



Palette
MULTIMEDIA BERHAD
(420056-K)

annual report 2012

CORPORATE INFORMATION	2		
BOARD OF DIRECTORS	3	-	4
CHAIRMAN'S STATEMENT	5		
STATEMENT OF CORPORATE GOVERNANCE	6	-	9
AUDIT COMMITTEE REPORTS	10	-	12
STATEMENT OF INTERNAL CONTROL	13		
ADDITIONAL COMPLIANCE INFORMATION	14		
DIRECTORS' REPORT	15	-	17
FINANCIAL STATEMENTS			
Consolidated statements of financial position	18		
Statements of financial position	19		
Statements of profit or loss and other comprehensive income	20		
Statements of changes in equity	21		
Statements of cash flows	22		
Notes to the financial statements	23	-	50
STATEMENT BY DIRECTORS	51		
STATUTORY DECLARATION	52		
INDEPENDENT AUDITORS' REPORT	53	-	54
SHAREHOLDING STATISTICS	55	-	56
ANALYSIS OF WARRANTS HOLDINGS	57	-	58
ANNEXURE A	59		
NOTICE OF SIXTEENTH ANNUAL GENERAL MEETING	60	-	62
FORM OF PROXY	63		

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

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

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

Currently, he also sits on the board of 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 48, 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 conveyance. 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 re-designated 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, Nomination Committee and the Option Committee of Palette. He also sits on Board of M-Mode Berhad as Independent Non-Executive Director since 19 June 2012.

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

Mr. Sukhdev Singh, a Malaysian, aged 57, 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 specialty 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 40, 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 the Chairman of the Nomination Committee and a member of the Audit Committee of Palette.

YOONG SHEE FATT**Independent Non-Executive Director**

Mr. Yoong Shee Fatt, a Malaysian, aged 51, 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 Bozell 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 specialty 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, Thong Kooi Pin and Abdul Razak Bin Dato' Hj. Ipap.

None of the Directors has any conflict of interest with the Company and none of the Directors has 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 2012.

Financial & Operational Performance

The Group has posted a net loss of RM518,940 as compared to a net loss of RM3,804,760 over last year.

Industry Outlook & Development

A major shift in the global Telco & Celco market has been the very fast uptake of mobile devices such as smartphone and tablets with large data usage requirements. This has increased the demand for high speed wifi networks as well as for LTE & other 4G type technologies. With this in mind Palette has focused on a new range of products that now cater for very diverse devices within a high speed network.

This product has now seen its first adoption by a major telco and the Group expects that this uptake will continue as the product gains acceptance in the telco and celco market space.

Prospects

The shift to a more diverse range of high speed devices has created opportunities and we believe Palette is particularly well placed to take advantage of these. The successor product to Palette's original Mobilette system, the new Access Management System has seen positive feedback from its first deployments and this product will continue to be enhanced as well as being offered outside of Malaysia.

The opportunity for further alliances with key network manufactures as well as the adoption of this product in the enterprise market space will create a strong push that we feel will create very significant business growth for the company.

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 2012, four (4) board meetings were held and the details of each Directors' attendance are set out as follows:-

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

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

At the moment, the Company has yet to formalize the Board Charter as the Board is in the opinion that the current practice is sufficient to effectively govern the business conduct.

There is a division of responsibilities between the Board and the Executive Director to ensure that there is a balance of power and authority throughout the years, although there is no written charter being established. The Chairman is responsible for the Board's effectiveness and conduct, whilst the Executive Director has overall responsibilities over the business and operation of the Group. The Executive Director are empowered to structure the management team in discharging his duties to achieve the goals assigned to him by the Board.

Currently, the Chairman of the Board is headed by the Managing Director, Mr. Eg Kah Yee, whom is also the single largest shareholder in the Company. The new Code on Corporate Governance recommends that the Chairman position to be filled by an Independent Non-Executive director, however, it is the collective view of the Board, based on the current state of affair of and his shareholdings in the company, Mr. Eg Kah Yee is the best person to drive the Group to profitability in near future.

Although the Board is not comprised of majority Independent Non-Executive Director, all the Board members participate fully in decisions on the key issues involving the Group. In addition, each Director exercises fairly judgment on decision making, issues of strategy, performance, resources and standard of conduct for the Group.

The Independent directors play a crucial supervisory function. Their presence is essential in providing unbiased views and impartiality to the Board's deliberation and decision-making process. In addition, the non-executive directors ensure that matters and issues brought to the Board are fully discussed and examined, taking into account the interest of all stakeholders in the Group. In order to ensure the effectiveness of the Independent Directors, the Board undertakes an assessment of its Independent Directors on annual basis.

Currently there is no gender preference in terms of Board members, however the Nomination Committee will review the suitability of candidates based on merits.

(iii) Board Responsibilities

The Board assumes the following responsibilities:-

- reviewing and adopting a strategic plan for the Group;
- overseeing the conduct of the Company's business;
- 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.

(iv) Supply of Information

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.

The Directors may obtain independent professional advice in furtherance of their duties, at the Company's expense, if necessary.

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.

(v) 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.

(vi) Directors' Training

The Board will identify the training needs amongst the Directors and enroll the Directors for the relevant training programme. 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. The Directors during the year have also attended the 8th Tricor Tax and Corporate Seminar by Tricor Tax Services Sdn Bhd.

(vii) Code of Conduct and Ethics for Directors ("the Code")

The Code has been prepared based on the following principles:-

- Conflicts of interest;
- Corporate opportunities;
- Protection of confidential information;
- Protection and Proper Use of Company Assets;
- Compliance with laws, rules and regulations;
- Trading on inside information;
- Compliance with this Code and reporting of any illegal or unethical behavior; and
- Waivers and amendments.

(viii) Nomination Committee

The Board has adopted the best practice and the Nomination Committee, which was established on 22nd February 2013, has been tasked with the responsibilities to recommend new appointment to the Board. The present members of the Nomination Committee are Thong Kooi Pin (Chairman) and Abdul Razak Bin Dato' Hj. Ipap (Member).

The primary function of the Nomination Committee is to assess and recommend to the Board, candidates for all directorships to be filled by the shareholders or the board after taking into consideration the following criteria:

- skills, knowledge, expertise and experience;
- professionalism;
- integrity; and
- in the case of candidates for the position of independent non-executive directors, the Nomination Committee should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from independent non-executive directors.

In addition, the Nomination Committee assesses the effectiveness of the Board as a whole, Board Committees and contributions of each individual Director on annual basis. The Nomination Committee reviews annually the required mix of skills and experience including core competencies which Non-Executive Directors should bring to the Board and other qualities for the Board to function effectively and efficiently.

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 categorized as follows:-

	Executive Directors (RM'000)	Non-Executive Directors (RM'000)
Basic salary	328,128	-
Fees	-	24,000
Benefit in kind	-	-
Total	328,128	24,000

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 means 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 judgments 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 13 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 authorized 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 authorizing 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.

C. Functions and Duties (continued)

- 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 conducts.

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 four (4) meetings were held during the financial year ended 31 December 2012 and the attendance record are as follows:-

	Meeting attended
Abdul Razak Bin Dato' Haji Ipap	4/4
Thong Kooi Pin	4/4
Yoong Shee Fatt	4/4

Summary of Activities of Committee

During the financial year ended 31 December 2012, 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 auditor;
- (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

The Group has outsourced its internal audit function to an independent professional consulting firm to assist the Audit Committee in discharging its responsibilities and duties. 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.

The fee (inclusive of service tax) paid to a professional firm in respect of the internal audit function for the financial year ended 31 December 2012 was RM10,600.

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 Ippap	- 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 2012.

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 2012.

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 2012.

2. Option, Warrant and Convertible Securities

The Company had on 21 March 2013 issued 145,263,250 Warrants on the basis of one (1) Warrant for every two (2) existing ordinary shares of the Company at an issue price of RM0.02 per Warrant.

Other than as disclosed above, the Company did not issue any options and convertible securities during the financial year ended 31 December 2012.

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 23 to the Financial Statements in page 43 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 2012 and the unaudited results previously announced for the similar period.

7. Profit Guarantee

There is no profit guarantee 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.

10. Utilisation of Proceeds

A Renounceable Rights Issue of 145,263,250 Warrants on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.10 was completed on 28 March 2013.

