpur.

Tel : 03-2264 8888 Fax : 03-2282 2733

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www.palettemm.com

