ANNUAL REPORT 2011

Palette
MULTIMEDIA BERHAD
(420056-K)

www.yellowspots.com

MSC - Status Company

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Palette
MULTIMEDIA BERHAD

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CORPORATE INFORMATION

Palette MULTIMEDIA BERHAD

BOARD OF DIRECTORS :	Eg Kah Yee (Chairman / Managing Director) Eg Kaa Chee (Non-Independent & Non-Executive Director) Abdul Razak Bin Dato' Haji Ipap (Non-Independent Non-Executive Director) Sukhdev Singh A/L Banta Singh (Executive Director) Thong Kooi Pin (Independent Non-Executive Director) Yoong Shee Fatt (Independent Non-Executive Director)
COMPANY SECRETARIES :	Ng Yen Hoong (LS No. 008016) Joanne Toh Joo Ann (LS No. 0008574)
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 :	Tricor Investor 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
STOCK EXCHANGE LISTING :	Bursa Malaysia Securities Berhad (ACE Market) Stock name : PALETTE Stock code : 0005
CORPORATE WEBSITE :	www.palettemm.com

EG KAH YEE

Chairman / Managing Director

Mr. Eg Kah Yee, a Malaysian, aged 51, 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 Freemont, 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 Key ASIC Berhad and various private limited companies. He is the Chairman of the Option Committee of Palette.

EG KAA CHEE

Non-Independent & Non-Executive Director

Mr. Eg Kaa Chee, a Malaysian, aged 47, 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

Non-Independent Non-Executive Director

En. Abdul Razak Bin Dato' Hj. Ipap, a Malaysian, aged 52, was appointed as the Independent Non-Executive Director of Palette Multimedia Berhad on 1 June 2001. He was redesignated as a Non-Independent Non-Executive Director of Palette on 25 August 2010. 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. He is a member of the Audit Committee and the Option Committee of Palette.

SUKHDEV SINGH A/L BANTA SINGH
Executive Director

Mr. Sukhdev Singh, a Malaysian, aged 56, 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 Berhad 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. He is a member of the Option Committee of Palette.

THONG KOOI PIN
Independent Non-Executive Director

Mr. Thong Kooi Pin, a Malaysian, aged 39, 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. He is a member of the Audit Committee of Palette.

YOONG SHEE FATT
Independent Non-Executive Director

Mr. Yoong Shee Fatt, a Malaysian, aged 50, was appointed as the Independent Non-Executive Director of Palette Multimedia Berhad on 10 November 2010. He obtained a Diploma in Advertising and Commercial Art from Malaysia Institute of Art (MIA). He started his career with McCann Erickson Malaysia (International Advertising Agency) for a short period before joining Bozel Kenyon and Earhart (BK&E) another International Advertising Agency as a senior Visualize and Illustrator till mid 1988. From 1988 till 1998 he started his own company, Peter's Illustration & Design, being involved in day to day management and overseeing Illustrator or designer works. He further expanded his company through joint venture with Film Point to head One Degree North as a Managing Director for a period of 6 years. His roles was to lead the company further using the latest IT technologies, he was also responsible overseeing on the production of Television Commercial Animation and final Post Production. He subsequently sold his shares in 2004 and started Digital Bytes (till this date) specialize in producing Lenticular Poster, Web Designs and Computer Imaging. His core interests is in advertising and speciality lie in area in Illustration, post production, Imaging and lenticular production using the leading computers technologies at this time. He is the Chairman of the Audit Committee of Palette.

Eg Kah Yee and Eg Kaa Chee are brothers.

All directors do not have directorship in other public listed companies in Malaysia except as disclosed for Eg Kah Yee and Thong Kooi Pin.

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

Dear Shareholders,

I am pleased as the Chairman of Palette Multimedia Berhad to present the Annual Report and the Audited Financial Statements of the Group and the Company for the financial year ended ("FYE") 31 December 2011.

Financial & Operational Performance

The Group has posted a net loss of RM3,804,760 as compared to a net loss of RM2,957,857 over last year.

Industry Outlook & Development

The drive towards high speed broadband continues, with the most Telcos and Celcos increasing their investment in new infrastructure. The adoption rate of smartphones and other high data usage mobile devices is driving a shift in the design and adoption of high speed broadband networks, particularly for wifi networks. The increasing complexity of such networks has also created a need for better management and control software. The shift to cloud computing has begun to accelerate and in line with this Palette is offerring a cloud based version of its Mobilette solution.

Palette has continued the development of its Mobilette product line especially in the area of integrating into both wired and wireless networks. Originally developed for wireless networks, 2011 saw the completion of the product for managing wired networks, especially fibre to the home networks.

Prospects

The overall business of the company is now more balanced across wireless and wired networks and the company has begun to concentrate on moving into high speed fibre based network products. The expertise developed in deploying large hotzones and managing them is becoming a very useful asset in pursuing the high speed business overall.

Palette remains focussed on the Telco, Celco & ISP space and looks to this fast growing sector for most of its revenue. However the company has started investing in vertical network based solutions such as RFID and other security solutions to expand its offering into the enterprise market space.

Palette continues to build its expertise in customizing network products and is running trials with major customers on some of these new products with their revenue impact being felt within 2012. The long term direction is to continue to build our product portfolio especially in the high margin areas of providing high value design and engineering services.

Appreciation

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

Thank You.

EG KAH YEE
Chairman

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 ACE Market of Bursa Malaysia 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 2011, six (6) board meetings were held and the details of each Directors' attendance are set out as follows:-

Directors	Meeting Attendance
Eg Kah Yee (Chairman)	5/6
Eg Kaa Chee	4/6
Abdul Razak Bin Dato’ Hj. Ipap	3/6
Sukhdev Singh A/L Banta Singh	6/6
Thong Kooi Pin	6/6
Yong Shee Fatt	6/6

(ii) Board Balance & Composition

The current Board has six (6) members comprising two (2) Executive Directors (including the Chairman / Managing Director), two (2) Non-Independent Non-Executive Directors 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.

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 are provided with the opportunity, and are encouraged to attend any relevant training programme, seminar and conferences to keep them updated on relevant new legislations, best practices, financial reporting requirements and/or other relevant courses to further enhance their skills and knowledge to 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	368,292	-
Fees	-	24,667
Benefit in kind	-	-
Total	368,292	24,667

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	-	4
RM 50,001 - RM150,000	1	-
RM201,001 - RM250,000	1	-
	2	4

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
Yoong Shee Fatt - Independent Non-Executive Director

Members
Abdul Razak Bin Dato' Haji Ipap - 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

A total of five (5) meetings were held during the financial year ended 31 December 2011 and the attendance record are as follows:-

	Meeting attended
Abdul Razak Bin Dato' Haji Ipap	3/5
Thong Kooi Pin	5/5
Yoong Shee Fatt	5/5

Summary of Activities of Committee

During the financial year ended 31 December 2011, the Committee has carried out the following activities:-

(i) reviewed the quarterly reports and the annual audited financial statements of the Group prior to submission to the Board for their consideration and approval;

(ii) reviewed the quarterly reports, review is made for the Company's compliance with the Listing Requirement, MASB and applicable regulatory requirement;

(iii) reviewed the related party transactions entered into by the Group;

(iv) reviewed the fees of the external auditors;

(v) consider the re-appointment of external auditors;

(vi) reviewed with the external auditors the audit plan, scope of work and audit report; and

(vii) reviewed the management letter issues and Management's response.

4. Internal Audit Function

Internal auditor is 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 is required to conduct 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 were no cost incurred for the internal audit functions for the FYE 31 December 2011.

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	- Non-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 option granted for the year ended 31 December 2011.

1. Introduction

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

2. Board Responsibilities

The Board of Directors recognizes the importance of sound internal controls and risk management in safeguarding the assets of the Group. However, such systems are designed to manage rather than eliminate the business risk totally. It should be noted that any system could provide only reasonable and not absolute assurance against material misstatement or fraud.

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

3. Internal Control Framework

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

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

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

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

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

The Board is of the view that there is no significant breakdown or weaknesses in the system of internal control of the Group that may have material impact against the operations of the Group for the financial year ended 31 December 2011.

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 ended 31 December 2011.

2. **Option, Warrant and Convertible Securities**
   There were no options, warrants or convertible securities issued during the financial year.

3. **Material Contracts**
   Neither the Company nor its subsidiary have entered into any contract which are or may be material (not being contracts entered into in the ordinary course of business) involving Directors' and Major Shareholders' interests since the end of the previous financial year.

4. **Recurrent Related Party Transactions ("RRPT")**
   All Recurrent Related Party Transactions entered into by the Group during the financial year are disclosed in Note 21 to the Financial Statements in pages 38-39 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 2011 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. **Depository Receipt Programme**
   During the financial year, the Company did not sponsor any Depository Receipt Programme.

9. **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 2011.

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 financial year	(3,804,878)	(16,229,227)
Attributable to minority interests	118	-
Attributable to owners of the parent	(3,804,760)	(16,229,227)

DIVIDEND

No dividend was paid or declared since the end of the previous 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 13 to the financial statements.

The name of the option holders and the number of options granted are set out below :

2011	No. of options over the ordinary shares of RM0.10 each in the Company			
Name of Option holders	**At 1.1.2011**	**Exercised**	**Lapsed**	**At 31.12.2011**
Hee Tai Wui	500,000	-	-	500,000
Liew Wai Han	250,000	-	-	250,000
Mohd Zambri Bin Ismail	75,000	-	-	75,000
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

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
Yoong Shee Fatt

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 1.1.2011	**Bought**	**Sold**	**At 31.12.2011**
Eg Kah Yee	- Direct interest	54,834,052	-	-	54,834,052
	- Indirect interest (1)	1,193,502	-	-	1,193,502
Eg Kaa Chee	- Direct interest	1,193,502	-	-	1,193,502
	- Indirect interest (2)	54,834,052	-	-	54,834,052
Thong Kooi Pin	- Direct interest	250	-	-	250

(1) Deemed interest through 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's interests in the subsidiaries, 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 21 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").

OTHER STATUTORY INFORMATION

(a) Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps:-

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and have satisfied themselves that all known bad debts had been written off and that adequate provision for doubtful debts had been made; and
(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:-
(i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
(ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

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

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

(e) At the date of this report, these does not exist:-
(i) any charge on the assets of the Group or 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 or of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:-
(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet its obligations as and when they fall due; and
(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

SIGNIFICANT EVENTS

The significant events involving the Group and the Company are disclosed in Note 24 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

SUKHDEV SINGH A/L BANTA SINGH
Director

Kuala Lumpur
Date: 19 April 2012

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

		Group		Company	
			Restated		Restated
		2011	2010	2011	2010
	Note	RM	RM	RM	RM
NON-CURRENT ASSETS					
Property, plant and equipment	5	425,961	500,244	423,774	497,239
Investment in subsidiaries	6	-	-	2,461,388	2,561,387
Intangible assets	7	17,171,295	17,912,157	16,631,395	17,177,332
Guarantee deposits		6,980	6,860	-	-
Receivables	8	12,931,935	12,931,935	12,931,935	12,931,935
CURRENT ASSETS					
Inventories	9	822,064	1,919,949	502,631	1,059,124
Trade and other receivables	10	4,540,531	4,985,637	3,284,980	16,868,805
Cash and bank balances	20	233,076	761,938	225,155	686,452
		5,595,671	7,667,524	4,012,766	18,614,381
LESS: CURRENT LIABILITIES					
Trade and other payables	11	2,068,598	1,655,478	3,253,884	2,850,855
Loans and borrowings	12	1,156,660	411,478	1,156,660	411,478
Provision for taxation		1,620	1,593	-	-
		3,226,878	2,068,549	4,410,544	3,262,333
NET CURRENT ASSETS / (LIABILITIES)		2,368,793	5,598,975	(397,778)	15,352,048
		32,904,964	36,950,171	32,050,714	48,519,941
Financed by:					
Share capital	13	29,052,650	29,052,650	29,052,650	29,052,650
Share premium	14	4,296,261	4,296,261	4,296,261	4,296,261
Reserves	14	27,089	27,845	13,136	13,136
Accumulated (losses) / Retained profits	14	(14,012,058)	(10,207,180)	(14,834,263)	1,394,964
Equity attributable to owners of the parent		19,363,942	23,169,576	18,527,784	34,757,011
Minority shareholders' interest		18,092	17,665	-	-
TOTAL EQUITY		19,382,034	23,187,241	18,527,784	34,757,011
NON CURRENT LIABILITIES					
Trade and other payables	11	13,522,930	13,762,930	13,522,930	13,762,930
		32,904,964	36,950,171	32,050,714	48,519,941

See the accompanying notes to the financial statements.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

		Group		Company	
		2011	2010	2011	2010
	Note	RM	RM	RM	RM
Revenue	15	6,289,161	2,431,652	6,289,161	2,431,652
Cost of sales		(4,665,724)	(1,494,545)	(4,653,724)	(1,490,045)
Gross profit		1,623,437	937,107	1,635,437	941,607
Other operating income		137,788	-	137,788	-
Selling and distribution expenses		(170,542)	(175,114)	(121,415)	(116,812)
Administrative and general expenses		(5,346,360)	(3,672,526)	(17,831,954)	(2,844,226)
Finance costs	17	(49,083)	(25,721)	(49,083)	(25,721)
(Loss) before taxation	16	(3,804,760)	(2,936,254)	(16,229,227)	(2,045,152)
Taxation	18	-	(21,603)	-	(21,603)
Net (loss) representing total comprehensive (loss) / income for the year		(3,804,760)	(2,957,857)	(16,229,227)	(2,066,755)
comprehensive (loss) attributable to :					
Owners of the parent		(3,804,878)	(2,957,051)	(16,229,227)	(2,066,755)
Minority interests		118	(806)	-	-
		(3,804,760)	(2,957,857)	(16,229,227)	(2,066,755)
Earnings per share (sen)					
- basic - par value of 10 sen per share	19	(1.31)	(1.02)	-	-
- diluted - par value of 10 sen per share	19	N/A	N/A	-	-

See the accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Share Capital	Share Premium	Foreign Currency Translation Reserve	Accumulated Losses	Equity Attributable To Owners Of The Parent	Minority Interests	Total Equity
	RM	RM	RM	RM	RM	RM	RM
Group							
Balance at 1 January 2010	29,052,650	4,296,261	23,846	(7,250,129)	26,122,628	19,629	26,142,257
Foreign exchange difference	-	-	3,999	-	3,999	(1,158)	2,841
Total comprehensive loss for the year	-	-	-	(2,957,051)	(2,957,051)	(806)	(2,957,857)
Balance at 31 December 2010	29,052,650	4,296,261	27,845	(10,207,180)	23,169,576	17,665	23,187,241
Foreign exchange difference	-	-	(756)	-	(756)	309	(447)
Total comprehensive loss for the year	-	-	-	(3,804,878)	(3,804,878)	118	(3,804,760)
Balance at 31 December 2011	29,052,650	4,296,261	27,089	(14,012,058)	19,363,942	18,092	19,382,034

	Share Capital	Share Premium	Reserves	Retained Profits/ Accumulated Losses	Total
	RM	RM	RM	RM	RM
Company					
Balance at 1 January 2010	29,052,650	4,296,261	13,136	3,461,719	36,823,766
Total comprehensive loss for the year	-	-	-	(2,066,755)	(2,066,755)
Balance at 31 December 2010	29,052,650	4,296,261	13,136	1,394,964	34,757,011
Total comprehensive loss for the year	-	-	-	(16,229,227)	(16,229,227)
Balance at 31 December 2011	29,052,650	4,296,261	13,136	(14,834,263)	18,527,784

See the accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	Group 2011 RM	Group 2010 RM	Company 2011 RM	Company 2010 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before taxation		(3,804,760)	(2,936,254)	(16,229,227)	(2,045,152)
Adjustments for:					
Amortisation of intangible assets		742,790	250,409	547,865	75,050
Depreciation of property, plant and equipment		185,223	171,639	184,405	169,291
Impairment of intangible assets		-	534,850	-	534,850
Interest written off		-	-	99,999	-
Interest expense		49,083	25,721	49,083	25,721
Provision for doubtful debts		1,621,721	-	-	-
Unrealised loss on foreign exchange translation		(539)	210,179	-	207,000
Impairment on trade receivables		-	853,404	-	853,404
Operating loss before working capital changes		(1,206,482)	(890,052)	(15,347,875)	(179,836)
Decrease in inventories		1,097,884	444,373	556,493	444,373
(Increase) / Decrease in trade and other receivables		(1,176,615)	2,434,821	13,583,825	1,853,516
Increase / (Decrease) in trade and other payables		173,120	(969,163)	403,029	(1,176,136)
Cash (used in) / generated from operations		(1,112,093)	1,019,979	(804,528)	941,917
Interest paid		(49,083)	(25,721)	(49,083)	(25,721)
Development cost paid		(1,928)	(220,043)	(1,928)	(203,088)
Tax paid		-	(21,603)	-	(21,603)
Net cash (used in) / generated from operating activities		(1,163,104)	752,612	(855,539)	691,505
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(110,940)	(33,216)	(110,940)	(32,717)
Interest income received		-	-	-	-
Net cash used in investing activities		(110,940)	(33,216)	(110,940)	(32,717)
CASH FLOW FROM FINANCING ACTIVITIES					
Repayment of term loans		-	(23,748)	-	(23,748)
Net cash used in from financing activity		-	(23,748)	-	(23,748)
Net (Decrease) / Increase in cash and cash equivalents		(1,274,044)	695,648	(966,479)	635,040
Cash and cash equivalents at beginning of financial year		350,460	(345,188)	274,974	(360,066)
Cash and cash equivalents at end of financial year	20	(923,584)	350,460	(691,505)	274,974

See the accompanying notes to the financial statements.