The proceeds from the rights issue have been utilised as follows:

	Amount Utilised (RM)	As per Prospectus dated 27 February 2013 (RM)
Working capital for our Group	259,000	2,355,265
Payment of trade line facility	150,000	150,000
Defray expenses in relation to the Rights Issue of Warrants *	400,000	400,000
Total	809,000	2,905,265

*Expenses relating to the Rights Issue of Warrants amounting to RM275,845 were lower than estimated. The remaining portion was reclassified for working capital purposes.

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 2012.

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 attributable to:-	(519,938)	(1,950,831)
Owner of the Company	998	-
Non-controlling interests	<u>(518,940)</u>	<u>(1,950,831)</u>

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.

OPTIONS GRANTED OVER UNISSUED SHARES

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 :

2012	No. of options over the ordinary shares of RM0.10 each in the Company			
	At 1.1.2012	Exercised	Lapsed	At 31.12.2012
Name of Option holders				
Hee Tai Wui	500,000	-	(500,000)	-
Liew Wai Han	250,000	-	-	250,000
Mohd Zambri Bin Ismail	75,000	-	-	75,000
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 1.1.2012	Bought	Sold	At 31.12.2012
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 23 to the financial statements.

Neither during, nor at the end of the financial year, was the Group or the Company a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate 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 26 to the financial statements.

AUDITOR

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

SIGNED ON BEHALF OF THE BOARD IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS

EG KAH YEE
Director

SUKHDEV SINGH A/L BANTA SINGH
Director

Kuala Lumpur
Date: 25 April 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

Palette
MULTIMEDIA BERHAD

	Note	31.12.2012 RM	31.12.2011 RM	01.01.2011 RM
Assets				
Non-current assets				
Property, plant and equipment	5	243,421	425,961	500,244
Intangible assets	7	16,406,322	17,171,295	17,912,157
Guarantee deposits		-	6,980	6,860
Receivables	8	12,931,935	12,931,935	12,931,935
		<u>29,581,678</u>	<u>30,536,171</u>	<u>31,351,196</u>
Current assets				
Inventories	9	517,103	822,064	1,919,949
Trade and other receivables	10	5,435,189	4,540,531	4,985,637
Cash and bank balances	22	249,814	233,076	761,938
		<u>6,202,106</u>	<u>5,595,671</u>	<u>7,667,524</u>
Assets classified as held for sale	12	7,188	-	-
		<u>6,209,294</u>	<u>5,595,671</u>	<u>7,667,524</u>
Total assets		<u>35,790,972</u>	<u>36,131,842</u>	<u>39,018,720</u>
Equity and liabilities				
Equity				
Share capital	13	29,052,650	29,052,650	29,052,650
Share premium	14	4,296,261	4,296,261	4,296,261
Reserves	14	31,380	27,089	27,845
Accumulated losses	14	(14,531,996)	(14,012,058)	(10,207,180)
Equity attributable to owners of the company		<u>18,848,295</u>	<u>19,363,942</u>	<u>23,169,576</u>
Non-controlling interests		<u>17,890</u>	<u>18,092</u>	<u>17,665</u>
Total equity		<u>18,866,185</u>	<u>19,382,034</u>	<u>23,187,241</u>
Non-current liabilities				
Trade and other payables	15	13,637,974	13,522,930	13,762,930
Current liabilities				
Trade and other payables	15	2,576,413	2,068,598	1,655,478
Loans and borrowings	16	674,621	1,156,660	411,478
Current tax liabilities		-	1,620	1,593
		<u>3,251,034</u>	<u>3,226,878</u>	<u>2,068,549</u>
Liabilities classified as held for sale	12	35,779	-	-
		<u>3,286,813</u>	<u>3,226,878</u>	<u>2,068,549</u>
Total liabilities		<u>16,924,787</u>	<u>16,749,808</u>	<u>15,831,479</u>
Total equity and liabilities		<u>35,790,972</u>	<u>36,131,842</u>	<u>39,018,720</u>

See the accompanying notes to the financial statements.

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

Palette
MULTIMEDIA BERHAD

	Note	31.12.2012 RM	31.12.2011 RM	01.01.2011 RM
Assets				
Non-current assets				
Property, plant and equipment	5	242,052	423,774	497,239
Investment in subsidiaries	6	2	2,461,388	2,561,387
Intangible assets	7	16,083,530	16,631,395	17,177,332
Receivables	8	12,931,935	12,931,935	12,931,935
		<u>29,257,519</u>	<u>32,448,492</u>	<u>33,167,893</u>
Current assets				
Inventories	9	517,103	502,631	1,059,124
Trade and other receivables	10	4,659,667	3,284,980	16,868,805
Cash and bank balances	22	242,331	225,155	686,452
		<u>5,419,101</u>	<u>4,012,766</u>	<u>18,614,381</u>
Total assets		<u>34,676,620</u>	<u>36,461,258</u>	<u>51,782,274</u>
Equity and liabilities				
Equity				
Share capital	13	29,052,650	29,052,650	29,052,650
Share premium	14	4,296,261	4,296,261	4,296,261
Reserves	14	13,136	13,136	13,136
(Accumulated losses)/Retained earnings	14	(16,785,094)	(14,834,263)	1,394,964
Total equity		<u>16,576,953</u>	<u>18,527,784</u>	<u>34,757,011</u>
Non-current liabilities				
Trade and other payables	15	13,637,974	13,522,930	13,762,930
Current liabilities				
Trade and other payables	15	3,787,072	3,253,884	2,850,855
Loans and borrowings	16	674,621	1,156,660	411,478
		<u>4,461,693</u>	<u>4,410,544</u>	<u>3,262,333</u>
Total liabilities		<u>18,099,667</u>	<u>17,933,474</u>	<u>17,025,263</u>
Total equity and liabilities		<u>34,676,620</u>	<u>36,461,258</u>	<u>51,782,274</u>

See the accompanying notes to the financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

Palette
MULTIMEDIA BERHAD

	Note	Group		Company	
		2012 RM	2011 RM	2012 RM	2011 RM
Revenue	17	4,098,749	6,289,161	4,098,749	6,289,161
Cost of sales		(2,446,374)	(4,665,724)	(2,446,374)	(4,653,724)
Gross profit		1,652,375	1,623,437	1,652,375	1,635,437
Other operating income		1,327,356	137,788	1,327,356	137,788
Selling and distribution expenses		(165,923)	(170,542)	(147,300)	(121,415)
Administrative and general expenses		(3,289,818)	(5,346,360)	(4,740,332)	(17,831,954)
Finance costs	19	(42,930)	(49,083)	(42,930)	(49,083)
Loss before taxation	18	(518,940)	(3,804,760)	(1,950,831)	(16,229,227)
Taxation	20	-	-	-	-
Net loss representing total comprehensive loss for the year		<u>(518,940)</u>	<u>(3,804,760)</u>	<u>(1,950,831)</u>	<u>(16,229,227)</u>
Comprehensive loss attributable to :-					
Owners of the company		(519,938)	(3,804,878)	(1,950,831)	(16,229,227)
Non-controlling interest		998	118	-	-
		<u>(518,940)</u>	<u>(3,804,760)</u>	<u>(1,950,831)</u>	<u>(16,229,227)</u>
Earnings per share (sen)					
- basic	21	(0.18)	(1.31)		
- par value of 10 sen per share					
- diluted	21	N/A	N/A		
- par value of 10 sen per share					

See the accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

Palette
MULTIMEDIA BERHAD

	Share Capital	Share Premium	Other Reserves (Note 14)	Accumulated Losses	Equity Attributable to the Owner of the Company	Non- Controlling Interest	Total Equity
	RM	RM	RM	RM	RM	RM	RM
Group							
As at 1 January 2011	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)
As at 31 December 2011	29,052,650	4,296,261	27,089	(14,012,058)	19,363,942	18,092	19,382,034
Foreign exchange difference	-	-	4,291	-	4,291	(1,200)	3,091
Total comprehensive loss for the year	-	-	-	(519,938)	(519,938)	998	(518,940)
As at 31 December 2012	<u>29,052,650</u>	<u>4,296,261</u>	<u>31,380</u>	<u>(14,531,996)</u>	<u>18,848,295</u>	<u>17,890</u>	<u>18,866,185</u>

	Share Capital	Share Premium	Other Reserves	Retained Earnings	Total
	RM	RM	RM	RM	RM
Company					
As at 1 January 2011	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)
As at 31 December 2011	29,052,650	4,296,261	13,136	(14,834,263)	18,527,784
Total comprehensive loss for the year	-	-	-	(1,950,831)	(1,950,831)
As at 31 December 2012	<u>29,052,650</u>	<u>4,296,261</u>	<u>13,136</u>	<u>(16,785,094)</u>	<u>16,576,953</u>

See the accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

Palette
MULTIMEDIA BERHAD

	Note	Group		Company	
		2012 RM	2011 RM	2012 RM	2011 RM
Cash flows from operating activities					
Loss before taxation		(518,940)	(3,804,760)	(1,950,831)	(16,229,227)
Adjustments for:					
Amortisation of intangible assets		764,973	742,790	547,865	547,865
Depreciation of property, plant and equipment		187,682	185,223	186,864	184,405
Inventories written off		319,433	951,389	-	409,997
Investment written off		-	-	2,461,386	99,999
Interest expense		42,930	49,083	42,930	49,083
Allowance for impairment loss on trade receivables		-	1,621,721	-	15,348,279
Reversal of impairment loss on trade receivables		(945,000)	-	(945,000)	-
Unrealised loss / (gain) on foreign exchange translation		3,091	(446)	-	-
Operating (loss) / gain before working capital changes		(145,831)	(255,000)	343,214	410,401
(Increase) / Decrease in inventories		(14,472)	146,495	(14,472)	146,496
Decrease / (Increase) in trade and other receivables		50,134	(1,176,735)	(429,687)	(1,764,454)
Increase in trade and other payables		657,018	173,147	648,232	163,029
Cash from / (used in) operations		546,849	(1,112,093)	547,287	(1,044,528)
Interest paid		(42,930)	(49,083)	(42,930)	(49,083)
Development cost paid		-	(1,928)	-	(1,928)
Net cash from / (used in) operating activities		503,919	(1,163,104)	504,357	(1,095,539)
Cash flows from investing activity					
Purchase of property, plant and equipment		(5,142)	(110,940)	(5,142)	(110,940)
Net cash used in investing activities		(5,142)	(110,940)	(5,142)	(110,940)
Cash flows from financing activity					
(Repayments) / Proceeds from borrowings		(420,195)	716,569	(420,195)	811,000
Net cash (used in) / from financing activity		(420,195)	716,569	(420,195)	811,000
Net increase/(decrease) in cash and cash equivalents		78,582	(557,475)	79,020	(395,479)
Cash and cash equivalents at beginning of year		(112,584)	444,891	(120,505)	274,974
Cash and cash equivalents at end of year	22	(34,002)	(112,584)	(41,485)	(120,505)

See the accompanying notes to the financial statements.

1. GENERAL INFORMATION

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.

The registered office of the Company is located at Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

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.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 25 April 2013.

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.

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.

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

(a) Statement of Compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs and the Companies Act, 1965 in Malaysia and with International Financial Reporting Standards. These are the Group and the Company's first financial statements prepared in accordance with MFRSs and MFRSs 1, First - time Adoption of Malaysia Financial Reporting Standards has been applied.

The financial statements indicated that the Group and the Company incurred net loss of RM518,940 and RM1,950,831 respectively during the financial year ended 31 December 2012. The financial statements of the Group and the Company do not include any adjustments and classifications relating to the recorded assets and liabilities that may be necessary should the Group and the Company be unable to continue as going concerns. In the previous years, the financial statements of the Group and of the Company were presented in accordance with Financial Reporting Standards ("FRSs").

The accounting policies set out in Note 3 have been applied in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2012, the comparative information presented.

The Group and the Company have early adopted the amendments to MFRS 101, Presentation of Financial Statements which is originally effective for annual periods beginning on or after 1 July 2012. The early adoption of the amendments to MFRS 101 has no impact on the financial statements.

(b) Basic of Measurement

The financial statements of the Group and of the Company have been prepared under the historical cost convention, unless otherwise indicated in the summary of significant accounting policies.

(c) Standards Issued But Not Yet Effective

The Group and the Company have not applied the following MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but not yet effective for the Group and the Company :-

MFRSs effective 1 January 2013 :

MFRSs 1	"First Adoption of MFRSs"
MFRSs 7	"Disclosure – Offsetting Financial Asset and Financial Liabilities"
MFRSs 9	" Financial Instrument"
MFRSs 10	"Consolidated Financial Statements"
MFRSs 11	"Joint Arrangements"
MFRSs 12	"Disclosure of Interests in Other Entities"
MFRSs 13	"Fair Value Measurement"
MFRSs 16	"Property, Plant and Equipment"

2. BASIS OF PREPARATION (continued)

MFRSs effective 1 January 2013 (continued):

MFRSs 119	“Employee Benefits (International Accounting Standard (“IAS”) 19 as amended by International Accounting Standard Board (“IASB”) in June 2011”
MFRSs 127	“Separate Financial Statements (IAS 27 as amended by IASB in May 2011)”
MFRSs 128	“Investment in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)”
MFRSs 134	“Interim Financial Reporting”
IC Interpretation 20	Stripping Costs in the Production of A Surface Mine

Amendments to MFRSs effective 1 January 2013 :

MFRSs 1	First-time Adoption of Malaysian Financial Reporting Standards – Government Loans
MFRSs 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
MFRS 10, 11 and 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance

Annual Improvements 2009 - 2011 Cycle issued in July 2012

Amendments to MFRS effective 1 January 2014 :

MFRS 132	Financial Instruments (IFRS 9 issued by IASB in November 2009)
----------	----------------------------------------------------------------

MFRSs effective 1 January 2015 :

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009)
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in October 2010)

MFRS 10, 11, 119, 128 and IC Interpretation 20 are not applicable to the Group and the Company’s operations.

The initial application of the above standards are not expected to have any financial impacts to the current and prior periods financial statements upon the first adoption, except for :

MFRS 9 Financial Instruments

MFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in MFRS 139 Financial Instruments: Recognition and Measurement. MFRS 9 requires financial assets to be classified into two measurement categories: fair value and amortised cost, determined at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Most of the requirements for financial liabilities are retained, except for cases where the fair value option is taken, the part of a fair value change due to an entity’s own risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.

The initial application of the above standards are not expected to have any financial impacts to the current and prior periods financial statements upon the first adoption, except for the adoption of MFRS 9 will result in a change in accounting policy. The Group and the Company is currently examining the financial impact of adopting MFRS 9.

MFRS 13 Fair Value Measurement

MFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhance disclosures about fair value measurements. It replaces the existing fair value guidance in different MFRSs.

The adoption of MFRS 13 will result in a change in accounting policy for the items measured at fair value in the financial statements. The Group and the Company is currently examining the financial impact of adopting MFRS 13.

(d) Significant Accounting Estimates and Judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group’s and of the Company’s accounting policies and reported amounts of assets, liabilities, income and expenses, and disclosure made.

Estimates and underlying assumptions are reviewed on on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) 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.

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary attributable directly and indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable from owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and the owners of the Company.

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

(b) 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 expensed 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 expensed 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:

Capitalised development costs	2-5 years
-------------------------------	-----------

(c) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment (continued)

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	-
Furniture and fittings	20
Computer equipment and software	-
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.

(d) 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.

(e) 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.

(f) 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.

(g) Non-current assets held for sale or distribution to owners

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution to owners, rather than through continuing use, are classified as held for sale or distribution.

Immediately before classification as held for sale or distribution, the assets, or components of the disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities, on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 or 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 it 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 it 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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

Key sources of estimation uncertainty

The preparation of financial statements in conformity with MFRS 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

	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Electrical equipment RM	Total RM
Group						
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
Additions	-	598	969	-	3,575	5,142
Depreciation charge	(14,583)	(145)	(2,624)	(15,235)	(155,095)	(187,682)
At 31 December 2012	29,690	583	3,523	374	209,251	243,421
At 31 December 2012						
Cost	1,691,662	98,836	211,100	653,002	736,145	3,390,745
Accumulated depreciation	(1,661,972)	(98,253)	(207,577)	(652,628)	(526,894)	(3,147,324)
Net book value	29,690	583	3,523	374	209,251	243,421
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						
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
Additions	-	598	969	-	3,575	5,142
Depreciation charge	(13,995)	(145)	(2,394)	(15,235)	(155,095)	(186,864)
At 31 December 2012	28,488	577	3,371	365	209,251	242,052
At 31 December 2012						
Cost	908,761	95,936	189,014	580,713	736,145	2,510,569
Accumulated depreciation	(880,273)	(95,359)	(185,643)	(580,348)	(526,894)	(2,268,517)
Net book value	28,488	577	3,371	365	209,251	242,052
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

	31.12.2012	Company 31.12.2011	01.01.2011
	RM	RM	RM
Unquoted shares, at cost	2,561,387	2,561,387	2,561,387
Less : Accumulated impairment losses	(2,561,385)	(99,999)	-
	<u>2</u>	<u>2,461,388</u>	<u>2,561,387</u>

The Company recognised an impairment loss of RM2,461,386 in relation to its subsidiary, PT Palette Multimedia, on the basis that the carrying amount is in excess of the recoverable amount.

Details of the subsidiary companies are as follows:-

Name of subsidiary	Country of Incorporation	Group's Effective Interest			Principal Activities
		31.12.12	31.12.11	01.01.11	
Palette System Sdn. Bhd.	Malaysia	100%	100%	100%	Dormant
PT Palette Multimedia*#	Indonesia	99%	99%	99%	Dormant

*Audited by another firm of auditors

The Company had on 15 October 2012 entered into a Sale and Purchase of Shares Agreement with third party for the disposal of 649,999 ordinary shares of USD1 each in PT Palette Multimedia, representing 99.99% shareholding in PT Palette Multimedia for a total cash consideration of RM1.00. However, the transfer of shares is still pending.

7. INTANGIBLE ASSETS

Group	Intellectual Property and License Right RM	Development Cost RM	Total RM
Cost at 01 January 2011	15,000,000	4,994,486	19,994,486
Additions	-	1,928	1,928
Cost at 31 December 2011	15,000,000	4,996,414	19,996,414
Additions	-	-	-
Cost at 31 December 2012	15,000,000	4,996,414	19,996,414
Less : Cumulative Amortisation			
At 01 January 2011	(1,034,850)	(1,047,479)	(2,082,329)
Amortisation charge for the year	-	(742,790)	(742,790)
At 31 December 2011	(1,034,850)	(1,790,269)	(2,825,119)
Amortisation charge for the year	-	(764,973)	(764,973)
Balance at 31 December 2012	(1,034,850)	(2,555,242)	(3,590,092)
Net carrying amount at 31 December 2012	13,965,150	2,441,172	16,406,322
Net carrying amount at 31 December 2011	13,965,150	3,206,145	17,171,295
Net carrying amount at 01 January 2011	13,965,150	3,947,007	17,912,157
Amortisation at 31 December 2012	-	764,973	764,973

Company	Intellectual Property and License Right RM	Development Cost RM	Total RM
Cost at 1 January 2011	15,000,000	3,865,075	18,865,075
Additions	-	1,928	1,928
Cost at 31 December 2011	15,000,000	3,867,003	18,867,003
Additions	-	-	-
Cost at 31 December 2012	15,000,000	3,867,003	18,867,003
Less : Cumulative amortisation			
At 1 January 2011	(1,034,850)	(652,893)	(1,687,743)
Amortisation charge for the year	-	(547,865)	(547,865)
At 31 December 2011	(1,034,850)	(1,200,758)	(2,235,608)
Amortisation charge for the year	-	(547,865)	(547,865)
Balance at 31 December 2012	(1,034,850)	(1,748,623)	(2,783,473)
Net carrying amount at 31 December 2012	13,965,150	2,118,380	16,083,530
Net carrying amount at 31 December 2011	13,965,150	2,666,245	16,631,395
Net carrying amount at 01 January 2011	13,965,150	3,212,182	17,177,332
Amortisation at 31 December 2012	-	547,865	547,865

Amortisation expense

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

7. INTANGIBLE ASSETS (continued)

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	
	2012	2011
	RM	RM
IT segment	<u>13,965,150</u>	<u>13,965,150</u>

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 ten - 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 ten - year period are as follows :

	IT Segment	
	2012	2011
	RM	RM
Growth rate	10.00%	10.00%
Pre-tax discount rate	<u>3.06%</u>	<u>3.13%</u>

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 10%.

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 MGS 5-years yield and Bursa 5-years return.

Market share assumptions - These assumptions are important because, as well as using industry data for growth rates (as noted above), 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.

Sensitivity in changes to assumptions – Management believes that no reasonable possible changes in any of the key assumptions above would cause the carrying values of the CGUs to materially exceed their recoverable amounts.

8. RECEIVABLES

	Group			Company		
	31.12.2012	31.12.2011	01.01.2011	31.12.2012	31.12.2011	01.01.2011
	RM	RM	RM	RM	RM	RM
Non-current assets						
Cash at bank	<u>12,931,935</u>	<u>12,931,935</u>	<u>12,931,935</u>	<u>12,931,935</u>	<u>12,931,935</u>	<u>12,931,935</u>

9. INVENTORIES

	Group			Company		
	31.12.2012	31.12.2011	01.01.2011	31.12.2012	31.12.2011	01.01.2011
	RM	RM	RM	RM	RM	RM
At costs						
Hardware	517,103	822,064	1,914,314	517,103	502,631	1,059,124
Software	-	-	5,635	-	-	-
	<u>517,103</u>	<u>822,064</u>	<u>1,919,949</u>	<u>517,103</u>	<u>502,631</u>	<u>1,059,124</u>
Recognised in profit and loss:						
Inventories recognised as costs of sales	2,203,820	4,212,669	901,566	2,203,820	4,212,669	901,566
Write-down to net realisable value	319,433	951,389	-	-	409,997	-

10. TRADE AND OTHER RECEIVABLES

	Group			Company		
	31.12.2012	31.12.2011	01.01.2011	31.12.2012	31.12.2011	01.01.2011
	RM	RM	RM	RM	RM	RM
Trade receivables	5,914,985	6,004,797	4,753,900	4,352,137	4,607,570	3,463,699
Less : Allowance for impairment	(3,145,238)	(3,145,238)	(1,523,517)	(2,997,856)	(2,997,856)	(1,376,135)
Add : Reversal of allowance for impairment	<u>945,000</u>	<u>-</u>	<u>-</u>	<u>945,000</u>	<u>-</u>	<u>-</u>
Trade receivables - net	<u>3,714,747</u>	<u>2,859,559</u>	<u>3,230,383</u>	<u>2,299,281</u>	<u>1,609,714</u>	<u>2,087,564</u>
Amount due from subsidiaries	-	-	-	14,372,208	13,726,558	13,034,638
Less : Allowance for impairment	-	-	-	(13,726,558)	(13,726,558)	-
Due from subsidiaries - net	<u>-</u>	<u>-</u>	<u>-</u>	<u>645,650</u>	<u>-</u>	<u>13,034,638</u>
Other receivables	282,977	235,136	235,334	282,977	235,136	235,334
Deposits	1,436,065	1,444,436	1,518,520	1,431,759	1,440,130	1,511,269
Prepayments	1,400	1,400	1,400	-	-	-
	<u>5,435,189</u>	<u>4,540,531</u>	<u>4,985,637</u>	<u>4,659,667</u>	<u>3,284,980</u>	<u>16,868,805</u>

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. DISCONTINUED OPERATIONS

The Company had on 15 October 2012 entered into a Sale and Purchase of Shares Agreement with third party for the disposal of 649,999 ordinary shares of USD1 each in PT Palette Multimedia, representing 99.99% shareholding in PT Palette Multimedia for a total cash consideration of RM1.00. However, the transfer of shares is still pending.

The proceeds of the sale exceeded the carrying amount of the related net assets and, accordingly, no impairment losses were recognized on the reclassification of these operations as held for sale. As at 31 December 2012, the assets and liabilities of PT Palette Multimedia have been presented on the consolidated statement of financial position as an assets and liabilities classified as held for sale, and results from this subsidiary is presented separately on the consolidated statement of comprehensive income as discontinued operation.

The results of the discontinued operations, PT Palette Multimedia included in the statement of comprehensive income are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

	2012	Group
	RM	2011
		RM
Revenue	-	-
Cost of sales	-	-
Gross profit	<u>-</u>	<u>-</u>

The profit from discontinued operations is attributable entirely to the owners of the Company.

	2012	Group
	RM	2011
		RM
Cash flows from discontinued operations	-	-
Net cash inflows from operating activities	-	-
Net cash inflows from investing activities	-	-
Net cash inflows from financing activities	-	-
Net cash inflows	<u>-</u>	<u>-</u>

12. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

As described in Note 11, the Group is in the process of disposing it's oversea subsidiary and anticipates that the disposal will be completed in next financial period. The major classes of assets and liabilities of PT Palette Multimedia classified as held for sale as at 31 December 2012 are as follows:

	31.12.2012	Group	
	RM	31.12.2011	01.01.2011
		RM	RM
Assets:			
Guarantee deposits	6,340	-	-
Trade receivables	848	-	-
Assets classified as held for sale	<u>7,188</u>	<u>-</u>	<u>-</u>
Liabilities :			
Other payables and accruals	34,307	-	-
Tax payable	1,472	-	-
Liabilities classified as held for sale	<u>35,779</u>	<u>-</u>	<u>-</u>

13. SHARE CAPITAL

	Group and Company		
	31.12.2012	31.12.2011	01.01.2011
	RM	RM	RM
Ordinary shares of RM 0.10 each Authorised :	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>
Issued and fully paid - up :	<u>29,052,650</u>	<u>29,052,650</u>	<u>29,052,650</u>

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 RM 0.25, whichever is the higher.

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

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

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

	<u>Year ended 31.12.2012</u>			<u>Year ended 31.12.2011</u>	
	Average exercise price RM / share	Options		Average exercise price RM / share	Options
At beginning of year	0.10	18,400,000	At beginning of year	0.10	18,500,000
Lapsed	0.10	(1,750,000)	Lapsed	0.10	(100,000)
At end of the year	<u>0.10</u>	<u>16,650,000</u>	At end of the year	<u>0.10</u>	<u>18,400,000</u>

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

14. SHARE PREMIUM AND RESERVES

(i) Share premium	Group			Company		
	31.12.2012	31.12.2011	01.01.2011	31.12.2012	31.12.2011	01.01.2011
	RM	RM	RM	RM	RM	RM
Share premium	<u>4,296,261</u>	<u>4,296,261</u>	<u>4,296,261</u>	<u>4,296,261</u>	<u>4,296,261</u>	<u>4,296,261</u>

(ii) Other Reserves	Group			Company		
	31.12.2012	31.12.2011	01.01.2011	31.12.2012	31.12.2011	01.01.2011
	RM	RM	RM	RM	RM	RM
Esos Reserves	<u>13,136</u>	<u>13,136</u>	<u>13,136</u>	<u>13,136</u>	<u>13,136</u>	<u>13,136</u>
Foreign exchange reserves						
At January 1	13,953	14,709	10,710	-	-	-
Currency translation difference	4,291	(756)	3,999	-	-	-
At December 31	<u>18,244</u>	<u>13,953</u>	<u>14,709</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other reserves	<u>31,380</u>	<u>27,089</u>	<u>27,845</u>	<u>13,136</u>	<u>13,136</u>	<u>13,136</u>

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of a subsidiary whose functional currency differs from the Group's presentation currency.

(Accumulated losses)						
/ Retained profits	<u>(14,531,996)</u>	<u>(14,012,058)</u>	<u>(10,207,180)</u>	<u>(16,785,094)</u>	<u>(14,834,263)</u>	<u>1,394,964</u>

15. TRADE AND OTHER PAYABLES

	Group			Company		
	31.12.2012 RM	31.12.2011 RM	01.01.2011 RM	31.12.2012 RM	31.12.2011 RM	01.01.2011 RM
Current						
Trade payables	1,258,816	1,587,965	1,227,965	531,707	883,533	523,533
Accrued expenses	1,290,362	466,160	413,040	1,243,353	371,101	328,072
Amount due to subsidiaries	-	-	-	1,984,777	1,984,777	1,984,777
Amount due to directors	27,235	14,473	14,473	27,235	14,473	14,473
	<u>2,576,413</u>	<u>2,068,598</u>	<u>1,655,478</u>	<u>3,787,072</u>	<u>3,253,884</u>	<u>2,850,855</u>
Non - current						
Trade payables	13,637,974	13,522,930	13,762,930	13,637,974	13,522,930	13,762,930
	<u>16,214,387</u>	<u>15,591,528</u>	<u>15,418,408</u>	<u>17,425,046</u>	<u>16,776,814</u>	<u>16,613,785</u>

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

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

The trade payables reflected as non - current above includes : -

- (i) An amount of RM 11,442,227 which is involved in dispute as per Note 26, and
- (ii) RM 2,195,747 (2011 : RM 2,435,747) to be repayable by RM 20,000.00 per month as per settlement agreement with Achieva Technology Sdn. Bhd. dated August 1, 2009.

16. LOAN AND BORROWINGS

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

	Group			Company		
	31.12.2012 RM	31.12.2011 RM	01.01.2011 RM	31.12.2012 RM	31.12.2011 RM	01.01.2011 RM
Current						
Bank overdraft (secured)	283,816	345,660	317,047	283,816	345,660	317,047
Bank acceptances	390,805	811,000	94,431	390,805	811,000	94,431
	<u>674,621</u>	<u>1,156,660</u>	<u>411,478</u>	<u>674,621</u>	<u>1,156,660</u>	<u>411,478</u>

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

17. REVENUE

	Group		Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Sale of goods	<u>4,098,749</u>	<u>6,289,161</u>	<u>4,098,749</u>	<u>6,289,161</u>

18. LOSS BEFORE TAXATION

	Group		Company	
	2012 RM	2011 RM	2012 RM	2011 RM
The following items have been charged / (credited) in arriving at loss before taxation:-				
Amortisation	764,973	742,790	547,865	547,865
Audit fee	19,000	17,000	13,000	11,000
Depreciation	187,682	185,223	186,864	184,405
Directors' remuneration	352,128	392,959	292,128	332,959
Interest expenses	42,930	49,083	42,930	49,083
Inventories written off	319,433	951,389	-	409,997
Investment written off	-	-	2,461,386	99,999
Loss on foreign exchange	20,699	-	20,699	-
Allowance for impairment loss on trade receivables	-	1,621,721	-	15,348,279
Rental expenses	227,910	225,868	227,910	225,868
Bad debt recovered	(172,356)	-	(172,356)	-
Gain on foreign exchange	-	(12,788)	-	(12,788)
Reversal of impairment loss on trade receivables	(945,000)	-	(945,000)	-
Directors' remuneration :				
Fees	24,000	24,667	24,000	24,667
Salary	328,128	368,292	268,128	308,292
	<u>352,128</u>	<u>392,959</u>	<u>292,128</u>	<u>332,959</u>

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

	Group		Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Non-executive directors	4	4	4	4
Below RM 50,000				
Executive director				
Below RM50,000	-	-	-	-
RM50,000 - RM100,000	-	-	1	1
RM100,000 - RM150,000	1	1	-	-
RM200,000 - RM250,000	1	1	1	1

19. FINANCE COSTS

	Group		Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Bankers' acceptance interest	10,099	41,195	10,099	41,195
Bank interest charges	32,831	7,888	32,831	7,888
	<u>42,930</u>	<u>49,083</u>	<u>42,930</u>	<u>49,083</u>

20. INCOME TAX EXPENSES

	Group		Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Income tax:-				
Current year's provision	-	-	-	-
Under provision for taxation in prior year	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The income tax expense differs from the amount of income tax expense determined by applying the applicable statutory tax rate to the loss before tax as a result of the following differences :-

	Group		Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Loss before taxation	<u>(518,940)</u>	<u>(3,804,760)</u>	<u>(1,950,831)</u>	<u>(16,229,227)</u>
Accounting loss at Malaysian statutory tax rate of 25% (2011 : 25%)	(129,735)	(951,190)	(487,708)	(4,057,307)
Expenses not deductible for tax purposes	428,804	1,062,594	786,777	4,168,711
Income not subject to tax	(236,250)	-	(236,250)	-
Reversal of deferred tax assets not recognised during the year	(62,819)	(111,404)	(62,819)	(111,404)
Tax expense for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The amount of temporary differences for which no deferred tax assets have been recognised in the balance sheet are as follows :-

	Group		Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Excess of capital allowance corresponding depreciation	371,757	204,061	370,388	205,679
Unutilised capital allowances	81,970	170,418	-	89,016
Unabsorbed tax losses	13,668,564	12,983,837	487,098	829,055
	<u>14,122,291</u>	<u>13,358,316</u>	<u>857,486</u>	<u>1,123,750</u>

Deferred tax assets have not been recognised in respect of these items as it is not probable that the future taxable profit of the Company will be available against which the deductible temporary differences can be utilised.

21. EARNINGS PER SHARE

	Group	
	2012 RM	2011 RM
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	(519,938)	(3,804,878)
Basic earnings per share	(0.18) sen	(1.31) sen
Issued ordinary shares at December 31	<u>29,052,650</u>	<u>29,052,650</u>

22. CASH AND BANK BALANCES

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

	Group			Company		
	31.12.2012 RM	31.12.2011 RM	01.01.2011 RM	31.12.2012 RM	31.12.2011 RM	01.01.2011 RM
Cash at bank	244,652	227,914	756,776	242,331	225,155	686,452
Cash on hand	<u>5,162</u>	<u>5,162</u>	<u>5,162</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deposits, cash and bank balance	249,814	233,076	761,938	242,331	225,155	686,452
Bank overdraft (Note 16)	<u>(283,816)</u>	<u>(345,660)</u>	<u>(317,047)</u>	<u>(283,816)</u>	<u>(345,660)</u>	<u>(317,047)</u>
	<u>(34,002)</u>	<u>(112,584)</u>	<u>444,891</u>	<u>(41,485)</u>	<u>(120,505)</u>	<u>369,405</u>

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) Guaranteed by Palette Corporation Sdn. Bhd.

23. RELATED PARTY TRANSACTION

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.

	2012	2011
	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	<u>645,650</u>	<u>-</u>
PT Palette Multimedia		
Significant outstanding balances at the balance sheet date, arising from :		
Sale and purchases of goods and advances	<u>(1,984,777)</u>	<u>(1,984,777)</u>
Director		
Palette Computer Sdn. Bhd.		
in which Abdul Razak Bin Dato' Haji Ipap (Director of the Company), is a director		
Sale of goods	<u>119,771</u>	<u>249,619</u>
Significant outstanding balances at the balance sheet date, arising from :		
Sale and purchases of goods and advances	<u>426,798</u>	<u>354,213</u>
Director		
Palette Internet Sdn. Bhd.		
in which in which Eg Kah Yee and Eg Kaa Chee (Director of the Company), is a director		
Significant outstanding balances at the balance sheet date, arising from :		
Sale of goods and services	<u>2,182</u>	<u>2,182</u>
Director		
Key ASIC Berhad		
in which Eg Kah Yee (Director of the Company),is a director		
Significant outstanding balances at the balance sheet date, arising from :		
Sale of goods and services and advances	<u>1,529</u>	<u>1,529</u>

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

24. 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. There has been no change in the nature of the risks which the Group and the Company are exposed to, nor the objectives, policies and processes to manage those risks compared to the previous year.

(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 strengthen against USD by 5% with all other variables including the tax rate being held constant, the loss before tax would decrease by RM1,035 .

(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. 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 2012 is as follows: -

The Group	Gross Amount RM	Individual Impairment RM	Net RM
Year 2012			
Not past due - Current	1,109,262	-	1,109,262
Not past due - 31 to 60 days	99,596	-	99,596
Not past due - 61 to 90 days	52,900	-	52,900
Not past due - 91 to 120 days	278,635	-	278,635
Past due > 120 days	4,374,592	(2,200,238)	2,174,354
	<u>5,914,985</u>	<u>(2,200,238)</u>	<u>3,714,747</u>

24. FINANCIAL INSTRUMENTS (continued)

(a) Financial risk management policies (continued)

(ii) Credit risk (continued)

The Group	Gross Amount RM	Individual Impairment RM	Net RM
Year 2011			
Not past due - Current	1,021,160	-	1,021,160
Not past due - 31 to 60 days	5,100	-	5,100
Not past due - 61 to 90 days	-	-	-
Not past due - 91 to 120 days	-	-	-
Past due > 120 days	4,978,537	(3,145,238)	1,833,299
	<u>6,004,797</u>	<u>(3,145,238)</u>	<u>2,859,559</u>
01.01. 2011			
Not past due - Current	25,410	-	25,410
Not past due - 31 to 60 days	244,226	-	244,226
Not past due - 61 to 90 days	88,731	-	88,731
Not past due - 91 to 120 days	2,452	-	2,452
Past due > 120 days	4,393,081	(1,523,517)	2,869,564
	<u>4,753,900</u>	<u>(1,523,517)</u>	<u>3,230,383</u>

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 from 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) : -

24. FINANCIAL INSTRUMENTS (continued)

(a) Financial risk management policies (continued)

(iii) Liquidity risk

The Group	Weighted Average Effective Rate	Contractual Undiscounted Carrying Amount	Cash Flows	Within 1 Year	1-2 Years	2-5 Years	More than 5 Years
	%						
Year 2012							
Loans and borrowings	8.35	674,621	730,952	730,952	-	-	-
Trade payables	-	14,896,790	14,896,790	1,258,816	240,000	240,000	13,157,974
Other payables and accruals	-	1,290,362	1,290,362	1,290,362	-	-	-
Amount due to directors	-	27,235	27,235	27,235	-	-	-
		<u>16,889,008</u>	<u>16,945,339</u>	<u>3,307,365</u>	<u>240,000</u>	<u>240,000</u>	<u>13,157,974</u>
Year 2011							
Loans and borrowings	8.35	1,156,660	1,253,241	1,253,241	-	-	-
Trade payables	-	15,110,895	15,110,895	1,587,965	240,000	240,000	13,042,930
Other payables and accruals	-	466,160	466,160	466,160	-	-	-
Amount due to directors	-	14,473	14,473	14,473	-	-	-
		<u>16,748,188</u>	<u>16,844,769</u>	<u>3,321,839</u>	<u>240,000</u>	<u>240,000</u>	<u>13,042,930</u>
01.01.2011							
Loans and borrowings	6.34	411,478	437,566	437,566	-	-	-
Trade payables	-	14,990,895	14,990,895	1,227,965	240,000	240,000	13,282,930
Other payables and accruals	-	413,040	413,040	413,040	-	-	-
Amount due to directors	-	14,473	14,473	14,473	-	-	-
		<u>15,829,886</u>	<u>15,855,974</u>	<u>2,093,044</u>	<u>240,000</u>	<u>240,000</u>	<u>13,282,930</u>
The Company							
Year 2012							
Loans and borrowings	8.35	674,621	730,952	730,952	-	-	-
Trade payables	-	14,169,681	14,169,681	531,707	240,000	240,000	13,157,974
Other payables and accruals	-	1,243,353	1,243,353	1,243,353	-	-	-
Amount due to subsidiaries	-	1,984,777	1,984,777	1,984,777	-	-	-
Amount due to directors	-	27,235	27,235	27,235	-	-	-
		<u>18,099,667</u>	<u>18,155,998</u>	<u>4,518,024</u>	<u>240,000</u>	<u>240,000</u>	<u>13,157,974</u>
Year 2011							
Loans and borrowings	8.35	1,156,660	1,253,241	1,253,241	-	-	-
Trade payables	-	14,406,463	14,406,463	883,533	240,000	240,000	13,042,930
Other payables and accruals	-	466,160	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	-	-	-
		<u>17,933,474</u>	<u>18,030,055</u>	<u>4,507,125</u>	<u>240,000</u>	<u>240,000</u>	<u>13,042,930</u>
01.01.2011							
Loans and borrowings	6.34	411,478	437,566	437,566	-	-	-
Trade payables	-	14,286,463	14,286,463	523,533	240,000	240,000	13,282,930
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	-	-	-
		<u>17,025,263</u>	<u>17,051,351</u>	<u>3,288,421</u>	<u>240,000</u>	<u>240,000</u>	<u>13,282,930</u>

24. FINANCIAL INSTRUMENTS (continued)

(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 : -

	2012	Group	2011
	RM		RM
Loans and borrowings	674,621		1,156,660
Trade and other payables	<u>16,214,387</u>		<u>15,591,528</u>
	16,889,008		16,748,188
Less : Cash and bank balances	<u>(249,814)</u>		<u>(233,076)</u>
Net debt	<u>16,639,194</u>		<u>16,515,112</u>
 Total equity	 18,848,295		 19,363,942
 Debt-to-equity ratio (times)	 0.883		 0.853

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.

24. FINANCIAL INSTRUMENTS (continued)
(c) Classification of financial instruments

Year 2012	Group RM	Company RM
Financial assets		
<u>Loans and receivables financial assets</u>		
Trade receivables	3,714,747	2,299,281
Other receivables and deposits	1,719,042	1,714,736
Amount due from subsidiary	-	645,650
Receivables	12,931,935	12,931,935
Cash and bank balances	249,814	242,331
	<u>18,615,538</u>	<u>17,833,933</u>
Financial liabilities		
<u>Other financial liabilities</u>		
Trade payables	14,896,790	14,169,681
Other payables and accruals	1,290,362	1,243,353
Amount owing to subsidiary	-	1,984,777
Amount owing to directors	27,235	27,235
Loans and borrowings	674,621	674,621
	<u>16,889,008</u>	<u>18,099,667</u>
Year 2011	Group RM	Company RM
Financial assets		
<u>Loans and receivables financial assets</u>		
Trade receivables	2,859,559	1,609,714
Other receivables and deposits	1,679,572	1,675,266
Receivables	12,931,935	12,931,935
Cash and bank balances	233,076	225,155
	<u>17,704,142</u>	<u>16,442,070</u>
Financial liabilities		
<u>Other financial liabilities</u>		
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
	<u>16,748,188</u>	<u>17,933,474</u>
01.01.2011	Group RM	Company RM
Financial assets		
<u>Loans and receivables financial assets</u>		
Trade receivables	3,230,383	2,087,564
Other receivables and deposits	1,753,854	1,746,603
Amount due from subsidiary	-	13,034,638
Receivables	12,931,935	12,931,935
Cash and bank balances	761,938	686,452
	<u>18,678,110</u>	<u>30,487,192</u>
Financial liabilities		
<u>Other financial liabilities</u>		
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
	<u>15,829,886</u>	<u>17,025,263</u>

24. FINANCIAL INSTRUMENTS (continued)

(d) Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate fair values due to relatively short term natures of these financial instruments.

The classes of financial instruments that have carrying amounts which are reasonable approximations of fair value due to their short-term nature are shown in Note 24 (c).

25. 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 before tax	
	2012 RM	2011 RM	2012 RM	2011 RM
Major segment by country				
-Revenue from external customers				
Malaysia	4,098,749	6,289,161	(518,940)	(3,800,003)
Indonesia	-	-	-	(4,757)
-Inter segment				
Malaysia	-	-	-	-
	<u>4,098,749</u>	<u>6,289,161</u>	<u>(518,940)</u>	<u>(3,804,760)</u>
Eliminations	-	-	-	-
	<u>4,098,749</u>	<u>6,289,161</u>	<u>(518,940)</u>	<u>(3,804,760)</u>

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

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.

26. SIGNIFICANT EVENTS

(i) On 14 May 2004, the Company filed a legal suit at the High Court of Kuala Lumpur for defects of goods valued at RM 3.6 million against a supplier of the Company, which is a public listed company in Taiwan, specialising in manufacturing computer and multimedia related products. A sum of RM12,931,935 which is involved in this dispute has been reflected in the Company's receivables in non - current assets.

On 1 July 2010, the Company filed a Notice of Appeal, against the decision of the Kuala Lumpur High Court on 29 June, 2010.

(ii) The Company had on 15 October 2012 entered into a Sale and Purchase of Shares Agreement with third party for the disposal of 649,999 ordinary shares of USD1 each in PT Palette Multimedia, representing 99.99% shareholding in PT Palette Multimedia for a total cash consideration of RM1.00.

27. SUBSEQUENT EVENT

The Company has increased the working capital of the Company through fund raising of renounceable right issue of 145,263,250 warrants at an issue price of RM0.02 per warrant on the basis of one (1) warrant for every two (2) existing ordinary shares of RM0.10 each in the Company held at 5.00pm on 27 February 2013. The rights issue of the warrants has been completed with the listing of 145,263,250 Warrants on the ACE Market of Bursa Securities on 28 March 2013.

28. EXPLANATION OF TRANSITION TO MFRSs

As disclosed in Note 2, these are the first financial statements of the Group and of the Company prepared in accordance with MFRSs.

The accounting policies set out in Note 3 have been applied in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2012, the comparative information presented in these financial statements for the year ended 31 December 2011 and in the preparation of the opening MFRS statements of financial position at 1 January 2011 (the Group and the Company's date of transition to MFRSs).

The transition to MFRSs does not have financial impact to the financial statements of the Group and of the Company.

29. 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 2012 RM	Company 2012 RM
Accumulated losses		
- realised	(14,531,996)	(16,785,094)
- unrealised	-	-
	<u>(14,531,996)</u>	<u>(16,785,094)</u>
 Add : Consolidation adjustment	 -	 -
At 31 December	<u>(14,531,996)</u>	<u>(16,785,094)</u>

We, **Eg Kah Yee** and **Sukhdev Singh A/L Banta Singh**, being two of the directors of **Palette Multimedia Berhad**, do hereby state on behalf of the directors that in our opinion, the financial statements as set out on pages 18 to 50, are drawn up in accordance with Malaysian Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at December 31, 2012 and of their financial performance and cash flows of the Company for the year ended on that date.

SIGNED ON BEHALF OF THE BOARD IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS

EG KAH YEE
Director

SUKHDEV SINGH A/L BANTA SINGH
Director

Kuala Lumpur,
Date: 25 April 2013

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 18 to 50, 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 25 April 2013

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 2012 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 18 to 50.

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 2012 and their performance and cash flow for the year then ended.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the financial statements which indicates that the Group and the Company reported net losses of RM518,940 and RM1,950,831 respectively during the financial year ended 31 December 2012. The financial statements of the Group and the Company do not include any adjustments and classifications relating to the recorded assets and liabilities that may be necessary should the Group and the Company be unable to continue as going concerns.

The Company has increased the working capital of the Company through fund raising of renounceable right issue of 145,263,250 warrants at an issue price of RM0.02 per warrant on the basis of one (1) warrant for every two (2) existing ordinary shares of RM0.10 each in the Company held at 5.00pm on 27 February 2013, as disclosed in Note 27.

The appropriateness of the going concern assumption used in the preparation of the financial statements is highly dependent on the support from various parties and the successful implementation of plan to improve the financial condition and level of operations of the Group and of the Company.

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 29 on page 50 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 2118/12/14(J)

Kuala Lumpur,
Date: 25 April 2013

Shareholding Statistics as at 02 May 2013

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 02 May 2013

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Share Held	% of Share Held
1 to 99	54	2.481	2,616	0.000
100 to 1,000	277	12.729	88,583	0.030
1,001 to 10,000	472	21.691	2,779,000	0.956
10,001 to 100,000	1,059	48.667	45,879,902	15.791
100,001 to 14,526,324 (*)	313	14.384	187,564,097	64.560
14,526,325 and above (**)	1	0.045	54,212,302	18.660
Total	2,176	100.000	290,526,500	100.000

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

Substantial Shareholders

As at 02 May 2013 (As per the Register of Substantial Shareholders)

No.	Directors	Direct Shareholdings		Indirect Shareholdings	
		No. of Shares Held	%	No. of Shares Held	%
1	Eg Kah Yee	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 02 May 2013 (As per the Register of Directors' Shareholding)

No.	Directors	Direct Shareholdings		Indirect Shareholdings	
		No. of Shares Held	%	No. of Shares Held	%
1	Eg Kah Yee	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

30 Largest Shareholders

As at 02 May 2013

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.	Tan Sui Lan	3,123,700	1.075
14.	Ng Geok Lui	3,054,000	1.051
15.	JF APEX Nominees (Tempatan) Sdn Bhd Pledged securities account for Voon Sze Lin	2,704,600	0.930
16.	RHB Nominees (Asing) Sdn Bhd UOB Kay Hian Private Limited for Teo Cheng Tuan Donald	2,500,000	0.860
17.	Tan Chun Ming	2,500,000	0.860
18.	RHB Nominees (Asing) Sdn Bhd UOB Kay Hian Private Limited for Tan See Tee	2,371,750	0.816
19.	RHB Nominees (Asing) Sdn Bhd UOB Kay Hian Private Limited for Tan Tiong Beng	2,250,000	0.774
20.	Ng Hock Seng	2,091,700	0.719
21.	Su An Lee	2,000,000	0.688
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.	CIMSEC Nominees (Tempatan) Sdn Bhd Pledged securities account for Ng Dee Voo (B Tunku-CL)	1,755,100	0.604
24.	Wong Choong Yew	1,749,800	0.602
25.	Public Nominees (Tempatan) Sdn Bhd Pledged securities account for Yew Hwa Hin (E-BMM)	1,709,500	0.588
26.	Ong Hock Siong (Benny Ong Hock Siong)	1,692,250	0.582
27.	Chuan Tsui Ju	1,522,500	0.524
28.	Lee Seok Sian	1,500,000	0.516
29.	Voon Jye Wah	1,400,300	0.481
30.	Lau Hui Kon	1,324,100	0.455
	Total	152,164,897	52.375

As at 02 May 2013

Issued Size : 145,263,250
No of Warrants Holders : 443 warrants holders

Analysis Of Warrants Holdings

As at 02 May 2013

Size of Holdings	No. of Warrants Holders	% of Warrants Holders	No. of Warrants Held	% of Warrants Held
1 to 99	1	0.225	25	0.000
100 to 1,000	3	0.677	1,700	0.001
1,001 to 10,000	79	17.832	529,725	0.364
10,001 to 100,000	226	51.015	10,938,475	7.530
100,001 to 7,263,161(*)	132	29.796	98,476,825	67.791
7,263,162 and above (**)	2	0.451	35,316,500	24.312
Total	443	100.000	145,263,250	100.000

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

Substantial Warrants Holders

As at 02 May 2013 (As per the Register of Substantial Warrants Holders)

No.	Directors	Direct Warrants Holdings		Indirect Warrants Holdings	
		No. of Warrants Held	%	No. of Warrants Held	%
1	Eg Kah Yee	27,477,375	18.915	-	-
2.	Su An Lee	8,150,000	5.610	-	-

Directors' Warrants Holdings

As at 02 May 2013 (As per the Register of Directors' Warrants Holding)

No.	Directors	Direct Warrants Holdings		Indirect Warrants Holdings	
		No. of Warrants Held	%	No. of Warrants Held	%
1	Eg Kah Yee	27,477,375	18.915	-	-
2.	Eg Kaa Chee	-	-	-	-
3.	Abdul Razak Bin Dato' Haji Ipap	-	-	-	-
4.	Sukhdev Singh A/L Banta Singh	-	-	-	-
5.	Thong Kooi Pin	-	-	-	-
6.	Yoong Shee Fatt	-	-	-	-

30 Largest Warrants Holders

As at 02 May 2013

No.	Warrants holders	No. of Warrants	%
1.	Eg Kah Yee	27,166,500	18.701
2.	Su An Lee	8,150,000	5.610
3.	Lim Poh Fong	5,592,900	3.850
4.	Teo Ah Seng	5,100,000	3.510
5.	Kaw Keng Wai	3,843,000	2.645
6.	See Lee Ming	3,053,450	2.102
7.	Ooi Phuay Gim	3,000,025	2.065
8.	Canvas Technology Pte Ltd	2,950,575	2.031
9.	Sew Chooi Lan	2,701,000	1.859
10.	Lum Yin Mui	2,600,000	1.789
11.	Ooi Bee Eng	2,500,000	1.721
12.	Ace Partner Group Limited	2,458,350	1.692
13.	Lai Sai Cheong	2,350,000	1.617
14.	Yang Keng Boon	2,338,800	1.610
15.	Caroline Gan Ke Yin	2,200,000	1.514
16.	Ng Geok Lui	2,167,300	1.491
17.	CIMSEC Nominees (Tempatan) Sdn Bhd Pledged securities account for Ng Geok Wah (B BRKLANG-CL)	2,000,000	1.376
18.	Public Nominees (Tempatan) Sdn Bhd Pledged securities account for Tan Thiam Siew (E-KUG)	2,000,000	1.376
19.	Tan Ming Chuan	2,000,000	1.376
20.	ECML Nominees (Tempatan) Sdn Bhd Pledged securities account for Tan Teik Hoe (03MG00010)	1,797,900	1.237
21.	Boon Kim Yu	1,656,200	1.140
22.	Ng Geok Lui	1,527,000	1.051
23.	Sua Tin Mei	1,500,000	1.032
24.	HLB Nominees (Tempatan) Sdn Bhd Pledged securities account for Lee Yen Lang	1,420,000	0.977
25.	Lim Baa	1,300,000	0.894
26.	Tan Sui Lan	1,277,200	0.879
27.	Liew Shui Hong	1,001,000	0.689
28.	Fok Sai Loi	1,000,000	0.688
29.	Fok Sai Loi	1,000,000	0.688
30.	Maybank Nominees (Tempatan) Sdn Bhd Muhammad Yusoff Chong Meng Wah	1,000,000	0.688
	Total	98,651,200	67.912

Eg Kah Yee
1234, Jalan Timur 17
Jinjang Utara
52000 Kuala Lumpur

Date: 16 May 2013

The Board of Directors,
PALETTE MULTIMEDIA BERHAD
Lot 6.04 Level 6, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

NOTICE OF NOMINATION OF MESSRS STYL ASSOCIATES AS AUDITORS

Pursuant to Section 172(11) of the Companies Act, 1965, I, being a shareholder of Palette Multimedia Berhad (“the Company”), hereby give notice of my intention to nominate Messrs STYL Associates for appointment as auditors of the Company and to propose the following as an ordinary resolution to be tabled at the forthcoming Annual General Meeting of the Company, to replace the retiring auditors, Messrs Cheng & Co. :-

“THAT Messrs STYL Associates be and are hereby appointed Auditors of the Company in place of the retiring Auditors, Messrs Cheng & Co. and to hold office until the conclusion of the next Annual General meeting AND THAT authority be and is hereby given for the Directors to fix their remuneration.”

Yours faithfully,

EG KAH YEE

NOTICE IS HEREBY GIVEN that the Sixteenth Annual General Meeting of the Company will be held at Tropicana Greens I, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Friday, 14 June 2013 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 2012 together with the Reports of the Directors' and Auditors' thereon. **(Please refer to Explanatory Note 1)**
2. To approve the payment of Directors' Fees for the financial year ended 31 December 2012. **(Resolution 1)**
3. To re-elect Eg Kah Yee who retires pursuant to Article 119 of the Company's Articles of Association. **(Resolution 2)**
4. To re-elect Abdul Razak bin Dato' Haji Ipap who retires pursuant to Article 119 of the Company's Articles of Association. **(Resolution 3)**
5. To appoint Auditors and to authorize the Directors to fix their remuneration. **(Resolution 4)**
Notice of Nomination pursuant to Section 172(11) of the Companies Act, 1965, a copy of which is annexed hereto and marked "Annexure A" in the annual report has been received by the Company for the nomination of Messrs STYL Associates for appointment as Auditors of the Company in place of the retiring Auditors, Messrs Cheng & Co. and the intention to move the following motion to be passed as an Ordinary Resolution:-
"THAT Messrs STYL Associates be and are hereby appointed Auditors of the Company in place of the retiring Auditors, Messrs Cheng & Co. and to hold office until the conclusion of the next Annual General Meeting AND THAT authority be and is hereby given for the Directors to fix their remuneration."

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions, with or without modifications, as Ordinary Resolutions of the Company:-

6. **ORDINARY RESOLUTION I** **(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."

SPECIAL BUSINESS (continued)

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 23 May 2013 ("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");

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

By Order of the Board

NG YEN HOONG [LS 008016]
JOANNE TOH JOO ANN [LS 0008574]
Company Secretaries

Kuala Lumpur
Dated 23 May 2013

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 7 June 2013 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 23 May 2013 for further information.

FORM OF PROXY

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 Sixteenth Annual General Meeting of the Company to be held at Tropicana Greens I, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Friday, 14 June 2013 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 2012 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 2012.	1		
3.	To re-elect Eg Kah Yee who retires pursuant to Article 119 of the Company's Articles of Association.	2		
4.	To re-elect Abdul Razak bin Dato' Haji Ipap who retires pursuant to Article 119 of the Company's Articles of Association.	3		
5.	To appoint Auditors 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		

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

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

Signed this day of 2013

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 7 June 2013 will be entitled to attend and vote at the meeting or appoint proxy(ies) to attend and/or vote on their behalf.

Fold Here

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

Fold Here



www.palettemm.com

Palette Multimedia Bhd (420056-K)

Lot 6.04 Level 6, KPMG Tower, 8 First Avenue, Bandar Utama,
47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia