



Palette
MULTIMEDIA BERHAD
(420056-K)



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- 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)
Chuan Tsui Ju (Independent Non-Executive Director)
- COMPANY SECRETARIES :** Wong Wai Foong
(MAICSA No. 7001358)
- 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 :** STYL Associates
107B, Jalan Aminuddin Baki,
Taman Tun Dr Ismail,
60000 Kuala Lumpur.
Tel : 03-7727 5573 Fax : 03-7727 0771
- 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 53, 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.

EG KAA CHEE**Non-Independent & Non-Executive Director**

Mr. Eg Kaa Chee, a Malaysian, aged 49, 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 53, 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 and Nominating 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 58, 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.

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

Mr. Thong Kooi Pin, a Malaysian, aged 41, 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 Nominating Committee and Audit Committee of Palette.

CHUAN TSUI JU**Independent Non-Executive Director**

Ms. Chuan Tsui Ju, a Malaysian, aged 53, was appointed as the Independent Non-Executive Director of Palette Multimedia Berhad on 22 November 2013. She completed the General Certificate of Education. She joined construction company, Lim & Chia Sdn Bhd as an Account Executive right after finishing her accounting courses in 1980 and subsequently in 1985, she left the Company and continues her career in construction and development industry with Ample's group. In 1990, she was hired by Jujutsu Industries group initially as an Administrator and rose to the rank of Director responsible for the whole operation of the Group. She left Jujutsu Industry in 1996 to set up her own business in tutorial sector and sold it off in 1999. Currently, she is working as Director of Project Coordinator at A&P Solution Enterprise which specialises in advertising and promotion activities. She is also a committee member of Persatuan Hainan Selangor & Wilayah Persekutuan an association she joined in 1998 and currently holds the position of Assistant Economic Officer in women division. She is a member 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 2013.

Financial & Operational Performance

The Group has posted a net loss of RM5,717,312 as compared to a net loss of RM518,940 over last year.

Industry Outlook & Development

The acceleration in mobile device adoption has created demand for secure networks with new capabilities. Users want more than mere connectivity, security must be assured and location specific services are slowly coming into play.

Palette is moving to take advantage of this marketplace by developing new capabilities to layer services on top of existing WIFI developments.

Prospects

The demand for secure applications to be layered on top of existing networks will drive the need for closer management of network resources for Telcos, enterprises, SME and education. The new version of Palette's AMG is well placed to take advantage of this; especially when combined with location specific services. Further, Palette now has the capability to do development of rich content mobile apps with location intelligence and the first of these will come on stream within 2014 with a good material impact on 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 practicing high standards of corporate governance throughout the Group. The Board adopts and applies the principles and best practices as governed by the Listing Requirements of 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 2013, four (4) board meetings were held and the details of each Director's 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 (Resigned on 30 September 2013)	2/2
Chuan Tsui Ju (Appointed on 22 November 2013)	1/1

(ii) Board Balance & Composition

The current Board has six (6) members comprising two (2) Executive Directors (including the Chairman / Managing Director), two (2) Non-Independent Non-Executive Directors and two (2) Independent Non-Executive Directors. The Board is satisfied that the current composition fairly reflects the investment of shareholders and balance in view of the Group's business. Together, the Directors bring a wide range of experience relevant to the direction and objectives of the Group as they come from various different backgrounds ranging from business, marketing, legal and technical. A brief description of the background of each Director is presented on pages 3 to 4 of this Annual Report.

A Board Charter had been established with the objectives to ensure that all Board Members are aware of their duties and responsibilities, the various legislations and regulations affecting their conduct, principles and practices of good corporate governance are applied accordingly. The Board Charter is reviewed periodically to update with changes in regulating and best practices to ensure the Board's effectiveness.

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 fair 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.

The Board has assessed the independence of the Independent Directors and is satisfied with the level of independence demonstrated by both the Independent Directors and their ability to act in the best interest of the Company.

Currently there is no gender preference in terms of Board members, however the Nominating 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.

The Board has reviewed and has considered the assessment of Eg Kaa Chee, Sukhdev Singh A/L Banta Singh and Chuan Tsui Ju, the Directors standing for re-election and collectively agrees that they meet the

criteria of character, experience, integrity, competence and time to effectively discharge their respective roles as Director.

(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.

Directors	Seminar
Eg Kah Yee	9 th Tricor Tax and Corporate Seminar by Tricor Tax Services Sdn Bhd.
Sukhdev Singh A/L Banta Singh	9 th Tricor Tax and Corporate Seminar by Tricor Tax Services Sdn Bhd.
Thong Kooi Pin	9 th Tricor Tax and Corporate Seminar by Tricor Tax Services Sdn Bhd.
Chuan Tsui Ju	Mandatory Accreditation Programme (MAP) for Directors of Public Listed Companies.

(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) Nominating Committee

The Board has adopted the best practice and the Nominating 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 Nominating Committee are Thong Kooi Pin (Chairman) and Abdul Razak Bin Dato' Hj. Ipap (Member).

The primary function of the Nominating 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 Nominating Committee should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from independent non-executive directors.

In addition, the Nominating Committee assesses the effectiveness of the Board as a whole, Board Committees and contributions of each individual Director on annual basis. The Nominating 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.

The Nominating Committee met twice during the financial year.

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 was categorized as follows:-

	Executive Directors (RM'000)	Non-Executive Directors (RM'000)
Basic salary	176,843	-
Fees	-	23,143
Over provision in prior year	(175,872)	-
Total	<u>971</u>	<u>23,143</u>

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

	Executive Directors	Non-Executive Directors
Band of remuneration		
RM 50,000 and below	1	5
RM 50,001 – RM150,000	1	-
	<u>2</u>	<u>5</u>

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 Risk Management and Internal Controls is set out on pages 15 to 16 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

Thong Kooi Pin – Independent Non-Executive Director

Members

Abdul Razak Bin Dato' Hj. Ipap – Non-Independent Non-Executive Director

Chuan Tsui Ju – Independent Non-Executive Director (appointed on 22 November 2013)

Yoong Shee Fatt – Independent Non-Executive Director (resigned on 30 September 2013)

2. Terms of Reference

A. Composition

The Committee shall be appointed by the Board of Directors from amongst its members which fulfills 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) fulfills 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.
- 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 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 2013 and the attendance records are as follows:-

	Meeting attended
Abdul Razak Bin Dato' Haji Ipap	4/4
Thong Kooi Pin	4/4
Yoong Shee Fatt (Resigned on 30 September 2013)	3/3
Chuan Tsui Ju (Appointed on 22 November 2013)	1/1

Summary of Activities of Committee

During the financial year ended 31 December 2013, 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 2013 was RM7,950.

**STATEMENT OF VERIFICATION ON ALLOCATION OF
OPTIONS PURSUANT TO EMPLOYEE SHARE OPTION SCHEME**

Palette
MULTIMEDIA BERHAD

The Audit Committee has verified that there was no option granted for the year ended 31 December 2013.

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. Risk Management 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. Significant risks identified are subsequently brought to the attention of the Board at the scheduled board meetings. This serves as the on-going process of identifying; assessing and managing risks faced by the Group and has been in place for the year under review and up to the date of approval of this statement for inclusion in the Annual report.

The process is regularly reviewed by the Board via the Audit Committee ("AC") at the quarterly Board meeting with the assistance of the outsourced internal auditors to further review and improve the existing internal control processes within the Group. The Group will continue to focus on the key risks and corresponding controls to ensure that they are able to respond effectively to the business changes and competitive environment.

4. Internal Control Framework

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 2013.

5. Conclusion

The Board recognizes the necessity to monitor closely the adequacy and effectiveness of the Group's system of internal controls and risk management, taking into consideration the fast-changing business environment. Although the Board is of the view that the present risk management and 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 2013.

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 2013.

The Employee Share Option Scheme which has been in force for a period of ten (10) years commencing from 6 April 2004 had expired on 5 April 2014.

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")

The Recurrent Related Party Transactions entered into by the Group during the financial year are disclosed as follows :-

Transacting Party within Palette Group	Related Party	Nature of Recurrent Transaction	Interested Related Party	Value of Transactions as at 31 December 2013 (RM)
Palette Group (provider of product and services)	Palette Computer Sdn. Bhd. (recipient of products and services)	Selling computer and network products to Palette Computer Sdn. Bhd. by the Palette Group	Abdul Razak bin Dato' Haji Ipap	133,959
Palette Group (recipient of services)	Palette Computer Sdn. Bhd. (provider of services)	Provision of sales outsourcing and invoicing functions by Palette Computer Sdn. Bhd. to the Company and undertake all sales activities functions and to service the existing customer of the Company on exclusive basis.	Abdul Razak bin Dato' Haji Ipap	524,159

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 2013 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 Programmed

During the financial year, the Company did not sponsor any Depository Receipt programme.

9. Share Buy-back

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

10. Utilisation of Proceeds

A Renounceable Rights 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 was completed on 28 March 2013.

The proceeds from the rights issue have been fully utilised as follow:-

	Amount Utilised (RM)	As per Prospectus dated 27 February 2013 (RM)
Working capital for our Group	2,355,265	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	2,905,265	2,905,265

The directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31st December 2013.

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 as disclosed in Note 8 to the Financial Statements. There have been no significant changes in the nature of these principal activities during the financial year.

FINANCIAL RESULTS

The results of the operations of the Group and of the Company for the financial year are as follows:

	GROUP RM	COMPANY RM
Loss before tax	(5,351,607)	(5,795,652)
Income tax expense	<u>(365,705)</u>	<u>(365,705)</u>
Net loss for the financial year	<u><u>(5,717,312)</u></u>	<u><u>(6,161,357)</u></u>
Attributable to:		
Equity holders of the Company	(5,721,389)	(6,161,357)
Non-controlling interests	<u>4,077</u>	<u>-</u>
	<u><u>(5,717,312)</u></u>	<u><u>(6,161,357)</u></u>

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the exceptional item as disclosed in the Financial Statements.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors also do not recommend the payment of any dividend in respect of the current financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those as disclosed in the Financial Statements.

ISSUE OF SHARES

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

SHARE OPTIONS

The shareholders of the Company, via a Members' Circular Resolution dated 7th April 2004, approved the Palette Multimedia Berhad ESOS for the benefit of eligible directors and eligible employees of the Company.

The salient features of the ESOS are as follows:

- a) the total number of new shares which may be made available under the scheme shall not exceed in aggregate ten per cent (10%) of the total issued and paid-up share capital of the Company at any point of time during the existence of the ESOS;
- b) eligible persons are confirmed employees including executive directors of the Company and have been in the employment of the Group for a period of at least six (6) months of continuous service on or prior to the date of allocation;
- c) not more than fifty per cent (50%) of the shares under the ESOS will be granted to the directors and senior management. In addition, not more than twenty-five per cent (25%) of the shares under the ESOS will be granted to any individual staff;
- d) the option price shall be determined by the weighted average market price of the shares of the Company for the five (5) market days preceding the date of offer and may be at a discount of not more than ten per cent (10%) or at par value of the shares of the Company, whichever is higher;
- e) the options granted to an option holder under the ESOS are exercisable by the option holder after completing one year's service. The options are exercisable starting one year from the grant date and have a contractual term of ten (10) years. The Group has no legal or constructive obligation to repurchase or settle the options in cash; and
- f) the duration of the scheme shall be ten (10) years from the commencement of the scheme.

The movement in the share options during the financial year are as follows:

Option price RM	Date of offer	Number of options over ordinary shares of RM0.10 each			
		As at 1.1.2013	Granted	Exercised	As at 31.12.2013
0.10	20.12.2004	16,650,000	-	-	16,650,000

2013/2018 WARRANTS

During the financial year, the Company made a renounceable rights 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. The warrants issued are constituted under a Deed Poll executed by the Company.

The salient features of the warrants are as follows:

- a) Each warrant entitles the registered holder, at any time during the exercise period to subscribe for one (1) new ordinary share at an exercise price of RM0.10 each, subject to adjustments in accordance with the provisions of the Deed Poll.
- b) The exercise price for the warrants is fixed at RM0.10 per new ordinary share of the Company, subject to further adjustments in accordance with the provisions of the Deed Poll.
- c) The warrants may be exercisable at any time within five (5) years commencing from and including the date of issue of the warrants and ending 5pm on the expiry date. The expiry date is a day falling immediately before the 5th anniversary of the date of issuance of the warrants and if such date is not a market day, then on the preceding market day.
- d) The new ordinary shares to be issued pursuant to the exercise of the warrants upon allotment and issue, rank pari passu in all respect with the existing ordinary shares of the Company except that the new ordinary shares shall not be entitled to any dividend, rights, allotment and/or other distribution that may be declared, made or paid prior to the date of allotment and issuance of the rights shares.

DIRECTORS

The names of the directors in office 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
 Chuan Tsui Ju (appointed on 22.11.2013)
 Yoong Shee Fatt (resigned on 30.9.2013)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by the directors in the financial statements or the fixed salary of full-time employee of the Company or a related corporation) 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.

Neither during nor at the end of the financial year, was 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.

DIRECTORS' INTERESTS

The shareholdings in the Company of those who were directors at the end of the financial year, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, are as follows:

	Number of ordinary shares of RM0.10 each			Balance as at 31.12.2013
	Balance as at 1.1.2013	Bought	Sold	
Shares in the Company				
Registered in name of directors				
Eg Kah Yee	54,834,052	-	-	54,834,052
Eg Kaa Chee	1,193,502	-	(1,193,500)	2
Deemed interest by virtue of shares held by immediate family members of the directors				
Eg Kah Yee	1,193,502	-	(1,193,500)	2
Eg Kaa Chee	54,834,052	-	-	54,834,052
		Number of warrants		
	Balance as at 1.1.2013	Acquired	Exercised	Balance as at 31.12.2013
Eg Kah Yee	-	27,477,375	-	27,477,375

In addition to the above, the directors are also deemed to have an interest in the shares of the Company to the extent of options granted to them pursuant to the ESOS as follows:

	Number of options over ordinary shares of RM0.10 each			Balance as at 31.12.2013
	Balance as at 1.1.2013	Granted	Exercised	
Share options of the Company				
Registered in name of directors				
Eg Kah Yee	6,075,000	-	-	6,075,000
Eg Kaa Chee	500,000	-	-	500,000
Sukhdev Singh A/L Banta Singh	2,500,000	-	-	2,500,000

None of the other directors in office at the end of the financial year held shares or had beneficial interest in the shares of the Company during and at the end of the financial year.

OTHER STATUTORY INFORMATION

a) Before the statements of profit or loss and other comprehensive income and statements of financial position 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 allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (ii) to ensure that any current assets which were unlikely to realise in the ordinary course of business their values as shown in the financial statements of the Group and of the Company had been written down to an amount which they might be expected to realise.

As at 31st December 2013, the accumulated losses of the Group and of the Company were RM20,253,385 and RM22,946,451 respectively which arose from losses sustained in current and prior years. As mentioned in Note 4 a) to the Financial Statements, the financial statements have been prepared on the basis of accounting principles applicable to a going concern which presumes that the future operating results will improve and consequently, the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

b) Other than as stated, at the date of this report, the directors are not aware of any circumstances:

- (i) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- (ii) which would render the values attributable to current assets in the financial statements of the Group and of the Company misleading; or
- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

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

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

d) 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, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

- e) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- f) In the opinion of the directors, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

AUDITORS

The auditors, Messrs. STYL Associates, have indicated their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors,

EG KAH YEE
Director

Kuala Lumpur

Date: 15th April 2014

SUKHDEV SINGH A/L BANTA SINGH
Director

**STATEMENTS OF FINANCIAL POSITION
AS AT 31ST DECEMBER 2013**

	Note	GROUP		COMPANY	
		2013 RM	2012 RM	2013 RM	2012 RM
ASSETS					
Non-Current Assets					
Property, plant and equipment	6	122,260	243,421	121,566	242,052
Intangible assets	7	15,535,279	16,406,322	15,535,279	16,083,530
Investment in subsidiaries	8	-	-	2	2
Trade receivable	9	-	12,931,935	-	12,931,935
Total Non-Current Assets		15,657,539	29,581,678	15,656,847	29,257,519
Current Assets					
Inventories	10	459,931	517,103	459,931	517,103
Trade receivables	11	4,155,809	3,714,747	3,308,856	2,299,281
Other receivables and prepaid expenses	11	405,464	1,720,442	399,758	1,714,736
Amount owing by subsidiaries	8	-	-	-	645,650
Deposits, cash and bank balances	12	770,878	249,814	763,529	242,331
Total Current Assets		5,792,082	6,202,106	4,932,074	5,419,101
Assets held for sale	13	6,289	7,188	-	-
		5,798,371	6,209,294	4,932,074	5,419,101
Total Assets		21,455,910	35,790,972	20,588,921	34,676,620
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	14	29,052,650	29,052,650	29,052,650	29,052,650
Reserves	15	(13,288,219)	(10,204,355)	(16,007,633)	(12,475,697)
		15,764,431	18,848,295	13,045,017	16,576,953
Non-controlling interests		18,380	17,890	-	-
Total Equity		15,782,811	18,866,185	13,045,017	16,576,953
Non-Current Liabilities					
Trade payables	16	-	13,637,974	-	13,637,974
Deferred tax liabilities	17	360,953	-	360,953	-
Total Non-Current Liabilities		360,953	13,637,974	360,953	13,637,974
Current Liabilities					
Trade payables	16	4,990,398	1,258,816	4,953,010	531,707
Other payables and accrued expenses	16	272,159	1,290,362	225,938	1,243,353
Amount owing to subsidiaries	8	-	-	1,984,777	1,984,777
Amount owing to directors	18	14,474	27,235	14,474	27,235
Short term bank borrowings	19	-	674,621	-	674,621
Tax liabilities		4,752	-	4,752	-
Total Current Liabilities		5,281,783	3,251,034	7,182,951	4,461,693
Liabilities held for sale	13	30,363	35,779	-	-
		5,312,146	3,286,813	7,182,951	4,461,693
Total Liabilities		5,673,099	16,924,787	7,543,904	18,099,667
Total Equity and Liabilities		21,455,910	35,790,972	20,588,921	34,676,620

The accompanying Notes form an integral part of the Financial Statements.

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 31ST DECEMBER 2013**

Palette
MULTIMEDIA BERHAD

	Note	GROUP		COMPANY	
		2013 RM	2012 RM	2013 RM	2012 RM
Revenue		3,628,832	4,098,749	3,628,832	4,098,749
Other operating income	20	547,569	1,327,356	619,158	1,327,356
Changes of inventories of finished goods		(57,172)	14,472	(57,172)	14,472
Purchases and other direct costs		(1,034,261)	(2,460,846)	(1,944,438)	(2,460,846)
Staff cost		(977,276)	(578,357)	(922,610)	(179,780)
Amortisation of intangible assets		(739,034)	(764,973)	(548,251)	(547,865)
Depreciation of property, plant and equipment		(150,189)	(187,682)	(149,514)	(186,864)
Directors' remuneration	21	(24,114)	(352,128)	(24,114)	(292,128)
Other operating expenses	20	(2,662,918)	(1,572,601)	(2,514,499)	(3,680,995)
Loss from operations		<u>(1,468,563)</u>	<u>(476,010)</u>	<u>(1,912,608)</u>	<u>(1,907,901)</u>
Finance costs	22	(3,883,044)	(42,930)	(3,883,044)	(42,930)
Loss before tax		<u>(5,351,607)</u>	<u>(518,940)</u>	<u>(5,795,652)</u>	<u>(1,950,831)</u>
Income tax expense	23	(365,705)	-	(365,705)	-
Loss for the financial year		<u>(5,717,312)</u>	<u>(518,940)</u>	<u>(6,161,357)</u>	<u>(1,950,831)</u>
Other comprehensive income:					
Item that may be subsequently reclassified to profit or loss					
Exchange difference on translation of foreign operations		4,517	3,091	-	-
Total comprehensive loss for the year		<u>(5,712,795)</u>	<u>(515,849)</u>	<u>(6,161,357)</u>	<u>(1,950,831)</u>
Loss for the financial year attributable to:					
Equity holders of the Company		(5,721,389)	(519,938)	(6,161,357)	(1,950,831)
Non-controlling interests		4,077	998	-	-
Total loss for the financial year		<u>(5,717,312)</u>	<u>(518,940)</u>	<u>(6,161,357)</u>	<u>(1,950,831)</u>
Total comprehensive loss attributable to:					
Equity holders of the Company		(5,713,285)	(515,647)	(6,161,357)	(1,950,831)
Non-controlling interests		490	(202)	-	-
Total comprehensive loss for the year		<u>(5,712,795)</u>	<u>(515,849)</u>	<u>(6,161,357)</u>	<u>(1,950,831)</u>
Loss per share attributable to equity holders of the Company:					
Basic (sen)	24	<u>(1.97)</u>	<u>(0.18)</u>		
Diluted (sen)	24	<u>N/A</u>	<u>N/A</u>		

The accompanying Notes form an integral part of the Financial Statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2013

Palette
MULTIMEDIA BERHAD

<-----Attributable to Equity Holders of the Company----->

	Share capital RM	<-----Non distributable reserve ----->				Accumulated loss RM	Total RM	Non- controlling interests RM	Total equity RM
		Share premium RM	Share option RM	Exchange fluctuation RM	Warrants reserve RM				
GROUP									
Balance as at 1st January 2012	29,052,650	4,296,261	13,136	13,953	-	(14,012,058)	19,363,942	18,092	19,382,034
Loss for the financial year	-	-	-	-	-	(519,938)	(519,938)	998	(518,940)
Other comprehensive income/(loss) for the year, net of tax	-	-	-	4,291	-	-	4,291	(1,200)	3,091
Total comprehensive income/(loss) for the financial year	-	-	-	4,291	-	(519,938)	(515,647)	(202)	(515,849)
Balance as at 31st December 2012	29,052,650	4,296,261	13,136	18,244	-	(14,531,996)	18,848,295	17,890	18,866,185
Loss for the financial year	-	-	-	-	-	(5,721,389)	(5,721,389)	4,077	(5,717,312)
Other comprehensive income/(loss) for the year, net of tax	-	-	-	8,104	-	-	8,104	(3,587)	4,517
Total comprehensive income/(loss) for the financial year	-	-	-	8,104	-	(5,721,389)	(5,713,285)	490	(5,712,795)
Issuance of warrants during the financial year	-	-	-	-	2,905,265	-	2,905,265	-	2,905,265
Warrants listing expenses	-	-	-	-	(275,844)	-	(275,844)	-	(275,844)
Balance as at 31st December 2013	<u>29,052,650</u>	<u>4,296,261</u>	<u>13,136</u>	<u>26,348</u>	<u>2,629,421</u>	<u>(20,253,385)</u>	<u>15,764,431</u>	<u>18,380</u>	<u>15,782,811</u>

	Share capital RM	<-----Non distributable reserve----->				Accumulated loss RM	Total equity RM
		Share premium RM	Share option RM	Warrants reserve RM			
COMPANY							
As at 1st January 2012	29,052,650	4,296,261	13,136	-	(14,834,263)	18,527,784	
Total comprehensive loss for the financial year	-	-	-	-	(1,950,831)	(1,950,831)	
Balance as at 31st December 2012	29,052,650	4,296,261	13,136	-	(16,785,094)	16,576,953	
Total comprehensive loss for the financial year	-	-	-	-	(6,161,357)	(6,161,357)	
Issuance of warrants during the financial year	-	-	-	2,905,265	-	2,905,265	
Warrants listing expenses	-	-	-	(275,844)	-	(275,844)	
Balance as at 31st December 2013	<u>29,052,650</u>	<u>4,296,261</u>	<u>13,136</u>	<u>2,629,421</u>	<u>(22,946,451)</u>	<u>13,045,017</u>	

The accompanying Notes form an integral part of the Financial Statements.

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2013**

	GROUP		COMPANY	
	2013 RM	2012 RM	2013 RM	2012 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax	(5,351,607)	(518,940)	(5,795,652)	(1,950,831)
Adjustments for:				
Amortisation of intangible assets	739,034	764,973	548,251	547,865
Bad debts written off	235,136	-	235,136	-
Depreciation of property, plant and equipment	150,189	187,682	149,514	186,864
Deposit written off	64,121	-	64,121	-
Development costs written off	132,009	-	-	-
Impairment loss on investment in subsidiary	-	-	-	2,461,386
Inventories written off	-	319,433	-	-
Finance costs	3,883,044	42,930	3,883,044	42,930
Reversal of impairment loss on trade receivables	(6,399)	(945,000)	-	(945,000)
Reversal of impairment loss on amount owing by subsidiary	-	-	(77,988)	-
Interest income	(19,009)	-	(19,009)	-
Operating profit/(loss) before working capital changes	(173,482)	(148,922)	(1,012,583)	343,214
Changes in working capital:				
(Increase)/Decrease in inventories	57,172	(14,472)	57,172	(14,472)
Decrease in trade receivables	12,497,211	89,812	11,922,360	255,433
(Increase)/Decrease in other receivables and prepaid expenses	1,016,681	(39,678)	1,015,721	(39,470)
(Increase)/Decrease in amount owing by subsidiaries	-	-	723,638	(645,650)
Decrease in trade payables	(9,906,392)	(214,105)	(9,216,671)	(236,782)
Increase/(Decrease) in other payables and accrued expenses	(1,023,619)	859,981	(1,017,415)	872,252
Increase/(Decrease) in amount owing to directors	(12,761)	12,762	(12,761)	12,762
Cash Generated From Operations	2,454,810	545,378	2,459,461	547,287
Finance costs paid	(3,883,044)	(42,930)	(3,883,044)	(42,930)
Interest received	19,009	-	19,009	-
Tax paid	-	(1,620)	-	-
Net Cash From/(Used In) Operating Activities	(1,409,225)	500,828	(1,404,574)	504,357
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(29,028)	(5,142)	(29,028)	(5,142)
Net Cash Used In Investing Activities	(29,028)	(5,142)	(29,028)	(5,142)
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in short term bank borrowings	(390,805)	(420,195)	(390,805)	(420,195)
Proceeds from issuance of warrants, net of listing expenses	2,629,421	-	2,629,421	-
Net Cash From/(Used In) Financing Activities	2,238,616	(420,195)	2,238,616	(420,195)
NET INCREASE IN CASH AND CASH EQUIVALENTS	800,363	75,491	805,014	79,020
EFFECT OF EXCHANGE RATE CHANGES	4,517	3,091	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	(34,002)	(112,584)	(41,485)	(120,505)
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 25)	770,878	(34,002)	763,529	(41,485)

The accompanying Notes form an integral part of the Financial Statements.

1) GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the ACE Market of Bursa Malaysia Securities Berhad.

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 as disclosed in Note 8 to the Financial Statements. There have been no significant changes in the nature of these principal 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 6th Floor, Unit 4, No: 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan.

The financial statements are presented in Ringgit Malaysia (RM).

The financial statements of the Group and of the Company have been authorised by the Board of Directors for issuance on 15th April 2014.

2) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 1965 in Malaysia.

Adoption of Standards, Amendments and Issues Committee ("IC") Interpretations

At the beginning of the current financial year, the Group and the Company adopted the new and revised MFRSs which are mandatory for financial period beginning on or after 1st January 2013.

The accounting policies adopted by the Group and the Company are consistent with those adopted in the previous year, except as follows:

MFRS 3	Business Combinations
MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interests in Other Entities
MFRS 13	Fair Value Measurement
MFRS 119	Employee Benefits (revised)
MFRS 127	Consolidated and Separate Financial Statements (revised)
MFRS 128	Investments in Associates and Joint Ventures (revised)
Amendments to MFRS 1	First-time Adoption of MFRS - Government Loans
Amendments to MFRS 7	Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10	Consolidated Financial Statements: Transition Guidance
Amendments to MFRS 11	Joint Arrangements: Transition Guidance
Amendments to MFRS 12	Disclosure of Interests in Other Entities: Transition Guidance
Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income
Annual Improvements to IC Interpretations and MFRSs 2009 - 2011 Cycle	

The adoption of the above standards and interpretations did not have any impact on the financial statements of the Group and of the Company.

2) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

Standards and Interpretations in issue but not yet effective

At the date of authorisation for issue of these financial statements, the following new and revised standards and amendments were in issue but not yet effective. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

		Effective for annual period beginning on or after
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1st January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities	1st January 2014
Amendments to MFRS 136	Recoverable Amount Disclosures for Non-Financial Assets	1st January 2014
Amendments to MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting	1st January 2014
IC Interpretation 21	Levies	1st January 2014
Amendments to MFRS 201	Property Development Activities	1st January 2014
Amendments to MFRS 2	Share-based Payment	1st July 2014
Amendments to MFRS 3	Business Combinations	1st July 2014
Amendments to MFRS 8	Operating Segments	1st July 2014
Amendments to MFRS 13	Fair Value Measurement	1st July 2014
Amendments to MFRS 116	Annual Improvements to MFRSs 2010 - 2012 Cycle	1st July 2014
Amendments to MFRS 119	Defined Benefit Plans: Employee Contribution	1st July 2014
Amendments to MFRS 124	Related Party Disclosures	1st July 2014
Amendments to MFRS 138	Intangible Assets	1st July 2014
Amendments to MFRS 140	Investment Property	1st July 2014
MFRS 9	Financial Instruments	1st January 2015

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below:

MFRS 9 Financial Instruments

MFRS 9 Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. MFRS 9 was issued in November 2009 and October 2010. It replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made 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. For financial liabilities, the standard retains most of the MFRS 139 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.

3) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The operations of the Group are subject to a variety of financial risks, including market risk (foreign currency exchange risk and interest rate risk), credit risk, and liquidity risk. The Group has adopted a financial risk management framework with the principal objective of effectively managing these risks and minimising any potential adverse effects on the financial performance of the Group and of the Company.

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange risk, and other prices will affect the Group's financial position and cash flows.

3) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group has in place policies to manage its competitive risks from its competitors in providing better alternatives in terms of better services.

(i) Foreign currency exchange risk

Foreign currency risk is that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Group has exposure to foreign currency fluctuation arising from revenue or expense that are denominated in currency other than the functional currency of the Group.

However as at 31st December 2013, the Group's exposure to foreign currency risk is not significant.

The Group has not entered into any forward foreign exchange contracts as at 31st December 2013.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. The Group's investment in financial assets are mainly short term in nature and mostly placed in financial institutions.

Changes in interest rates are not expected to have a significant impact on the Group's profit or loss.

Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers. The Company's exposure to credit risk arises principally from trade receivables.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statements of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 120 days, which are deemed to have higher credit risk, are monitored individually.

The ageing of trade receivables as at the end of the reporting period was:

	GROUP		COMPANY	
	2013 RM	2012 RM	2013 RM	2012 RM
Not past due	1,219,005	1,109,262	1,219,005	1,109,262
Past due 31 - 60 days	-	99,596	-	99,596
Past due 61 - 90 days	64,375	52,900	64,375	52,900
Past due 91 - 120 days	153,257	278,635	153,257	278,635
Past due more than 120 days	4,858,473	4,374,592	3,925,075	2,811,744
	<u>6,295,110</u>	<u>5,914,985</u>	<u>5,361,712</u>	<u>4,352,137</u>

3) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The movements in the allowance for impairment losses of receivables during the financial year were:

	GROUP		COMPANY	
	2013 RM	2012 RM	2013 RM	2012 RM
As at beginning of year	2,200,238	3,145,238	2,052,856	2,997,856
Reversal of impairment loss	(6,399)	(945,000)	-	(945,000)
Bad debts written off	(54,538)	-	-	-
As at end of year	<u>2,139,301</u>	<u>2,200,238</u>	<u>2,052,856</u>	<u>2,052,856</u>

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due.

The Group practises prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient funds for contingent funding requirement of working capital.

Fair values

The fair value of financial instruments refer to the amount at which the instrument could be exchanged for or settled between knowledgeable and willing parties in an arm's length transactions.

The carrying amounts of the financial assets and financial liabilities as reported in the statements of financial position as at 31st December 2013 approximate their fair values of these assets and liabilities because they are either within the normal credit terms or they have short-term maturity period.

Capital Risk Management

The primary objective of the Group's capital management is to safeguard the Group's and the Company's ability to continue as going concerns, and to maintain an optimal capital structure so as to provide returns for shareholders.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes made in the objectives, policies or processes compared to the previous financial year.

The Group is not subject to any externally imposed capital requirements.

4) SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The financial statements are prepared under the historical cost convention unless otherwise indicated in the accounting policies below and also disclosed in Note 4 g) and on the basis of accounting principles applicable to a going concern. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

4) SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of Accounting (continued)

- (ii) Level 2 are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- (iii) Level 3 inputs are unobservable inputs for the asset or liability.

As at 31st December 2013, the Group and the Company's accumulated losses were RM20,253,385 and RM22,946,451 respectively. The successful turnaround plan for the Group and the Company is one of the key factors for the sustainability of the Group's and of the Company's operations and for the Group and the Company to continue as going concerns in the foreseeable future. The validity of the going concerns assumption is therefore dependent on the successful implementation of the turnaround plan in the future. In the event the going concern assumption is no longer valid, the Group and the Company may not be able to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect such situation.

The financial statements of the Group and the Company do not include any adjustment relating to the amounts and classification of assets and liabilities that might be necessary should the Group and the Company be unable to continue as going concerns.

b) Property, Plant and Equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight-line basis over the expected useful lives of the property, plant and equipment concerned. The annual depreciation rates used are as follows:

	%
Computer equipment and software	20
Furniture and fittings	20
Office equipment	20
Renovation	20
Electrical equipment	20

The carrying values of property, plant and equipment are reviewed for impairment when events or change in circumstances indicate that the carrying value may not be recoverable. The residual values, useful lives and depreciation methods are reviewed at each financial year end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gain or loss arising from the disposal of an asset is determined as the difference between the estimated net disposal proceed and the carrying amount of the asset, and is recognised in profit or loss.

4) SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Subsidiaries and Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company. Control is achieved when the Group:

- (i) has power over the investee;
- (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and
- (iii) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over the investee, including:

- (i) the contractual arrangement with the other vote holders of the investee;
- (ii) rights arising from other contractual arrangements; and
- (iii) the Group's voting rights and potential voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Disposal of Subsidiaries

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the relevant assets or liabilities of the subsidiary (i.e. reclassified to profit or loss transferred to another category of equity as specified/permitted by applicable MFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

4) SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investments in Subsidiaries

In the Company's separate financial statements, investments in subsidiaries are stated at cost less accumulated impairment losses. On disposal of such investments, the difference between disposal proceeds and their carrying amounts are recognised in profit or loss.

e) Intangible Assets

Research and Development Costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (ii) the intention to complete the intangible asset and use or sell it;
- (iii) the ability to use or sell the intangible asset;
- (iv) how the intangible asset will generate probable future economic benefits;
- (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Development costs with indefinite useful lives are not amortised but tested at each reporting date for impairment.

f) Inventories

Inventories are valued at the lower of cost (determined principally on the first-in, first-out method) and net realisable value. Cost consists of purchases and other direct costs incurred in bringing the inventories to its present condition and location.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

g) Financial Instruments

i) Initial recognition and measurement

Financial instruments are recognised in the financial statements when, and only when, the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4) SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Financial Instruments (continued)

ii) Financial instrument categories and subsequent measurement

The Group categories financial instruments as follows:

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, held-to-maturity, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on available-for-sale equity instrument are recognised in profit or loss when the Group's right to receive payment is established.

4) SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Financial Instruments (continued)

ii) Financial instrument categories and subsequent measurement (continued)

Available-for-sale financial assets are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

a) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as financial liabilities at fair value through profit or loss when the financial liability is either held for trading or it is designated as financial liabilities at fair value through profit or loss.

A financial liability is classified as held for trading if:

- a) it has been acquired principally for the purpose of repurchasing it in the near term; or
- b) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- c) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as financial liabilities at fair value through profit or loss upon initial recognition if:

- a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- b) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- c) it forms part of a contract containing one or more embedded derivatives, and MFRS 139 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statements of comprehensive income.

b) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

4) SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Financial Instruments (continued)

ii) Financial instrument categories and subsequent measurement (continued)

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

iii) Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is taken as evidence that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

h) Impairment of Non Financial Assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of 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 risk specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

i) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

j) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

4) SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Borrowing Costs (continued)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

k) Cash and Cash Equivalents

Cash and cash equivalents comprise cash and bank balances, term deposits and other short term, highly liquid investments that are readily convertible into cash with insignificant risk of changes in value against which bank overdraft, if any, are deducted.

l) Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

m) Warrants Reserve

Proceeds from the issuance of warrants, net of issue costs, are credited to warrants reserve which is non-distributable. Warrants reserve is transferred to the share premium account upon the exercise of warrants and the warrants reserve in relation to the unexercised warrants at the expiry of the warrants will be transferred to retained earnings.

n) Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group in the current and previous financial year ends.

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, which in this case is the Managing Director of the Group, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

p) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Revenue is measured at the fair value of consideration received or receivable, net of returns, allowances and trade discounts.

Revenue from services are recognised when services are rendered. Revenue represents the invoiced value of services rendered net of discounts and allowances. Interest income is recognised on accrual basis.

4) SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Foreign Currency Conversion

(i) Functional and Presentation Currency

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

(ii) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

r) Employee Benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contributions plans

As required by law, companies in Malaysia make contributions to the state pension scheme, Employees Provident Fund. Such contributions are recognised as an expense in profit or loss as incurred.

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in profit or loss with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on the vesting date. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share option reserve over the remaining vesting period. The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to share premium, or until the option expires, upon which it will be transferred directly to retained earnings.

s) Income Taxes

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the financial year end.

Current taxes are recognised in profit or loss, except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

4) SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Income Taxes (continued)

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which those deductible temporary differences, unused tax losses and unused tax credits can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Company expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group and the Company intend to settle its current tax assets and liabilities on a net basis.

5) CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with Malaysian Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported results during the reported period. It also requires directors to exercise their judgement in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgement are based on the director's best knowledge of current events and actions, actual results may differ.

Critical judgements in applying the Group's and the Company's accounting policies

In the process of applying the Group's and the Company's accounting policies, management is of the opinion that there are no instances of application of judgement which are expected to have significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year other than as follows:

(i) Impairment on receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. 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.

(ii) Estimated impairment of intangible assets

The Group determines whether intangible assets have been impaired at least on an annual basis. The recoverable amounts of the cash-generating units ("CGU") are determined based on the value-in-use method. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2013

6) PROPERTY, PLANT AND EQUIPMENT

GROUP

	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Electrical equipment RM	Total RM
2013						
Cost						
As at 1st January 2013	1,691,662	98,836	211,100	653,002	736,145	3,390,745
Additions	27,307	1,721	-	-	-	29,028
As at 31st December 2013	<u>1,718,969</u>	<u>100,557</u>	<u>211,100</u>	<u>653,002</u>	<u>736,145</u>	<u>3,419,773</u>
Accumulated depreciation						
As at 1st January 2013	1,661,972	98,253	207,577	652,628	526,894	3,147,324
Charge for the year	17,606	435	2,226	116	129,806	150,189
As at 31st December 2013	<u>1,679,578</u>	<u>98,688</u>	<u>209,803</u>	<u>652,744</u>	<u>656,700</u>	<u>3,297,513</u>
Net book value as at 31st December 2013	<u>39,391</u>	<u>1,869</u>	<u>1,297</u>	<u>258</u>	<u>79,445</u>	<u>122,260</u>
2012						
Cost						
As at 1st January 2012	1,691,662	98,238	210,131	653,002	732,570	3,385,603
Additions	-	598	969	-	3,575	5,142
As at 31st December 2012	<u>1,691,662</u>	<u>98,836</u>	<u>211,100</u>	<u>653,002</u>	<u>736,145</u>	<u>3,390,745</u>
Accumulated depreciation						
As at 1st January 2012	1,647,389	98,108	204,953	637,393	371,799	2,959,642
Charge for the year	14,583	145	2,624	15,235	155,095	187,682
As at 31st December 2012	<u>1,661,972</u>	<u>98,253</u>	<u>207,577</u>	<u>652,628</u>	<u>526,894</u>	<u>3,147,324</u>
Net book value as at 31st December 2012	<u>29,690</u>	<u>583</u>	<u>3,523</u>	<u>374</u>	<u>209,251</u>	<u>243,421</u>

COMPANY

	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Electrical equipment RM	Total RM
2013						
Cost						
As at 1st January 2013	908,761	95,936	189,014	580,713	736,145	2,510,569
Additions	27,307	1,721	-	-	-	29,028
As at 31st December 2013	<u>936,068</u>	<u>97,657</u>	<u>189,014</u>	<u>580,713</u>	<u>736,145</u>	<u>2,539,597</u>
Accumulated depreciation						
As at 1st January 2013	880,273	95,359	185,643	580,348	526,894	2,268,517
Charge for the year	17,031	435	2,126	116	129,806	149,514
As at 31st December 2013	<u>897,304</u>	<u>95,794</u>	<u>187,769</u>	<u>580,464</u>	<u>656,700</u>	<u>2,418,031</u>
Net book value as at 31st December 2013	<u>38,764</u>	<u>1,863</u>	<u>1,245</u>	<u>249</u>	<u>79,445</u>	<u>121,566</u>
2012						
Cost						
As at 1st January 2012	908,761	95,338	188,045	580,713	732,570	2,505,427
Additions	-	598	969	-	3,575	5,142
As at 31st December 2012	<u>908,761</u>	<u>95,936</u>	<u>189,014</u>	<u>580,713</u>	<u>736,145</u>	<u>2,510,569</u>
Accumulated depreciation						
As at 1st January 2012	866,278	95,214	183,249	565,113	371,799	2,081,653
Charge for the year	13,995	145	2,394	15,235	155,095	186,864
As at 31st December 2012	<u>880,273</u>	<u>95,359</u>	<u>185,643</u>	<u>580,348</u>	<u>526,894</u>	<u>2,268,517</u>
Net book value as at 31st December 2012	<u>28,488</u>	<u>577</u>	<u>3,371</u>	<u>365</u>	<u>209,251</u>	<u>242,052</u>

Included in property, plant and equipment of the Group and of the Company are fully depreciated assets which are still in use with a cost of RM2,883,793 (2012: RM2,857,823) and RM2,006,169 (2012: RM1,981,097) respectively.

7) INTANGIBLE ASSETS

	Intellectual property RM	Development costs RM	Total RM
GROUP			
2013			
Cost			
As at 1st January 2013	15,000,000	4,996,414	19,996,414
Written off	-	(132,009)	(132,009)
As at 31st December 2013	<u>15,000,000</u>	<u>4,864,405</u>	<u>19,864,405</u>
Accumulated amortisation			
As at 1st January 2013	1,034,850	2,555,242	3,590,092
Amortisation for the year	-	739,034	739,034
As at 31st December 2013	<u>1,034,850</u>	<u>3,294,276</u>	<u>4,329,126</u>
Net carrying amount as at 31st December 2013	<u>13,965,150</u>	<u>1,570,129</u>	<u>15,535,279</u>
2012			
Cost			
As at 1st January 2012	15,000,000	4,996,414	19,996,414
Additions	-	-	-
As at 31st December 2012	<u>15,000,000</u>	<u>4,996,414</u>	<u>19,996,414</u>
Accumulated amortisation			
As at 1st January 2012	1,034,850	1,790,269	2,825,119
Amortisation for the year	-	764,973	764,973
As at 31st December 2012	<u>1,034,850</u>	<u>2,555,242</u>	<u>3,590,092</u>
Net carrying amount as at 31st December 2012	<u>13,965,150</u>	<u>2,441,172</u>	<u>16,406,322</u>
	Intellectual property RM	Development costs RM	Total RM
COMPANY			
2013			
Cost			
As at 1st January 2013	15,000,000	3,867,003	18,867,003
Additions	-	-	-
As at 31st December 2013	<u>15,000,000</u>	<u>3,867,003</u>	<u>18,867,003</u>
Accumulated amortisation			
As at 1st January 2013	1,034,850	1,748,623	2,783,473
Amortisation for the year	-	548,251	548,251
As at 31st December 2013	<u>1,034,850</u>	<u>2,296,874</u>	<u>3,331,724</u>
Net carrying amount as at 31st December 2013	<u>13,965,150</u>	<u>1,570,129</u>	<u>15,535,279</u>

7) INTANGIBLE ASSETS (continued)

	Intellectual property RM	Development costs RM	Total RM
2012			
Cost			
As at 1st January 2012	15,000,000	3,867,003	18,867,003
Additions	-	-	-
As at 31st December 2012	<u>15,000,000</u>	<u>3,867,003</u>	<u>18,867,003</u>
Accumulated amortisation			
As at 1st January 2012	1,034,850	1,200,758	2,235,608
Amortisation for the year	-	547,865	547,865
As at 31st December 2012	<u>1,034,850</u>	<u>1,748,623</u>	<u>2,783,473</u>
Net carrying amount as at 31st December 2012	<u>13,965,150</u>	<u>2,118,380</u>	<u>16,083,530</u>

The intellectual property is asset with indefinite useful life as there is no foreseeable limit as to the period over which the assets are expected to generate cash inflows to the Group.

Key assumptions used

The recoverable amounts of the intellectual property and development costs have been determined based on value in use calculations using cash flow projections from financial budget approved by management covering a period of ten (10) years. As at 31st December 2013, no impairment risk has been identified for all the intangible assets.

Sensitivity to change in assumptions

Management believes that no reasonable possible changes in any of the key assumptions that would cause the carrying values of the cash-generating unit to materially exceed their recoverable amounts.

8) INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2013 RM	2012 RM
Unquoted shares - At cost	2,561,387	2,561,387
Less: Accumulated impairment loss	<u>(2,561,385)</u>	<u>(2,561,385)</u>
	<u>2</u>	<u>2</u>

The amount owing by/(to) subsidiaries arose mainly from trade transactions, advances given and payments made on behalf which are unsecured, interest-free and repayable on demand.

The details of the subsidiaries are as follows:

Name of Company	Place of Incorporation	Equity Interest		Principal Activities
		2013 %	2012 %	
Palette System Sdn. Bhd. *	Malaysia	100	100	Development and marketing of information technology related products and services
PT Palette Multimedia # ^	Indonesia	99	99	Dormant

* The auditors' report of this subsidiary contains an emphasis of matter relating to the appropriateness of the going concern basis of accounting used in the preparation of its financial statements

8) INVESTMENT IN SUBSIDIARIES (continued)

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

^ Audited by another firm of auditors

9) TRADE RECEIVABLE

	GROUP AND COMPANY	
	2013	2012
	RM	RM
Non-current assets		
Cash at bank	-	12,931,935

10) INVENTORIES

	GROUP AND COMPANY	
	2013	2012
	RM	RM
At cost:		
Finished goods	459,931	517,103

11) TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

Trade receivables comprise amounts receivable for services rendered. The credit period granted on services rendered is 30 - 60 days. Other credit terms are assessed and approved on a case-by-case basis.

	GROUP		COMPANY	
	2013	2012	2013	2012
	RM	RM	RM	RM
Trade receivables	6,295,110	5,914,985	5,361,712	4,352,137
Less: Allowance for doubtful debts	(2,139,301)	(2,200,238)	(2,052,856)	(2,052,856)
Net	<u>4,155,809</u>	<u>3,714,747</u>	<u>3,308,856</u>	<u>2,299,281</u>

Other receivables and prepaid expenses consist of:

	GROUP		COMPANY	
	2013	2012	2013	2012
	RM	RM	RM	RM
Other receivables	-	282,977	-	282,977
Prepaid expenses	1,400	1,400	-	-
Refundable deposits	404,064	1,436,065	399,758	1,431,759
	<u>405,464</u>	<u>1,720,442</u>	<u>399,758</u>	<u>1,714,736</u>

The currency profile of trade and other receivables is as follows:

	GROUP		COMPANY	
	2013	2012	2013	2012
	RM	RM	RM	RM
Ringgit Malaysia	2,577,478	3,428,825	1,730,525	2,418,958
United States Dollar	1,578,331	568,899	1,578,331	163,300
	<u>4,155,809</u>	<u>3,997,724</u>	<u>3,308,856</u>	<u>2,582,258</u>

12) DEPOSITS, CASH AND BANK BALANCES

	GROUP		COMPANY	
	2013 RM	2012 RM	2013 RM	2012 RM
Cash and bank balances	704,368	185,314	697,019	177,831
Deposits with licensed banks	66,510	64,500	66,510	64,500
	<u>770,878</u>	<u>249,814</u>	<u>763,529</u>	<u>242,331</u>

Short-term deposits of the Group and of the Company with licensed banks have an average maturity period of 12 months. Bank balances are deposits held at call with banks. Deposits of the Group and of the Company earn return at 2.55% (2012: 2.55%) per annum.

Deposits, cash and bank balances are all denominated in Ringgit Malaysia.

13) ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

The major classes of assets and liabilities of PT Palette Multimedia classified as held for sale are as follows:

	GROUP	
	2013 RM	2012 RM
Assets:		
Trade receivables	909	848
Guarantee deposits	5,380	6,340
Assets classified as held for sale	<u>6,289</u>	<u>7,188</u>
Liabilities:		
Other payables and accrued expenses	29,113	34,307
Tax liabilities	1,250	1,472
Liabilities classified as held for sale	<u>30,363</u>	<u>35,779</u>

14) SHARE CAPITAL

	GROUP AND COMPANY	
	2013 RM	2012 RM
Authorised 500,000,000 ordinary shares of RM0.10 each	<u>50,000,000</u>	<u>50,000,000</u>
Issued and fully paid 290,526,500 ordinary shares of RM0.10 each	<u>29,052,650</u>	<u>29,052,650</u>

The shareholders of the Company, via a Members' Circular Resolution dated 7th April 2004, approved the Palette Multimedia Berhad ESOS for the benefit of eligible directors and eligible employees of the Company.

The salient features of the ESOS are as follows:

- the total number of new shares which may be made available under the scheme shall not exceed in aggregate ten per cent (10%) of the total issued and paid-up share capital of the Company at any point of time during the existence of the ESOS;

14) SHARE CAPITAL (continued)

- b) eligible persons are confirmed employees including executive directors of the Group and have been in the employment of the Group for a period of at least six (6) months of continuous service on or prior to the date of allocation;
- c) not more than fifty per cent (50%) of the shares under the ESOS will be granted to the directors and senior management. In addition, not more than twenty-five per cent (25%) of the shares under the ESOS will be granted to any individual staff;
- d) the option price shall be determined by the weighted average market price of the shares of the Company for the five (5) market days preceding the date of offer and may be at a discount of not more than ten per cent (10%) or at par value of the shares of the Company, whichever is higher; and
- e) The option granted to an option holder under the ESOS are exercisable by the option holder after completing one year's service. The option are exercisable starting one year from the grant date and have a contractual term of ten (10) years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.
- f) the duration of the scheme shall be ten (10) years from the commencement of the scheme.

The movement in the share options during the financial year are as follows:

Option price RM	Date of offer	Number of options over ordinary shares of RM0.10 each			As at 31.12.2013
		As at 1.1.2013	Granted	Exercised	
0.10	20.12.2004	16,650,000	-	-	16,650,000

2013/2018 WARRANTS

During the financial year, the Company made a renounceable rights 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. The warrants issued are constituted under a Deed Poll executed by the Company.

The salient features of the warrants are as follows:

- a) Each warrant entitles the registered holder, at any time during the exercise period to subscribe for one (1) new ordinary share at an exercise price of RM0.10 each, subject to adjustments in accordance with the provisions of the Deed Poll.
- b) The exercise price for the warrants is fixed at RM0.10 per new ordinary share of the Company, subject to further adjustments in accordance with the provisions of the Deed Poll.
- c) The warrants may be exercisable at any time within five (5) years commencing from and including the date of issue of the warrants and ending 5pm on the expiry date. The expiry date is a day falling immediately before the 5th anniversary of the date of issuance of the warrants and if such date is not a market day, then on the preceding market day.
- d) The new ordinary shares to be issued pursuant to the exercise of the warrants upon allotment and issue, rank pari passu in all respect with the existing ordinary shares of the Company except that the new ordinary shares shall not be entitled to any dividend, rights, allotment and/or other distribution that may be declared, made or paid prior to the date of allotment and issuance of the rights shares.

15) RESERVES

	GROUP		COMPANY	
	2013 RM	2012 RM	2013 RM	2012 RM
Non Distributable Reserves:				
Share premium	4,296,261	4,296,261	4,296,261	4,296,261
Share option	13,136	13,136	13,136	13,136
Exchange difference	26,348	18,244	-	-
Warrants	2,629,421	-	2,629,421	-
Accumulated loss	(20,253,385)	(14,531,996)	(22,946,451)	(16,785,094)
	<u>(13,288,219)</u>	<u>(10,204,355)</u>	<u>(16,007,633)</u>	<u>(12,475,697)</u>

Share premium reserve

The reserve comprises the premium paid on subscription of shares in the Company over and above the par value of the shares net of share issue expenses.

Share option reserve

The share option reserve represents the equity-settled share options granted to employees. This reserve is made up of the cumulative value of services received from employees recorded on grant of share options.

Exchange difference reserve

Exchange difference reserve relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency i.e Ringgit Malaysia is recognised directly in other comprehensive income and accumulated in the exchange difference reserve.

Warrants reserve

Warrants reserve represents the proceeds from the issuance of warrants which is non-distributable. The warrants reserve is transferred to the share premium account upon the exercise of warrants and the warrants reserve in relation to the unexercised warrants at the expiry of the warrants will be transferred to retained earnings.

16) TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

Trade and other payables comprise amounts outstanding for trade and ongoing costs. The average credit period granted to the Group for trade purchases ranges from 30 to 90 days.

Other payables and accrued expenses consist of:

	GROUP		COMPANY	
	2013 RM	2012 RM	2013 RM	2012 RM
Other payables	225,835	-	196,559	-
Accrued expenses	46,324	1,290,362	29,379	1,243,353
	<u>272,159</u>	<u>1,290,362</u>	<u>225,938</u>	<u>1,243,353</u>

16) TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (continued)

The currency profile of trade and other payables is as follows:

	GROUP		COMPANY	
	2013 RM	2012 RM	2013 RM	2012 RM
Ringgit Malaysia	1,692,973	1,114,735	1,626,309	387,626
United States Dollar	2,398,536	136,323	2,398,536	136,323
Singapore Dollar	1,122,324	5,358	1,122,324	5,358
Indonesian Rupiah	2,400	2,400	2,400	2,400
	<u>5,216,233</u>	<u>1,258,816</u>	<u>5,149,569</u>	<u>531,707</u>

Included in trade payables classified as non-current liabilities in 2012 are:

- i) an amount of RM11,442,227 which is involved in material litigation as describe in Note 29; and
- ii) an amount of RM2,195,747 to be repayable by an amount of RM20,000 per month as part of the settlement agreement dated 1st August 2009 with a third party.

17) DEFERRED TAXATION

	GROUP AND COMPANY	
	2013 RM	2012 RM
Deferred tax assets		
Balance as at beginning of the year	-	-
Recognised in profit or loss (Note 23)	50,709	-
Balance as at end of the year	<u>50,709</u>	<u>-</u>
Deferred tax liabilities		
Balance as at beginning of the year	-	-
Recognised in profit or loss (Note 23)	411,662	-
Balance as at end of the year	<u>411,662</u>	<u>-</u>
Presented after appropriate offsetting as follows:		
Deferred tax liabilities - Net	<u>(360,953)</u>	<u>-</u>

The recognised deferred tax assets are made up of unutilised tax losses while the recognised deferred tax liabilities are made up of temporary differences between tax capital allowances and book depreciation of property, plant and equipment.

18) AMOUNT OWING TO DIRECTORS

The amount owing to directors, which arose mainly from expenses paid on behalf and advances given, which is unsecured, interest-free and repayable on demand.

19) SHORT TERM BANK BORROWINGS

	GROUP AND COMPANY	
	2013 RM	2012 RM
Bank overdraft (Note 25)	-	283,816
Banker acceptance	-	390,805
	<u>-</u>	<u>674,621</u>

19) SHORT TERM BANK BORROWINGS (continued)

As at 31st December 2013, the Group has bank facilities totalling RM2,890,000 (2012: RM3,108,000) obtained from a licensed bank. The facility bears interest range from 1.50% to 8.10% (2012: 4.81%) per annum above the Bank Negara Malaysia's lending rate and is secured by the following:

- i) First party legal charge over properties owned by one of the director of the Company;
- ii) Personal guarantee by the director of the Company; and
- iii) Corporate guarantee by Palette Corporation Sdn. Bhd.

20) OTHER OPERATING EXPENSES/(INCOME)

Included in other operating expenses/(income) are the following charges/(credits):

	GROUP		COMPANY	
	2013 RM	2012 RM	2013 RM	2012 RM
Auditors' remuneration	21,000	19,000	15,000	13,000
Bad debts written off	235,136	-	235,136	-
Deposit written off	64,121	-	64,121	-
Development costs written off	132,009	-	-	-
Impairment loss on investment in subsidiary	-	-	-	2,461,386
Inventories written off	-	319,433	-	-
(Gain)/Loss on foreign exchange	(46,399)	20,699	(46,399)	20,699
Management fee	48,174	10,041	48,174	10,041
Rental of premises	159,407	208,952	159,407	208,952
Rental of equipment	5,810	5,100	5,810	5,100
Rental of motor vehicle	9,344	13,858	9,344	13,858
Bad debts recovered	(52,219)	(172,356)	(52,219)	(172,356)
Reversal of impairment loss on trade receivables	(6,399)	(945,000)	-	(945,000)
Reversal of impairment loss on amount owing by subsidiary	-	-	(77,988)	-
Interest income	(19,009)	-	(19,009)	-
	<u>(19,009)</u>	<u>-</u>	<u>(19,009)</u>	<u>-</u>

21) DIRECTORS' REMUNERATION

	GROUP		COMPANY	
	2013 RM	2012 RM	2013 RM	2012 RM
Executive directors:				
Salary and other emoluments				
- current year	158,256	328,128	158,256	268,128
- overprovision in prior year	(175,872)	-	(175,872)	-
Defined contribution plan	18,587	-	18,587	-
	<u>971</u>	<u>328,128</u>	<u>971</u>	<u>268,128</u>
Non-executive directors:				
Fees	23,143	24,000	23,143	24,000
	<u>24,114</u>	<u>352,128</u>	<u>24,114</u>	<u>292,128</u>

21) DIRECTORS' REMUNERATION (continued)

The number of directors of the Company whose total remuneration during the financial year fell within the following bands is analysed below:

	Number of Directors	
	2013	2012
Executive Directors:		
Below RM50,000	1	-
RM50,000 - RM100,000	1	1
RM200,000 - RM250,000	-	1
Non-Executive Directors:		
Below RM50,000	5	4

22) FINANCE COSTS

	GROUP AND COMPANY	
	2013	2012
	RM	RM
Interest on:		
bankers' acceptances	(5,836)	10,099
bank overdraft	5,598	22,975
term loans	-	9,856
Exceptional item:		
other interest	3,883,282	-
	<u>3,883,044</u>	<u>42,930</u>

23) INCOME TAX EXPENSE

	GROUP		COMPANY	
	2013	2012	2013	2012
	RM	RM	RM	RM
Estimated current tax payable	4,752	-	4,752	-
Deferred tax in respect of:				
Tax assets (Note 17)	(50,709)	-	(50,709)	-
Tax liabilities (Note 17)	411,662	-	411,662	-
	<u>360,953</u>	<u>-</u>	<u>360,953</u>	<u>-</u>
	<u>365,705</u>	<u>-</u>	<u>365,705</u>	<u>-</u>

Malaysian income tax is calculated at the statutory tax rate at 25% (2012: 25%) of the estimated taxable profit for the year. The 2014 Budget announced on 25th October 2013 reduced the corporate income tax rate from 25% to 24% effective from year of assessment 2016. Accordingly, the applicable tax rates to be used for the measurement of any applicable deferred tax will be the expected rates.

23) INCOME TAX EXPENSE (continued)

A numerical reconciliation of income tax expense and the product of the accounting loss multiplied by the applicable statutory income tax rate of the Group and of the Company is as follows:

	GROUP		COMPANY	
	2013 RM	2012 RM	2013 RM	2012 RM
Accounting loss	<u>(5,351,607)</u>	<u>(518,940)</u>	<u>(5,795,652)</u>	<u>(1,950,831)</u>
Tax at the applicable statutory income tax rate of 25%	(1,337,902)	(129,735)	(1,448,913)	(487,708)
Tax effects in respect of:				
Expenses that are not deductible for tax purposes	1,343,899	428,804	1,343,230	786,777
Income not subject to tax	-	(236,250)	(19,497)	(236,250)
Utilisation of deferred tax assets not recognised previously	(131,177)	(62,819)	-	(62,819)
Underprovision of deferred tax in prior years	490,885	-	490,885	-
Income tax expense	<u>365,705</u>	<u>-</u>	<u>365,705</u>	<u>-</u>

24) LOSS PER ORDINARY SHARE

Basic

Basic loss per share is calculated by dividing the loss for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year as follows:

	GROUP	
	2013	2012
Loss attributable to equity holders of the Company (RM)	(5,721,389)	(519,938)
Weighted average number of ordinary shares in issue	290,526,500	290,526,500
Basic loss per share (sen)	<u>(1.97)</u>	<u>(0.18)</u>

Diluted

The effect on the diluted loss per share in 2013 and 2012 arising from the assumed exercise of warrant and conversion of the Company's ESOS is anti-dilutive.

25) CASH AND CASH EQUIVALENTS

For the purposes of the statements of cash flows, cash and cash equivalents include deposits, cash and bank balances net of outstanding bank overdraft. Cash and cash equivalents at the end of the reporting period as shown in the statements of cash flows can be reconciled to the related items in the statements of financial position as follows:

	GROUP		COMPANY	
	2013 RM	2012 RM	2013 RM	2012 RM
Deposits with licensed banks	66,510	64,500	66,510	64,500
Cash and bank balances	704,368	185,314	697,019	177,831
Bank overdraft (Note 19)	-	(283,816)	-	(283,816)
	<u>770,878</u>	<u>(34,002)</u>	<u>763,529</u>	<u>(41,485)</u>

26) SEGMENTAL INFORMATION

No segmental information has been provided on an industry basis and Group's geographical segment as the Group and the Company are principally engaged in development and marketing of information technology related products and services solely in Malaysia.

27) SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Company either directly or indirectly. The key management personnel include all the directors of the Group and of the Company.

a) In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The related party transactions listed below were carried out on terms and conditions obtainable in transactions with unrelated parties unless otherwise stated.

	COMPANY	
	2013	2012
	RM	RM
Maintenance service and technical support from subsidiary	<u>910,177</u>	<u>-</u>

b) The remuneration of directors and other members of key management during the year is as follows:

	GROUP		COMPANY	
	2013	2012	2013	2012
	RM	RM	RM	RM
Executive directors:				
Salary and other emoluments				
- current year	158,256	328,128	158,256	268,128
- overprovision in prior year	(175,872)	-	(175,872)	-
Defined contribution plan	18,587	-	18,587	-
	<u>971</u>	<u>328,128</u>	<u>971</u>	<u>268,128</u>
Non-executive directors:				
Fees	23,143	24,000	23,143	24,000
	<u>24,114</u>	<u>352,128</u>	<u>24,114</u>	<u>292,128</u>

28) OPERATING LEASE COMMITMENTS

The Group has lease commitments in respect of rental of office premises. The tenure of the minimum lease payments is as follows:

	GROUP	
	2013	2012
	RM	RM
2014	219,144	-
2015	221,693	-
2016	112,121	-
	<u>552,958</u>	<u>-</u>

29) MATERIAL LITIGATION

On 14th May 2004, the Company filed a legal suit at the High Court of Kuala Lumpur for defects of goods valued at RM3.6 million against a supplier of the Company, which is a public listed company in Taiwan, specialising in manufacturing computer and multimedia related products. A sum of RM12,931,935 which is involved in this dispute has been reflected in the Company's receivables in non-current assets in the financial year ended 31st December 2012.

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

During the financial year, the Court of Appeal had dismissed the Company's appeal. The Company had also filed an application to the Federal Court for leave to appeal against the decision of the Court of Appeal.

On 23rd August 2013, the Federal Court has unanimously dismissed the application by the Company for leave to appeal to the Court against the decision of the Court of Appeal given earlier dismissing the Company's appeal. On 29th November 2013, the Company reached an amicable settlement with the counter party for a settlement of RM958,000 given as costs in lieu of taxation and RM3,883,282 being the shortfall of interest at the rate of 6% per annum on the sum of RM11,005,218. The interest payable is disclosed as an exceptional item in Note 22. A full provision of RM4,841,282 has been made in the financial statements of the Company during the financial year of which an amount of RM2,368,575 remained outstanding as at 31st December 2013.

30) SUPPLEMENTARY INFORMATION

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 are as follow:

	GROUP		COMPANY	
	2013	2012	2013	2012
	RM	RM	RM	RM
Accumulated loss carried forward are analysed as follows:				
Realised	(19,402,679)	(14,531,996)	(22,585,498)	(16,785,094)
Unrealised	(360,953)	-	(360,953)	-
	<u>(19,763,632)</u>	<u>(14,531,996)</u>	<u>(22,946,451)</u>	<u>(16,785,094)</u>
Add: Consolidation adjustments	(489,753)	-	-	-
	<u>(20,253,385)</u>	<u>(14,531,996)</u>	<u>(22,946,451)</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 that, in the opinion of the directors, the accompanying financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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 at 31st December 2013 and of their financial performance and cash flows of the Group and of the Company for the year then ended.

The supplementary information set out in Note 30 to the Financial Statements, which is not part of the financial statements, is prepared in all material respects, 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 and the directive of Bursa Malaysia Securities Berhad.

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: 15th April 2014

I, **LAU SUIT LAN**, being the officer primarily responsible for the financial management of **Palette Multimedia Berhad**, do solemnly and sincerely declare that the accompanying financial statements are, in my opinion, 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.

LAU SUIT LAN

Subscribed and solemnly declared by the
abovenamed **LAU SUIT LAN**
at Petaling Jaya, on 15th April 2014

Before me:

S.Arokiadass A.M.N
No. B 390

STYL ASSOCIATES

AF 1929
Chartered Accountants

No: 107B Jalan Aminuddin Baki
Taman Tun Dr. Ismail 60000 Kuala Lumpur
Tel: 03-77275573
Fax: 03-77270771

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF**PALETTE MULTIMEDIA BERHAD**
(Incorporated in Malaysia)**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of Palette Multimedia Berhad, which comprise the statements of financial position as at 31st December 2013 of the Group and of the Company, and the statements of profit or loss and other 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 24 to 53.

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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is 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 entity's preparation of the 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 entity'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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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 31st December 2013 and of their financial performance and cash flows for the year then ended.

STYL ASSOCIATES

AF 1929
Chartered Accountants

No: 107B Jalan Aminuddin Baki
Taman Tun Dr. Ismail 60000 Kuala Lumpur
Tel: 03-77275573
Fax: 03-77270771

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 4 a) to the Financial Statements which indicates that the accumulated losses of the Group and of the Company as at 31st December 2013 were RM20,253,385 and RM22,946,451 respectively. The successful turnaround plan for the Group and the Company is one of the key factors for the sustainability of the Group's and of the Company's operations and for the Group and the Company to continue as going concerns in the foreseeable future. The validity of the going concerns assumption is therefore dependent on the successful implementation of the turnaround plan in the future. In the event the going concern assumption is no longer valid, the Group and the Company may not be able to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect such situation. The financial statements of the Group and the Company do not include any adjustment relating to the amounts and classification of assets and liabilities that might be necessary should the Group and the Company be unable to continue as going concerns.

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 subsidiary 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 the subsidiary of which we have not acted as auditors, as mentioned in Note 8 to the Financial Statements, being financial statements that have been included in the consolidated 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 consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditor's reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under Subsection (3) of Section 174 of the Act other than as disclosed in Note 8 to the Financial Statements.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 30 to the Financial Statements is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. 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.

STYL ASSOCIATES

AF 1929
Chartered Accountants

No: 107B Jalan Aminuddin Baki
Taman Tun Dr. Ismail 60000 Kuala Lumpur
Tel: 03-77275573
Fax: 03-77270771

OTHER MATTERS

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.

The financial statements for the year ended 31st December 2012 were audited by another firm of auditors and have expressed an unmodified opinion with an Emphasis of Matter Paragraph on those statements on 25th April 2013.

STYL ASSOCIATES

Firm No. AF 1929
Chartered Accountants

TAN CHIN HUAT

Approval No: 2037/06/14(J)
Chartered Accountant

Date: 15th April 2014

Kuala Lumpur

Shareholding Statistics as at 07 May 2014

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 07 May 2014

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Share Held	% of Share Held
1 to 99	53	2.604	2,502	0.000
100 to 1,000	281	13.808	89,299	0.030
1,001 to 10,000	446	21.916	2,576,950	0.886
10,001 to 100,000	960	47.174	41,816,252	14.393
100,001 to 14,526,324 (*)	293	14.398	163,829,145	56.390
14,526,325 and above (**)	2	0.098	82,212,352	28.297
Total	2,035	100.000	290,526,500	100.000

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

Substantial Shareholders

As at 07 May 2014 (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	2 ⁽¹⁾	0.000
2.	Eg Kaa Chee	2	0.000	54,834,052 ⁽²⁾	18.874

Directors' Shareholdings

As at 07 May 2014 (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	2 ⁽¹⁾	0.000
2.	Chuan Tsui Ju	1,575,750	0.542	-	-
3.	Thong Kooi Pin	250	0.000	-	-
4.	Eg Kaa Chee	2	0.000	54,834,052 ⁽²⁾	18.874
5.	Abdul Razak Bin Dato' Haji Ipap	-	-	-	-
6.	Sukhdev Singh A/L Banta Singh	-	-	-	-

Notes:-

- (1) Deemed interested through his brother Eg Kaa Chee
 (2) Deemed interested through his brother Eg Kah Yee

30 Largest Shareholders

As at 07 May 2014

No.	Shareholders	No. of Shares	%
1.	Eg Kah Yee	54,212,302	18.660
2.	UOB Kay Hian Nominess (Asing Sdn Bhd) Exempt An For UOB Kay Hian Pte Ltd (A/C Clients)	28,000,050	9.637
3.	Maybank Securities Nominees (Tempatan) Sdn Bhd Maybank Kim Eng Securities Pte Ltd For Lim You Moy	12,000,000	4.130
4.	Lee Kin Hin	7,721,845	2.657
5.	See Lee Ming	6,259,600	2.154
6.	Kenanga Nominees (Tempatan) Sdn Bhd For Sim Tzuemn Jye (001)	6,194,500	2.132
7.	See Lee Ming	6,106,900	2.102
8.	Canvas Technology Pte Ltd	5,591,150	1.924
9.	Sim Wee Choon	4,802,700	1.653
10.	Teo Boon Huang Andy	4,101,750	1.411
11.	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ang Yook Chu @ Ang Yoke Fong (8076574)	3,858,100	1.327
12.	Tan Chun Ming	3,141,000	1.081
13.	JF Apex Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Voon Sze Lin	2,504,600	0.862
14.	RHB Nominess (Asing) Sdn Bhd UOB Kay Hian Private Limited For Teo Cheng Tuan Donald	2,500,000	0.860
15.	RHB Nominess (Asing) Sdn Bhd UOB Kay Hian Private Limited For Tan See Tee	2,371,750	0.816
16.	RHB Nominees (Asing) Sdn Bhd UOB Kay Hian Private Limited For Tan Tiong Beng	2,250,00	0.774
17.	Maybank Nominees (Tempatan) Sdn Bhd Chua Keng Liang	1,890,600	0.650
18.	Ng Yew Choy	1,836,600	0.632
19.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Yew Hwa Hin (E-BMM)	1,709,500	0.588
20.	Chuan Wee Tze	1,600,000	0.550
21.	Chuan Tsui Ju	1,522,500	0.524
22.	Wong Chee Kheong	1,515,000	0.521
23.	Maybank Nominees (Tempatan) Sdn Bhd Faizatul Ikmi Binti Abd Razak	1,400,000	0.481
24.	Lee Kim Soon	1,296,100	0.446
25.	Kaw Keng Wai	1,292,000	0.444
26.	Jyuo-Min Shyu	1,250,000	0.430
27.	RHB Nominees (Asing) Sdn Bhd UOB Kay Hian Private Limited For Ng Ser Miang	1,125,000	0.387
28.	Wong Choong Yew	1,039,500	0.357
29.	JF Apex Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Voon Jye Wah	1,028,800	0.354
30.	Azman Shah Bin Khalidun	1,000,000	0.344
	Total	171,121,847	58.900

As at 07 May 2014

Issued Size : 145,263,250
No of Warrants Holders : 455 warrants holders

Analysis Of Warrants Holdings

As at 07 May 2014

Size of Holdings	No. of Warrants Holders	% of Warrants Holders	No. of Warrants Held	% of Warrants Held
1 to 99	11	2.417	500	0.000
100 to 1,000	6	1.318	3,000	0.002
1,001 to 10,000	72	15.824	476,200	0.327
10,001 to 100,000	226	49.670	11,837,300	8.148
100,001 to 7,263,161(*)	137	30.109	83,744,750	57.650
7,263,162 and above (**)	3	0.659	49,201,500	33.870
Total	455	100.000	145,263,250	100.000

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

Directors' Warrants Holdings

As at 07 May 2014 (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.	Abdul Razak Bin Dato' Haji Ipap	-	-	-	-
3.	Sukhdev Singh A/L Banta Singh	-	-	-	-
4.	Thong Kooi Pin	-	-	-	-
5.	Chuan Tsui Ju	-	-	-	-
6.	Eg Kaa Chee	-	-	-	-

30 Largest Warrants Holders

As at 07 May 2014

No.	Warrants holders	No. of Warrants	%
1.	Eg Kah Yee	27,166,500	18.701
2.	Su An Lee	11,035,000	7.596
3.	Goh Kok Siang	11,000,000	7.572
4.	Kaw Keng Wai	4,444,000	3.059
5.	Chong Ah Moi	3,780,000	2.602
6.	Yee Kong Siong	3,100,000	2.134
7.	Son Kat Pee @ Soin Kat Pee	3,060,000	2.106
8.	See Lee Ming	3,053,450	2.102
9.	Canvas Technology Pte Ltd	2,940,575	2.024
10.	Yee Seng Keng	2,835,000	1.951
11.	Maybank Nominees (Tempatan) Sdn Bhd Chua Keng Liang	2,491,200	1.714
12.	Yee Kong Way	2,300,000	1.583
13.	Lum Yin Mui	2,060,000	1.418
14.	Chuan Hooi Chai	2,000,000	1.376
15.	CIMSEC Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ng Geok Wah (B Brklang-CL)	2,000,000	1.376
16.	Ooi Phuay Gim	1,710,025	1.177
17.	Tey Chern Chern	1,702,900	1.172
18.	Soin Ching Hin	1,400,000	0.963
19.	Tan Ming Chuan	1,314,300	0.904
20.	Fok Sai Loi	1,000,000	0.688
21.	Maybank Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Vincent Phua Chee Ee	1,000,000	0.688
22.	Public Invest Nominees (Asing) Sdn Bhd Exempt An For Phillip Securities Pte Ltd (Clients)	1,000,000	0.688
23.	Tan Chun Ming	1,000,000	0.688
24.	Yu Kim Lung	1,000,000	0.688
25.	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Yee Boon Chee	995,000	0.684
26.	Muhamad Ali Bin Abd Rajab	905,000	0.623
27.	Tan Wah Kiong	900,000	0.619
28.	Teo Ah Seng	858,100	0.590
29.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Yew Hwa Hin (E-BMM)	854,700	0.588
30.	Hari Singh A/L Vasan Singh	800,000	0.550
	Total	99,705,750	68.637

NOTICE IS HEREBY GIVEN that the Seventeenth Annual General Meeting of the Company will be held at Greens 3, Sport Wing, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Monday 23 June, 2014 at 9.00 a.m. to transact the following business:-

AGENDA

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2013 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 2013. (Resolution 1)
3. To re-elect Eg Kaa Chee who retires pursuant to Article 119 of the Company's Articles of Association. (Resolution 2)
4. To re-elect Sukhdev Singh A/L Banta Singh who retires pursuant to Article 119 of the Company's Articles of Association. (Resolution 3)
5. To re-elect Chuan Tsui Ju who retires pursuant to Article 121 of the Company's Articles of Association. (Resolution 4)
6. To re-appoint Messrs STYL Associates as Auditors of the Company and to authorize the Directors to fix their remuneration. (Resolution 5)

SPECIAL BUSINESS

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

7. **ORDINARY RESOLUTION**
AUTHORITY UNDER SECTION 132D OF THE COMPANIES ACT, 1965 FOR THE DIRECTORS TO ISSUE SHARES (Resolution 6)
"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)

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

WONG WAI FOONG [MAICSA 7001358]
JOANNE TOH JOO ANN [LS 0008574]
Company Secretaries

Kuala Lumpur
Dated 30 May 2014

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 Industry (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 16 June 2014 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and/or vote on their behalf.*

EXPLANATORY NOTE 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, 1965 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this Agenda is not put forward for voting.

EXPLANATORY NOTE ON SPECIAL BUSINESS (continued)

2. ORDINARY RESOLUTION

Resolution Pursuant To Section 132D Of The Companies Act, 1965

The Ordinary Resolution proposed under Resolution 6 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 6, 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.

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FORM OF PROXY

Number of shares held:

I/We
(Full Name in Capital Letters and NRIC No./ Co. No.)

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 Seventeenth Annual General Meeting of the Company to be held at Greens 3, Sport Wing, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Monday, 23 June 2014 at 9.00 a.m. and at any adjournment thereof.

AGENDA			
ORDINARY BUSINESS			
1.	To receive the Audited Financial Statements for the financial year ended 31 December 2013 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 2013.	1	
3.	To re-elect Eg Kaa Chee who retires pursuant to Article 119 of the Company's Articles of Association.	2	
4.	To re-elect Sukhdev Singh A/L Banta Singh who retires pursuant to Article 119 of the Company's Articles of Association.	3	
5.	To re-elect Chuan Tsui Ju who retires pursuant to Article 121 of the Company's Articles of Association.	4	
6.	To re-appoint Messrs STYL Associates as Auditors of the Company and to authorize the Directors to fix their remuneration.	5	
SPECIAL BUSINESS			
7.	Authority to the Directors to allot and issue shares pursuant to Section 132D of the Companies Act, 1965	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 2014

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.
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- (viii) Only members whose names appear in the Record of Depositors as at 16 June 2014 will be entitled to attend and vote at the meeting or appoint proxy(ies) to attend and/or vote on their behalf.

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STAMP

Company Secretary

Palette Multimedia Berhad (420056-K)

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

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

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Palette Multimedia Bhd (420056-K)

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

www.palettemm.com