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 financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on April 19, 2012.
(v) The financial statements of each entity in the Group are presented in the functional currency, which is the currency of the primary economic environment in which the entities operate.
(vi) The functional currency of the Company is Ringgit Malaysia (RM) as the sales and purchase are mainly denominated in RM, receipts from operations are mainly retained in RM and funds from financing activities are mainly generated in RM.
(vii) For the purpose of the consolidated financial statements, the financial statements of each entity within the group are expressed in RM which is the functional currency of the Company, and the presentation currency of the consolidated financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with the Financial Reporting Standards and the Companies Act, 1965 in Malaysia. At the beginning of the current year, the Group and the Company adopted new and revised FRS which are mandatory for financial periods beginning on or after 1 January 2011 as described fully in Note 2 (b).

(b) Changes in accounting policies

On 1 January 2011, the Group and the Company adopted the following new and amended Financial Reporting Standards (FRS) and issues Committee ("IC") Interpretations mandatory for annual financial periods beginning on or after 1 January 2011.

FRS 1 First–time Adoption of Financial Reporting Standards
FRS 3 Business Combinations (Revised)
FRS 127 Consolidated and Separate Financial Statements
Amendments to FRS 1 Limited Exemption from Comparative FRS 7 Disclosures for First - time Adopters.
Amendments to FRS 1 Additional Exemptions for First – time Adopters
Amendments to FRS 2 Group Cash – settled Shared – based Payment Transactions
Amendments to FRS 5 Non - current Assets Held for Sale and Discontinued Operations
Amendments to FRS 7 Improving Disclosures about Financial Instruments
Amendments to FRS 132 Financial Instruments : Presentation
Amendments to FRS 138 Intangible Assets
Amendments to FRS 1, FRS 3, FRS 7, FRS 101, FRS 121, FRS 128, FRS 131, FRS 132, FRS 134 and FRS 139 Improvements to FRSs (2010)
IC Interpretation 4 Determining Whether an Arrangement Contains a Lease
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17 Distributions of Non – cash Assets to Owners
IC Interpretation 18 Transfers of Assets from Customers
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives
Amendments to IC Interpretation 13 Customer Loyalty Programmes

(b) Changes in accounting policies (continued)

IC Interpretation 12 Service Concession Arrangements will also be effective for annual periods beginning on or after 1 July 2010. This IC Interpretation is, however, not applicable to the Group and the Company.

Adoption of the above FRSs, Amendments to FRSs and IC Interpretations did not have any effect on the financial performance or position of the Group and the Company, other than the disclosures under Amendments to FRS 7, which affect the financial statements in current financial year.

(c) Malaysia Financial Reporting Standards

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer.

The Group and the Company will be required to prepare financial statements using the MFRS framework in the first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Group and the Company will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

The Group and the Company have not completed its assessment of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework. Accordingly, the consolidated financial performance and financial position as disclosed in these financial statements for the year ended 31 December 2011 could be different if prepared under the MFRS Framework.

The Group and the Company expect to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of preparation**

The financial statements of the Group and of the Company have been prepared in accordance with the Malaysian FRS's and the provision of the Companies Act, 1965.

The financial statements have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies.

The Group has prepared its financial statements by applying the going concern assumption, notwithstanding that the Group incurred a net loss of RM3,804,760 during the year ended 31 December 2011, thereby indicating the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The liability of the Group to continue as going concern is dependent on continuing financial support by the shareholders, bankers and creditors and success of the future operations of the Group. Accordingly, the financial statements of the Group do not include any adjustments relating to the amounts and the classification of assets and liabilities that might be necessary should the Group be unable to continue as going concern.

(b) **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and all subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investment in subsidiaries are accounted for in the Company's separate financial statements at cost.

The results of a subsidiary are included in the consolidated financial statements from the acquisition date until the date on which the Company ceases to control the subsidiary. Any difference between the proceeds from the disposal of a subsidiary and the carrying amount as at the date of disposal, including the cumulative amount of any translation difference that relate to the subsidiary formerly recognised in other comprehensive income, is reclassified to consolidated profit or loss as a reclassification adjustment and forms part of the Group's gain or loss recognised on the disposal of the subsidiary.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Minority interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to owners of the parent. Minority interests in the profit or loss of the Group are also separately disclosed.

All intragroup balances, transactions, income and expenses are eliminated in full on consolidation.

(c) **Intangible assets**

Research and development costs

Research costs, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are expensed as incurred. Development costs, arising from the application of the research findings to a plan or design for the production of new or substantially improved products and processes, are also espensed as incurred, except where:

(i) the developed asset is available for use or sale;
(ii) the development cost of the asset can be reliably measured;
(iii) the development is evaluated as being technically or commercially feasible;
(iv) the Group has sufficient resources to complete development; and
(v) the Group can demonstrate how the development will generate future economic benefits in which event the development costs are capitalised.

Capitalised development costs are stated at cost less accumulated amortisation and any accumulated impairment losses. Development costs that have finite useful are amortised on a straight-line basis over their useful lives. Development costs with indefinite useful lives are not amortised, but tested at each balance sheet date for impairment.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is espensed as incurred.

Amortisation and impairment

Intangible assets with an indefinite useful life are tested for impairment at each balance sheet date. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use. The estimate useful life is as follow:

License	2-5 years

(d) **Property, plant and equipment**
The cost of an item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. After recognition as an asset, items of property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on a straight-line basis so as to write off the depreciable amount of the following assets over their estimated useful lives, as follows:

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

Depreciation of an asset begins when it is ready for its intended use.

The residual values and useful lives of depreciable assets, if significant, are reviewed at the end of each reporting period.

The carrying amounts of items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal.

Any gain or loss arising from the derecognition of items of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amounts of the item, is included in profit or loss. Neither the sale proceeds nor any gain on disposal is classified as revenue.

(e) **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.

(f) **Receivables and bank balances**
Bank balances, deposits, trade and other receivables and amounts due from subsidiaries are initially recognised at their fair values plus transaction costs and subsequently carried at amortised cost using the effective interest method, less any accumulated impairment losses.

The Group and Company assess at each reporting date whether there is objective evidence that these financial assets are impaired and recognise an allowance for impairment when such evidence exists. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amounts of these assets are reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

These assets are presented as current assets except for those that are expected to be realised later than 12 months after the balance sheet which are presented as non-current assets.

(g) **Cash and cash equivalents**
For the purpose of presentation in the statements of cash flows, cash and cash equivalents include cash on hand and deposits held at call with financial institutions which are subject to an insignificant risk of change in value.

(h) **Financial Liabilities and Equity Instruments Issued by the Company**

(i) **Classification of Liabilities and Equity**

On initial recognition, financial liabilities and equity instruments are classified in accordance with the substance of the contractual arrangement.

Interests, dividends, losses and gains relating to a financial instrument that is classified as a financial liability is recognised as income or expense in profit or loss. Distributions to holders of an equity are debited directly to equity, net of any related income tax benefit. Transaction costs of an equity instrument are accounted for as a deduction from equity, net of any related income tax benefit.

(ii) **Equity Instruments**

Equity instruments are any contracts that evidence a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

(iii) **Financial Liabilities**

Financial liabilities are recognised on the statements of financial position when the Group and the Company become a party to the contractual provisions of the instrument. On initial recognition, financial liabilities are measured at fair value, plus transaction costs for financial liabilities not at 'fair value through profit of loss'. After initial recognition, financial liabilities are either classified as at 'fair value through profit or loss' or amortised cost using the effective interest method.

(iv) **Financial Liabilities at Amortised Cost using the Effective Interest Method**

Effective interest method is a method of calculating the amortised cost of financial liabilities and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash payments through the expected life of the financial liabilities or a shorter period to the net carrying amount of the financial liabilities.

After initial recognition, all financial liabilities are measured at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the financial liabilities are derecognised or impaired.

(i) **Employee benefits**

(i) **Short term employee benefits**

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

(ii) **Post-employment benefits**

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

(iii) **Defined contribution plans**

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

(iv) **Share-based compensation**

The Group operates an equity-settled, share-based compensation plan for the employees of the Group. The fair value of the employee services received in exchange for the grant 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.

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 revised 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.

(j) **Impairment of Assets Other Than Goodwill and Financial Assets**
At the end of each reporting period, the Group and the Company assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. Irrespective of whether there is any indication of impairment, the Group and the Company test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing the carrying amount with its recoverable amount.

When there is an indication that an asset may be impaired but is not possible to estimate the recoverable amount of the individual asset, the Group and the Company determine the recoverable amount of the cash-generating unit to which the asset belongs.

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

If the recoverable amount of an individual asset or a cash-generating unit is less than the carrying amount, an impairment loss is recognised to reduce the carrying amount to its recoverable amount. An impairment loss for a cash-generating unit is firstly allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then, to the other assets of the unit within the scope of FRS 136 Impairment of Assets pro rata on the basis of the carrying amount of each appropriate asset in the unit.

An impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case it is treated as a revaluation decrease.

An impairment loss recognised in prior periods for an individual asset or the appropriate assets of a cash-generating unit is reversed when there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss, unless the asset is carried at revalued amount, in which case it is treated as a revaluation increased.

(k) **Foreign Currencies**

(i) **Foreign Currency Transactions**
Transactions in foreign currencies are initially recorded in the functional currency by applying to the foreign currency amount the spot exchange rates between the functional currency and the foreign currency at the date of the transactions.

At the end of each reporting period, foreign currency monetary items are translated using the closing rate. Non-monetary items that are measured at historical cost in a currency are translated using the exchange rates at the date of the transactions.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except when a gain or loss on a non-monetary item is recognised in other comprehensive income. If so, any exchange differences relating to that gain or loss is recognised in other comprehensive income.

(ii) **Exchange Differences on Net Investment in Foreign Operations**
Exchange differences arising on monetary items that forms part of the Company's net investment in foreign operations are recognised in the profit or loss in the separate financial statements of the Company. In the consolidated financial statements, such exchange differences are recognised initially in other comprehensive income and accumulated in equity under the heading of translation reserves.

On the disposal of a foreign operation, the cumulative amounts of the exchange differences relating to the foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, are reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

(l) **Provisions**

A provision is recognised when the Group and the Company have a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties are taken into account in reaching the best estimate of a provision. When the effect of the time value of money is material, the amount recognised in respect of the provision is the present value of the expenditure expected to be required to settle the obligation.

(m) **Revenue**

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the statements of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer.

(n) **Income tax**

Tax expense is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax and deferred tax are charged or credited directly to other comprehensive income or equity if the tax relates to items that are credited or charged directly to other comprehensive income or equity.

Current tax for current and prior periods is recognised as a liability to the extent unpaid. If the amount already paid in respect of the current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be paid or recovered, using the tax rates that have been enacted or substantially enacted by the end of the reporting period.

Current tax assets and liabilities are offset only when the Group and the Company have a legally enforceable right to set off the recognised amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is provided in full on temporary differences which are the differences between the carrying amounts in the financial statements and the corresponding tax base of an asset or liability at the end of the reporting period.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax liabilities and assets are not recognised if the temporary differences arise from initial recognised of goodwill and the initial recognition of assets or liabilities that is not a business combination and at the time of the transaction, affected neither accounting profit nor taxable profit.

Deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group and the Company expect to recover or settle the carrying amounts of their assets and liabilities and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantially enacted by the end of the reporting period.

The carrying amounts of the deferred tax assets are reviewed at the end of each reporting period, and they are reduced to the extent that it is no longer probable that taxable profit will be available to allow the benefit or part of the deferred tax assets to be utilised. The reduction is reversed to the extent that is becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are offset when the Group and the Company have a legally enforceable right to set off current tax assets and liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(o) **Operating segments**
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with FRS requires the application of judgement by management in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the reported carrying values of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Set forth below are areas requiring significant judgement and estimation that may have an impact on reported results and the financial position.

Capitalised development costs
The Group capitalises certain development costs when it is probable that a development project will generate future economic benefits and certain criteria, including commercial and technological feasibility, have been met. Should a product fail to substantiate its estimated feasibility or life cycle, material development costs may be required to be written-off in future periods.

Income taxes
Management judgement is required in determining income tax expense, tax provisions, deferred tax assets and liabilities and the extent to which deferred tax assets can be recognised. When circumstances indicate it is no longer probable that deferred tax will be utilised they are assessed for realisability and adjusted as necessary. If the final outcome of these matters differs from the amounts initially recorded, differences may impact the income tax expense in the period in which such determination is made.

Impairment of non-financial assets
When the recoverable amount of an asset is determined based on the estimate of the value-in-use of the cash generating unit to which the asset is allocated, the management is required to make an estimate of the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to determine the present value of those cash flows.

Amortisation of development expenditure
Changes in the expected level of usage and technological development could impact the economic useful lives and therefore, future amortisation charges could be revised.

Impairment of trade and other receivables
An impairment loss is recognised when there is objective evidence that a financial asset is impaired. Management specifically reviews its loans and receivables financial assets and analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in the customer payment terms when making a judgement to evaluate the adequacy of the allowance for impairment losses. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. If the expectation is different from the estimation, such difference will impact the carrying value of receivables.

5. PROPERTY, PLANT AND EQUIPMENT

Group	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Electrical equipment RM	Total RM
Net book value						
At 1 January 2011	27,160	270	4,635	41,644	426,535	500,244
Additions	31,180	-	3,800	-	75,960	110,940
Depreciation charge	(14,067)	(140)	(3,257)	(26,035)	(141,724)	(185,223)
At 31 December 2011	44,273	130	5,178	15,609	360,771	425,961
At 31 December 2011						
Cost	1,691,662	98,238	210,131	653,002	732,570	3,385,603
Accumulated depreciation	(1,647,389)	(98,108)	(204,953)	(637,393)	(371,799)	(2,959,642)
Net book value	44,273	130	5,178	15,609	360,771	425,961
At 31 December 2010						
Cost	1,660,482	98,238	206,331	653,002	656,610	3,274,663
Accumulated depreciation	(1,633,322)	(97,968)	(201,696)	(611,358)	(230,075)	(2,774,419)
Net book value	27,160	270	4,635	41,644	426,535	500,244

Company	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Electrical equipment RM	Total RM
Net book value						
At 1 January 2011	24,782	264	4,023	41,635	426,535	497,239
Additions	31,180	-	3,800	-	75,960	110,940
Depreciation charge	(13,479)	(140)	(3,027)	(26,035)	(141,724)	(184,405)
At 31 December 2011	42,483	124	4,796	15,600	360,771	423,774
At 31 December 2011						
Cost	908,761	95,338	188,045	580,713	732,570	2,505,427
Accumulated depreciation	(866,278)	(95,214)	(183,249)	(565,113)	(371,799)	(2,081,653)
Net book value	42,483	124	4,796	15,600	360,771	423,774
At 31 December 2010						
Cost	877,581	95,338	184,245	580,713	656,610	2,394,487
Accumulated depreciation	(852,799)	(95,074)	(180,222)	(539,078)	(230,075)	(1,897,248)
Net book value	24,782	264	4,023	41,635	426,535	497,239

6. INVESTMENT IN SUBSIDIARIES

	Company 2011 RM	Company 2010 RM
Unquoted shares, at cost	2,561,387	2,561,387
Less: Investment written off	(99,999)	-
	2,461,388	2,561,387

Details of the subsidiary companies are as follows:-

Name of Company	Country of Incorporation	Group's Effective Interest 2011	Group's Effective Interest 2010	Principal Activities
Palette System Sdn. Bhd.	Malaysia	100%	100%	Development and marketing IT product
PT Palette Multimedia*#	Indonesia	99%	99%	Selling hardware and IT consulting

*Audited by another firm of auditors

The oversea subsidiary's result for the year ended December 31, 2011 has been consolidated into the financial statements based on its management financial statements that have been remained dormant throughout the financial year.

The auditors' report of PT Palette Multimedia for the year ended December 31, 2010 contained a qualified opinion of going concern due to losses incurred amounted to Rp 227,558,311 and has hibernated its activities since 2004.

7. INTANGIBLE ASSETS

	Intellectual Property and License Right RM	Development Cost RM	Total RM
Group			
Cost at 1 January 2011	13,965,150	4,996,486	18,959,636
Additions during the year	-	1,928	1,928
Reclassification	-	-	-
Cost at 31 December 2011	13,965,150	4,996,414	18,961,564
Less : Cumulative Amortisation			
At 1 January 2011	-	(1,047,479)	(1,047,479)
Charge for the year	-	(742,790)	(742,790)
At 31 December 2011	-	(1,790,269)	(1,790,269)
Balance at 31 December 2011	13,965,150	3,206,145	17,171,295
Balance at 31 December 2010	13,965,150	3,947,007	17,912,157
Amortisation at 31 December 2011	-	742,790	742,790

7. INTANGIBLE ASSETS (Continued)

	Intellectual Property and License Right	Development Cost	Total
	RM	RM	RM
Company			
Cost at 1 January 2011	13,965,150	3,865,075	17,830,225
Additions during the year	-	1,928	1,928
Cost at 31 December 2011	13,965,150	3,867,003	17,832,153
Less : Cumulative Amortisation			
At 1 January 2011	-	(652,893)	(652,893)
Charge for the year	-	(547,865)	(547,865)
At 31 December 2011	-	(1,200,758)	(1,200,758)
Balance at 31 December 2011	13,965,150	2,666,245	16,631,395
Balance at 31 December 2010	13,965,150	3,212,182	17,177,332
Amortisation at 31 December 2011	-	547,865	547,865

Included in development cost of the Group and of the Company are directors' remuneration capitalised during the year amounting to RM Nil (2010: RM168,185.00) and RM Nil (2010: RM127,975.00) respectively.

Amortisation expense
The amortisation of development costs is included in the 'administrative and general expenses' line items in the statement of comprehensive income.

Impairment testing of intellectual property and right

Intellectual property and right has been allocated to cash-generating ('CGU') for impairment testing as follow:
- IT segment

The carrying amount of intellectual property and right allocated to the CGU is as follows **:-**

	IT Segment	
	2011	**2010**
	RM	**RM**
Intellectual property and right	14,500,000	14,500,000

The recoverable amount of the CGU has been determined based on value in use calculation using cash flow from projections financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections and the forecasted growth rates used to extrapolate cash flows beyond the five-year period are as follows:

	IT Segment	
	2011	**2010**
	RM	**RM**
Growth rate	10.00%	-
Pre-tax discount rate	3.13%	5.49%

`7. INTANGIBLE ASSETS (Continued)

The calculation of value in use for the CGU is most sensitive to the following assumptions:

Budgeted gross margins - Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements.

Growth rate - The forecasted growth rate is nil.

Pre-tax discount rate - Discount rates reflect the current market assessment of the risks specific to each CGU. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each CGU, regard has been given to the yield on a ten-year government bond at the beginning of the budgeted year.

Market share assumptions - These assumptions are important because, as well as using industry date for growth rates (as stated on page. 32), management assesses how the CGU's position, relative to its competitors, might change over the budget period. Management expects the Group's share of the market to be stable over the budget period.

8. RECEIVABLES

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Non-current assets				
Cash at bank	12,931,935	12,931,935	12,931,935	12,931,935

This amount held by the Company is not available for use by the Group. [Refer Note 24].

9. INVENTORIES

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
At costs:				
Hardware	822,064	1,914,314	502,631	1,059,124
Software	-	5,635	-	-
	822,064	1,919,949	502,631	1,059,124

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Trade receivables	3,596,279	4,072,268	2,985,250	3,463,100
Less: Allowance for Impairment	(853,404)	(853,404)	(853,404)	(853,404)
Provision for doubtful debts	(668,514)	(668,514)	(522,132)	(522,132)
Trade receivables - Net	2,074,361	2,550,350	1,609,714	2,087,564
Other receivables	1,020,334	913,532	235,136	235,334
Deposits	1,444,436	1,520,355	1,440,130	1,511,269
Prepayments	1,400	1,400	-	-
Amount due from subsidiaries	-	-	-	13,034,638
	4,540,531	4,985,637	3,284,980	16,868,805

The amount due from subsidiaries, principally trade transactions in the ordinary course of business, is unsecured, non-interest bearing and have no fixed terms of repayment.

11. TRADE AND OTHER PAYABLES

	Group		Company	
		Restated		Restated
	2011 RM	2010 RM	2011 RM	2010 RM
Current				
Trade payables	1,587,965	1,227,965	883,533	523,533
Accrued expenses	466,160	413,040	371,101	328,072
Amount due to subsidiaries	-	-	1,984,777	1,984,777
Amount due to directors	14,473	14,473	14,473	14,473
	2,068,598	1,655,478	3,253,884	2,850,855
Non - **current**				
Trade payables	13,522,930	13,762,930	13,522,930	13,762,930
	15,591,528	15,418,408	16,776,814	16,613,785

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

(i) an amount of RM11,087,183.25 which is involved in dispute as per Note 24, and
(ii) RM2,435,747 (2010 : RM2,195,747) to be repayable by RM20,000.00 per month as per settlement agreement with Achieva Technology Sdn. Bhd. dated 01 August, 2009.

12. LOANS AND BORROWINGS

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Current:				
Bank overdraft (secured)	345,660	317,047	345,660	317,047
Bankers' acceptances	811,000	94,431	811,000	94,431
Term loan	-	-	-	-
	1,156,660	411,478	1,156,660	411,478

The bankers' acceptances facilities are secured by way of personal guarantee by the Company's directors and bear interest at 4.81% p.a.

13. SHARE CAPITAL

	Group and	Company
	2011 RM	2010 RM
Ordinary shares of RM0.10 each		
Authorised:	50,000,000	50,000,000
Issued and fully paid - up :	29,052,650	29,052,650

Employee Share Option Scheme

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

Share options are granted to directors and to selected employees. The exercise price under the ESOS is the average of the mean market quotation of the shares of the Company as quoted in the Daily Official List issued by the Bursa Malaysia Securities Berhad for the five market days preceeding the offer date, or the par value of the shares of the Company of RM0.25, whichever is the higher.

13. SHARE CAPITAL (Continued)

Employee Share Option Scheme

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

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

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

	Year ended 31.12.2011			Year ended 31.12.2010	
	Average exercise price RM / share	Options		Average exercise price RM / share	Options
At beginning of year	0.10	18,500,000	At beginning of year	0.10	18,625,000
Lapsed	-	(100,000)	Lapsed	-	(125,000)
At end of the year	0.10	18,400,000	At end of the year	0.10	18,500,000

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

14. SHARE PREMIUM AND RESERVES

	Group and Company 2011 RM	2010 RM
(a) Share premium	4,296,261	4,296,261

(b) ESOS reserves	Group 2011 RM	Group 2010 RM	Company 2011 RM	Company 2010 RM
Options granted	13,136	13,136	13,136	13,136

(c) Foreign exchange reserves	Group 2011 RM	Group 2010 RM	Company 2011 RM	Company 2010 RM
At January 1	14,709	10,710	-	-
Currency translation difference	(756)	3,999	-	-
At December 31	13,953	14,709	-	-

(d) Accumulated (losses) / Retained profits	(14,012,058)	(10,207,180)	(14,834,263)	1,394,964

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

15. REVENUE

	Group 2011 RM	Group 2010 RM	Company 2011 RM	Company 2010 RM
Sale of goods	6,289,161	2,431,652	6,289,161	2,431,652

16. LOSS BEFORE TAXATION

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
The following items have been charged / (credited) in arriving at (loss) before taxation:				
Audit fee	17,000	13,780	11,000	8,480
Amortisation	742,790	250,409	547,865	75,050
Directors' remuneration	392,959	219,020	332,959	174,020
Depreciation of property, plant and equipment	185,223	171,639	184,405	169,291
Foreign exchange loss - Realised	-	796	-	796
Foreign exchange loss - Unrealised	-	207,000	-	207,000
Impairment of intangible assets	-	534,850	-	534,850
Impairment of trade receivables	-	835,404	-	835,404
Interest expenses	49,083	25,721	49,083	25,721
Inventories written off	951,389	-	409,997	-
Investment written off	-	-	99,999	-
Provision for doubtful debts	1,621,721	-	15,348,279	-
Rental expenses	225,868	176,909	225,868	176,909
Gain on foreign exchange	12,788	-	12,788	-
Directors' remuneration:				
Fees	24,667	18,000	24,667	18,000
Salary	368,292	201,020	308,292	156,020
	392,959	219,020	332,959	174,020

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	
	2011 RM	2010 RM	2011 RM	2010 RM
Non-executive directors				
Below RM50,000	4	3	4	3
Executive director				
Below RM50,000	-	-	-	1
RM 50,000 - RM100,000	-	2	1	1
RM100,000 - RM150,000	1	-	-	-
RM200,000 - RM250,000	1	-	1	-

17. FINANCE COSTS

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Bankers' acceptance interest	41,195	9,756	41,195	9,756
Bank interest charges	7,888	15,680	7,888	15,680
Term loan interest	-	285	-	285
	49,083	25,721	49,083	25,721

18. TAXATION

	Group		Company	
	2011	2010	2011	2010
	RM	RM	RM	RM
Prior years' taxation	-	21,603	-	21,603

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 (September 30, 2005) in accordance with the Bill of Guarantees provided to all MSC Malaysia Status companies.

The provision for taxation differs from the amount of taxation determined by applying the applicable statutory tax rate to the loss before tax as a result of the following differences:

	Group		Company	
	2011	2010	2011	2010
	RM	RM	RM	RM
Loss before taxation	(3,804,760)	(2,936,254)	(16,229,227)	(2,045,152)
Accounting loss at Malaysian statutory tax rate of 25% (2010: 25%)	(951,190)	(734,064)	(4,057,307)	(511,288)
Expenses not deductible for tax purposes	4,518,044	665,794	4,168,711	443,018
Additions / (reversal) of deferred tax assets not recognised during the year	(3,566,854)	68,270	(111,404)	68,270
Overprovision for taxation in prior years	-	21,603	-	21,603
Tax expense for the year	-	21,603	-	21,603

19. EARNINGS PER SHARE

	Group	
	2011	2010
Earnings per ordinary share of RM0.10 each is calculated as follows :-		
Basic :-		
Net loss for the year attributable to equity holders of the parent company	(3,804,878)	(2,957,051)
Basic earnings per share	(1.31) sen	(1.02) sen
Issued ordinary shares at December 31,	290,526,500	290,526,500

20. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RM	**RM**	**RM**	**RM**
Cash at bank	227,914	756,776	225,155	686,452
Cash on hand	5,162	5,162	-	-
Deposits, cash and bank balances	233,076	761,938	225,155	686,452
Bank overdraft (Note 12)	(345,660)	(317,047)	(345,660)	(317,047)
Bankers' acceptances (Note 12)	(811,000)	(94,431)	(811,000)	(94,431)
	(923,584)	350,460	(931,505)	274,974

Cash at bank are deposits held at call with licensed financial institutions.

Bank overdrafts are denominated in RM, bear interest at 0.5% above BLR p.a. and are secured by:
(a) Landed properties owned by director.
(b) Guaranteed by the Company directors.
(c) Corporate guaranteed by Palette Corporation Sdn. Bhd.

The bankers' acceptances facilities are secured by way of personal guarantee by the Company's directors and bear interest at 4.81% p.a.

21. RELATED PARTY TRANSACTIONS

A party is related to an entity if:-

(i) directly, or indirectly through one or more intermediaries, the party:-
  - controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow;
  - has an interest in the entity that gives it significant influence over the entity; or
  - has joint control over the entity;

(ii) the party is an associate of the entity;
(iii) the party is a joint venture in which the entity is a venturer;
(iv) the party is a member of the key management personnel of the entity or its parent;
(v) the party is a close member of the family of any individual referred to in (i) or (iv);
(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
(vii) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party or the entity.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

	2011	**2010**
	RM	RM
Subsidiary Company		
Palette System Sdn. Bhd.		
Significant outstanding balances at the balance sheet date, arising from:		
Sale and purchases of goods and services and advances	-	13,034,638
PT Palette Multimedia		
Significant outstanding balances at the balance sheet date, arising from:		
Sale and purchases of goods	(1,984,777)	(1,984,777)

21. RELATED PARTY TRANSACTIONS (Continued)

	2011 RM	2010 RM
Director		
Palette Computer Sdn. Bhd.		
in which Abdul Razak Bin Dato' Haji Ipap (Director of the Company), is a director		
Sale of goods	249,619	121,599
Significant outstanding balances at the balance sheet date, arising from:		
Sale and purchases of goods	354,213	111,599
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	2,182	2,182
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	1,529	1,529

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.

22. FINANCIAL INSTRUMENTS

The Group's activities are exposed to a variety of market risks (including foreign currency risk, interest rate risk, and equity price risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on the Group's financial performance.

(a) Financial risk management policies

The Group's policies in respect of the major areas of treasury activity are as follows:-

(i) **Market risk**

(i) **Foreign currency risk**

The Group and the Company incur foreign currency risk on transactions that are denominated in foreign currencies.

If the Ringgit Malaysia strengthens against USD by 1.75% (2010 : -9.77%) with all other variables including the tax rate being held constant, the loss before tax would decrease by RM224.

(ii) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets and liabilities. The Group's policy is to obtain the most favourable interest rates available. Any surplus funds of the Group will be placed with licensed financial institutions to generate interest income.

Information relating to the Group's exposure to the interest rate risk of the financial liabilities is disclosed in notes to the financial statements.

A 100 basis points increase / decrease in interest rate as at the end of the reporting period would have immaterial impact on the profit or loss. This assumes that all other variables remain constant.

(iii) **Equity price risk**

The Group does not have any quoted investment and hence is not exposed to equity price risk.

(ii) **Credit risk**

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank balances), the Group minimises credit risk by dealing with high credit rating counterparties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. Impairment is estimated by management based on prior experience and the current economic environment.

Ageing analysis

The ageing analysis of the Group's trade receivables as at 31 December 2011 is as follows:-

The Group	Gross Amount RM	Individual Impairment RM	Carrying Value RM
Year 2011			
Current	1,021,160	-	1,021,160
31 - 60	5,100	-	5,100
61 - 90	-	-	-
91 - 120	-	-	-
> 120	1,901,505	(853,404)	1,048,101
	2,927,765	(853,404)	2,074,361

22. FINANCIAL INSTRUMENTS (Continued)

(a) Financial risk management policies (Continued)

(ii) Credit risk (Continued)

The Group Year 2010	Gross Amount RM	Individual Impairment RM	Carrying Value RM
Current	25,410	-	25,410
31 - 60	244,226	-	244,226
61 - 90	88,731	-	88,731
91 - 120	2,452	-	2,452
> 120	3,042,935	(853,404)	2,189,531
	3,403,754	(853,404)	2,550,350

At the end of the reporting period, trade receivables that are individually impaired were those having significant balances past due more than 120 days and which are deemed to have higher credit risk. These receivables are not secured by any collateral or credit enhancement.

Trade receivables that are past due but not impaired
The Group believes that no impairment is necessary in respect of these trade receivables. They are substantially companies with good collection track record and no recent history of default.

Trade receivables that are neither past due nor impaired
A significant portion of trade receivables that are neither past due nor impaired are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the trade receivables. Any receivables having significant balances past due or more than 120 days, which are deemed to have higher credit risk, are monitored individually.

(iii) Liquidity risk

Liquidity risk arises mainly form general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating based on the rates at the end of the reporting period):

The Group Year 2011	Weighted Average Effective Rate %	Carrying Amount RM	Contractual Undiscounted Cash Flows RM	Within 1 Year RM
Loans and borrowings	8.35	1,156,660	1,253,241	1,253,241
Trade payables	-	1,587,965	1,587,965	1,587,965
Other payables and accruals	-	466,160	466,160	466,160
Amount due to directors	-	14,473	14,473	14,473
		3,225,258	3,321,839	3,321,839
Year 2010				
Loans and borrowings	6.34	411,478	437,566	437,566
Trade payables	-	1,227,965	1,227,965	1,227,965
Other payables and accruals	-	413,040	413,040	413,040
Amount due to directors	-	14,473	14,473	14,473
		2,066,956	2,093,044	2,093,044

22. FINANCIAL INSTRUMENTS (Continued)

(a) Financial risk management policies (Continued)

(iii) **Liquidity risk (Continued)**

The Company	Weighted Average Effective Rate	Carrying Amount	Contractual Undiscounted Cash Flows	Within 1 Year
Year 2011	%	RM	RM	RM
Loans and borrowings	8.35	1,156,660	1,253,241	1,253,241
Trade payables	-	883,533	883,533	883,533
Other payables and accruals	-	371,101	371,101	371,101
Amount due to subsidiaries	-	1,984,777	1,984,777	1,984,777
Amount due to directors	-	14,473	14,473	14,473
		4,410,544	4,507,125	4,507,125
Year 2010				
Loans and borrowings	6.34	411,478	437,566	437,566
Trade payables	-	523,533	523,533	523,533
Other payables and accruals	-	328,072	328,072	328,072
Amount due to subsidiaries	-	1,984,777	1,984,777	1,984,777
Amount due to directors	-	14,473	14,473	14,473
		3,262,333	3,288,421	3,288,421

(b) Capital management policies

The primary objective of the Group's capital management is to safeguard the entity's ability to continue as going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services to commensurate with the level of risk. The management sets the amount of capital in proportion to risk. There were no changes in the approach to capital management during the financial year. The management manages the capital structure and makes adjustments to it where necessary or possible in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the management may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debts.

The debt-to-equity ratio of the Group as at the end of the reporting period was as follow:

	Group	
	2011 RM	2010 RM
Loans and borrowings	1,156,660	411,478
Trade and other payables	2,068,598	15,418,408
	3,225,258	15,829,886
Less: Cash and bank balances	(233,076)	(761,938)
Net debt	2,992,182	15,067,948
Total equity	19,363,942	23,169,576
Debt-to-equity ratio (times)	0.853	0.650

Under the requirement of Bursa Malaysia Guidance Note No. 3 / 2006, the Company is required to maintain a consolidated shareholders' equity (total equity attributable to owners of the Company) equal to or not less than the 25% of the issued and paid-up share capital (excluding treasury shares). The Company has complied with this requirement.

22. FINANCIAL INSTRUMENTS (Continued)

(c) Classification of financial instruments

Year 2011	**Group RM**	**Company RM**
Financial assets		
Loans and receivables financial assets		
Trade receivables	2,074,361	1,609,714
Other receivables and deposits	2,466,170	1,675,266
Cash and bank balances	233,076	225,155
	4,773,607	3,510,135
Financial liabilities		
Other financial liabilities		
Trade payables	15,110,895	14,406,463
Other payables and accruals	466,160	371,101
Amount owing to subsidiary	-	1,984,777
Amount owing to directors	14,473	14,473
Loans and borrowings	1,156,660	1,156,660
	16,748,188	17,933,474

Year 2010	**Group RM**	**Company RM**
Financial assets		
Loans and receivables financial assets		
Trade receivables	2,550,350	2,087,564
Other receivables and deposits	2,435,287	1,746,603
Amount due from subsidiaries	-	13,034,638
Cash and bank balances	761,938	688,452
	5,747,575	17,557,257
Financial liabilities		
Other financial liabilities		
Trade payables	14,990,895	14,286,463
Other payables and accruals	413,040	328,072
Amount owing to subsidiary	-	1,984,777
Amount owing to directors	14,473	14,473
Loans and borrowings	411,478	411,478
	15,829,886	17,025,263

23. OPERATING SEGMENTS

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	
	2011 RM	2010 RM	2011 RM	2010 RM
Major segment by country				
- Revenue from external customer				
Malaysia	6,289,161	2,431,652	(3,800,003)	(2,953,083)
Indonesia	-	-	(4,757)	(4,774)
- Inter segment				
Malaysia	-	-	-	-
	6,289,161	2,431,652	(3,804,760)	(2,957,857)
Eliminations	-	-	-	-
	6,289,161	2,431,652	(3,804,760)	(2,957,857)

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

Operating segments are prepared in a manner consistent with the internal reporting provided to the Group Executive Committee as its chief operating decision maker in order to allocate resources to segments and to assess their performance. For management purpose, the Group is organised into business units based on geographical segments.

24. SIGNIFICANT EVENTS

On May 14, 2004, the Company filed a legal suit at the High Court of Kuala Lumpur for defects of goods valued at RM3.6 million against a supplier of the Company, which is a public listed company in Taiwan, specialising in manufacturing computer and multimedia related products. A sum of RM12,944,815.39 which is involved in this dispute has been reflected in the Company's receivables in non-current assets.

On July 01, 2010, the Company filed a Notice of Appeal, against the decision of the Kuala Lumpur High Court on June 29, 2010.

25. SUPPLEMENTARY INFORMATION - DISCLOSURE OF REALISED AND UNREALISED PROFITS / LOSSES

The breakdown of the retained profits / (accumulated losses) of the Group and of the Company as at the end of the reporting period into realised and unrealised profits / (losses) are presented in accordance with the directive issued by Bursa Malaysia Securities Berhad and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants, as follows:

	Group 2011 RM	Company 2011 RM
(Accumulated losses)		
- realised	(14,012,058)	(14,834,263)
- unrealised	-	-
	(14,012,058)	(14,834,263)
Add: Consolidation adjustment	-	-
At 31 December	(14,012,058)	(14,834,263)

26. COMPARATIVE FIGURES

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

STATEMENT BY DIRECTORS

We, **EG KAH YEE** and **SUKHDEV SINGH A/L BANTA SINGH**, being two of the directors of **PALETTE MULTIMEDIA BERHAD**, do hereby state that, in our opinion, the financial statements as set out on pages 17 to 44 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 2011 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

SUKHDEV SINGH A/L BANTA SINGH
Director

Kuala Lumpur,
Date: 19 April 2012

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 17 to 44, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named
SUKHDEV SINGH A/L BANTA SINGH
at Kuala Lumpur in the Federal Territory
on this 19 April 2012

Before me

SUKHDEV SINGH A/L BANTA SINGH
Director

LEONG SEE KEONG
No. W494
Commissioner for Oaths

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Palette Multimedia Berhad, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended and a summary of significant accounting policies and other explanatory information as set out on pages 17 to 44.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of financial statements that give a true and fair view 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 2011 and their performance and cash flow for the year then ended.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 3 (a) in the financial statements which discloses the premise upon which the Group has prepared its financial statements by applying the going concern assumption, notwithstanding that the Group incurred a net loss of RM3,804,760 during the year ended 31 December 2011, thereby indicating the existence of a material uncertainly which may cast significant doubt about the Group's ability to continue as a going concern.

The ability of the Group to continue as going concern is dependent on continuing financial support by the shareholders, banker and creditors and success of the future operations of the Group. Accordingly, the financial statements of the Group do not include any adjustments relating to the amounts and the classification of assets and liabilities that might be necessary should the Group be unable to continue as going concern.

The oversea subsidiary's result has been consolidated into the financial statements based on its management financial statements during the year, as indiacated in Note 6.

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.

Other Matters

The supplementary information set out in Note 25 on page 44 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ('MIA Guidance') and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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 2118/12/12(J)

Kuala Lumpur,
Date: 19 April 2012

Shareholding Statistics as at 3 May 2012

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 03 May 2012

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares Held
1 to 99 Shares	54	2.317	2,616	0.000
100 to 1,000 Shares	276	11.845	87,083	0.029
1,001 to 10,000 Shares	496	21.287	2,955,900	1.017
10,001 to 100,000 Shares	1,186	50.901	51,045,852	17.570
100,001 to 14,526,324 Shares (*)	317	13.605	182,222,747	62.721
14,526,325 and above (**)	1	0.042	54,212,302	18.660
Total	**2,330**	**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 03 May 2012

No.	Shareholders	No. of Shares	%
1.	Eg Kah Yee	54,212,302	18.660
2.	Ho Kat Sin	7,500,000	2.581
3.	Lee Kin Hin	7,276,545	2.504
4.	See Lee Ming	6,259,600	2.154
5.	See Lee Ming	6,106,900	2.102
6.	Canvas Technology Pte Ltd	5,901,150	2.031
7.	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged securities account for Ang Yook Chu & Ang Yoke Fong (8076574)	5,144,900	1.770

8.	Ooi Bee Eng	5,000,000	1.721
9.	Ace Partner Group Limited	4,916,700	1.692
10.	Ng Geok Lui	4,390,050	1.511
11.	Ng Geok Lui	4,334,600	1.491
12.	Teo Boon Huang Andy	4,101,750	1.411
13.	Ng Geok Lui	3,054,000	1.051
14.	JF APEX Nominees (Tempatan) Sdn Bhd - Pledged securities account for Voon Sze Lin	2,635,800	0.907
15.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Teo Cheng Tuan Donald	2,500,000	0.860
16.	Yong Sing Her	2,500,000	0.860
17.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Tan See Tee	2,371,750	0.816
18.	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged securities account for Luk Teck Hoe (8061432)	2,321,600	0.799
19.	Kenanga Nominees (Tempatan) Sdn Bhd Pledged securities account for Merry Noel Robert	2,300,000	0.791
20.	RHB Nominees (Asing) Sdn Bhd - UOB Kay Hian Private Limited for Tan Tiong Beng	2,250,000	0.774
21.	Ng Hock Seng	2,091,700	0.719
22.	JF APEX Nominees (Tempatan) Sdn Bhd Huatai Financial Holdings (HK) Limited for Huatai HK SPC- Huatai Von Malaysia Fund Segregated Portfolio	1,771,100	0.609
23.	Public Nominees (Tempatan) Sdn Bhd Pledged securities account for Yew Hwa Hin (E-BMM)	1,709,500	0.588
24.	Ong Hock Siong (Benny Ong Hock Siong)	1,692,250	0.582
25.	Wong Choong Yew	1,597,300	0.549
26.	Chuan Tsui Ju	1,522,500	0.524
27.	Voon Jye Wah	1,400,300	0.481
28.	Lau Hui Kon	1,324,100	0.455
29.	Jyuo-Min Shyu	1,250,000	0.430
30.	PM Nominees (Tempatan) Sdn Bhd Pledged securities account for Yong Sing Her (B)	1,200,000	0.413
	Total	**150,636,397**	**51.849**

Substantial Shareholders

As at 03 May 2012 (As per the Register of Substantial Shareholders)

No.	Directors	Direct Shareholdings No. of Shares Held	Direct Shareholdings %	Indirect Shareholdings No. of Shares Held	Indirect Shareholdings %
1	Eg Kah Yee	54,834,052	18.874	1,193,502 (1)	0.410
2.	Eg Kaa Chee	1,193,502	0.410	54,834,052 (2)	18.874

Directors' Shareholdings

As at 03 May 2012 (As per the Register of Directors' Shareholding)

No.	Directors	Direct Shareholdings No. of Shares Held	Direct Shareholdings %	Indirect Shareholdings No. of Shares Held	Indirect Shareholdings %
1	Eg Kah Yee	54,834,052	18.874	1,193,502 (1)	0.410
2.	Eg Kaa Chee	1,193,502	0.410	54,834,052 (2)	18.874
3.	Abdul Razak Bin Dato' Haji Ipap	-	-	-	-
4.	Sukhdev Singh A/L Banta Singh	-	-	-	-
5.	Thong Kooi Pin	250	0.000	-	-
6.	Yoong Shee Fatt	-	-	-	-

Notes:-

(1) Deemed interested through his brother Eg Kaa Chee

(2) Deemed interested through his brother Eg Kah Yee

NOTICE IS HEREBY GIVEN that the Fifteenth Annual General Meeting of the Company will be held at Tropicana Greens III, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Friday, 15 June 2012 at 11.00 a.m. to transact the following business:-

AGENDA

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2011 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 2011. **(Resolution 1)**

3. To re-elect Thong Kooi Pin who retires pursuant to Article 119 of the Company's Articles of Association. **(Resolution 2)**

4. To re-elect Eg Kaa Chee 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 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 the following resolutions, with or without modifications, as Ordinary / Special Resolutions of the Company:-

6. **ORDINARY RESOLUTION** **(Resolution 5)**
   AUTHORITY UNDER SECTION 132D OF THE COMPANIES ACT, 1965 FOR THE DIRECTORS TO ISSUE SHARES
   "THAT pursuant to Section 132D of the Companies Act, 1965, the Directors of the Company be and are hereby empowered to allot and issue shares in the Company at any time and upon such terms and conditions for such purposes as the Directors may in their absolute discretion deem fit provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company unless revoked or varied by the Company at a general meeting."

7. **ORDINARY RESOLUTION II** **(Resolution 6)**
   PROPOSED RENEWAL OF THE EXISTING SHAREHOLDERS' MANDATE AND NEW SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE
   THAT pursuant to Rule 10.09 of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("ACE Listing Requirements"), the Company and its subsidiaries ("the Group") be and are hereby authorised to enter into and give effect to the recurrent related party transactions of a revenue or trading nature with the related party as set out in Section 1.4 of the Circular to Shareholders dated 24 May 2012 ("Related Party") provided that such transactions and/or arrangements are:-

   (a) necessary for the day-to-day operations;
   (b) are undertaken in the ordinary course of business at arm's length basis and are on normal commercial terms which are not more favourable to the Related Party than those generally available to the public; and
   (c) are not detrimental to the minority shareholders of the Company,

   (collectively known as "Shareholders' Mandate")

7. **ORDINARY RESOLUTION II (Continued)** **(Resolution 6)**
PROPOSED RENEWAL OF THE EXISTING SHAREHOLDERS' MANDATE AND NEW SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

AND THAT such approval, shall continue to be in force until:-

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at such AGM, the authority is renewed; or
(b) the expiration of the period within the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("the Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
(c) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,

whichever is earlier;

AND THAT the estimated aggregate value of the transactions conducted pursuant to the Shareholders' Mandate during a financial year will be disclosed, in accordance with the ACE Listing Requirements, in the Annual Report of the Company for the said financial year;

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the Shareholders' Mandate."

8. **SPECIAL RESOLUTION** **(Resolution 7)**
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

"THAT the proposed amendments to the Articles of Association of the Company as contained in the Appendix II which is attached in the Circular to Shareholders dated 24 May 2012 be approved.

THAT the Board of Directors of the Company be and is hereby authorised to do all such acts, deeds and things as are necessary and/or expedient in order to give full effect to the Proposed Amendments with full powers to assent to any conditions, modifications and/or amendments as may be required by any relevant authorities."

By Order of the Board

NG YEN HOONG (LS No. 008016)
JOANNE TOH JOO ANN (LS No. 0008574)
Company Secretaries

Kuala Lumpur
Dated: 24 May 2012

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 and Section 149(1)(b) of the Companies Act, 1965 shall not apply.

(ii) A member may appoint up to two (2) proxies to attend on the same occasion.

(iii) 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.

(iv) Where a member is an exempt authorized nominee as defined under the Securities Industries (Central Depositories) Act, 1991 which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account") there is no limit to the number of proxies which the exempt authorized nominee may appoint in respect of each omnibus account it holds.

(v) A member who appoints more than one proxy shall specify the proportion of his shareholdings to be represented by each proxy.

(vi) 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.

(vii) 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.

(viii) Only members whose names appear in the Record of Depositors as at 8 June 2012 will be entitled to attend and vote at the meeting or appoint proxy(ies) to attend and/or vote on their behalf.

EXPLANATORY NOTES ON SPECIAL BUSINESS

1. **Item 1 of Agenda**
   This item is meant for discussion only as the provision of Section 169(1) of the Companies Act, 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 I**
   Resolution Pursuant To Section 132D Of The Companies Act, 1965
   The Ordinary Resolution proposed under Resolution 5 is the renewal of the mandate obtained from the members at the last Annual General Meeting ("the previous mandate"). The previous mandate was not utilised and accordingly no proceeds were raised.

   The Ordinary Resolution proposed under Resolution 5, if passed, would provide flexibility to the Directors to undertake fund raising activities, including but not limited to placement of shares for the purpose of funding the Company's future investment project(s), working capital and/or acquisition(s), by the issuance of shares in the Company to such persons at any time as the Directors may deem fit provided that the aggregate number of shares issued pursuant to the mandate does not exceed 10% of the issued and paid-up share capital of the Company for the time being, without having to convene a general meeting.
   This authority, unless revoked or varied by the Company in a general meeting will expire at the conclusion of the next Annual General Meeting of the Company.

3. **ORDINARY RESOLUTION II**
   Proposed Renewal of Existing Shareholders' Mandate and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature
   The Ordinary Resolution proposed under Resolution 6, if passed, will allow the Group to enter into recurrent related party transactions made on an arm's length basis and on normal commercial terms and which are not detrimental to the interests of the minority shareholders.

   Please refer to the Circular to Shareholders dated 24 May 2012 for further information.

4. ***SPECIAL RESOLUTION***
   Proposed Amendments to the Articles of Association
   The Special Resolution proposed under Resolution 7, if passed, will authorize the Directors to amend the Articles of Association of the Company. The Proposed Amendments will bring the Articles of Association of the Company in line with the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad and to facilitate some administrative issues.

   Please refer to the Circular to Shareholders dated 24 May 2012 for further information.

FROM OF PROXY

Palette
MULTIMEDIA BERHAD
(420056-K)

Number of shares held:	

I/We ....
(Full Name in Capital Letters)

of ....
(Full Address)

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

.... NRIC No. ....
(Full Name in Capital Letters)

of ....

or failing him/her, the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the Fifteenth Annual General Meeting of the Company to be held at Tropicana Greens III, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Friday, 15 June 2012 at 11.00 a.m. and at any adjournment thereof.

AGENDA				
ORDINARY BUSINESS				
1.	To receive the Audited Financial Statements for the financial year ended 31 December 2011 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 2011.	**1**		
3.	To re-elect Thong Kooi Pin who retires pursuant to Article 119 of the Company's Articles of Association.	**2**		
4.	To re-elect Eg Kaa Chee 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 authorize 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**		
7.	Proposed Renewal of Existing Shareholders' Mandate and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.	**6**		
8.	Proposed Amendments to the Articles of Association	**7**		

(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).

.... Signed this .... day of 2012
Signature of Shareholder(s) or Common Seal

Notes:-

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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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47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia