



Palette
MULTIMEDIA BERHAD
(420056-K)



ANNUAL
REPORT 2017



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CORPORATE INFORMATION

BOARD OF DIRECTORS :	<p>Eg Kah Yee (Chairman / Managing Director) Abdul Razak Bin Dato' Haji Ipap (Independent Non-Executive Director) Thong Kooi Pin (Independent Non-Executive Director) Chuan Tsui Ju (Independent Non-Executive Director) Eg Kaa Chee (Non-Independent Non-Executive Director)</p>
COMPANY SECRETARIES :	<p>Wong Wai Foong (MAICSA 7001358) Joanne Toh Joo Ann (LS 0008574)</p>
REGISTERED OFFICE :	<p>Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur. Tel : 03-2783 9191 Fax : 03-2783 9111</p>
BUSINESS ADDRESS :	<p>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</p>
AUDITOR :	<p>Morison Anuarul Azizan Chew 18, Jalan Pinggir 1/64, Jalan Kolam Air, Off Jalan Sultan Azlan Shah (Jalan Ipoh), 51200 Kuala Lumpur. Tel : 03-4048 2888</p>
SHARE REGISTRAR :	<p>Tricor Investor & Issuing House Services Sdn. Bhd. Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur. Tel : 03- 2783 9299 Fax : 03- 2783 9222</p>
CORPORATE SOLICITORS :	<p>Rajah, Lau & Associates B-13-13, Megan Avenue II, 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur. Tel : 03-2710 5585 Fax : 03-2710 5589</p>
PRINCIPAL BANKERS :	<p>Public Bank Berhad United Overseas Bank (Malaysia) Bhd</p>
STOCK EXCHANGE LISTING :	<p>Bursa Malaysia Securities Berhad (ACE Market) Stock name : PALETTE Stock code : 0005</p>
CORPORATE WEBSITE :	<p>www.palettemm.com</p>

BOARD OF DIRECTORS AND SENIOR MANAGEMENT'S PROFILE

EG KAH YEE Chairman / Managing Director

Mr. Eg Kah Yee, a Malaysian, male, aged 57, 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 specialise 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 specialise 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.

Apart from his brother, Eg Kaa Chee, who is also a Non-Independent Non-Executive Director of the Company, he does not have any family relationship with any of the Directors or major shareholder of the Company. He is a major shareholder of the Company. He has no material conflict of interest with the Group other than that which has been disclosed to the Board of Directors.

He has not been convicted of any offences within the past 5 years and has not been imposed any publicly sanctions or penalty by the relevant regulatory bodies during the financial year.

EG KAA CHEE Non-Independent Non-Executive Director

Mr. Eg Kaa Chee, a Malaysian, male, aged 53, 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 specialised 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 organisations.

Mr. Eg Kaa Chee does not hold any directorship in any other public companies.

Apart from his brother, Eg Kah Yee, who is also a Managing Director of the Company, he does not have any family relationship with any of the Directors or major shareholder of the Company. He has no material conflict of interest with the Group other than that which has been disclosed to the Board of Directors.

He has not been convicted of any offences within the past 5 years and has not been imposed any publicly sanctions or penalty by the relevant regulatory bodies during the financial year.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT'S PROFILE

ABDUL RAZAK BIN DATO' HAJI IPAP Independent Non-Executive Director

En. Abdul Razak Bin Dato' Haji Ipap, a Malaysian, male, aged 57, was appointed as the Director of Palette Multimedia Berhad on 1 June 2001. He was re-designated to a Non-Independent Non-Executive Director of Palette on 25 August 2010. On 8 September 2016, he was re-designated as an Independent Non-Executive Director of Palette. 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 Nomination Committee of Palette.

En. Abdul Razak Bin Dato' Haji Ipap is also an Independent Non-Executive Director of M-Mode Berhad, a company listed on Bursa Malaysia Securities Berhad.

He does not have any family relationship with any of the Directors and/or major shareholders of the Company. He has no material conflict of interest with the Group other than that which has been disclosed to the Board of Directors.

He has not been convicted of any offences within the past 5 years and has not been imposed any publicly sanctions or penalty by the relevant regulatory bodies during the financial year.

THONG KOOI PIN Independent Non-Executive Director

Mr. Thong Kooi Pin, a Malaysian, male, aged 44, 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 is the Chairman of the Nomination Committee and Audit Committee of Palette.

Mr. Thong Kooi Pin is also a Non-Independent Non-Executive Director of M-Mode Berhad, a company listed on Bursa Malaysia Securities Berhad, and holds the position as Financial Controller for Key ASIC Berhad.

He does not have any family relationship with any of the Directors and/or major shareholders of the Company. He has no material conflict of interest with the Group other than that which has been disclosed to the Board of Directors.

He has not been convicted of any offences within the past 5 years and has not been imposed any publicly sanctions or penalty by the relevant regulatory bodies during the financial year.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT'S PROFILE

CHUAN TSUI JU Independent Non-Executive Director

Ms. Chuan Tsui Ju, a Malaysian, female, aged 56, 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 a member of the Audit Committee of Palette.

Ms. Chuan Tsui Ju does not hold any directorship in any other public companies.

She does not have any family relationship with any of the Directors and/or major shareholders of the Company. She has no material conflict of interest with the Group other than that which has been disclosed to the Board of Directors.

She has not been convicted of any offences within the past 5 years and has not been imposed any publicly sanctions or penalty by the relevant regulatory bodies during the financial year.

NG GEOK LUI Senior Vice President

Ms. Ng Geok Lui, a Singaporean, female, age 53, was appointed as acting Senior Vice President of Operations in 2014 until a permanent replacement is found. She obtained her Bachelor of Science in Business Administration from Oklahoma City University, USA in 1995. She started her career in Shimizu Corporation in Singapore as an Assistant Marketing Manager and in 1994 joined Synopsys, Inc, a US based company in Singapore as a Regional Administrator until she co-founded Canvas Technology Pte Ltd in Singapore in 1996. Since then, she is the Director and in charge of the company's daily operations.

Ms. Ng Geok Lui does not hold any directorship in any other public companies.

She does not have any family relationship with any of the Directors and/or major shareholders of the Company. She has no material conflict of interest with the Group other than that which has been disclosed to the Board of Directors.

She has not been convicted of any offences within the past 5 years and has not been imposed any publicly sanctions or penalty by the relevant regulatory bodies during the financial year.

CHAIRMAN'S STATEMENT

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 31 May 2017 ("2017").

Financial and Operational Performance

The Group has posted a net loss of RM0.802 million for 2017 as compared to a net profit of RM2.124 million over last period.

Industry Outlook and Development

As high speed mobile networks mature, we are seeing a concerted move towards cloud based services and applications. The increasing capability of smartphones to provide rich services is also very evident. Palette's i-medec project is built on this recognition and is being rolled out to provide an innovative suite of end user applications coupled to a rich cloud platform.

Prospects

Our past experience in networking, security and cloud application development has resulted in the development and rollout of the i-medec application and cloud service. In addition, our focus on Software Defined Networks continues with the development of secure software based network appliances and associated services. Palette's service and engineering arm will continue its focus on complex network implementations with a bigger push into the implementation of Software Defined Networks in partnership with leading international networking companies.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Description of the Group's Business

The Palette Group of companies was founded in 1997. Palette is the leading solution provider of broadband, wireless and networking products and services. Palette is the leading technology provider of the latest generation of Network Access Control and Management (NACM) system for LAN and WLAN in the enterprise environment and the provider of Subscriber Management System to ISP, Telco, and network operators in the public network environment. Our R&D team is capable of software development and hardware system design, providing customers with the leading edge products and solutions, enabling enterprises and network operators to deploy a network with high performance and high security.

The Professional Services and Consulting Unit of the Company provides technical services to our customers such as Telco, ISP, broadband operators, hotel operators, property developers, enterprises and wireless hotspot operators with design, development, implementation, network management and business analysis of the technology and network. Our team is able to engage in deep consulting projects related to networks, security systems and Internet of Things (IOT) Cloud software application areas.

Palette is a technology focused company with strengths in network design, product development and software development. A strong in-house R&D team enables us to develop custom solutions ranging from network devices and interfaces to complex apps and database systems. We deliver Internet of Things (IOT) solutions that are innovative and cost effective.

Palette "i-medical", the mobile healthcare Cloud Hospital is a medical revolution and latest development by Palette Multimedia Berhad. i-medical connects to multiple wireless intelligent medical or healthcare devices to doctors, care takers or hospitals, targeting at helping doctors and specialists to extend their medical services beyond the physical boundaries. It is ideal for healthcare management of patients as well as step down care after patients are discharged from hospitals.

Based on the existing IPs that it has developed over the years and newly developed intelligent IPs including the mobile APP IP, it has developed the most robust, intuitive and intelligent mobile medical Cloud. Supporting IEEE 11073 standard interface for medical devices, i-medical is capable of connecting to multiple medical, healthcare, fitness and even tracking devices, with mobile APP running on smart phones or tablets, allowing users or patients to have their vital signs such as blood pressure, blood oxygen, body temperature, bone density, BMI, blood glucose, etc. to be taken and uploaded to the Cloud immediately at any time, from any place. Providing the diagnostic or consultation from a distance globally, doctors, specialists or care takers will be able to break the traditional model where medical services are limited by the physical perimeter.

In addition to the connectivity between patients and doctors, i-medical incorporates intelligent analytic that assist doctors in their diagnosis, hence increase the accuracy of the diagnosis as well as improving the efficiency of the doctors. It has a very robust and personalized Electronic Medical Record (EMR) that will track every piece of data of a user or patient for years even after life.

It is not only designed for medical or healthcare application, it can also be customised to be used for taking care of senior citizens either at home or at old folks homes. It can be connected to wearable trackers that are attached or tagged on the body, enabling care takers to track patients with Dementia, Alzheimer's or Parkinson disease. It is also designed for users who are on fitness program where body weight, BMI, bone density, etc. can also be stored into the EMR in the Cloud.

With i-medical system, doctors or specialists can scale up their business, providing services beyond their existing physical perimeter. It is also very useful for doctors to continue monitoring of patients, providing them with step down care after they are discharged from the hospital. Patients with heart disease that had just gone through an operation would definitely reduce the risk of unnecessary complication if they can be monitored during recovery. i-medical system will also help patients with heart disease to greatly reduce the risk of heart attack or strokes if they are monitored regularly.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mobile healthcare outlook on global scale is expected to increase to US\$58.8 billion (<https://www.theatlans.com/charts/B1cdidDd>) by the year 2020, and we expect the market in Malaysia to grow in tandem over the next few years. Since it is a Cloud based technology, the accessible market for us is the anywhere in the world. i-medic system now supports both English and Simplified Chinese language, and we expect to add other languages as the needs arise.

Financial Year Ended 31 May 2017 ("FYE 2017")

Revenue

The Group registered total revenue of RM5.714 million in FYE2017. The higher revenue was mainly attributable from the sale of IOT Cloud hardware platform of which the detail was announced to Bursa on 7 March 2017 and 28 April 2017.

Costs and expenses

Total costs and expenses before finance costs for 2017 which amounted to RM6.509 million comprised of the following items:

- (a) Purchases and other direct costs amounted to RM3.260 million for 2017.
- (b) Selling and distribution costs amounted to RM0.049 million for 2017 was mainly due to traveling expenses, entertainment, products registration and tender fees.
- (c) Administration and other expenses amounted to RM3.200 million was mainly due to payroll costs, rental, depreciation and amortisation of Intangible Assets.

Other income

Other income of the Group stood at RM0.033 million in 2017, mainly due to Fixed Deposit interest income of RM0.017 million and foreign exchange gains of RM 0.016 million on the Group's USD denominated assets as a result of the strengthening of US Dollar against Malaysian Ringgit.

Finance costs

The Group's finance cost of RM0.036 million was mainly due to the overdraft interests and unwinding of discount on trade payables incurred during the financial year.

Taxation

The income tax expense for the Group was RM0.004 million.

Loss attributable to Owners of the Company

Loss attributable to Owners of the Company was RM0.802 million or 0.25 sen per basic share.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and capital resources

Cash and cash equivalents of the Group amounted to RM1.593 million which comprises the fixed deposits with licensed bank of RM0.043 million, cash and bank balances of RM1.550 million.

The Group's net cash generating from operating activities was RM0.201 million, and capital expenditure in respect of property, plant and equipment was RM0.136 million for 2017.

Prospects

Palette is focusing on three strategic areas for the near future. Each of these areas offers market and technology opportunities.

The initial roll out of i-medic product has been met with good response from the medical community and the product continues to be refined with new features and continuous performance and interface improvements to align with initial feedback. Additional staff recruitment has been completed and an aggressive marketing campaign is underway. The Group first national rollout of i-medic was on March 2017 with the signing up of HSC Medical Center as the first mobile healthcare centre in Malaysia. Apart from China, Palette sees Russia as its potential oversea markets for i-medic. Russia is one of country in the world that government provides state-funded healthcare to all of its citizens and most of the Russia state hospitals and clinics are overcrowded with patients. Our i-medic application helps to reduce the patient traffic in hospitals and clinics hence, increase the efficiency and quality of care for both the doctors and patients.

A second area of focus is Software Defined networks; this is built upon Palette's earlier Access Management Gateway product (AMG) which saw some successes in the telecommunications sector. Initial trial deployments have been successful and negotiations are underway for some significant rollouts. Coupled with Palette's expertise in mobile wifi design and a new partnership with one of the leading networking companies worldwide, Palette is entering into multiple bids for large networks.

Thirdly Palette's software development expertise is being focused on the area of smart storage for smartphones and mobile devices that are essential technologies for the Internet of Things (IOT) applications. The initial product rollout has started and marketing to consumers, smartphone manufacturers and cellular providers has commenced.

The above points to a clear effort by the management to diversify Palette's technology and market coverage, specifically in areas that offer growth opportunities.

The Group has also taken cognizance of the principal risks that may impact the Group in achieving its business objectives and have developed mitigation procedures on them. Some of the principal risks identified are categorized as follows:

- Strategic, which are risks that impact the business direction of the Group – Risks such as changes in the policy of the government in respect of healthcare can be a major impact to the revenue growth in i-medic. Secondly, changes in the medical practitioner standard prescription in mobile healthcare
- Operational, which are risks that affect the operational efficiency and effectiveness of the Group's activities and products – risks such as availability of suitable approved medical equipment by the Ministry of Health and its compatibility with our i-medic application
- Financial, which are risks related to financial processes and reporting – the financial constraint that the Group may face in promoting and implementing i-medic to the public; and
- Competency, which are risks associated with knowledge and resources in operational management and activities. Identifying suitable candidate that understand the mobile healthcare and its industry that we operated in can be a challenge.

STATEMENT ON CORPORATE GOVERNANCE

The Board recognises 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 ACE Market Listing Requirements of Bursa Securities ("LR") and Malaysian Code on Corporate Governance ("Code"). Where there are gaps in the Company's observation of any of the recommendations of the Code, these are disclosed herein with explanations.

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1. Clear Functions of the Board and Management

The Board has the overall responsibility for the performance of the Group by maintaining full and effective control over strategic, financial, operational, compliance and governance issues. The Board is responsible in formulating and reviewing of strategic plans, key policies and monitoring the Group's business operations. The Board delegates the day-to-day management of the Company's business to the management team but reserves for its consideration significant matters such as the following:-

- Approval of financial results;
- Declaration of dividends;
- Risk appetite setting;
- Credit policy;
- Business (Acquisitions/Disposal);
- Capital Expenditures;
- Corporate Proposal; and
- Budget.

The Chairman leads the strategic planning at the Board level, whilst the Executive Director is responsible for the implementation of the policies laid down by the Board and executive decision making as well as managing the day-to-day operations of the business, implementation of Board policies and making strategic decisions for the expansion of the business. The position of Executive Director is currently vacant. During this period, the Chairman/ Managing Director will be taking over Executive Director's roles and functions until suitable candidate has been determined by the Nomination Committee.

All Board members bring independent judgments on issues pertaining to strategy, performance, risk management, resources and standard of conduct.

The Board may from time to time establish committees as it considers appropriate to assist in carrying out its duties and responsibilities. The Board delegates certain functions to the Audit committee and Nomination Committee to assist in the execution of its responsibilities.

The above Committees shall operate within the roles authorised and responsibilities as set out in the terms of reference of each Committee. The Committees are authorised by the Board to deal, deliberate and carry out the matters delegated to them within their terms of reference. The Chairman of the respective Committee shall report the outcome of the Committee meeting to the Board accordingly and such reports or minutes will be included in the Board papers.

1.2. Clear roles and responsibilities

The Board assumes the following responsibilities:-

(a) Reviewing, adopting and monitoring strategic plan for the Group

The Board has in place a strategy planning process, whereby Managing Director presents to the Board its recommended strategy, together with the proposed business plans for the Board's review and approval. The Board will deliberate both Management's and its own perspectives, and challenge the Management's views and assumptions to ensure the best outcome.

(b) Overseeing the conduct of the Company's business

The Managing Director is responsible for the day-to-day management of the business and operations of the Group in respect of both its regulatory and commercial functions. He is supported by Management.

Management's performance, under the leadership of the Managing Director, is assessed by the Board through monitoring the success in delivering the approved targets and business plans against the performance of the Group.

STATEMENT ON CORPORATE GOVERNANCE

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (*CONTINUED*)

1.2. Clear roles and responsibilities (*Continued*)

- (c) Identifying risks and assume active role in ensuring the implementation of appropriate systems to manage or mitigate these risks

Risk Management is regarded as an integral part of the business operations. With the system of Internal Control in place, and periodical review by internal and external parties to ensure full compliance in its commitment, the Board monitors any risk that might be faced by the business and operations of the Group. The key management personnel are then responsible in managing the identified risks. Some of the principal risks identified are categorized as follows:

- Strategic, which are risks that impact the business direction of the Group;
- Operational, which are risks that affect the operational efficiency and effectiveness of the Group's activities and products;
- Financial, which are risks related to financial processes and reporting; and
- Competency, which are risks associated with knowledge and resources in operational management and activities.

The Board is overall responsible for maintaining and ensuring the integrity of a sound system of Internal Control which supports effective and efficient operations to safeguard shareholders' interests and the Group's business and assets.

The Statement on Risk Management and Internal Controls is set out on pages 27 to 29 of the Annual Report and provides an overview of the state of internal controls within the Group.

- (d) Succession planning, including appointing, training, fixing the compensation of the key managements

The Board has entrusted the Nomination Committee ("NC") with the responsibility to review candidates for the Board and key management positions and to determine remuneration packages for these appointments, and to formulate nomination, selection, remuneration and succession policies for the Group. Succession planning for key management personnel will be monitored by the Human Resource Department. The Board had at the recommendation made by the NC, approved and adopted a Succession Planning Policy. The Succession Planning Policy is available on our corporate website at www.palettemm.com for further reference.

- (e) Ensuring measures are in place to assess and oversee Management's performance

Management's performance objectives are set and assessed on annually basis. Causes for those failing to achieve their own individual objectives are identified and corrective measures shall be put in place in order to help such employee to achieve its objective before the conclusion of the performance evaluation period.

- (f) Developing and implementing an investor relations programme or shareholder communications policy for the Group

The Company strongly believes that effective and timely communication is essential in maintaining good relations with the shareholders, investors and investment community. To that end, the Board strives to provide shareholders and investors accurate, useful and timely information about the Company, its businesses and its activities via the timely release of quarterly financial results, press releases and announcements. Whilst the Company endeavours to provide as much information as possible, it is aware of the legal and regulatory framework governing the release of material and price sensitive information.

STATEMENT ON CORPORATE GOVERNANCE

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (*CONTINUED*)

1.2. Clear roles and responsibilities (*Continued*)

- (f) The Company has identified Mr. Thong as the Senior Independent Non-Executive Director to whom concerns of shareholders and other stakeholders may be conveyed.

In addition to the above, shareholders and investors can make enquiry about investor relations matters with designated management personnel directly responsible for investor relations, via dedicated e-mail addresses available on the corporate website.

The General Meetings act as the principal forum of dialogue with shareholders. Shareholders are notified of the meeting and provided with a copy of the Company's Annual Report and/or Circular to Shareholder prior thereto in accordance with the stipulated period set out in LR and the Act in order to enable shareholders to fully evaluate the resolutions being proposed. At each AGM, the Board presents the Group's results and shareholders are given the opportunities to raise questions pertaining to the Group, the resolutions being proposed and the business of Palette in general. Members of the Board and the auditors of the Company are available at the AGM to respond to all queries and to provide clarification on issues and concerns raised by the shareholders.

- (g) 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

The Board is ultimately responsible for the adequacy and integrity of the Company's internal control system. Details pertaining to the Company's internal control system and the reviews of its effectiveness are set out in the Statement on Risk Management and Internal Control of this Annual Report on pages 27 to 29.

1.3. Promoting Ethical Standards

The Code of Conduct and Ethics is based on the following principles is subject to periodical review:-

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

The Code of Conduct and Ethics is available on the Company's website at www.palettemm.com

The Board recognises the importance of whistle-blowing and is committed to maintain the standards of ethical conduct within the Group. The Company is committed to operating in compliance with all applicable laws, rules and regulations, including those concerning accounting and auditing, and prohibits fraudulent practices by any of its board members, officers and/or employees. The Board had established a whistle-blowing policy which outlines procedures for employees to report actions that an employee reasonably believes violate a law, or regulation or that constitutes fraudulent accounting or other practices. This policy applies to any matter which is related to the Group's business. This policy has accordingly been inserted in the employee manual/handbook.

1.4. Strategies Promoting Sustainability

The Board regularly reviews the strategic direction of the Company and the progress of the Company's operations, taking into account changes in the business and political environment and risk factors such as level of competition.

STATEMENT ON CORPORATE GOVERNANCE

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (*CONTINUED*)

1.4. Strategies Promoting Sustainability (*Continued*)

The Board promotes good corporate governance in the application of sustainability practices throughout the Company, the benefits of which are believed to translate into better corporate performance. Accordingly, the Company takes cognisance of the global environmental, social, governance and sustainability agenda.

The Company recognises the value of a diversified and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the Company into the future. The Company is committed to leveraging the diverse backgrounds in terms of gender, ethnicity and age, experiences and perspectives of our workforce, to provide good customer service to an equally diverse customer base. The Company's commitment to recognising the importance of diversity extends to all areas of our business including recruitment, skills, enhancement, appointment to roles, retention of employees, succession planning and training and development.

1.5. Access to Information and Advice

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 Board collectively, and each Director individually, has the right to seek independent professional advice in furtherance of their duties, at the Company's expense subject to the approval by the Board. Such request may be done via email or during the Board meeting.

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

1.6. Qualified and Competent Company Secretaries

The Board has direct access to the advice and services of the Company Secretary. The Company Secretaries are qualified to act in accordance with the requirements of the Companies Act, 2016.

The Board is updated by the Company Secretary on new statutes and directives issued by the regulatory authorities. The Company Secretary has attended the Board and Committee meetings and ensured that all procedures are adhered.

The roles of Company Secretary includes the following, amongst others:-

- Ensure compliance of regulatory requirements by providing updates on new Listing Requirements and the Companies Act 2016 to the Board;
- Advise and remind the Directors of their obligations to disclose their interest in securities, any conflict of interest and related party transactions;
- Advise and remind the Directors on the prohibition on dealing in securities during closed period and the restriction on disclosure of price sensitive information;
- Prepare agenda items of meetings for Board and Board Committees and send to the respective Board and Board Committees;
- Support the Board by ensuring adherence to Board practices and procedures, rules, relevant laws and best practices on Corporate Governance;

STATEMENT ON CORPORATE GOVERNANCE

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (*CONTINUED*)

1.6. Qualified and Competent Company Secretaries (*Continued*)

- Attend all Board and Board Committee meetings to ensure that meetings are properly convened, and that accurate proper records of the proceedings and resolutions passed are made and maintained accordingly; and
- Maintain a secured retrieval system which stores meeting paper and minutes of the Board and Board Committees.

1.7. Board Charter

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 and updated in accordance with the needs of the Company and any new regulation that may have an impact on the discharge of the Board's responsibilities.

The Board Charter was last reviewed on 25 February 2016 and would be reviewed and updated periodically.

The Board Charter is available on the Company's website at www.palettemm.com

2. STRENGTHEN COMPOSITION

2.1. Nomination Committee

The Nomination Committee was established on 22 February 2013 and has been tasked with the responsibilities to recommend new appointment to the Board. The Nomination Committee shall be appointed by the Board of Directors and shall comprise exclusively of non-executive directors, a majority of whom are independent directors. The Chair of the Nomination Committee is the Senior Independent Director of the Company. The present members of the Nomination Committee are as follows:-

Chairman

Thong Kooi Pin (Independent Non-Executive Director)

Member

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

The terms of reference of the Nomination Committee is available at the Company's website at www.palettemm.com

The duties and responsibilities of the Nomination Committee are as follows:-

- Recommend to the Board, candidates for all directorships to be filled by the shareholders or the Board after considering the candidates':-
 - skills, knowledge, expertise and experience;
 - professionalism;
 - integrity; and
 - in the case of candidates for the position of independent non-executive directors, to evaluate the candidates' ability to discharge such responsibilities/functions as expected from independent non-executive directors;
- Consider, in making its recommendations, candidates for directorships proposed by the Chief Executive Officer and within the bounds of practicability, by any other senior executive or any director or shareholder;
- Assess and recommend to the Board, directors to fill the seats on Board Committees;

STATEMENT ON CORPORATE GOVERNANCE

2. STRENGTHEN COMPOSITION (*CONTINUED*)

2.1. Nomination Committee (*Continued*)

- Undertake an annual review of the required mix of skills, experience and diversity (including gender diversity) and other qualities of Directors, including core competencies which Non-Executive Directors should bring to the Board and to disclose this forthwith in every Annual Report;
- Assist the Board to introduce a criteria and to formulate and implement a procedure to be carried out by the Nomination Committee annually for assessing the effectiveness of the Board as a whole, the Board Committees and for assessing the contributions of each individual Director;
- Ensure that the Directors to retire by rotation to be in accordance with the Articles of Association of the Company;
- Ensure that the process carried out in the evaluation and assessment be properly documented;
- Conduct assessment of the independent directors who have served the Board for a period of nine (9) years and above and to recommend to the Board whether the independent director should remain independent or be re-designated;
- Review the induction and training needs of Directors;
- Report to the Board on Board and key management succession planning.

2.2. Develop, Maintain and Review Criteria for Recruitment and Annual Assessment of Directors

(i) Recruitment or appointment of Directors

As documented in the approved Board Charter, the Board may exercise the power pursuant to the Articles of Association to appoint a person who is willing to act as a Director either to fill a casual vacancy or as an additional Director upon appropriate recommendation by the Nomination Committee.

The appointment of new directorship would be through a formal and transparent selection process and would take into consideration the evaluation of the candidates' abilities in terms of their skills, knowledge, experience, expertise and integrity to discharge their responsibilities.

The Company Secretary will ensure that all appointments are properly made and that legal and regulatory obligations are met. New Directors are expected to have such expertise in order to make positive contribution to the Board, performance of its duties and to give sufficient commitment, time and attention to the affairs of the Company.

There was no new appointment to the Board during the financial year.

(ii) Gender, Ethnicity and Age Group Diversity Policy

Currently, there is no formal gender, ethnicity and age group policy established on the boardroom. However, the Nomination Committee will review the suitability of women candidates, ethnicity and age group based on vacancy arising therein and recommendation from fellow board member from time to time in order to promote better gender, ethnicity and age group diversity.

The appointment of Chuan Tsui Ju on 22 November 2014 reflects that the Board recognises the value of a lady member of the Board and is an initial step taken by the Board towards achieving a more gender diversified Board.

STATEMENT ON CORPORATE GOVERNANCE

2. STRENGTHEN COMPOSITION (*CONTINUED*)

2.2. Develop, Maintain and Review Criteria for Recruitment and Annual Assessment of Directors (*Continued*)

(iii) Annual Assessment

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

All Directors have completed the Mandatory Accreditation Programme ("MAP") within the time frame stipulated in the Listing Requirements of Bursa Securities. All Directors are also encouraged to attend programmes seminars to keep abreast with relevant changes in development and procedures in the industry.

For the year under review, the Directors had attended various appropriate seminars and courses to keep abreast of current developments as well as the new statutory and regulatory requirements. As the Board members have attended a diverse range of training programmes during the year to enhance their knowledge and skills in specific area, the Nomination Committee is of the opinion that the Directors have assessed and addressed their own training needs.

The Nomination Committee met once during the financial year. During the said meeting, the Nomination Committee reviewed and assessed the mix of skills, expertise, composition, size and experience of the Board, including core competencies of the Directors, the contribution of each individual Director as well as their character, integrity and time commitment, independence of the Independent Directors, effectiveness of the Board as a whole, the Board committees and also the Directors who are due for retirement by rotation. The assessment was based on the summary of results from self-evaluation forms completed by each Director.

(iv) Re-election of Director

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 of Association also require one-third (1/3) 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 Nomination Committee has considered the assessment of Eg Kaa Chee and Eg Kah Yee, 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 Directors.

(v) Review Induction and Training Needs of Directors

To ensure that all Directors receive appropriate continuous training programmes in order to broaden their perspectives and to keep abreast with developments in the market place. With changes in new statutory and regulatory requirements, the Nomination Committee had during its meeting, recommended the types of the trainings to be attended by each of the Board members.

(vi) Review Board and Key Management Succession Planning

The Succession Planning Policy had been established to assess the permanent leadership needs of the organisation to help ensure the selection of a qualified and capable leader who is representative of the community, a good fit for the organisation's mission, vision, values, goals and objectives; and who has the necessary skills for the organisation.

The Succession Planning Policy is available on the Company's website at www.palettemm.com

STATEMENT ON CORPORATE GOVERNANCE

2. STRENGTHEN COMPOSITION (CONTINUED)

2.2. Develop, Maintain and Review Criteria for Recruitment and Annual Assessment of Directors (Continued)

Summary of Activities undertaken by the Nomination Committee

During the financial year ended 2017, the following activities were undertaken by Nomination Committee:-

- Assessed the effectiveness and required mix of skills and experience and other qualities, including core competencies of the Board as a whole, the committees of the Board and the contribution of each existing Director and thereafter, recommended the findings to the Board;
- Assessed the independence of the Independent Directors based on criteria set out in the LR;
- Reviewed and recommended the re-election of Eg Kah Yee and Eg Kaa Chee;
- Reviewed and recommended the retention of Thong Kooi Pin and Abdul Razak Bin Dato' Haji Ipap to continue in office as Independent Non-Executive Directors; and
- Reviewed the training needs of the Directors.

2.3. Directors' Remuneration

Directors' 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 determination of remuneration packages of Non-Executive Directors should be a matter for the Board as a whole with the individuals concerned abstaining from discussion of their own remuneration.

The aggregate Directors' remuneration paid or payable to all Directors of the Group and the Company categorised into appropriate components for the financial year ended 31 May 2017 are as follows:-

Company

	Non-Executive Directors (RM)	Executive Directors (RM)
Salaries and other emoluments	-	178,231
Fees	24,000	-
Benefit in kind	-	-
Total :	24,000	178,231

Group

	Non-Executive Directors (RM)	Executive Directors (RM)
Salaries and other emoluments	-	178,231
Fees	24,000	-
Benefit in kind	-	-
Total :	24,000	178,231

Directors' Remuneration	No. of Directors
RM 50,000 and below	5
RM 100,000 – RM 150,000	1

STATEMENT ON CORPORATE GOVERNANCE

3. REINFORCE INDEPENDENCE

3.1. Annual Assessment of Independence

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 to ensure the Independent Director can continue to bring independent and objective judgement to Board for deliberation.

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

3.2. Tenure of Independent Directors

The Board takes note that the Code recommends that the tenure of an Independent Director shall not exceed a cumulative term of nine (9) years unless shareholders' approval is obtained to retain such Director as an Independent Non-Executive Director. If the Board continues to retain the Independent Director after the twelfth year, the Board should seek annual shareholders' approval through a two tier voting process.

Shareholders' approval would be sought if an Independent Director who has served in that capacity for more than nine (9) and twelve (12) years shall remain as an Independent Director. The Nomination Committee will assess the independence of the Independent Director based on the assessment criteria developed by the Nomination Committee, and recommend to the Board for recommendation to the shareholders. Justification for the approval would be provided.

3.3. Shareholders' Approval for Re-appointment of Independent Non-Executive Director who has served more than nine (9) years

Thong Kooi Pin had served the Company as Independent Non-Executive Director for a cumulative term of more than 9 years.

The Board, through the Nomination Committee, had conducted annual performance evaluation and assessment on him, being the Independent Non-Executive Director, and is of the opinion that he remain as Independent Non-Executive Director upon the following rationale:-

- (i) He fulfilled the criteria under the definition of Independent Director as stated in the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad. Thus, he would able to function as a check and balance and bring an element of objectivity to the Board;
- (ii) He has devoted sufficient time and attention to his professional obligations for informed and balanced decision making; and
- (iii) He has exercised his due care during his tenure as an Independent Non-Executive Director of the Company and carried out his duties in the best interest of the Company and shareholders.

Abdul Razak Bin Dato' Haji Ipap had served the Company as Independent Non-Executive Director for a cumulative term of more than 9 years.

He has met the independence guideline as set out in Chapter 1 of the LR and the Board therefore considers Abdul Razak Bin Dato' Haji Ipap as independent and recommends that he remains as an Independent Non-Executive Director. The Nomination Committee has assessed and viewed that he has been effective and his competencies remain relevant to exercise objective independent judgement on corporate affairs. During his tenure of office, Abdul Razak Bin Dato' Haji Ipap has not developed, established or maintained any significant personal or social relationship whether direct or indirect with the Managing Director, major shareholders or management of the Company (including their family members) other than normal engagements and interactions on a professional level consistent and expected of them to carry out their duties as an Independent Non-Executive Director.

STATEMENT ON CORPORATE GOVERNANCE

3. REINFORCE INDEPENDENCE (*CONTINUED*)

- 3.3. Shareholders' Approval for Re-appointment of Independent Non-Executive Director who has served more than nine (9) years (*Continued*)

The Board will be seeking shareholders' approval at the forthcoming AGM for the retention of Thong Kooi Pin and Abdul Razak Bin Dato' Haji Ipap to continue as Independent Non-Executive Directors of the Company.

Other than Directors' fees and allowances paid which had been the norm and been duly disclosed in the annual reports, no other incentives or benefits of whatsoever nature had been paid to them that would cause biases in their objective and independent judgement in board deliberation.

- 3.4. Separation of Positions of the Chairman and Executive Director

There is a division of responsibilities between the Chairman and the Executive Director (ED) to ensure that there is balance of power and authority ever since the first ED of the Group has been appointed. The Chairman is responsible for the Board's effectiveness and conduct, whilst the ED has overall responsibilities over the business and operation of the Group. The ED is responsible to formulate business and operations strategies and is empowered to structure the management team in discharging his duties to achieve the goals that has been assigned to him by the Board. The Board is still in favour of the abovementioned division of responsibilities despite the Chairman has assumed the role of ED after the resignation of Mr Sukhdev Singh A/L Banta Singh. Until a suitable candidate is found to assume the role of ED, the Chairman is currently assisted by Audrey Ng, Senior Vice President and a team of Sales personnel to run the business and operation of the Group.

Currently, the Chairman of the Board is headed by the Managing Director, Eg Kah Yee, whom is also the single largest shareholder in the Company. Although the new Code on Corporate Governance recommends that the Chairman position be filled by an Independent Non-Executive director, it is the collective view of the Board, based on the current state of affair of and his shareholdings in the company, Eg Kah Yee's expertise is highly needed and the Board is confident that the current practice is best in maintaining the sustainability and the creativity of the Group in moving forward especially in time when the Group is struggling for profitability.

- 3.5. Composition of the Board

The current Board has five (5) members comprising one (1) Executive Director (including the Chairman / Managing Director), one (1) Non-Independent Non-Executive Director and three (3) Independent Non-Executive Directors. The composition of the Board comprises of a majority of Independent Non-Executive Directors. The Board is satisfied with the current composition and the 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 5 of this Annual Report.

4. FOSTER COMMITMENTS

- 4.1. Time Commitments

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 May 2017, eight (8) board meetings were held and the details of each Director's attendance are set out as follows:-

STATEMENT ON CORPORATE GOVERNANCE

4. FOSTER COMMITMENTS (CONTINUED)

4.1. Time Commitment (Continued)

Directors	Meeting Attendance
Eg Kah Yee (Chairman)	8/8
Eg Kaa Chee	7/8
Abdul Razak Bin Dato' Haji Ipap	6/8
Thong Kooi Pin	8/8
Chuan Tsui Ju	8/8
Sukhdev Singh A/L Banta Singh (resigned on 27 July 2017)	7/8

Currently, all Directors of the Company held less than five (5) directorships in other listed companies.

The Chairman of the Board and the Company Secretary shall be notified of any new directorship by any Board members before accepting new directorship. The notification shall include an indication of time that will be spent on the new appointment. The Company does not have policy nor impose any time commitment on its independent and non-executive director's position to commit their time to the Company but the Board members are supportive of the Chairman whenever a board meeting is called to deliberate important matters related to the Group.

The Directors are required to notify the Chairman, prior to their acceptance of new directorships in other companies.

4.2. Directors' Training

The Board through the Nomination Committee will identify the training needs amongst the Directors and enroll the Directors for the relevant training programme. All Directors are provided with the opportunity, and are encouraged to attend any relevant training programme, seminar and conferences to keep them updated on relevant new legislations, best practices, financial reporting requirements and/or other relevant courses to further enhance their skills and knowledge to enable them to discharge their responsibilities more effectively.

The Directors have during the financial year, attended the following training:-

Directors	Seminar
Eg Kah Yee	(i) 12th Tricor Tax & Corporate Seminar by Tricor Tax Services Sdn Bhd. (ii) 3 Greatness SunTAP © Sun Tzu Applied (People) by Upskill Consulting Sdn Bhd.
Thong Kooi Pin	(i) 3 Greatness SunTAP © Sun Tzu Applied (People) by Upskill Consulting Sdn Bhd.
Chuan Tsui Ju	(i) 3 Greatness SunTAP © Sun Tzu Applied (People) by Upskill Consulting Sdn Bhd.
Abdul Razak Bin Dato' Haji Ipap	(i) 3 Greatness SunTAP © Sun Tzu Applied (People) by Upskill Consulting Sdn Bhd.
Eg Kaa Chee	(i) 12th Tricor Tax & Corporate Seminar by Tricor Tax Services Sdn Bhd. (ii) 3 Greatness SunTAP © Sun Tzu Applied (People) by Upskill Consulting Sdn Bhd.

STATEMENT ON CORPORATE GOVERNANCE

5. UPHOLD INTEGRITY IN FINANCIAL REPORTING

5.1. Compliance with Applicable Financial Reporting Standards

It is the Board’s responsibility to ensure that the financial statements are prepared in accordance with the Companies Act, 2016 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. This is done through discussion with the current reporting auditor if there is any changes in the accounting standard that may affect the way of the financial statement is presented;
- (b) stating whether applicable accounting standards have been followed;
- (c) making judgments and estimates that are reasonable and prudent. The Board makes judgment and estimate by carefully considering all aspect of the variables concerned and especially in the case of sustainability on the book value of the intangible assets; 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.

5.2. Assessment of Suitability and Independence of External 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.

The amount of audit and non-audit fees paid to the External Auditors or a firm affiliated to the External Auditors by the Company and the Group for the financial year ended 31 May 2017 were as follows:-

	Group (RM)	Company (RM)
Audit	45,000	42,500
Non-Audit	20,020	17,260

The Audit Committee assisted by the management, undertakes annual assessment of the suitability and independence of the External Auditors. The assessment of the External Auditor was conducted by completing personalised evaluation form as guided by the Corporate Governance Guide on Evaluation of External Auditors Performance and Independence checklist. The factors considered by the Audit Committee in its assessment include, adequacy of professionalism and experience of the staff, the resources of the external auditors, the fees and the independence of and the level of non-audit services rendered to the Group. The Audit Committee has assess and is satisfied with the suitability and the confirmation provided by the external auditors that they have complied with the ethical requirements regarding independence with respect to the audit of the Group in accordance with all relevant professional and regulatory requirements. The Audit Committee has recommended to the Board the re-appointment of Morison Anuarul Azizan Chew as the External Auditors.

Subsequent to above, Morison Anuarul Azizan Chew had indicated that they do not wish to seek re-appointment at the forthcoming Annual General Meeting. The Audit Committee, upon receipt of a Notice of Nomination from the shareholder, assessed the suitability of Messrs. Baker Tilly Monteiro Heng to be appointed as the External Auditor of the Company in place of the retiring Auditor. The Audit Committee has recommend to the Board the appointment of Messrs Baker Tilly Monteiro Heng.

STATEMENT ON CORPORATE GOVERNANCE

5. UPHOLD INTEGRITY IN FINANCIAL REPORTING (*CONTINUED*)

5.3. Recurrent Related Party Transaction

The Group meets its obligation relating to Related Party Transactions under ACE Market Listing Requirement. The Board has through the Audit Committee, reviewed all material related party transactions involved. A Director who has an interest in a transaction must abstain from deliberation and voting on the relevant resolution in respect of such transaction at the Board and at any general meeting convened to consider such matter.

6. RECOGNISE AND MANAGE RISK

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 recognises that such system is structured to manage rather than eliminate the possibility of encountering risk of failure to achieve corporate objectives.

The Statement on Risk Management and Internal Controls is set out on pages 27 to 29 of the Annual Report providing an overview of the state of internal controls within the Group.

7. TIMELY AND HIGH QUALITY DISCLOSURE

7.1. Corporate Disclosure Policy

The Company is committed to provide clear, accurate and timely disclosure of all material information to its stakeholders and the general public. The Company will ensure compliance with the disclosure requirements as set out in the LR at all times.

7.2. Leverage on Information Technology for Effective Dissemination of Information

The Company maintains various methods of dissemination of information and has established a website at www.palettemm.com from which shareholders and the general public may access among others, the latest information on the activities of the Group; product information; announcements made to Bursa Securities; Annual Report and Board Charter.

8. STRENGTHENING OF RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

8.1. Encourage Shareholder Participation at General Meetings

Shareholders are notified of the meeting and provided with a copy of the Company's Annual Report at least 21 days before the Annual General Meeting ("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. The external auditors and company secretaries are present to clarify and explain any issues. The shareholders are also be informed and invited to attend any Extraordinary General Meeting through circular or notice of meeting.

8.2. Poll Voting

The Board encourages shareholders to put forth substantive resolutions for shareholders' approval by poll voting at the general meetings. At the Nineteenth AGM held on 17 November 2016, the Chairman had notified the shareholders at the commencement of the AGM of their rights to demand a poll for the substantive resolutions. All resolutions put forth for shareholders' approval at the Nineteenth AGM were voted by show of hands.

Pursuant to the LR, any resolution set out in the notice of any general meeting, or in any notice of resolutions which may properly be moved and is intended to be moved at any general meeting, must be voted by poll. Hence, voting for all resolutions as set out in the Notice of Twentieth Annual General Meeting and future general meetings will be conducted by poll. An Independent Scrutineer will be appointed to validate the votes count at the general meetings.

STATEMENT ON CORPORATE GOVERNANCE

8. STRENGTHENING OF RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS (*CONTINUED*)

8.3. Effective Communication and Proactive Engagement

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 answer session during the AGM.

9. CORPORATE SOCIAL RESPONSIBILITIES ("CSR")

The Group remains committed to support the community as a responsible corporate citizen during the financial year under review. The Group's CSR initiatives are focused on enhancement of the workplace and environment conservation.

We acknowledge the importance of both financial and non-financial strategies in our continuous efforts to maintain long term and sustainable performance for the Group. While we focus on managing our business deliverables through improving financial profitability and shareholders' value, we are also mindful of our goals to provide a sustainable workplace for our human assets' career developments as they are critical components to our growth and to promote a sustainable environmentally responsible organisation.

ENVIRONMENT

The Group remains committed towards environmental conservation; continuing on recycle program as part of our efforts to reduce our environmental and carbon footprints and our commitment as an environmentally responsible organisation.

In line with commitment to reduce carbon footprints, employees are encouraged to fully maximise the benefits of electronic environment (eg email, instant messaging and etc.) for communication and only print hard copy when necessary. Employees are also encouraged to print on both sides of paper to minimise paper usage. Energy efficient bulbs are used throughout and all computer peripherals and lighting are switched off when not in use.

WORKPLACE

Our people are our valuable assets. The Group provides its employees a quality work environment which complies with the health and safety standard as we understand a good environment would raise the efficiency and productivity of employees besides improving the quality of life of our employees.

We practice open door policy where employees have easy accessibility to their superiors. Two-way communications are encouraged to ensure share of ideas and/or work grievances to improve work processes and working environment. Periodical downward communication sessions from key management team with subordinates are also carried out as a way to impart the Company's fundamentals and directions while addressing issues of concern.

The company also actively organises a variety of recreational activities such as staffs dinner, festive gatherings and birthday celebration to create an amiable workplace for its staffs. In addition, health insurance and medical care are provided to employees.

TRAININGS

External trainings are provided to employees to enhance their skills and abilities which would offer excellent opportunities for career enhancement.

STATEMENT ON CORPORATE GOVERNANCE

9. CORPORATE SOCIAL RESPONSIBILITIES (“CSR”) (CONTINUED)

GROUP’S DIVERSITY

(i) Diversity report on the breakdown of directors :-

Age group	Gender						Ethnicity							
	Male	%	Female	%	Total	%	Malays	%	Chinese	%	Other	%	Total	%
31-40	-	-	-	-	-	-	-	-	-	-	-	-	-	-
41-50	1	25	-	-	1	20	-	-	1	25	-	-	1	20
51-60	3	75	1	100	4	80	1	100	3	75	-	-	4	80
61-70	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	4	100	1	100	5	100	1	100	4	100	-	-	5	100

(ii) Diversity report on the breakdown of employees :-

Age group	Gender						Ethnicity							
	Male	%	Female	%	Total	%	Malays	%	Chinese	%	Indians	%	Total	%
21-30	-	-	1	50	1	17	-	-	1	50	-	-	1	17
31-40	3	75	-	-	3	50	-	-	-	-	3	100	3	50
41-50	1	25	1	50	2	33	1	100	1	50	-	-	2	33
51-60	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	4	100	2	100	6	100	1	100	2	100	3	100	6	100

AUDIT COMMITTEE REPORT

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’ Haji Ipap – Independent Non-Executive Director

Chuan Tsui Ju – Independent Non-Executive Director

2. TERMS OF REFERENCE

The Terms of Reference is available on our corporate website at www.palettemm.com for further reference.

3. SUMMARY OF MEETING AND ACTIVITIES UNDERTAKEN

A total of Six (6) meetings were held during the financial year ended 31 May 2017 and the attendance records are as follows:-

	Meeting attended
Abdul Razak Bin Dato’ Haji Ipap	5/6
Thong Kooi Pin	6/6
Chuan Tsui Ju	6/6

SUMMARY OF ACTIVITIES OF COMMITTEE

During the financial year ended 31 May 2017, the Committee has carried out the following activities:-

- (i) reviewed the annual financial statements of the Group on September 2016 prior to submission to the Board for their consideration and approval;
- (ii) reviewed the quarterly unaudited financial results of the Group on July 2016, September 2016, January 2017 and April 2017 prior to recommending them for approval by the Board. The financial results were presented by Management with the presence of the Auditors to attend to the queries raised by the Committee. The Committee was satisfied that the financial results had been prepared in accordance with Financial Reporting Standards 134;
- (iii) reviewed the related party transactions entered into by the Group and ensured that the transactions were within the threshold as set and in accordance with the mandate obtained from the shareholders;
- (iv) discussed and reviewed the fees of the external auditors with Management;
- (v) reviewed and discussed the Audit Review Memorandum for the 2017 and recommended the same for the Board’s notation;
- (vi) as assisted by Management, reviewed and considered the suitability and independence of the External Auditor. The assessment on the External Auditor was conducted by completing personalised evaluation form as guided by the Corporate Governance Guide on Evaluation of External Auditor Performance and Independence Checklist; and
- (vii) discussed and recommended the Audit Planning Memorandum for the 2017 for the Board’s notation.

AUDIT COMMITTEE REPORT

4. INTERNAL AUDIT FUNCTION

The internal audit function is outsourced to an external consultant firm which reports to the Audit Committee and assists the Board of Directors in monitoring and managing risks and internal controls.

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.

Amongst the assignments undertaken for the financial year under review were:

- (i) Review of the Enterprise Risk Management Framework;
- (ii) Review of the ERM Risk Register; and
- (iii) Audit of Revenue and Accounts Receivables Management business areas.

The principal role of the internal audit includes:-

- (i) assisting the Board in the review of the adequacy, integrity and effectiveness of the system of internal controls of the Group to enable the Board to prepare the Statement on Risk Management and Internal Control in the Annual Report;
- (ii) performing risk assessment of the Group to identify and evaluate the principal risk factors and ensuring the implementation of appropriate internal control processes and procedures to mitigate these risks;
- (iii) allocating adequate audit resources, in accordance with the internal audit plan reviewed by the Audit Committee, to carry out internal audits on key operations of the Group so as to provide the Board with effective and efficient audit coverage; and
- (iv) providing independent and objective reports on the state of internal controls of the various operating units within the Group to the Audit Committee so that remedial actions and continuous improvements can be taken in relation to any weaknesses noted in the systems and controls of the respective operating units.

The fee in respect of the internal audit function for the financial year ended 31 May 2017 was RM8,000.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

1. Introduction

The Board is pleased to present its Statement on Risk Management and Internal Control which outlines the nature and scope of the risk management and internal control of the Group for the financial year 31 May 2017. This Statement on Risk Management and Internal Control is issued in line with the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad on the status of the Group's compliance with the principles and best practices relating to risk management and internal control as stipulated in the Malaysian Code of Corporate Governance ("the Code").

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 recognises 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 are subject to continuous improvement.

3. Risk Management Framework

The Board has established and developed an Enterprise Risk Management ("ERM") framework to achieve the following objectives:

- communicate and disseminate across the organisation the vision, role and direction of the Group;
- identify, assess, evaluate and manage the various principal risks which affect the Group's business;
- create a risk-awareness culture and risk ownership for more effective management of risks;
- formulate a systematic process of review, tracking and reporting on keys risks identified and corresponding mitigation procedures.

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 Group's risk management continues to be driven by the Managing Director and assisted by management. The Managing Director and management are responsible for identifying, evaluating and monitoring of risks and taking appropriate and timely actions to manage risk. These processes are embedded and carried out as part of the Group's operating and business management processes. External and relevant professionals would be drawn on to assist and provide advices to the management team when necessary. In order to ensure the objectivity of the review of the risk management and systems of internal control in the Group, the Audit Committee is instituted by the Board to undertake this role.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

3. Risk Management Framework *(Continued)*

In conducting its review, the process is regularly reviewed by the Board via the Audit Committee (“AC”) at the quarterly Board meeting with the assistance of the in-house internal audit team to further review and improves 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.

Management further supplements the Audit Committee review on control and risk assessment when presenting the quarterly financial performance and results to the Audit Committee and the Board including pertinent explanations on the performance of the Group. With management consultation, the Audit Committee reviews and analyses the interim financial results in corroboration with management representations on operations and the performance of its subsidiaries as well as deliberates the annual report and audited financial statements before recommending these documents to the Board for approval.

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 May 2017.

5. Management Responsibilities And Assurance

In accordance to the Bursa Securities’ Guidelines, management is responsible to the Board for identifying risks relevant to the business of the Group’s objectives and strategies; implementing and maintaining sound systems of risk management and internal control; and monitoring and reporting to the Board of significant control deficiencies and changes in risks that could significantly affect the Group achievement of its objective and performance.

In producing this Statement, the Board has received assurance from the Managing Director that, to the best of their knowledge that the Group’s risk management and internal control systems are operating adequately and effectively, in all material aspects.

6. Board Assurance And Limitation

The Board confirms that the process for identifying, evaluating and managing significant risks in the Group is on-going. For the financial year under review, there was no material loss resulted from significant control weaknesses. The Board is satisfied that the existing level of systems of internal control and risk management are effective to enable the Group to achieve its business objectives.

The Board wishes to reiterate that risk management and systems of internal control would be continuously improved in line with the evolving business development, it should be noted that all risk management systems and systems of internal control could only manage rather than eliminate risks of failure to achieve business objectives. Therefore, these systems of internal control and risk management in the Group could only provide reasonable but not absolute assurance against material misstatements, frauds and losses.

This Statement is issued in accordance with a resolution of the Directors dated 21 September 2017.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

7. Conclusion

The Board recognises 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.

8. Review of the Statement by the External Auditors

As required by Rule 15.23 of the Bursa Malaysia Securities Berhad ACE Market Listing Requirements, the external auditors have reviewed the Statement on Risk Management and Internal Control for inclusion in the annual report for the financial year ended 31 May 2017. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised 2015): Guidance for Auditors on Engagement to Report on the Statement on Risk Management and Internal Control included in the Annual Report, issued by the Malaysian Institute of Accountants. RPG 5 (Revised 2015) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

ADDITIONAL COMPLIANCE INFORMATION

1. 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.

2. Recurrent Related Party Transactions ("RRPT")

Details of related party transactions are disclosed in Notes 23 in the financial statements on page 73 of the Annual Report.

3. Utilisation of Proceeds raised from Corporate Proposal

The Company had on 18 November 2015 announced the private placement exercise which entails the issuance of up to 43,578,900 new ordinary shares of RM0.04 in the Company representing not more than ten percent (10%) of the enlarged issued and paid-up share capital of the Company ("Private Placement").

On 4 April 2016, a total of 29,000,000 Placement Shares were placed out at the issue price of RM0.05 per Placement Share and were listed and quoted on the ACE Market of Bursa Malaysia Securities Berhad, and the Private Placement was deemed completed on 3 August 2016.

The proceeds from the Private Placement have been fully utilised as follow:-

	Proposed Utilisation (Actual proceed received) (RM'000)	Amount Utilised (RM'000)
1) Working capital	1,374	1,374
2) Defray expenses in relation to the Proposed Private Placement	76	76
Total :	1,450	1,450

DIRECTORS' REPORT

The Directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 May 2017.

Principal Activities

The principal activities of the Company are investment holding and design, development and marketing of information technology related products and services.

The principal activities of the subsidiary company are stated in Note 5 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

Financial Results

	Group RM	Company RM
Loss for the financial year	(801,601)	(1,127,870)

Dividends

No dividend has been paid or declared by the Company since the end of the previous financial period. The Directors do not recommend any dividend to be paid for the current financial year under review.

Reserves and Provisions

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

Issue of Shares and Debentures

There were no issuances of shares or debentures during the financial year.

Options Granted Over Unissued Shares

No options were granted to any person to take up unissued shares of the Company during the financial year under review.

Warrants

Pursuant to a deed poll dated 28 March 2013, the Company made a renounceable right issue of 145,263,250 Warrants 2013/2018 ("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. With effect from 26th August 2014, the exercise price of the warrants was adjusted to an exercise price of RM0.04 per share consequential to the Company's capital reduction exercise. As at 31 May 2017, there was a total of 145,263,250 (2016: 145,263,250) unexercised Warrants.

The salient features of the Warrants are disclosed in Note 10 to the financial statements.

Directors

The Directors in office during the financial year and during the period from the end of the financial year to the date of this report are:

Eg Kah Yee
 Eg Kaa Chee
 Abdul Razak Bin Dato' Haji Ipap
 Thong Kooi Pin
 Chuan Tsui Ju
 Sukhdev Singh A/L Banta Singh

(Resigned on 27 July 2017)

DIRECTORS' REPORT

Directors' Interests in Shares or Debentures

According to the register of Directors' shareholdings required to be kept under Section 59 of the Companies Act, 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Company or its subsidiary during the financial year except as follows:

Interest in the Company	No. of ordinary shares			
	At 1.6.2016	Acquired	Disposed	At 31.5.2017
Direct interest:				
Eg Kah Yee	54,834,052	-	-	54,834,052
Eg Kaa Chee	2	-	-	2
Thong Kooi Pin	250	-	-	250
Chuan Tsui Ju	3,175,750	-	-	3,175,750

Interest in the Company	Number of warrants 2013/2018			
	At 1.6.2016	Acquired	Disposed	At 31.5.2017
Direct interest:				
Eg Kah Yee	27,477,375	-	-	27,477,375

By virtue of their interest in the shares of the Company, Eg Kah Yee, Eg Kaa Chee, Thong Kooi Pin and Chuan Tsui Ju are also deemed to have interests in the shares of the subsidiary to the extent the Company has an interest.

Other than as disclosed above, according to the register of Directors' shareholdings, the Directors in office at the end of the financial year did not hold any interest in shares or debentures in the Company or its subsidiary during the financial year.

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 a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) 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 or its subsidiary company a party to any arrangement the object of which is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Remuneration

Details of Directors' remuneration are disclosed in Note 23 to the financial statements.

Subsidiary Company

Details of the subsidiary company are disclosed in Note 5 to the financial statements.

Auditors' Remuneration

Details of auditors' remuneration are disclosed in Note 19 to the financial statements.

DIRECTORS' REPORT

Other Statutory Information

- (a) Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:
- (i) to ascertain that action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that no known bad debts had been written off and that adequate provision had been made for impairment losses on receivables; and
 - (ii) to ensure that any current assets which were unlikely to be realized in the ordinary course of business including the value of current assets as shown in the accounting records of the Group and of the Company have been written down to an amount which the current assets might be expected so to realised.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the additional provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent;
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading;
 - (iii) any amount stated in the financial statements of the Group and of the Company misleading; and
 - (iv) adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (c) No contingent or other liabilities of the Group and of the Company have become enforceable, or are likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due.
- (d) At the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and
 - (ii) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year.
- (e) In the opinion of the Directors:
- (i) the results of the operations of the Group and of the Company for the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature; and
 - (ii) there has not arisen in the interval between the end of the financial period 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 current financial year in which the report is made.

DIRECTORS' REPORT

Auditors

The auditors, Messrs. Morison Anuarul Azizan Chew, have indicated that they do not wish to seek re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors.

EG KAH YEE

THONG KOOI PIN

KUALA LUMPUR
21 September 2017

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, EG KAH YEE and THONG KOOI PIN, being two of the Directors of PALETTE MULTIMEDIA BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 40 to 80 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 May 2017 and of their financial performance and cash flows for the financial year then ended.

The information set out on page 81 to the financial statements have been prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors.

EG KAH YEE

THONG KOOI PIN

KUALA LUMPUR
21 September 2017

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016

I, LAU SUIT LAN, being the officer primarily responsible for the financial management of PALETTE MULTIMEDIA BERHAD, do solemnly and sincerely declare that the financial statements and supplementary information set out on pages 40 to 80 and page 81 respectively are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
above named LAU SUIT LAN
at KUALA LUMPUR
on this date of 21 September 2017

LAU SUIT LAN

Before me,

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PALETTE MULTIMEDIA BERHAD

Opinion

We have audited the financial statements of Palette Multimedia Berhad, which comprise the statements of financial position as at 31 May 2017 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 financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 40 to 80.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 May 2017, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Impairment assessment of intangible assets (Refer to Note 2.2(ii), Note 2.3(f) and Note 4 to the financial statements)

As at 31 May 2017, the Group and the Company has significant intangible assets with a carrying amount of RM9,164,343.

There is a risk that the carrying value of the intangible assets and its relevant cash generating unit ("CGU") is not supported by the generation of future economic benefits and performance by the Group.

We have focused on this area due to the significant degree of judgement and estimates over the impairment assessment of intangible assets and its CGU.

How our audit addressed the key audit matter

We evaluated management's impairment assessment and the process by which they were developed, including its oversight of the impairment assessment by the Board of Directors.

We challenged assumptions used in the impairment model which, amongst others, include:

- forecast revenue;
- forecast other operating and administrative costs;
- forecast capital expenditure; and
- discount rates.

Sensitivity analysis was performed on key assumptions used by management and we assessed the impact on the recoverable amount of the intangible assets and its CGU within a reasonable foreseeable range.

We found that the forecast assumptions were consistent with historical results adjusted for contract renewals and new secured customers.

INDEPENDENT AUDITORS' REPORT

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of trade receivables (Refer to Note 2.3(h)(iii) and Note 7 to the financial statements)</p> <p>The Group carries significant balances arising from trade receivables. As at the end of the reporting period, there are significant balances which are past due and may not be recoverable.</p> <p>We focused on this area due to the inherent subjectivity in making judgements in relation to credit risk exposures in determining the recoverability of trade receivables.</p>	<p>Our procedures to assess the accuracy and completeness of the impairment loss allowance account included the following:</p> <ul style="list-style-type: none"> • Scrutinised the trade receivables ageing and investigate unusual trends and conditions • Reviewed long outstanding receivables with consideration of subsequent collections after the end of the reporting period • For exceptions noted, we evaluated and challenged management's judgements on its credit risk and impairment assessment, taking into account specific known customer circumstances <p>During the financial year, an impairment loss amounting to RM534,250 had been recognised as disclosed in the Note 7 to the financial statements.</p>

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report and Statement on Risk Management and Internal Control, which we obtained prior to the date of this auditors' report, and the remaining parts of the Annual Report, which are expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company 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, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITORS' REPORT

Auditors' Responsibilities for the Audit of the Financial Statements (*CONTINUED*)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITORS' REPORT

Other Reporting Responsibilities

The supplementary information set out on page 81 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.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume any responsibility to any other person for the content of this report.

MORISON ANUARUL AZIZAN CHEW

Firm Number: AF 001977
Chartered Accountants

MUHAMAD HAFIZ BIN CHE YUSOF

Approved Number: 3125/06/18 (J)
Chartered Accountant

KUALA LUMPUR
21 September 2017

STATEMENTS OF FINANCIAL POSITION AS AT 31 MAY 2017

	Note	Group		Company	
		2017 RM	2016 RM	2017 RM	2016 RM
ASSETS					
Non-Current Assets					
Property, plant and equipment	3	125,394	33,642	124,874	33,122
Intangible assets	4	9,164,343	9,791,442	9,164,343	9,791,442
Investment in a subsidiary	5	-	-	1	1
Total non-current assets		9,289,737	9,825,084	9,289,218	9,824,565
Current Assets					
Inventories	6	23,945	29,004	20,208	26,156
Trade receivables	7	1,771,623	2,794,662	1,355,623	2,105,284
Other receivables	8	1,980,937	304,262	1,980,937	303,098
Cash and cash equivalents	9	1,592,512	1,526,846	1,592,290	1,521,074
Total current assets		5,369,017	4,654,774	4,949,058	3,955,612
Total Assets		14,658,754	14,479,858	14,238,276	13,780,177
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	10	13,367,321	12,781,060	13,367,321	12,781,060
Reserves	11	(1,966,561)	(578,699)	(2,913,071)	(1,198,940)
Total Equity		11,400,760	12,202,361	10,454,250	11,582,120
Non-Current Liability					
Trade payables	12	684,135	888,547	684,135	888,547
Total non-current liability		684,135	888,547	684,135	888,547
Current Liabilities					
Trade payables	12	401,829	407,888	360,878	370,738
Other payables	13	2,154,787	966,588	2,075,881	924,298
Amount owing to a subsidiary company	14	-	-	645,889	-
Amount owing to Directors	15	14,474	14,474	14,474	14,474
Provision for taxation		2,769	-	2,769	-
Total current liabilities		2,573,859	1,388,950	3,099,891	1,309,510
TOTAL LIABILITIES		3,257,994	2,277,497	3,784,026	2,198,057
TOTAL EQUITY AND LIABILITIES		14,658,754	14,479,858	14,238,276	13,780,177

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 MAY 2017

	Note	Group		Company	
		1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Revenue	16	5,714,007	3,622,168	5,713,371	3,615,010
Other operating income		33,381	3,743,229	288,381	3,759,229
Changes of inventories of finished goods		(5,059)	19,034	(5,949)	16,186
Purchases and other direct costs		(3,254,648)	(617,719)	(3,887,175)	(607,362)
Staff costs	17	(914,358)	(1,610,167)	(877,787)	(1,557,796)
Depreciation of property, plant and equipment	3	(43,779)	(45,754)	(43,779)	(45,754)
Amortisation of intangible assets	4	(627,099)	(1,236,567)	(627,099)	(1,236,567)
Directors' remuneration	23(b)	(202,231)	(277,729)	(202,231)	(277,729)
Other operating expenses		(1,462,334)	(1,359,483)	(1,446,121)	(1,349,581)
(Loss)/Profit from operations		(762,120)	2,237,012	(1,088,389)	2,315,636
Finance costs	18	(35,588)	(37,255)	(35,588)	(37,255)
(Loss)/Profit before taxation	19	(797,708)	2,199,757	(1,123,977)	2,278,381
Taxation	20	(3,893)	(75,843)	(3,893)	(75,843)
(Loss)/Profit/Total comprehensive (expense)/income for the financial year/period		(801,601)	2,123,914	(1,127,870)	2,202,538

(Loss)/Profit/Total comprehensive (expense)/income for the financial year/period attributable to owners of the Company	(801,601)	2,123,914	(1,127,870)	2,202,538
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(Loss)/Earnings per share attributable to owners of the company(sen)

- basic	21	(0.25)	0.72
- diluted	21	(0.21)	0.66

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 MAY 2017

Group	Note	Attributable to owners of the Company					Total equity RM
		Non-distributable		Distributable			
		Share capital RM	Share premium RM	Warrants reserve RM	Accumulated losses RM	Total equity RM	
At 1.6.2016		12,781,060	586,261	2,629,421	(3,794,381)	12,202,361	
Transition to no-par value regime	10	586,261	(586,261)	-	-	-	
Loss/Total comprehensive expense for the financial year		-	-	-	(801,601)	(801,601)	
At 31.5.2017		13,367,321	-	2,629,421	(4,595,982)	11,400,760	
At 1.1.2015		11,621,060	296,261	2,629,421	(5,918,295)	8,628,447	
Profit/Total comprehensive income for the financial period		-	-	-	2,123,914	2,123,914	
Issuance of new shares	10	1,160,000	290,000	-	-	1,450,000	
At 31.5.2016		12,781,060	586,261	2,629,421	(3,794,381)	12,202,361	

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 MAY 2017 *(Continued)*

Company	Note	Non-distributable					Total equity RM
		Share capital RM	Share premium RM	Warrants reserve RM	Accumulated losses RM	Total equity RM	
At 1.6.2016		12,781,060	586,261	2,629,421	(4,414,622)	11,582,120	
Transition to no-par value regime	10	586,261	(586,261)	-	-	-	
Loss/Total comprehensive expense for the financial year		-	-	-	(1,127,870)	(1,127,870)	
At 31.5.2017		13,367,321	-	2,629,421	(5,542,492)	10,454,250	
At 1.1.2015		11,621,060	296,261	2,629,421	(6,617,160)	7,929,582	
Profit/Total comprehensive income for the financial period		-	-	-	2,202,538	2,202,538	
Issuance of new shares	10	1,160,000	290,000	-	-	1,450,000	
At 31.5.2016		12,781,060	586,261	2,629,421	(4,414,622)	11,582,120	

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 MAY 2017

	Note	Group		Company	
		1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Cash flows from operating activities					
(Loss)/Profit before taxation		(797,708)	2,199,757	(1,123,977)	2,278,381
<i>Adjustments for:</i>					
Amortisation of intangible assets	4	627,099	1,236,567	627,099	1,236,567
Bad debt written off		-	63,325	-	63,325
Depreciation of property, plant and equipment	3	43,779	45,754	43,779	45,754
Finance costs		35,588	37,255	35,588	37,255
Interest income		(17,313)	(6,484)	(17,313)	(6,484)
Impairment loss on trade receivables	7	534,250	-	534,250	-
Reversal of impairment loss on trade receivables	7	-	(18,529)	-	(18,529)
Reversal of impairment loss on amount owing by subsidiary		-	-	(255,000)	-
Unrealised loss/(gain) on foreign exchange		17,465	(13,748)	17,465	(13,748)
Waiver of debts		-	(3,680,264)	-	(3,680,264)
Operating profit/(loss) before changes in working capital		443,160	(136,367)	(138,109)	(57,743)
Changes in working capital:	Inventories	5,059	(19,033)	5,948	(16,185)
	Trade receivables	471,324	(218,710)	197,946	(375,710)
	Other receivables	(1,676,675)	(199,567)	(1,677,839)	(198,403)
	Amount owing by subsidiary	-	-	229,000	69,000
	Trade payables	(246,059)	(396,165)	(249,860)	(396,165)
	Other payables	1,188,199	585,381	1,151,583	589,100
	Amount owing to subsidiary	-	-	671,889	-
Cash generated from/(used in) operations		185,008	(384,461)	190,558	(386,106)
Interest received		17,313	6,484	17,313	6,484
Interest paid		-	(13,529)	-	(13,529)
Tax paid		(1,124)	-	(1,124)	-
Net cash generated from/ (used in) operating activities		201,197	(391,506)	206,747	(393,151)

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 MAY 2017 *(Continued)*

	Note	Group		Company	
		1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Cash flows from investing activities					
Purchase of property, plant and equipment	3	(135,531)	(7,073)	(135,531)	(7,073)
Net cash used in investing activities		(135,531)	(7,073)	(135,531)	(7,073)
Cash flows from financing activities					
Issuance of ordinary shares		-	1,450,000	-	1,450,000
Net cash generated from financing activities		-	1,450,000	-	1,450,000
Net increase in cash and cash equivalents		65,666	1,051,421	71,216	1,049,776
Cash and cash equivalents at beginning of the financial year/period		1,526,846	475,425	1,521,074	471,298
Cash and cash equivalents at end of the financial year/period		1,592,512	1,526,846	1,592,290	1,521,074

Cash and cash equivalents at the end of the financial year/period comprise:

	Group		Company	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Cash and bank balances	1,549,342	383,652	1,549,120	377,880
Deposits with licensed banks	43,170	1,143,194	43,170	1,143,194
	1,592,512	1,526,846	1,592,290	1,521,074

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The principal activities of the Company are investment holding and design, development and marketing of information technology related products and services.

The principal activities of the subsidiary company are stated in Note 5 to the financial statements.

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 registered office of the Company is located at Unit 30.01, Level 30, Tower A, Vertical Business Suite, Avenue 3, No. 8 Jalan Kerinchi, Bangsar South, 59200 Kuala Lumpur, Malaysia.

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.

These financial statements were authorised for issue by the Board of Directors in accordance with their resolution on 21 September 2017.

2. Basis of Preparation and Significant Accounting Policies

2.1. Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

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

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reported period. It also requires Directors to exercise their judgements in the process of applying the Group's and Company's accounting policies. Although these estimates and judgements are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.2.

Accounting standard and amendments to accounting standards that are effective for the Group's and the Company's financial period beginning on or after 1 June 2016 are as follows:

- MFRS 14, "Regulatory Deferral Accounts"
- Amendment to MFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations" (Annual Improvements 2012-2014 Cycle)
- Amendments to MFRS 7, "Financial Instruments: Disclosures" (Annual-Improvements 2012-2014 Cycle)
- Amendments to MFRS 10, MFRS 12 and MFRS 128, "Investment Entities: Applying the Consolidation Exception"
- Amendments to MFRS 11, "Accounting for Acquisitions of Interests in Joint Operations"
- Amendments to MFRS 101, "Disclosure Initiative"
- Amendments to MFRS 116 and MFRS 138, "Clarification of Acceptable Methods of Depreciation and Amortisation"

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies (*Continued*)

2.1. Basis of preparation (*Continued*)

- Amendments to MFRS 116 and MFRS 141, "Agriculture: Bearer Plants"
- Amendment to MFRS 119, "Employee Benefits" (Annual-Improvements 2012-2014 Cycle)
- Amendments to MFRS 127, "Equity Method in Separate Financial Statements"

The above accounting standard and amendments to accounting standards effective during the financial period do not have any significant impact to the financial results and position of the Group and the Company.

Accounting standards, amendments to accounting standards and IC Interpretation that are for the Group and the Company in the following periods but are not yet effective:

Annual periods beginning on/after 1 January 2017

- Amendments to MFRS 12, "Disclosure of Interest in Other Entities" (Annual Improvements 2014-2016 cycle)
- Amendments to MFRS 107, "Disclosure Initiative"
- Amendments to MFRS 112, "Recognition of Deferred Tax Assets for Unrealised Losses"

Annual periods beginning on/after 1 January 2018

- Amendments to MFRS 1, "First-time Adoption of Malaysian Financial Reporting Standards" (Annual improvements 2014-2016 cycle)
- Amendments to MFRS 2, "Classification and Measurement of Share-Based Payment Transactions"
- Amendments to MFRS 4, "Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contract"
- MFRS 9, "Financial Instruments"
- MFRS 15, "Revenue from Contracts with Customers"
- Amendments to MFRS 140, "Transfer of investment property"
- IC Interpretation 22, "Foreign Currency Transaction and Advance Consideration"

Annual periods beginning on/after 1 January 2019

- MFRS 16, "Leases"

Existing date yet to be determined by the Malaysian Accounting Standards Board

- Amendments to MFRS 10, "Consolidated Financial Statements and MFRS 128 Investment in Associates and Joint Ventures"

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies (*Continued*)

2.1. Basis of preparation (*Continued*)

The above accounting standards, amendments and IC Interpretation which may have a significant impact to the financial statements are as follows:

MFRS 9 Financial Instruments

This Standard addresses the classification, measurement and recognition of financial assets and financial liabilities.

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The Standard introduces an approach for classification of financial assets which is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements. If a financial asset is a simple debt instrument and the objective of the entity's business model within which it is held is to collect its contractual cash flows, the financial asset is measured at amortised cost. In contrast, if that asset is held in a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets, then the financial asset is measured at fair value in the Statement of Financial Position, and amortised cost information is provided through profit or loss. If the business model is neither of these, then fair value information is increasingly important, so it is provided both in the profit or loss and in the Statement of Financial Position.

The Standard introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, it requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised.

In addition, the Standard introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. As a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

MFRS 15 Revenue from Contracts with Customers

The Standard provides clarity on revenue recognition especially on areas where existing requirements unintentionally created diversity in practice. Under MFRS 15, an entity recognises revenue to depict the transfer of promised good or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Extensive disclosures are required to provide greater insight into both revenue that has been recognised, and revenue that is expected to be recognised in the future from existing contracts.

The other accounting standards, amendments to accounting standards and IC Interpretation are not expected to have a significant impact to the financial statements of the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies (*Continued*)

2.2. Significant accounting estimates and judgements

Accounting estimates and judgements, are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation or 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 are discussed below.

(i) Depreciation of property, plant and equipment

The costs of property, plant and equipment are depreciated on a straight-line basis over the useful lives of the property, plant and equipment. Management estimates the useful lives of the property, plant and equipment as stated in Note 2.3(e)(ii). These are common life expectancies applied in the industries. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(ii) Impairment of intangible assets

The Group reviews the carrying amounts of intangible assets as at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount or value in use is estimated. Determining the value in use of intangible assets requires the determination of future cash flows expected to be generated from the continued use, and ultimate disposition of such assets. Any resulting impairment loss could have a material adverse impact on the Group's financial position and results of operations.

Significant judgement in the estimation of the present value of future cash flows generated by the intangible assets, which involve uncertainties and are significantly affected by assumptions used and judgement made regarding estimates of future cash flows and discount rates. Changes in assumptions could significantly affect the results of the Group's assessment for impairment of intangible assets.

(iii) Amortisation of intangible assets

The costs of intangible assets of the Group and of the Company are amortised on a straight-line basis over the useful life of the asset. Management estimates the useful life of the intangible assets as stated in Note 2.3(f). These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful life and the residual value of this asset, therefore future amortisation charges could be revised.

(iv) Impairment of financial assets

The impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. This is determined based on the ageing profile, expected collection patterns of individual receivable balances, credit quality and credit losses incurred. Management carefully monitors the credit quality of receivable balances and makes estimates about the amount of credit losses that have been incurred at each financial statement reporting date. Any changes to the ageing profile, collection patterns, credit quality and credit losses can have an impact on the impairment recorded.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies (*Continued*)

2.2. Significant accounting estimates and judgements (*Continued*)

(v) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow method. The inputs to these valuation models are taken from observable markets where possible. However, when this is considered unfeasible, a degree of judgement is made in establishing fair values. The judgements made include having considered a host of factors including liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(vi) Income taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

2.3. Summary of significant accounting policies

(a) Basis of consolidation for subsidiaries

Subsidiaries is entities, including structured entities, controlled by the Group. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group considers it has de-facto power over an investee when, despite not having the majority of voting rights, it has the current ability in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders to direct the activities of the investee that significantly affect the investee's return.

Subsidiary is fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Business combinations are accounted for using the acquisition method on the acquisition date. The consideration transferred includes the fair value of assets transferred, equity interest issued by the Group and liabilities assumed. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are recognised in the profit or loss as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies (*Continued*)

2.3. Summary of significant accounting policies (*Continued*)

(a) Basis of consolidation for subsidiaries (*Continued*)

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiary have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. Any difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities, any non-controlling interests and other components of equity related to the disposed subsidiary. Any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset depending on the level of influence retained.

(b) Investment in subsidiary

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

(c) Operating segments

Operating segments are reported in a manner consistent with the internal reporting and are regularly reviewed by the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

(d) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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.

Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rates at the date when the fair value was determined. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss, except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies *(Continued)*

2.3. Summary of significant accounting policies *(Continued)*

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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 recognised as expenses in profit or loss during the financial period in which they are incurred.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposals are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in net in the profit or loss.

(ii) Depreciation and impairment

Property, plant and equipment are depreciated on the straight line method to allocate the cost to their residual values over their estimated useful lives as follows:

• Computer equipment and software	5 years
• Furniture and fittings	5 years
• Office equipment	5 years
• Renovation	5 years
• Electrical equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at end of each reporting period, and adjusted as appropriate.

At the end of the reporting period, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

(f) Intangible assets

(i) Intellectual property rights

Acquired intellectual property is reviewed annually for impairment and is stated at cost less accumulated amortisation and any accumulated impairment losses.

Capitalised intellectual property recognised as assets are amortised over their useful lives of 20 years.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies *(Continued)*

2.3. Summary of significant accounting policies *(Continued)*

(f) Intangible assets *(Continued)*

(ii) Development costs

Development costs that are directly attributable to a plan or design for the production of new or substantially improved identifiable products and processes are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs recognised as assets are amortised over their useful lives of 20 years.

(g) Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

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

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies (*Continued*)

2.3. Summary of significant accounting policies (*Continued*)

(g) Impairment of non-financial assets (*Continued*)

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss unless it reverses a previous revaluation in which it is charged to the revaluation surplus. Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(h) Financial assets

(i) Classification

The Group classifies its financial assets based on the purpose for which the financial assets were acquired at initial recognition in the following categories:

Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise, they are classified as non-current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

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.

They 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies (*Continued*)

2.3. Summary of significant accounting policies (*Continued*)

(h) Financial assets (*Continued*)

(ii) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

(iii) Subsequent measurement

Gains and losses

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in profit or loss in the period in which the changes arise.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. Impairment losses and exchange differences on monetary assets are recognised in profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss. Interest on available-for-sale debt securities calculated using the effective interest method is recognised in profit or loss. Dividend income on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. For an equity instrument, a significant or prolonged decline in fair value below its cost is also considered objective evidence of impairment.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies *(Continued)*

2.3. Summary of significant accounting policies *(Continued)*

(h) Financial assets *(Continued)*

(iii) Subsequent measurement *(Continued)*

Impairment of financial assets *(Continued)*

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a financial asset measured at amortised cost and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(iv) De-recognition

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.

Receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

(i) Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs for all financial liabilities not carried at fair value through profit or loss. Finance liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

All financial liabilities are subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies *(Continued)*

2.3. Summary of significant accounting policies *(Continued)*

(j) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(k) Inventories

Inventories are valued at the lower of cost (determined principally on the first-in, first-out method) and net realisable value after adequate allowance has been made for all deteriorated, damaged, obsolete or slow-moving inventories.

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

(l) Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses.

(m) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three month or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(n) Equity Instruments

(i) Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

(ii) Share issue costs

Incremental costs directly attributable to the issue of new shares or options are deducted against share premium account.

(iii) Dividend distribution

Distributions to holders of an equity instrument are debited directly to equity, net of any related income tax benefit and the corresponding liability is recognised in the period in which the dividends are approved.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies *(Continued)*

2.3. Summary of significant accounting policies *(Continued)*

(o) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(q) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies *(Continued)*

2.3. Summary of significant accounting policies *(Continued)*

(q) Employee benefits *(Continued)*

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss in the period to which they relate.

(r) Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of products and rendering of services net of returns, duties, discounts and rebates. Revenues are recognised or accrued at the time of the sale of goods and the rendering of services.

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, discounts and rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Sales of services

Revenue from services is recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided at the end of the reporting period.

(iii) Interest income

Interest income is recognised on accrual basis.

(s) Contingent assets and contingent liabilities

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation and Significant Accounting Policies *(Continued)*

2.3. Summary of significant accounting policies *(Continued)*

- (t) Initial payments that relate to goods and services which have not been transferred and performed are initially deferred and are subsequently recognised as revenue as the goods and services are transferred or performed.

NOTES TO THE FINANCIAL STATEMENTS

3. Property, Plant and Equipment

Group	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Electrical equipment RM	Total RM
2017 Cost						
At 1 June 2016	1,741,104	100,557	211,100	653,002	736,145	3,441,908
Additions	1,489	5,830	-	128,212	-	135,531
At 31 May 2017	1,742,593	106,387	211,100	781,214	736,145	3,577,439
Accumulated depreciation						
At 1 June 2016	1,714,633	99,809	210,915	652,774	730,135	3,408,266
Charge for the financial year	10,186	1,610	138	25,843	6,002	43,779
At 31 May 2017	1,724,819	101,419	211,053	678,617	736,137	3,452,045
Carrying amount						
At 31 May 2017	17,774	4,968	47	102,597	8	125,394
2016 Cost						
At 1 January 2015	1,734,031	100,557	211,100	653,002	736,145	3,434,835
Additions	7,073	-	-	-	-	7,073
At 31 May 2016	1,741,104	100,557	211,100	653,002	736,145	3,441,908
Accumulated depreciation						
At 1 January 2015	1,693,679	99,152	209,347	652,774	707,560	3,362,512
Charge for the financial period	20,954	657	1,568	-	22,575	45,754
At 31 May 2016	1,714,633	99,809	210,915	652,774	730,135	3,408,266
Carrying amount						
At 31 May 2016	26,471	748	185	228	6,010	33,642

NOTES TO THE FINANCIAL STATEMENTS

3. Property, Plant and Equipment (Continued)

	Company	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Electrical equipment RM	Total RM
2017 Cost							
At 1 June 2016		958,203	97,657	189,014	580,713	736,145	2,561,732
Additions		1,489	5,830	-	128,212	-	135,531
At 31 May 2017		959,692	103,487	189,014	708,925	736,145	2,697,263
Accumulated depreciation							
At 1 June 2016		932,222	96,915	188,844	580,494	730,135	2,528,610
Charge for the financial year		10,186	1,610	138	25,843	6,002	43,779
At 31 May 2017		942,408	98,525	188,982	606,337	736,137	2,572,389
Carrying amount							
At 31 May 2017		17,284	4,962	32	102,588	8	124,874
2016 Cost							
At 1 January 2015		951,130	97,657	189,014	580,713	736,145	2,554,659
Additions		7,073	-	-	-	-	7,073
At 31 May 2016		958,203	97,657	189,014	580,713	736,145	2,561,732
Accumulated depreciation							
At 1 January 2015		911,268	96,258	187,276	580,494	707,560	2,482,856
Charge for the financial period		20,954	657	1,568	-	22,575	45,754
At 31 May 2016		932,222	96,915	188,844	580,494	730,135	2,528,610
Carrying amount							
At 31 May 2016		25,981	742	170	219	6,010	33,122

NOTES TO THE FINANCIAL STATEMENTS

4. Intangible Assets

Group	Intellectual property RM	Development costs RM	Total RM
Cost			
At 1 January 2015/31 May 2016/31 May 2017	15,000,000	4,864,405	19,864,405
Accumulated amortisation			
At 1 January 2015	1,034,850	3,842,527	4,877,377
Amortisation for the financial period	708,768	527,799	1,236,567
As at 31 May 2016/1 June 2016	1,743,618	4,370,326	6,113,944
Amortisation for the financial year	552,049	75,050	627,099
As at 31 May 2017	2,295,667	4,445,376	6,741,043
Accumulated impairment loss			
At 1 January 2015/31 May 2016/31 May 2017	3,959,019	-	3,959,019
Carrying amount			
At 31 May 2016	9,297,363	494,079	9,791,442
At 31 May 2017	8,745,314	419,029	9,164,343

Company	Intellectual property RM	Development costs RM	Total RM
Cost			
At 1 January 2015/31 May 2016/31 May 2017	15,000,000	3,867,003	18,867,003
Accumulated amortisation			
At 1 January 2015	1,034,850	2,845,125	3,879,975
Amortisation for the financial period	708,768	527,799	1,236,567
As at 31 May 2016/1 Jun 2016	1,743,618	3,372,924	5,116,542
Amortisation for the financial year	552,049	75,050	627,099
As at 31 May 2017	2,295,667	3,447,974	5,743,641
Accumulated impairment loss			
At 1 January 2015/31 May 2016/31 May 2017	3,959,019	-	3,959,019
Carrying amount			
At 31 May 2016	9,297,363	494,079	9,791,442
At 31 May 2017	8,745,314	419,029	9,164,343

The Group and the Company capitalise costs on development works relating to the enhancement of its existing software and development of new software packages which management expects will contribute to the generation of additional future economic benefits.

NOTES TO THE FINANCIAL STATEMENTS

5. Investment in A Subsidiary

	Company	
	2017 RM	2016 RM
Unquoted shares, at cost	100,000	100,000
Less: Accumulated impairment loss	(99,999)	(99,999)
	1	1

The details of the subsidiary are as follows:

Name of entity	Country of incorporation and place of business	Effective ownership and voting interest		Principal activities
		2017 %	2016 %	
Palette System Sdn. Bhd.	Malaysia	100	100	Development and marketing of information technology related products and services

6. Inventories

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
At cost				
Finished goods	23,945	29,004	20,208	26,156

7. Trade Receivables

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Trade receivables	2,391,193	2,879,982	1,889,873	2,105,284
Less: Impairment loss during the financial year/period	(619,570)	(85,320)	(534,250)	-
	1,771,623	2,794,662	1,355,623	2,105,284

The Group and Company's normal trade credit terms range from 30 to 60 days (2016: 30 to 60 days).

NOTES TO THE FINANCIAL STATEMENTS

7. Trade Receivables (Continued)

The currency profile of the Group and the Company's trade receivables are as follows:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Ringgit Malaysia	963,023	1,455,824	547,023	766,446
US Dollar	808,600	1,338,838	808,600	1,338,838
	1,771,623	2,794,662	1,355,623	2,105,284

The ageing analysis of the Group and of the Company's trade receivables is as follows:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Neither past due nor impaired	10,600	10,600	10,600	10,600
Past due below 1 year	121,831	2,066,912	121,831	2,066,912
Past due more than 1 year	1,639,192	717,150	1,223,192	27,772
	1,761,023	2,784,062	1,345,023	2,094,684
Individually impaired	619,570	85,320	534,250	-
	2,391,193	2,879,982	1,889,873	2,105,284

The Group and the Company's trade receivables of RM1,761,023 (2016: RM2,784,062) and RM1,345,023 (2016: RM2,094,684) respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

Movements of the Group and the Company's provision for impairment losses are as follows:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
At beginning of the financial year/period	85,320	1,970,846	-	1,885,526
Provision for impairment losses for the year	534,250	-	534,250	-
Receivables written off during the financial year/period	-	(1,866,997)	-	(1,866,997)
Reversals of provision of impairment losses no longer required	-	(18,529)	-	(18,529)
	534,250	(1,885,526)	534,250	(1,885,526)
At end of the finance year/period	619,570	85,320	534,250	-

NOTES TO THE FINANCIAL STATEMENTS

8. Other Receivable

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Other receivables	255,235	169,683	255,235	168,995
Prepaid expenses	40,966	70,632	40,966	70,632
Trade deposits	1,628,213	-	1,628,213	-
Refundable deposits	56,523	63,947	56,523	63,471
	1,980,937	304,262	1,980,937	303,098

9. Cash and Cash Equivalents

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Cash and bank balances	1,549,342	383,652	1,549,120	377,880
Deposit with licensed banks	43,170	1,143,194	43,170	1,143,194
	1,592,512	1,526,846	1,592,290	1,521,074

The effective interest rate and maturities of deposit is 2.70% (2016: 2.90% to 3.20%) per annum and 1 month (2016: 1 to 3 months) respectively.

10. Share Capital

	Group/Company			
	2017		2016	
	Number of ordinary shares	Amount RM	Number of ordinary shares	Amount RM
Authorised				
At beginning of the financial year/ period	1,250,000,000	50,000,000	1,250,000,000	50,000,000
Abolishment of authorised share capital*	(1,250,000,000)	(50,000,000)	-	-
At end of the financial year/period	-	-	1,250,000,000	50,000,000
Issued and fully paid				
At beginning of the financial year/ period	319,526,500	12,781,060	290,526,500	11,621,060
Issuance during the financial year/ period	-	-	29,000,000	1,160,000
Transition to no par value regime	-	586,261	-	-
At end of the financial year/period	319,526,500	13,367,321	319,526,500	12,781,060

NOTES TO THE FINANCIAL STATEMENTS

10. Share Capital (*Continued*)

*The new Companies Act 2016 (the "Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amounts standing to the credit of the share premium account becomes part of the Company's share capital pursuant to the transition set out in Section 618(2) of the Act. There is no impact on the number of the ordinary shares in issue or the relative entitlement of the members as a result of this transition.

In the previous financial period, the issued and paid up share capital of the Company was increased from RM11,621,060 to RM12,781,060 by way of an issuance of 29,000,000 new ordinary shares of RM0.04 each at an issue price of RM0.05 in cash for additional working capital purposes.

2013/2018 Warrants

On 28 March 2013, 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. With effect from 26 August 2014, the exercise price of the 145,263,250 unexercised warrants was adjusted to an exercise price of RM0.04 per share consequential to the Company's capital reduction exercise. The warrants issued are constituted under a Deed Pool 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. The exercise price was adjusted to RM0.04 each pursuant to the Company's capital reduction exercise.
- (b) 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 expire 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.
- (c) 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.

As at the end of the reporting year, 145,263,250 (2016: 145,263,250) 2013/2018 warrants remain unexercised.

11. Reserves

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.

Pursuant to Section 618(2) of the new Companies Act 2016 (the "Act"), the share premium account becomes part of the Company's share capital as disclosed in Note 10 to the financial statements.

Warrants reserve

Warrants reserve represents the proceeds from the issuance of warrants which is non-distributable. The warrants reserve is transferred to the share capital 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.

NOTES TO THE FINANCIAL STATEMENTS

12. Trade Payables

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Current liabilities	401,829	407,888	360,878	370,738
Non-current liabilities	684,135	888,547	684,135	888,547
	1,085,964	1,296,435	1,045,013	1,259,285

The current trade credit terms granted to the Group and the Company are range from 30 to 90 (2016: 30 to 90) days.

Included in trade payables is an amount of RM924,135 (2016: RM1,128,547) which is unsecured, interest-free and repayable based on monthly repayment of RM20,000 until all outstanding dues have been fully repaid pursuant to settlement agreement with a trade payable.

The currency profile of the Group and the Company's trade payables are as follows:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Ringgit Malaysia	1,055,707	1,266,178	1,014,756	1,229,028
US Dollar	29,961	29,961	29,961	29,961
Singapore Dollar	296	296	296	296
	1,085,964	1,296,435	1,045,013	1,259,285

13. Other Payables

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Other payables	1,281,225	95,927	1,215,334	66,651
Accrued expenses	64,962	62,061	51,947	49,047
Deferred income	808,600	808,600	808,600	808,600
	2,154,787	966,588	2,075,881	924,298

Deferred income represents the initial payments that relate to goods and services which have not been transferred and performed are initially deferred and are subsequently recognised as revenue as the goods and services are transferred or performed.

14. Amount Owing by/(to) Subsidiary

These amounts are non-trade in nature, unsecured, interest-free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

15. Amount Owing to Directors

These amounts are non-trade in nature, unsecured, interest-free and are repayable on demand.

16. Revenue

	Group		Company	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Sales of goods	5,370,014	469,045	5,369,378	461,887
Rendering of services	343,993	3,153,123	343,993	3,153,123
	5,714,007	3,622,168	5,713,371	3,615,010

17. Staff Costs

	Group		Company	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Salaries and wages	785,763	1,302,453	755,403	1,259,443
Bonus	33,540	148,215	32,275	145,685
EPF and SOCSO	95,055	159,499	90,109	152,668
	914,358	1,610,167	877,787	1,557,796

The total number of employees (excluding Directors) of the Group and of the Company at the end of the financial year were 6 and 5 (2016: 10 and 9) respectively.

18. Finance Costs

	Group / Company	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Bank overdraft	-	13,529
Unwinding of discount on trade payables	35,588	23,726
	35,588	37,255

NOTES TO THE FINANCIAL STATEMENTS

19. (Loss)/Profit Before Taxation

(Loss)/Profit before taxation is arrived at after charging/(crediting):

		Group		Company	
		1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Auditors' remuneration	- statutory audit	46,500	45,000	44,000	42,500
	- others	2,500	2,500	2,500	2,500
Amortisation of intangible assets		627,099	1,236,567	627,099	1,236,567
Bad debt written off		-	63,325	-	63,325
Depreciation of property, plant and equipment		43,779	45,754	43,779	45,754
(Gain)/Loss on foreign exchange	- Realised	(33,015)	(36,980)	(33,033)	(38,700)
	- Unrealised	17,465	(13,748)	17,465	(13,748)
Management fee		40,458	70,294	40,458	70,294
Impairment loss on trade receivables		534,250	-	534,250	-
Rental of premises		162,356	315,127	162,356	315,127
Rental of equipment		4,680	6,815	4,680	6,565
Rental of motor vehicle		-	2,103	-	2,103
Reversal of impairment loss on trade receivables		-	(18,529)	-	(18,529)
Reversal of impairment loss on subsidiary		-	-	(255,000)	-
Interest income		(17,313)	(6,484)	(17,313)	(6,484)
Waiver of debts		-	(3,680,264)	-	(3,680,264)

Waiver of debts in the prior financial period relates to a waiver granted to the Group and Company of previously disputed amounts overcharged by the trade payables to the Group and Company.

NOTES TO THE FINANCIAL STATEMENTS

20. Taxation

	Group/Company	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Current taxation		
- Current year	2,769	-
- Under provision in prior year	1,124	-
Deferred taxation		
- Origination and reversal of temporary differences	-	75,843
Taxation for the financial period/year	3,893	75,843

Malaysian income tax is calculated at the statutory tax rate of 24% (2016: 24%) of the estimated assessable (loss)/profit for the financial year/period.

A reconciliation of income tax expense applicable to (loss)/profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	Group		Company	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
(Loss)/Profit before taxation	(797,708)	2,199,757	(1,123,977)	2,278,381
Taxation at statutory tax rate of 24% (2016: 24%)	(191,450)	527,942	(269,754)	546,811
Income not subject to tax	-	(924,698)	(61,200)	(924,698)
Non-deductible expenses	334,709	256,587	333,723	251,566
Deferred tax assets not recognised	-	64,326	-	50,478
Utilisation of previously unrecognised deferred tax assets	(140,490)	-	-	-
Under provision of current taxation in prior year	1,124	-	1,124	-
Taxation for the financial year/period	3,893	75,843	3,893	75,843

The deductible temporary difference and unutilised tax losses of the Group for which no deferred tax assets were recognised in the statements of financial position are as follow:

	Group	
	2017 RM	2016 RM
Deductible temporary differences Unutilised tax losses	11,470,339	12,055,713
Deferred taxation not recognised at 24% (2016:24%)	2,752,881	2,893,371

NOTES TO THE FINANCIAL STATEMENTS

21. (Loss)/Earnings Per Share

Basic earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year/period.

	Group	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
(Loss)/Profit attributable to owners of the company (RM)	(801,601)	2,123,914
Weighted average number of ordinary shares in issue	319,526,500	293,938,265
Basic (loss)/earnings per share (sen)	(0.25)	0.72

For the purpose of calculating diluted (loss)/profit per share, the weighted average number of ordinary shares in issue during the financial period/year have been adjusted for the dilutive effects of warrants.

	Group	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
(Loss)/Profit attributable to owners of the company (RM)	(801,601)	2,123,914
Weighted average number of ordinary shares in issue	319,526,500	293,938,265
Adjusted for assumed conversion of warrants	53,518,039	29,052,650
Adjusted weighted average number of ordinary shares in issue and issueable	373,044,539	322,990,915
Diluted (loss)/earnings per share (sen)	(0.21)	0.66

22. Commitments

		Group/Company	
		1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Operating lease commitments			
Gross lease payments:	- less than 1 year	156,730	18,687
	- between 1 and 5 years	169,790	-
		326,520	18,687

NOTES TO THE FINANCIAL STATEMENTS

23. Related Party Disclosures

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or 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, or 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 either directly or indirectly. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

- (a) The significant related party transactions of the Company, other than key management personnel compensation, are as follows:

	Company	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Rendering of services charged by a subsidiary company	633,857	-

- (b) Information regarding remuneration of key management personnel is as follows:

	Group		Company	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Remuneration of Directors:				
- fees, allowances and bonus	182,256	249,696	182,256	249,696
- contribution to Employees Provident Fund	19,975	28,033	19,975	28,033
	202,231	277,729	202,231	277,729

24. Segmental Information

Segment information is primarily presented in respect of the Group's business segment which is based on the Group's management and internal reporting structure. Management monitors the operating results of its business segment separately for the purposes of making decision about resource allocation and performance assessment.

- (i) Business segment

The principal businesses of the Group are carrying on design, development and marketing of information technology related products and services which are substantially within a single business segment. As such, segmental reporting by business segment is deemed not necessary. Accordingly the information regarding its financial position and results is represented by the financial statements as a whole.

NOTES TO THE FINANCIAL STATEMENTS

24. Segmental Information (Continued)

(ii) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers:

	Group		Company	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Malaysia	400,776	1,992,451	400,140	1,985,293
Singapore	31,088	1,629,717	31,088	1,629,717
Russia	5,282,143	-	5,282,143	-
	5,714,007	3,622,168	5,713,371	3,615,010

(iii) Major customers

The following are the major customers individually accounting for 10% or more of group revenue for current year and prior period:

	Group	
	1.6.2016 to 31.5.2017 RM	1.1.2015 to 31.5.2016 RM
Customer A	-	416,817
Customer B	-	1,212,900
Customer C	-	598,958
Customer D	-	640,500
Customer E	1,806,823	-
Customer F	3,475,320	-
	5,282,143	2,869,175

NOTES TO THE FINANCIAL STATEMENTS

25. Financial Instruments

The table below provides an analysis of financial instruments and their categories:

	Group		Company	
	Loans and receivables/ other financial liabilities RM	Total RM	Loans and receivables/ other financial liabilities RM	Total RM
2017				
Financial assets				
Trade receivables	1,771,623	1,771,623	1,355,623	1,355,623
Other receivables	1,939,971	1,939,971	1,939,971	1,939,971
Cash and cash equivalents	1,592,512	1,592,512	1,592,290	1,592,290
	5,304,106	5,304,106	4,887,884	4,887,884
Financial liabilities				
Trade payables	1,085,964	1,085,964	1,045,013	1,045,013
Other payables	1,346,187	1,346,187	1,267,281	1,267,281
Amount Owing to a subsidiary	-	-	645,889	645,889
Amount owing to Directors	14,474	14,474	14,474	14,474
	2,446,625	2,446,625	2,972,657	2,972,657
2016				
Financial assets				
Trade receivables	2,794,662	2,794,662	2,105,284	2,105,284
Other receivables	233,630	233,630	232,466	232,466
Cash and cash equivalents	1,526,846	1,526,846	1,521,074	1,521,074
	4,555,138	4,555,138	3,858,824	3,858,824
Financial liabilities				
Trade payables	1,296,435	1,296,435	1,259,285	1,259,285
Other payables	157,988	157,988	115,698	115,698
Amount owing to Directors	14,474	14,474	14,474	14,474
	1,468,897	1,468,897	1,389,457	1,389,457

NOTES TO THE FINANCIAL STATEMENTS

25. Financial Instruments (*Continued*)

Financial risk management

The Group's financial risk management policy is to ensure that adequate financial resources are available for the development of the Group's operations whilst managing its financial risks, including credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk of a financial loss to the Group if a counterparty of a financial asset fails to meet its contractual obligations. The Group's exposure to credit risk arises mainly from receivables from customers.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis through the review of receivables ageing. At reporting date, there were no significant concentrations of credit risk other than disclosed in Note 7.

The maximum exposure to credit risk for the Group is the carrying amount of the financial assets shown in the statement of financial position.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from trade and other payables.

Cash flow forecasting is performed by monitoring the Group's liquidity requirements to ensure that it has sufficient liquidity to meet operational, financing repayments and other liabilities as they fall due.

NOTES TO THE FINANCIAL STATEMENTS

25. Financial Instruments (Continued) Financial risk management (Continued)

Liquidity risk (Continued)

2017 Group	Carrying amount RM	Contractual interest rate %	Contractual cash flow RM	On demand or within one year RM	Between one and five years RM	More than five years RM
Trade payables	1,085,964	7.30%	1,538,557	401,829	960,000	176,728
Other payables	1,346,187	-	1,346,187	1,346,187	-	-
Amount owing to Directors	14,474	-	14,474	14,474	-	-
Company	2,446,625	-	2,899,218	1,762,490	960,000	176,728
Trade payables	1,045,013	7.30%	1,497,606	360,878	960,000	176,728
Other payables	1,267,281	-	1,267,281	1,267,281	-	-
Amount owing to subsidiary	645,889	-	645,889	645,889	-	-
Amount owing to Directors	14,474	-	14,474	14,474	-	-
2016 Group	2,972,657	-	3,425,250	2,288,522	960,000	176,728
Trade payables	1,296,435	7.30%	1,784,616	407,888	960,000	416,728
Other payables	157,988	-	157,988	157,988	-	-
Amount owing to Directors	14,474	-	14,474	14,474	-	-
Company	1,468,897	-	1,957,078	580,350	960,000	416,728
Trade payables	1,259,285	7.30%	1,747,466	370,738	960,000	416,728
Other payables	115,698	-	115,698	115,698	-	-
Amount owing to Directors	14,474	-	14,474	14,474	-	-
Company	1,389,457	-	1,877,638	500,910	960,000	416,728

NOTES TO THE FINANCIAL STATEMENTS

25. Financial Instruments (Continued)

Financial risk management (Continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and cash flow and fair value interest rate risk that may affect the Group's financial position and cash flows.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group. The Group's exposures primarily arise from the Singapore dollar and US dollar.

Functional Currency	Financial Assets/(Liabilities) Held in Non-Functional Currency		
	US Dollar RM	Singapore Dollar RM	Total RM
Group and Company			
2017			
Trade receivables			
Ringgit Malaysia	808,600	-	808,600
Trade payables			
Ringgit Malaysia	(29,961)	(296)	(30,257)
2016			
Trade receivables			
Ringgit Malaysia	1,338,838	-	1,338,838
Trade payables			
Ringgit Malaysia	(29,961)	(296)	(30,257)

Currency risk sensitivity analysis

The following table shows the sensitivity of the Group and the Company's equity and loss net of tax to a reasonably possible change in the Singapore Dollar and US Dollar exchange rates against the functional currency of the Company, with all other variables remain constant.

		Group/Company Profit net of tax	
		2017 RM	2016 RM
USD/RM	-strengthened 5%	29,588	49,737
	-weakened 5%	(29,588)	(49,737)
SGD/RM	-strengthened 5%	(11)	(11)
	-weakened 5%	11	11

NOTES TO THE FINANCIAL STATEMENTS

25. Financial Instruments (Continued)

Financial risk management (Continued)

Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs for the asset or liability that is not based on observable market data.

The following table analyses the fair value hierarchy for financial instruments not carried at fair value, together with their carrying amounts in the statement of financial position:

Group/Company	2017		2016	
	Carrying amount RM	Level 2 Fair Value RM	Carrying amount RM	Level 2 Fair Value RM
Trade payable	924,135	924,135	1,128,547	1,128,547

The fair value of the non-current trade payables is calculated based on the present value of future cash flow discounted at the Group's weighted average cost of capital of 7.30% (2016: 7.3%) at the end of the reporting year.

NOTES TO THE FINANCIAL STATEMENTS

26. Capital Management

The primary objective of the Group's capital management is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group monitors capital using gearing ratio, which is net capital plus net debt. The Group's policy is to keep the lower gearing ratio. The Group includes within net debt, trade and other payables less cash and bank balances. Capital represents the equity attributable to the owners of the parents.

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Trade payables	1,085,964	1,296,435	1,045,013	1,259,285
Other payables	2,154,787	966,588	2,075,881	2,075,881
Amount owing to a subsidiary company	-	-	645,889	-
Amount owing to Directors	14,474	14,474	14,474	14,474
Less: Cash and cash equivalents	(1,592,512)	(1,526,846)	(1,592,290)	(1,521,074)
Net debt	1,662,713	750,651	2,188,967	676,983
Total equity	11,400,476	12,202,361	10,454,250	11,582,120
Net debt and equity	13,063,189	12,585,912	12,643,217	12,259,103
Gearing ratio	0.13	0.06	0.17	0.06

There were no changes to the Company's approach to capital management during the financial year.

27. Comparative Figures

The previous financial year is from 1 January 2015 to 31 May 2016, compared to a twelve months period for the current financial year ended 31 May 2017. Therefore, the comparative amounts are not in respect of a comparable period for the statement of profit or loss and other comprehensive income, changes in equity, cash flows and their related notes.

REALISED AND UNREALISED PROFITS/LOSSES (SUPPLEMENTARY INFORMATION)

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Total accumulated losses:-				
- Realised	(18,055,087)	(17,539,698)	(5,525,027)	(4,428,370)
- Unrealised	(17,465)	13,748	(17,465)	13,748
	(18,072,552)	(17,525,950)	(5,542,492)	(4,414,622)
Less: consolidation adjustments	13,476,570	13,731,569	-	-
Consolidated accumulated losses	(4,595,982)	(3,794,381)	(5,542,492)	(4,414,622)

The determination of realised and unrealised profits or losses is based on the 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, issued by the Institute of Accountants on 20 December 2010.

The above disclosure of realised and unrealised profits or losses is made solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia Securities Berhad and is not made for any other purposes.

SHAREHOLDING STATISTICS

SHAREHOLDING STATISTICS AS AT 05 SEPTEMBER 2017

Issued Shares	: 319,526,500 ordinary shares
Class of Shares	: Ordinary Shares
Voting Rights	: 1 vote per Ordinary Share

ANALYSIS OF SHAREHOLDINGS

As at 05 September 2017

Size of Holdings	No. of Share Holders	% of Share Holders	No. of Share Held	% of Share Held
1 to 99	65	2.970	3,082	0.000
100 to 1,000	326	14.899	115,518	0.036
1,001 to 10,000	524	23.948	3,272,250	1.024
10,001 to 100,000	993	45.383	43,106,401	13.490
100,001 to 15,976,324 (*)	277	12.659	175,447,402	54.908
15,976,325 and above (**)	3	0.137	97,581,847	30.539
Total :	2,188	100.000	319,526,500	100.000

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

SUBSTANTIAL SHAREHOLDERS

As at 05 September 2017 (As per the Register of Substantial Shareholders)

No.	Shareholders	Direct Shareholdings		Indirect Shareholdings	
		No. of Shares Held	%	No. of Shares Held	%
1	Eg Kah Yee	54,834,052	17.161	2 ⁽¹⁾	0.000
2	Lee Kin Hin	23,157,745	7.247	-	-
3	See Lee Ming	19,590,050	6.130	-	-
4	Eg Kaa Chee	2	0.000	54,834,052 ⁽²⁾	17.161

DIRECTORS' SHAREHOLDINGS

As at 05 September 2017 (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	17.161	2 ⁽¹⁾	0.000
2	Chuan Tsui Ju	3,175,750	0.993	-	-
3	Thong Kooi Pin	250	0.000	-	-
4	Eg Kaa Chee	2	0.000	54,834,052 ⁽²⁾	17.161
5	Abdul Razak Bin Dato' Haji Ipap	-	-	-	-

Notes :-

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

SHAREHOLDING STATISTICS

30 LARGEST SHAREHOLDERS

As at 05 September 2017

No.	Shareholders	No. of Shares	%
1	Eg Kah Yee	54,834,052	17.161
2	Lee Kin Hin	23,150,245	7.245
3	See Lee Ming	19,513,300	6.106
4	HSBC Nominees (Asing) Sdn Bhd Exempt An For Credit Suisse (SG BR-TST-ASING)	15,872,900	4.967
5	Wong Thean Soon	12,520,000	3.918
6	Canvas Technology Pte Ltd	9,335,600	2.921
7	RHB Nominees (Tempatan) Sdn Bhd Tan Ah Loy @ Tan May Ling	8,000,000	2.503
8	UOB Kay Hian Nominees (Asing) Sdn Bhd Exempt An For UOB Kay Hian Pte Ltd (A/C Clients)	6,996,800	2.189
9	Lim Lae Yong	6,043,600	1.891
10	Sua Tien Fong	5,480,000	1.715
11	Ng Geok Lui	4,878,400	1.526
12	Ng Hock Seng	4,234,600	1.325
13	Chuan Tsui Ju	3,175,750	0.993
14	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank For Koh Kin Lip (MY0502)	3,000,000	0.938
15	Chai Min Yew	2,000,000	0.625
16	Leong Khai Ric	2,000,000	0.625
17	Maybank Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Shin Kong Kew @ Chin Kong Kew (R25 Margin)	2,000,000	0.625
18	Tan Chun Ming	2,000,000	0.625
19	Chin Kok Wai	1,807,200	0.565
20	Chew Nee Yen	1,729,200	0.541
21	Seng Shun Mun	1,600,000	0.500
22	Yong Siw Ya	1,521,100	0.476
23	Affin Hwang Investment Bank Berhad IVT (TJT)	1,500,100	0.469
24	Lee Pei Chin	1,500,000	0.469
25	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Chan Kok Seng	1,500,000	0.469
26	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Faizatul Ikmi Binti Abd Razak (E-KPG/SLY)	1,400,000	0.438
27	Lee Khee Chek	1,230,000	0.384
28	Lee Kin Peng	1,025,000	0.320
29	Azman Shah Bin Khalidun	1,000,000	0.312
30	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Yee Yong Yip	1,000,000	0.312
	Total :	201,847,847	63.170

ANALYSIS OF WARRANTS HOLDINGS

AS AT 05 SEPTEMBER 2017

Issued Size : 145,263,250
 No. of Warrants Holders : 564 Warrants Holders

ANALYSIS OF WARRANTS HOLDINGS

As at 05 September 2017

Size of Holdings	No. of Warrants Holders	% of Warrants Holders	No. of Warrants Held	% of Warrants Held
1 to 99	21	3.723	960	0.000
100 to 1,000	22	3.900	9,365	0.006
1,001 to 10,000	113	20.035	820,050	0.564
10,001 to 100,000	288	51.063	13,323,650	9.172
100,001 to 7,263,161 (*)	117	20.744	73,631,850	50.688
7,263,162 and above (**)	3	0.531	57,477,375	39.567
Total :	564	100.000	145,263,250	100.000

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

DIRECTOR'S WARRANTS HOLDINGS

As at 05 September 2017 (As per the Register of Director's 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	Thong Kooi Pin	-	-	-	-
4	Chuan Tsui Ju	-	-	-	-
5	Eg Kaa Chee	-	-	-	-

ANALYSIS OF WARRANTS HOLDINGS

30 LARGEST WARRANTS HOLDINGS

As at 05 September 2017

No.	Warrants Holders	No. of Warrants	%
1	Eg Kah Yee	27,477,375	18.915
2	Brahmal A/L Vasudevan	20,000,000	13.768
3	HSBC Nominees (Asing) Sdn Bhd Exempt An For Credit Suisse (SG BR-TST-ASING)	10,000,000	6.884
4	Carolyn Wong Tarnn Yoong	7,000,000	4.818
5	Lim Lae Yong	5,619,600	3.868
6	Yee Kong Siong	5,200,000	3.579
7	Yee Seng Keng	3,100,000	2.134
8	Chang Van Leong	2,968,800	2.043
9	Maybank Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Shin Kong Kew @ Chin Kong Kew (R25 Margin)	2,500,000	1.721
10	Lau Eng Huat	2,300,000	1.583
11	Tan Wah Kiong	1,972,700	1.358
12	Peeh Kean Beng	1,510,000	1.039
13	Mohd Rodzi Bin Ibrahim	1,500,000	1.032
14	Tommy Lee Chee Yeow	1,200,000	0.826
15	Lee Khee Chek	1,144,000	0.787
16	Ong Poh Gaik	1,050,000	0.722
17	Tan Wah Kiong	1,015,300	0.698
18	CIMSEC Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Tay Moi Nin (Segamat-CL)	1,000,000	0.688
19	Khiew Wai Keong	1,000,000	0.688
20	Yu Kim Lung	1,000,000	0.688
21	Lim Wu Chen	850,000	0.585
22	Affin Hwang Investment Bank Berhad IVT (SKM)	805,000	0.554
23	Teo Tee Lee	804,800	0.554
24	See Lee Ming	803,450	0.553
25	Chew Woon Han	800,000	0.550
26	Lee Boon Leong @ Lee Boon Kim	800,000	0.550
27	Lim Ha Ching	800,000	0.550
28	Neo Yen Leong	753,500	0.518
29	Yong Siw Ya	700,000	0.481
30	Yong Tian Swee	700,000	0.481
	Total :	106,374,525	73.228

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

ANNEXURE A

Date: 27 September 2017

The Directors
Palette Multimedia Berhad
Unit 30-01, Level 30, Tower A, Vertical Business Suite
Avenue 3, Bangsar South, No. 8, Jalan Kerinchi
59200 Kuala Lumpur

Dear Sirs

RE: NOTICE OF NOMINATION OF MESSRS BAKER TILLY MONTEIRO HENG AS AUDITORS IN PLACE OF THE RETIRING AUDITORS, MESSRS MORISON ANUARUL AZIZAN CHEW

Pursuant to Section 271(4) of the Companies Act 2016, I, being the a shareholder of Palette Multimedia Berhad (“the Company”), hereby give notice of my intention to nominate Messrs Baker Tilly Monteiro Heng for appointment as Auditors of the Company in place of the retiring auditors, Messrs Morison Anuarul Azizan Chew and propose the following Ordinary Resolution for tabling at the forthcoming Annual General Meeting of the Company:

“THAT Messrs Baker Tilly Monteiro Heng, having consented to act, be and are hereby appointed as Auditors of the Company in place of the retiring auditors, Messrs Morison Anuarul Azizan Chew, and to hold office until the conclusion of the next Annual General Meeting AND THAT the Directors be authorised to fix their remuneration.”

Yours faithfully

EG KAH YEE

NOTICE OF TWENTIETH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twentieth Annual General Meeting of the Company will be held at Greens 1, Golf Wing, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 15 November 2017 at 11.00 a.m. to transact the following business:-

AGENDA

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 May 2017 together with the Reports of the Directors' and Auditors' thereon. (Please see Explanatory Note 1)
2. To approve the payment of Directors' Fees of RM 24,000 for the financial year ended 31 May 2017. (Resolution 1)
3. To approve the payment of Directors' Fees of RM 24,000 for the financial year ending 31 May 2018. (Resolution 2)
4. To re-elect Eg Kaa Chee who retires pursuant to Article 119 of the Company's Articles of Association. (Resolution 3)
5. To re-elect Eg Kah Yee who retires pursuant to Article 119 of the Company's Articles of Association. (Resolution 4)
6. To appoint Auditors and to authorise the Directors to fix their remuneration:- (Resolution 5)

Notice of Nomination pursuant to Section 271(4) of the Companies Act, 2016, a copy of which is annexed hereto and marked "Annexure A" has been received by the Company for the nomination of Messrs Baker Tilly Monteiro Heng, for appointment as Auditors, and of the intention to move the following motion to be passed as an Ordinary Resolution:-

"THAT Messrs Baker Tilly Monteiro Heng, having consented to act, be and are hereby appointed as Auditors of the Company in place of the retiring auditors, Messrs Morison Anuarul Azizan Chew, and to hold office until the conclusion of the next Annual General Meeting AND THAT the Directors be authorised to fix their remuneration."

SPECIAL BUSINESS

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

7. **ORDINARY RESOLUTION I** (Resolution 6)
AUTHORITY FOR THE DIRECTORS TO ISSUE SHARES

"THAT subject always to the Companies Act 2016 ("the Act"), the Ace Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby empowered, pursuant to Sections 75 and 76 of the Act, to issue shares in the Company from time to time at such price, upon such terms and conditions, and 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 does not exceed 10% of the total number of issued shares of the Company for the time being AND THAT the Directors be and are also empowered to obtain the approval from Bursa Securities for the listing and quotation for the additional shares so issued on the Bursa Securities AND FURTHER THAT such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

NOTICE OF TWENTIETH ANNUAL GENERAL MEETING

SPECIAL BUSINESS (Continued)

8. **ORDINARY RESOLUTION II
CONTINUATION IN OFFICE AS INDEPENDENT NON-EXECUTIVE DIRECTOR** (Resolution 7)

“THAT, approval be and is hereby given to Thong Kooi Pin, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine years, to continue to act as an Independent Non-Executive Director of the Company.”

9. **ORDINARY RESOLUTION III
CONTINUATION IN OFFICE AS INDEPENDENT NON-EXECUTIVE DIRECTOR** (Resolution 8)

THAT, approval be and is hereby given for Abdul Razak Bin Dato’ Haji Ipap who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine years, to continue to act as an Independent Non-Executive Director of the Company.”

10. **ORDINARY RESOLUTION IV
PROPOSED NEW AND RENEWAL OF EXISTING SHAREHOLDERS’ MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OF TRADING NATURE** (Resolution 9)

THAT pursuant to Rule 10.09 of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad (“ACE Listing Requirements”), the Company and its subsidiaries (“the Group”) be and are hereby authorised to enter into and give effect to the recurrent related party transactions of a revenue or trading nature with the related party as set out in Section 1.4 of the Circular to Shareholders dated 29 September 2017 (“Related Party”) provided that such transactions and/or arrangements are:-

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

(collectively known as “Shareholders’ Mandate”)

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

- (a) the conclusion of the next Annual General Meeting (“AGM”) of the Company, at which time it will lapse, unless by a resolution passed at such AGM, the authority is renewed; or
- (b) the expiration of the period within the next AGM of the Company after that date is required to be held pursuant to Section 340 of the Companies Act, 2016 (“the Act”) (but shall not extend to such extension as may be allowed pursuant to Section 340 (4) of the Act); or
- (c) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,

whichever is earlier;

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

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

NOTICE OF TWENTIETH ANNUAL GENERAL MEETING

SPECIAL BUSINESS (Continued)

11. **SPECIAL RESOLUTION
PROPOSED CHANGE OF COMPANY'S NAME FROM "PALETTE MULTIMEDIA
BERHAD" to "UCREST BERHAD" ("PROPOSED CHANGE OF NAME")**

(Resolution 10)
(Please see Explanatory Note 8)

"THAT the name of the Company be changed from "Palette Multimedia Berhad" to "UCrest Berhad" with effect from the date of the Notice of Registration of New Name issued by the Companies Commission of Malaysia and that the Constitution of the Company be hereby amended accordingly, wherever the name of the Company appears.

AND THAT, the Directors and/or Secretary of the Company be and are hereby authorised to give effect to the Proposed Change of Name with full power to assent to any conditions, modifications, variations and/or amendments as may be required by the relevant authorities."

12. To transact any other business of which due notice shall have been given in accordance with the Companies Act, 2016.

By Order of the Board

WONG WAI FOONG [MAICSA 7001358]

JOANNE TOH JOO ANN [LS 0008574]

Company Secretaries

Kuala Lumpur

Dated: 29 September 2017

NOTES:-

- (i) *A proxy may but need not be a member of the Company.*
- (ii) *A member may appoint up to two (2) proxies to attend on the same occasion.*
- (iii) *Where a member is an authorised 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 authorised 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 authorised 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 authorised.*
- (vii) *The Form of Proxy must be deposited at the office of the Company's Share Registrar situated at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the meeting.*
- (viii) *Only members whose names appear in the Record of Depositors as at 8 November 2017 will be entitled to attend, speak and vote at the meeting or appoint proxy(ies) to attend, speak and/or vote on their behalf.*

NOTICE OF TWENTIETH ANNUAL GENERAL MEETING

EXPLANATORY NOTE ON SPECIAL BUSINESS

1. **Item 1 of Agenda**

This item is meant for discussion only as the provision of Section 340(1)(a) of the Companies Act, 2016 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this Agenda is not put forward for voting.

2. **Directors' Fees**

Pursuant to Section 230(1) of the Companies Act 2016, the fees of the directors and any benefits payable to the directors shall be approved at a general meeting. The details of the Directors' remuneration are set out in the Statement of Corporate Governance of this Annual Report.

The Proposed Resolution 2 is to facilitate the payment of Directors' fees on a current financial year basis, calculated based on the current board size. In the event the Directors fees proposed are insufficient (due to enlarged Board size), approval will be sought at the next Annual General Meeting for additional fees to meet the shortfall.

3. **Re-election of Director**

The Board has undertaken an annual assessment of Eg Kaa Chee and Eg Kah Yee, who are seeking for re-election pursuant to Article 119 of the Articles of Association of the Company at the forthcoming Twentieth Annual General Meeting. The annual assessment has been disclosed in the Corporate Governance statement of the Company's 2017 Annual Report.

4. **ORDINARY RESOLUTION I Resolution Pursuant To Section 75 and 76 of The Companies Act, 2016**

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 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 total number of the issued shares 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.

As at the date of this Notice, the Company did not issue any shares pursuant to the mandate granted to the Directors at the Nineteenth Annual General Meeting.

5. **ORDINARY RESOLUTION II Continuation in Office as Independent Non-Executive Director**

The Proposed Ordinary Resolution 7 if passed, will enable Thong Kooi Pin to continue in office as Independent Non-Executive Director of the Company to fulfil the requirements of Rule 3.08 of Bursa Malaysia Securities Berhad's ACE Market Listing Requirements and in line with the Malaysian Code on Corporate Governance. The Board has via the Nomination Committee assessed the independence of Thong Kooi Pin, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years and recommended him to continue to act as an Independent Non-Executive Director of the Company. The details of the Board's justifications and recommendations for the retention of Thong Kooi Pin are set out in the Corporate Governance Statement on page 18 and 19 of the 2017 Annual Report.

6. **ORDINARY RESOLUTION III Continuation in Office as Independent Non-Executive Director**

The Proposed Ordinary Resolution 8 if passed, will enable Abdul Razak Bin Dato' Haji Ipap to continue in office as Independent Non-Executive Director of the Company to fulfil the requirements of Rule 3.08 of Bursa Malaysia Securities Berhad's ACE Market Listing Requirements and in line with the Malaysian Code on Corporate Governance. The Board has via the Nomination Committee assessed the independence of Abdul Razak Bin Dato' Haji Ipap, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than 9 years and recommended him to continue to act as an Independent Non-Executive Director of the Company. The details of the Board's justifications and recommendations for the retention of Abdul Razak Bin Dato' Haji Ipap are set out in the Corporate Governance Statement on page 18 and 19 of the 2017 Annual Report.

NOTICE OF TWENTIETH ANNUAL GENERAL MEETING

EXPLANATORY NOTE ON SPECIAL BUSINESS (Continued)

7. **ORDINARY RESOLUTION IV**
Proposed New and Renewal of the Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue of Trading Nature

The Ordinary Resolution, proposed under Resolution 9, if passed, will allow the Group to enter into recurrent related party transactions made on an arm's length basis and on normal commercial terms and which are not detrimental to the interests of the minority shareholders.

8. **SPECIAL RESOLUTION**
Proposed Change of Name

The Special Resolution proposed under Resolution 10 will be set out in the Circular to Shareholders dated 29 September 2017.

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FORM OF PROXY

No. of shares held

I/We Tel:

(Full name in block, NRIC/Company No.)

of

being member(s) of **Palette Multimedia Berhad**, hereby appoint:-

Full Name (<i>in Block</i>)	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and / or (delete as appropriate)

Full Name (<i>in Block</i>)	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

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 Twentieth Annual General Meeting of the Company to be held at Greens 1, Golf Wing, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 15 November 2017 at 11.00 a.m. and at any adjournment thereof, and to vote as indicated below:-

No.	RESOLUTION	FOR	AGAINST
1	Approval of Directors' Fees for the financial year ended 31 May 2017		
2	Approval of Directors' Fees for the financial year ending 31 May 2018		
3	Re-election of Eg Kaa Chee		
4	Re-election of Eg Kah Yee		
5	To appoint Messrs Baker Tilly Monteiro Heng as Auditors of the Company and to authorise the Directors to fix their remuneration		
6	Authority for Directors to issue shares pursuant to Sections 75 and 76 of the Companies Act, 2016		
7	Continuation in Office as Independent Non-Executive Director – Thong Kooi Pin		
8	Continuation in Office as Independent Non-Executive Director – Abdul Razak bin Dato' Haji Ipap		
9	Proposed New and Renewal of the Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue of Trading Nature		
10	Proposed Change of Company's Name		

[Please indicate with an "X" in the spaces provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific directions, your proxy will vote or abstain as he/she thinks fit.]

Dated this day of 2017

.....
Signature of Shareholder/Common Seal

NOTES:

- (i) A proxy may but need not be a member of the Company.
- (ii) A member shall be entitled to appoint not more than two (2) proxies to attend, vote and speak at the same meeting.
- (iii) Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("Depositories Act"), it may appoint at least one 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 of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account") there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempted authorised nominee refers to an authorised nominee defined under the Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of Depositories Act.
- (v) Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.
- (vi) The instrument appointing a proxy shall be in writing (in the common seal or usual form) under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, either under Seal or under the hand of an officer or attorney duly authorised. The duly completed form must be deposited at the office of the Company's Share Registrar situated at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than 48 hours before the time for holding the meeting Provided That in the event member(s) duly executes the form of proxy but does not name any proxy, such member(s) shall be deemed to have appointed the Chairman of the meeting as his/their proxy, Provided Always that the rest of the proxy form, other than the particulars of the proxy have been duly completed by the member(s).
- (vii) Only members whose names appear in the Record of Depositors as at 8 November 2017 will be entitled to attend, vote and speak at the meeting or appoint proxy(ies) to attend, vote and speak on their behalf.

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Company Secretary

Palette Multimedia Berhad (420056-K)

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59200 Kuala Lumpur.

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