

**THIS ABRIDGED PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.** If you have sold or transferred all your shares in Palette Multimedia Berhad (“**Palette**” or the “**Company**”), you should immediately hand this Abridged Prospectus (“**AP**”) together with the Notice of Provisional Allotment (“**NPA**”) and Rights Subscription Form (“**RSF**”) (collectively referred to as “**Documents**”) to the purchaser or transferee or agent/broker through whom you have effected the sale or transfer for onward transmission to the purchaser or transferee. You should address all enquiries concerning the Rights Issue of Warrants (as defined herein) to our Share Registrar, Tricor Investor Services Sdn. Bhd. (“**Share Registrar**”) at Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

The Documents are only despatched to our shareholders (“**Entitled Shareholders**”) whose names appear in our Record of Depositors at 5.00 p.m. on 27 February 2013 (“**Entitlement Date**”) at their registered addresses in Malaysia. The Documents are not intended to be (and will not be) issued, circulated or distributed in any countries or jurisdictions other than Malaysia. No action has been or will be taken to ensure that the Rights Issue of Warrants or the Documents comply with the laws of any countries or jurisdictions other than the laws of Malaysia. The Documents do not constitute an offer, solicitation or invitation to subscribe for the Rights Issue of Warrants in any jurisdiction other than Malaysia or to any person to whom it may be unlawful to make such an offer, solicitation or invitation. It shall be the sole responsibility of the Entitled Shareholders and/or their renounees (if applicable) who are residents in countries or jurisdictions other than Malaysia to consult their legal and/or other professional adviser as to whether their acceptance or renunciation (as the case may be) of his/her entitlement to the Rights Issue of Warrants would result in the contravention of any laws of such countries or jurisdictions. Such Entitled Shareholders and/or their renounees (if applicable) should note the additional terms and restrictions as set out in Section 3 of this AP. Neither our Company nor TA Securities Holdings Berhad (“**TA Securities**”) shall accept any responsibility or liability whatsoever to any party in the event that any acceptance or sale/renunciation made by the Entitled Shareholders, and/or their renounees (if applicable) is or shall become illegal, unenforceable, voidable or void in any countries or jurisdictions in which the Entitled Shareholder and/or his renounee (if applicable) is a resident.

A copy of this AP has been registered with the Securities Commission Malaysia (“**SC**”). The registration of this AP should not be taken to indicate that the SC recommends the Rights Issue of Warrants or assumes responsibility for the correctness or any statement made or opinion or report expressed in this AP. The SC has not, in any way, considered the merits of the securities being offered for investment. A copy of this AP, together with the NPA and RSF, has also been lodged with the Registrar of Companies who takes no responsibility for the contents of these documents.

Our shareholders have approved the Rights Issue of Warrants at the extraordinary general meeting held on 15 June 2012. Approval has also been obtained from Bursa Malaysia Securities Berhad (“**Bursa Securities**”) via its letter dated 4 April 2012 for the admission of the Warrants (as defined herein) to the Official List of Bursa Securities (“**Official List**”) and the listing of and quotation for the Warrants and the new Palette Shares (as defined herein) to be issued upon the exercise of the Warrants on the ACE Market of Bursa Securities. However, this is not an indication that Bursa Securities recommends the Rights Issue of Warrants. Admission of the Warrants to the Official List and the listing of and quotation for the Warrants on the ACE Market of Bursa Securities are in no way reflective of the merits of the Rights Issue of Warrants. Neither Bursa Securities nor the SC takes any responsibility for the correctness of any statement made or opinions expressed in the Documents. Approval has been obtained from Bank Negara Malaysia via its letter dated 22 September 2011 for the issuance of the Warrants to the non-resident shareholders of Palette pursuant to the Rights Issue of Warrants (as defined herein). The admission of the Warrants to the Official List and the listing of and quotation for the Warrants will commence after, amongst others, receipt of confirmation from Bursa Malaysia Depository Sdn. Bhd. that all the Central Depository System accounts of the Entitled Shareholders and/or their renounees (if applicable) have been duly credited and notices of allotment have been despatched to the Entitled Shareholders and/or their renounees (if applicable).

Our directors (“**Directors**”) have seen and approved all the documentation relating to this Rights Issue of Warrants. They collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable inquiries, and to the best of their knowledge and belief, there are no false or misleading statements or other facts which, if omitted, would make any statement in these documents false or misleading.

TA Securities, being the Adviser for the Rights Issue of Warrants, acknowledges that, based on all available information and to the best of its knowledge and belief, this AP constitutes a full and true disclosure of all material facts concerning the Rights Issue of Warrants.

FOR INFORMATION CONCERNING RISK FACTORS WHICH SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, PLEASE REFER TO “**RISK FACTORS**” AS SET OUT IN SECTION 6 HEREIN.



## PALETTE MULTIMEDIA BERHAD

(Company No.420056-K)

(Incorporated in Malaysia under the Companies Act, 1965)

**RENOUNCEABLE RIGHTS ISSUE OF UP TO 153,588,250 WARRANTS (“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 PALETTE HELD AT 5.00 P.M. ON 27 FEBRUARY 2013**

*Adviser*



## TA SECURITIES

A MEMBER OF THE TA GROUP

TA SECURITIES HOLDINGS BERHAD (14948-M)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

### IMPORTANT RELEVANT DATES AND TIME

Entitlement date : Wednesday, 27 February 2013 at 5.00 p.m.

**Last date and time for:**

Sale of provisional allotment of rights : Wednesday, 6 March 2013 at 5.00 p.m.

Transfer of provisional allotment of rights : Monday, 11 March 2013 at 4.00 p.m.

Acceptance and payment : Thursday, 14 March 2013 at 5.00 p.m.\*

Excess application and payment : Thursday, 14 March 2013 at 5.00 p.m.\*

\* or such later date and time as our Directors may decide in its absolute discretion and announce not less than two (2) market days before the stipulated date and time

**This Abridged Prospectus is dated 27 February 2013**

BURSA SECURITIES HAS APPROVED THE LISTING OF AND QUOTATION FOR THE WARRANTS AND ALL THE NEW SECURITIES TO BE ISSUED ARISING FROM THE EXERCISE OF WARRANTS ON THE ACE MARKET OF BURSA SECURITIES AND THE APPROVAL SHALL NOT BE TAKEN TO INDICATE THAT BURSA SECURITIES RECOMMENDS THE RIGHTS ISSUE OF WARRANTS.

THE SC AND BURSA SECURITIES ARE NOT LIABLE FOR ANY NON-DISCLOSURE ON OUR PART AND TAKE NO RESPONSIBILITY FOR THE CONTENTS OF THIS AP, MAKE NO REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIM ANY LIABILITY WHATSOEVER FOR ANY LOSS YOU MAY SUFFER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS AP.

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IN CONSIDERING THE INVESTMENT, IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

YOU ARE ADVISED TO NOTE THAT RECOURSE FOR FALSE OR MISLEADING STATEMENTS OR ACTS MADE IN CONNECTION WITH THIS AP ARE DIRECTLY AVAILABLE THROUGH SECTIONS 248, 249 AND 357 OF THE CAPITAL MARKETS AND SERVICES ACT, 2007 ("CMSA").

SECURITIES LISTED ON BURSA SECURITIES ARE OFFERED TO THE PUBLIC PREMISED ON FULL AND ACCURATE DISCLOSURE OF ALL MATERIAL INFORMATION CONCERNING THE ISSUE FOR WHICH ANY OF THE PERSONS SET OUT IN SECTION 236 OF THE CMSA, E.G. DIRECTORS AND ADVISERS, ARE RESPONSIBLE.

WE AND OUR ADVISER HAVE NOT AUTHORISED ANYONE TO PROVIDE YOU WITH INFORMATION WHICH IS NOT CONTAINED IN THIS AP.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

**DEFINITIONS**

Except where the context otherwise requires, the following definitions shall apply throughout this AP:

“3G”	:	Third generation
“ACE Market”	:	ACE Market of Bursa Securities
“Act”	:	Companies Act, 1965 as be amended, modified or re-enacted from time to time
“AP”	:	This Abridged Prospectus issued by Palette dated 27 February 2013
“BBGP”	:	Broadband to general population
“Board”	:	Board of Directors of Palette
“Bursa Depository”	:	Bursa Malaysia Depository Sdn. Bhd. (165570-W)
“Bursa Securities”	:	Bursa Malaysia Securities Berhad (635998-W)
“CDS”	:	Central Depository System
“CDS Account”	:	A securities account established by Bursa Depository for a depositor pursuant to the Securities Industry (Central Depository) Act, 1991 and the rules of Bursa Depository for the recording of deposits of securities and dealings in such securities by the depositor
“Code”	:	Malaysian Code on Take-Overs and Mergers, 2010
“Controller”	:	Controller of Foreign Exchange of Bank Negara Malaysia
“Deed Poll”	:	Deed Poll dated 13 February 2013 constituting the Warrants
“EBITDA”	:	Earnings before interest, taxation, depreciation and amortisation
“EGM”	:	Extraordinary general meeting of Palette held on 15 June 2012
“Entitled Shareholders”	:	The shareholders of Palette whose names appear on the Company’s Record of Depositors on the Entitlement Date
“Entitlement Date”	:	27 February 2013 at 5.00 p.m. being the date and time on which the shareholders of the Company must be registered on the Record of Depositors of the Company in order to be entitled to the Warrants
“EPS”	:	Earnings per Share
“ESOS”	:	Employees’ share option scheme of Palette
“FYE”	:	Financial year ended
“GDP”	:	Gross domestic product
“Government”	:	Government of Malaysia
“Hotspot”	:	A site that offers internet access over a wireless local area network through the use of a router connected to a link to an internet service provider
“HSBB”	:	High-speed broadband
“ICT”	:	Information and communications technology
“IT”	:	Information technology
“LAT”	:	Loss after taxation
“LBITDA”	:	Loss before interest, taxation, depreciation and amortisation
“LBT”	:	Loss before taxation
“Listing Requirements”	:	ACE Market Listing Requirements of Bursa Securities

**DEFINITIONS (CONT'D)**

“LPD”	:	28 January 2013, being the latest practicable date prior to the registration of this AP
“Market Day”	:	Any day from Mondays to Fridays (inclusive of both days) which is not a public holiday and on which Bursa Securities is open for the trading of securities
“Maximum Scenario”	:	Assuming exercise of all the existing outstanding 16,650,000 ESOS options into 16,650,000 Palette Shares
“Minimum Scenario”	:	Assuming none of the existing outstanding ESOS option is exercised prior to the implementation of the Rights Issue of Warrants
“NA”	:	Net assets
“NPA”	:	Notice of Provisional Allotment in relation to the Rights Issue of Warrants
“Official List”	:	A list specifying all securities which have been admitted for listing on Bursa Securities and not removed
“Palette” or the “Company”	:	Palette Multimedia Berhad (420056-K)
“Palette Group” or the “Group”	:	Palette and its subsidiaries
“Price Fixing Date”	:	13 February 2013, being the date on which the issue price and exercise price of the Warrants were determined and announced
“R&D”	:	Research and development
“Record of Depositors”	:	A record of securities holders established by Bursa Depository under the Rules of Bursa Depository
“Rights Issue of Warrants”	:	Renounceable rights issue of up to 153,588,250 Warrants on the basis of one (1) Warrant for every two (2) existing Palette Shares held on the Entitlement Date
“RM” and “sen”	:	Ringgit Malaysia and sen respectively
“RSF”	:	Rights Subscription Form in relation to the Rights Issue of Warrants
“Rules of Bursa Depository”	:	Rules of Bursa Depository including the rules in relation to a central depository as described in Section 2 of the SICDA
“SC”	:	Securities Commission Malaysia
“Share Registrar”	:	Tricor Investor Services Sdn. Bhd. (118401-V)
“Shares” or “Palette Shares”	:	Ordinary share of RM0.10 each in Palette
“SICDA”	:	Securities Industry (Central Depositories) Act, 1991 as amended, modified or re-enacted from time to time
“TA Securities”	:	TA Securities Holdings Berhad (14948-A)
“TMB”	:	Telekom Malaysia Berhad (128740-P)
“Undertaking”	:	Irrevocable unconditional written undertaking from Eg Kah Yee that he will subscribe for his entitlement of the Warrants and the remaining Warrants which are not subscribed for by the other shareholders of Palette
“USD”	:	United States Dollar
“VWAP”	:	Volume weighted average market price
“Warrants”	:	Up to 153,588,250 warrants to be issued pursuant to the Rights Issue of Warrants
“WiFi”	:	Wireless fidelity

---

**DEFINITIONS (CONT'D)**

---

All references to “our Company” and/or “Palette” in this AP are to Palette Multimedia Berhad. References to “our Group” and/or “Palette Group” are to Palette and its subsidiaries and references to “we”, “us” “our” and “ourselves” are to Palette and where the context does require, shall include our subsidiaries.

Words incorporating the singular shall, where applicable, include the plural and vice versa. Words incorporating the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Any reference to persons shall include a corporation, unless otherwise specified.

Any reference in this AP to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of a day in this AP shall be reference to Malaysian time, unless otherwise specified.

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

---

**TABLE OF CONTENTS**


---

		<b>PAGE</b>
	<b>CORPORATE DIRECTORY</b>	<b>1</b>
	<b>LETTER TO OUR ENTITLED SHAREHOLDERS CONTAINING:</b>	
<b>1.</b>	<b>INTRODUCTION</b>	<b>3</b>
<b>2.</b>	<b>DETAILS OF THE RIGHTS ISSUE OF WARRANTS</b>	<b>5</b>
	2.1 Details of the Rights Issue of Warrants	5
	2.2 Basis of determining the issue price and exercise price of the Warrants	6
	2.3 Ranking of the Warrants and new Shares arising from the exercise of the Warrants	6
	2.4 Salient terms of the Warrants	6
	2.5 Undertaking by substantial shareholder	8
	2.6 Details of other corporate exercises	10
<b>3.</b>	<b>INSTRUCTIONS FOR ACCEPTANCE, PAYMENT, SALE/TRANSFER AND EXCESS APPLICATION FOR THE RIGHTS ISSUE OF WARRANTS</b>	<b>10</b>
	3.1 General	10
	3.2 NPA	10
	3.3 Last date and time for acceptance and payment	10
	3.4 Procedure for full acceptance and payment by Entitled Shareholders	10
	3.5 Procedure for part acceptance by Entitled Shareholders	12
	3.6 Procedure for sale/transfer of provisional Warrants	12
	3.7 Procedure for acceptance and payment by renounees	13
	3.8 Procedure for application of excess Warrants	13
	3.9 Notice of allotment	14
	3.10 Form of issuance	14
	3.11 Laws of foreign jurisdictions	15
<b>4.</b>	<b>RATIONALE FOR THE RIGHTS ISSUE OF WARRANTS</b>	<b>16</b>
<b>5.</b>	<b>UTILISATION OF PROCEEDS</b>	<b>17</b>
<b>6.</b>	<b>RISK FACTORS</b>	<b>18</b>
	6.1 Risks relating to our Group	18
	6.2 Risks relating to the Rights Issue of Warrants	20
<b>7.</b>	<b>INDUSTRY OVERVIEW AND PROSPECTS OF OUR GROUP</b>	<b>22</b>
	7.1 Overview and prospects of the Malaysian economy	22
	7.2 Overview of the ICT industries in Malaysia	22
	7.3 Prospects of our Group	23
<b>8.</b>	<b>FINANCIAL EFFECTS</b>	<b>24</b>
	8.1 Issued and paid-up share capital	24
	8.2 NA and gearing	24
	8.3 Earnings and EPS	26

**TABLE OF CONTENTS (CONT'D)**

<b>9.</b>	<b>WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL COMMITMENTS</b>	<b>27</b>
9.1	Working capital	27
9.2	Borrowings	27
9.3	Contingent liabilities	27
9.4	Material commitments	27
<b>10.</b>	<b>TERMS AND CONDITIONS</b>	<b>27</b>
<b>11.</b>	<b>FURTHER INFORMATION</b>	<b>28</b>

**APPENDICES**

APPENDIX I	CERTIFIED TRUE EXTRACT OF THE ORDINARY RESOLUTION IN RELATION TO THE RIGHTS ISSUE OF WARRANTS PASSED AT OUR EGM HELD ON 15 JUNE 2012	29
APPENDIX II	INFORMATION ON OUR COMPANY	31
APPENDIX III	PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON	39
APPENDIX IV	AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31 DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON	50
APPENDIX V	UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF OUR GROUP FOR THE NINE (9)-MONTH PERIOD ENDED 30 SEPTEMBER 2012	103
APPENDIX VI	DIRECTORS' REPORT	112
APPENDIX VII	ADDITIONAL INFORMATION	113

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK
---

**CORPORATE DIRECTORY**

<b>Name</b>	<b>Address</b>	<b>Age</b>	<b>Nationality</b>	<b>Profession</b>
Eg Kah Yee <i>(Chairman/Managing Director)</i>	1234, Jalan Timur 17 Jinjang Utara 52000 Kuala Lumpur	53	Malaysian	Company Director
Eg Kaa Chee <i>(Non-Independent Non-Executive Director)</i>	35, Jalan Tualang Taman Bandaraya Bangsar 59100 Kuala Lumpur	49	Malaysian	Advocate & Solicitor
Abdul Razak Bin Dato' Hj. Ipap <i>(Non-Independent Non-Executive Director)</i>	11A, Jalan TTS 3/3 Taman Tasik Semenyih 43500 Semenyih Selangor Darul Ehsan	53	Malaysian	Company Director
Sukhdev Singh A/L Banta Singh <i>(Executive Director)</i>	37-21-7, Sri Penaga Condo Jalan Medang Serai Bukit Persekutuan 59100 Kuala Lumpur	58	Malaysian	Company Director
Thong Kooi Pin <i>(Independent Non-Executive Director)</i>	10, Jalan 18 Taman Putra 68000 Ampang Selangor Darul Ehsan	41	Malaysian	Company Director
Yoong Shee Fatt <i>(Independent Non-Executive Director)</i>	No. 7, Jalan PP3/2 Taman Putra Prima 47100 Puchong Selangor Darul Ehsan	52	Malaysian	Company Director

**AUDIT COMMITTEE**

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Yoong Shee Fatt	Chairman	Independent Non-Executive Director
Abdul Razak Bin Dato' Hj. Ipap	Member	Non-Independent Non-Executive Director
Thong Kooi Pin	Member	Independent Non-Executive Director

**COMPANY SECRETARIES**

: Ng Yen Hoong (LS No. 008016)  
42A Jalan PJU 3/18H  
Tropicana Indah  
47410 Petaling Jaya  
Selangor Darul Ehsan  
Tel : 03-2264 8918

Joanne Toh Joo Ann (LS No. 0008574)  
19, Jalan Pandan Indah 5/5  
Pandan Indah  
55100 Kuala Lumpur  
Tel : 03-2264 8913

**REGISTERED OFFICE**

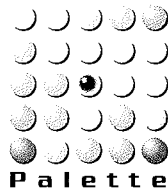
: Level 18, The Gardens North Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
Tel : 03-2264 8888



**CORPORATE DIRECTORY (CONT'D)**

---

- HEAD/MANAGEMENT OFFICE** : Lot 6.04 Level 6 KPMG Tower  
8 First Avenue, Bandar Utama  
47800 Petaling Jaya  
Selangor Darul Ehsan  
Tel : 03-7728 9880  
E-mail : [info@palettemm.com](mailto:info@palettemm.com)  
Website : [www.palettemm.com](http://www.palettemm.com)
- SHARE REGISTRAR** : Tricor Investor Services Sdn. Bhd. (118401-V)  
Level 17, The Gardens North Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
Tel : 03-2264 3883
- AUDITORS** : Cheng & Co. (AF 0886)  
18-2, Jalan 2/114  
Kuchai Business Centre  
Off Jalan Klang Lama  
58200 Kuala Lumpur  
Tel : 03-7984 8988
- REPORTING ACCOUNTANTS** : Tan Chin Huat & Co (AF 1395)  
No. 232, 2<sup>nd</sup> Floor  
Block A, Damansara Intan  
1, Jalan SS 20/27  
47400 Petaling Jaya  
Selangor Darul Ehsan  
Tel : 03-7726 8992
- SOLICITORS FOR THE RIGHTS  
ISSUE OF WARRANTS** : Rozlan Khuen  
23-2, Block B  
Jaya 1, Jalan University  
46200 Petaling Jaya  
Selangor Darul Ehsan  
Tel : 03-7958 3305
- PRINCIPAL BANKERS** : Public Bank Berhad (6463-H)  
3476 & 3477 Garden Street  
Jinjang Utara  
52000 Kuala Lumpur  
Tel : 03-6252 3355
- United Overseas Bank (Malaysia) Bhd. (271809K)  
Level 2, Menara UOB  
Jalan Raja Laut  
50350 Kuala Lumpur  
Tel : 03-2692 4511
- ADVISER** : TA Securities Holdings Berhad (14948-M)  
32<sup>nd</sup> Floor, Menara TA One  
22, Jalan P. Ramlee  
50250 Kuala Lumpur  
Tel : 03-2072 1277
- STOCK EXCHANGE LISTING** : ACE Market



**PALETTE MULTIMEDIA BERHAD**  
(Company No.420056-K)  
(Incorporated in Malaysia under the Act)

**Registered Office:**

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

27 February 2013

**Our Board of Directors:**

Eg Kah Yee (*Chairman/Managing Director*)  
Eg Kaa Chee (*Non-Independent Non-Executive Director*)  
Abdul Razak Bin Dato' Haji Ipap (*Non-Independent Non-Executive Director*)  
Sukhdev Singh A/L Banta Singh (*Executive Director*)  
Thong Kooi Pin (*Independent Non-Executive Director*)  
Yoong Shee Fatt (*Independent Non-Executive Director*)

**To: The Entitled Shareholders**

Dear Sir/Madam,

**RENOUNCEABLE RIGHTS ISSUE OF UP TO 153,588,250 WARRANTS (“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 PALETTE HELD AT 5.00 P.M. ON 27 FEBRUARY 2013**

---

**1 INTRODUCTION**

Our shareholders had approved the Rights Issue of Warrants at the EGM. A certified true extract of the ordinary resolution passed by our shareholders at the EGM in relation to the Rights Issue of Warrants is set out in the **Appendix I** of this AP.

Bursa Securities had vide its letter dated 4 April 2012 approved the following:

- (i) Admission to the Official List and the listing and quotation of up to 154,513,250 Warrants on the ACE Market; and
- (ii) The listing of up to 154,513,250 new Palette Shares to be issued pursuant to the exercise of the Warrants on the ACE Market.

The above approvals are subject to the following conditions:

<b>Conditions imposed</b>	<b>Status of compliance</b>
(i) Palette and the Adviser must comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Rights Issue of Warrants;	To be complied

Conditions imposed	Status of compliance
(ii) Palette and the Adviser to inform Bursa Securities upon the completion of the Rights Issue of Warrants;	To be complied
(iii) Palette to furnish Bursa Securities with written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Rights Issue of Warrants is completed; and	To be complied
(iv) Palette to furnish Bursa Securities on a quarterly basis a summary of the total number of Shares listed pursuant to the exercise of Warrants as at the end of each quarter together with detailed computation of listing fees payable.	To be complied

The above approvals were based on the issued and paid-up share capital of our Company of RM29,052,650 comprising 290,526,500 Palette Shares and 18,500,000 ESOS options (exercisable into 18,500,000 Palette Shares) outstanding as at 7 September 2011, on the basis of one (1) Warrant for every two (2) Palette Shares upon full exercise of the 18,500,000 ESOS options.

As at the LPD, the issued and paid-up share capital of our Company remained at RM29,052,650 comprising 290,526,500 Palette Shares. However, the number of outstanding ESOS options reduced to 16,650,000 (exercisable into 16,650,000 Palette Shares) as a result of the termination of 1,850,000 ESOS options granted to our ex-employees who have left our Group. Assuming the entire existing outstanding 16,650,000 ESOS options are exercised into 16,650,000 Palette Shares prior to the Entitlement Date, a maximum of 153,588,250 Warrants may be issued.

Subsequently, Bursa Securities had vide its letter dated 20 September 2012 approved an extension of time of six (6) months until 3 April 2013 to complete the implementation of the Rights Issue of Warrants.

Bursa Securities had also vide its letter dated 6 February 2013 approved an application for waiver on the following:

- (i) Palette from complying with the requirement that there are at least 100 warrant holders holding not less than one (1) board lot each prior to the admission, listing and quotation of the Warrants, pursuant to Rule 6.52 of the Listing Requirements; and
- (ii) The adviser from providing the confirmation that there are at least 100 warrant holders holding not less than one (1) board lot each prior to the admission, listing and quotation of the Warrants pursuant to Rule 6.52 of the Listing Requirements.

The Controller had vide its letter dated 22 September 2011 approved the issuance of the Warrants to the non-resident Entitled Shareholders pursuant to the Rights Issue of Warrants.

On 13 February 2013, TA Securities on behalf of our Company announced that our Board has fixed the issue and exercise price of the Warrants at RM0.02 and RM0.10 respectively, per Warrant.

On 13 February 2013, TA Securities on behalf of our Company announced that our Board has fixed the Entitlement Date on 27 February 2013 at 5.00 p.m. and the other relevant dates pertaining to the Rights Issue of Warrants.

No person is authorised to give any information or to make any representation not contained in this AP in connection with the Rights Issue of Warrants and if given or made, such information or representation must not be relied upon as having been authorised by us or by TA Securities in connection with the Rights Issue of Warrants.

**If you are in any doubt as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.**

## 2 DETAILS OF THE RIGHTS ISSUE OF WARRANTS

### 2.1 Details of the Rights Issue of Warrants

In accordance with the terms of the Rights Issue of Warrants as approved by the relevant authorities, our shareholders at the EGM and subject to the terms of this AP and the accompanying documents, we will provisionally allot up to 153,588,250 Warrants to our Entitled Shareholders, on the basis of one (1) Warrant for every two (2) existing Palette Shares held on the Entitlement Date, at an issue price of RM0.02 per Warrant.

As at the LPD, the issued and paid-up share capital of our Company was RM29,052,650 comprising 290,526,500 Palette Shares. Assuming all the existing outstanding 16,650,000 ESOS options are exercised into 16,650,000 Palette Shares prior to the Entitlement Date, a maximum of 153,588,250 Warrants may be issued pursuant to the Rights Issue of Warrants. The actual number of Warrants to be issued pursuant to the Rights Issue of Warrants will depend on the issued and paid-up share capital of our Company as at the Entitlement Date.

The issue price for the Warrants of RM0.02 each is payable in full upon acceptance.

The Rights Issue of Warrants is renounceable in full or in part. Accordingly, the Entitled Shareholders can subscribe for or renounce their entitlement to the Warrants in full or in part. The Warrants which are not taken up or not validly taken up shall be made available for excess applications by the other Entitled Shareholders and/or their renounees.

In determining the entitlements of the Entitled Shareholders, any fractional entitlement to the Warrants will be disregarded and shall be dealt with in such manner as our Board in their absolute discretion deems fit and expedient in the best interests of our Company. It is the intention of our Board to allot the excess Warrants, if any in such manner that the incidence of odd lots will be minimised.

The Rights Issue of Warrants is not undertaken on a minimum level of subscription basis. Any unsubscribed Warrants shall be offered to other shareholders of our Company under the excess Warrants application. It is the intention of our Board to allocate the excess Warrants, if any, in a fair and equitable manner on a basis determined by our Board as set out in Section 3.8 of this AP.

As you are an Entitled Shareholder, your CDS Account will be duly credited with the number of provisional Warrants, which you are entitled to subscribe for in full or in part under terms of the Rights Issue of Warrants. You will find enclosed with this AP, the NPA notifying you of the crediting of such provisional Warrants into your CDS Account and the RSF to enable you to subscribe for the provisional Warrants, as well as to apply for the excess Warrants if you choose to.

Any dealing in our securities will be subject to the SICDA and the Rules of Bursa Depository. Accordingly, the Warrants and new Shares to be issued arising from the exercise of the Warrants will be credited directly to the respective CDS Accounts of the successful applicants and exercising Warrant holders (as the case may be). No physical warrant certificates will be issued to the Entitled Shareholders and/or their renounees, if applicable. A notice of allotment will be despatched to the successful applicants within eight (8) Market Days from the last date of acceptance and payment for the Rights Issue of Warrants and a notice of allotment will be despatched to the exercising Warrant holders within eight (8) Market Days after the date of receipt of the subscription form together with the requisite payment (for exercise of Warrants) from the date of exercise of the Warrants.

## 2.2 Basis of determining the issue price and exercise price of the Warrants

The issue price of RM0.02 per Warrant was arrived at by using the market base pricing principles after taking into consideration of the following:

- (i) Closing price of Palette Shares of RM0.045 on 8 February 2013, being the latest practicable date preceding the Price Fixing Date; and
- (ii) Five (5)-day VWAP of Palette Shares of RM0.045 up to 8 February 2013, being the latest practicable date preceding the Price Fixing Date.

The issue price of RM0.02 per Warrant was also taking into consideration the intended gross proceeds to be raised from the Rights Issue of Warrants and the Undertaking.

The exercise price of RM0.10 per Warrant was arrived at after taking into consideration of the following:

- (i) Closing price of Palette Shares of RM0.045 on 8 February 2013, being the latest practicable date preceding the Price Fixing Date;
- (ii) Five (5)-day VWAP of Palette Shares of RM0.045 up to 8 February 2013, being the latest practicable date preceding the Price Fixing Date; and
- (iii) The par value of Palette Shares of RM0.10 each.

## 2.3 Ranking of the Warrants and new Shares arising from the exercise of the Warrants

The holder of the Warrants will not be entitled to any voting rights or participation in any form of distribution and/or offer of further securities in Palette until and unless such holders of the Warrants exercise their Warrants to subscribe for new Palette Shares and are allotted the new Palette Shares.

The new Palette Shares to be issued from the exercise of the Warrants shall, upon allotment and issue, be of the same class and rank *pari passu* in all respects with the then existing Palette Shares, save and except that they will not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to the shareholders of our Company, the Entitlement Date of which is prior to the date of allotment of the new Palette Shares arising from the exercise of the Warrants.

## 2.4 Salient terms of the Warrants

The salient terms of the Warrants are follows:

<b>Terms</b>	<b>Details</b>
Number of Warrants	: Up to 153,588,250 Warrants to subscribe for up to 153,588,250 new Palette Shares to be issued to the Entitled Shareholders.
Form and Denomination	: The Warrants shall be issued in registered form.
Board Lot	: For the purposes of trading on Bursa Securities, a board lot of the Warrants shall be 100 units of the Warrants.
Exercise Rights	: Each Warrant entitles the registered holder to subscribe for one (1) new Share at any time during the Exercise Period and at the Exercise Price, subject to adjustments in accordance with the provisions of the Deed Poll.

<b>Terms</b>	<b>Details</b>
Exercise Period	: The Warrants may be exercised at any time commencing on and including the date of issuance of the Warrants until 5.00 p.m. on the Expiry Date.  Any Warrant not exercised during the Exercise Period will thereafter lapse and cease to be valid for any purpose.
Expiry Date	: A date being five (5) years from and including the date of issuance of the Warrants, provided that if such day falls on a day which is not a Market Day, then on the preceding Market Day.
Exercise Price	: The exercise price of the Warrants has been fixed at RM0.10 each, subject to adjustments in accordance with the provisions of the Deed Poll.
Rights of Warrants	: The holder of the Warrants is not entitled to any voting right or to participate in any distribution and/or offer of further securities in our Company until and unless such holder of the Warrants is issued with new Shares arising from their exercise of the Warrants.
Status of the new Shares arising from the exercise of the Warrants	: The new Shares to be issued upon exercise of the Warrants shall, upon allotment and issue, be of the same class and rank <i>pari passu</i> in all respects with the then existing Shares, save and except that they shall not be entitled to any dividend, rights allotment and/or other distribution which may be declared, made or paid to our shareholders, the Entitlement Date of which is prior to the date of allotment of the new Shares arising from the exercise of the Warrants.
Mode of Exercise	: The registered holder of the Warrants shall pay the Exercise Price by way of banker's draft or cashier's order or money order or postal order drawn on a bank or post office in Malaysia when exercising the Warrants for the new Shares.
Adjustments to the Exercise Price and/or number of Warrants	: The Exercise Price and number of Warrants in issue may be adjusted from time to time in accordance with the provisions of the Deed Poll in the event of any alteration in our share capital at any time during the tenure of the Warrants.

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

<b>Terms</b>	<b>Details</b>
Rights of the holders of the Warrants in the event of winding-up, compromise and/or arrangement	<p>: Where a resolution has been passed by our Company for a members' voluntary winding-up or there is compromise or arrangement, whether or not for the purpose of or in connection with scheme for the reconstruction of our Company with one or more companies:</p> <ul style="list-style-type: none"><li>(i) for the purposes of such winding-up, compromise or arrangement (other than consolidation, amalgamation or merger in which our Company is the continuing corporation) to which the holders of the Warrants or some persons designated by them for such purposes by special resolution, shall be party, the terms of such winding-up, compromise or arrangement shall be binding on all the holders of the Warrants; and</li><li>(ii) in any other case, every holder of the Warrants shall be entitled at any time within six (6) weeks after the passing of such resolution or the granting of the court order, by irrevocable surrender of his Warrants together with payment of the relevant subscription monies to elect to be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement exercised the subscription rights represented by such Warrants and be entitled to receive out of the assets which would be available in liquidation if he had on such date been the holder of the new Shares to which he would have become entitled pursuant to such exercise and the liquidator of our Company shall give effect to such election accordingly.</li></ul>
Listing	: The approval from Bursa Securities has been obtained for the admission of the Warrants to the Official List and for the listing of and quotation for the Warrants and the new Palette Shares to be issued upon exercise of the Warrants on the ACE Market.
Transferability	: The Warrants shall be transferable in the manner provided under the SICDA and the Rules of Bursa Depository.
Deed Poll	: The Warrants will be constituted under the Deed Poll.
Governing Law	: Laws of Malaysia.

## **2.5 Undertaking by substantial shareholder**

Our Company has obtained a written unconditional and irrevocable undertaking from our substantial shareholder, namely Eg Kah Yee that he will subscribe for his entitlement of 30,454,526 Warrants and the remaining of up to 123,133,724 Warrants which are not subscribed for by the other shareholders of our Company. As such, no underwriting arrangement will be made for the Warrants under the Rights Issue of Warrants.

The details of the above Undertaking are as follows:

(i) Minimum Scenario

Number of Palette Shares he held as at the LPD	% of shareholding	His entitlement of Warrants	% of Warrants	Additional number of Warrants he undertakes to subscribe	% of Warrants
54,834,052	18.87	27,417,026	18.87	117,846,224	81.13

(ii) Maximum Scenario

Number of Palette Shares he held as at the LPD	% of shareholding	After the exercise of outstanding ESOS options	% of shareholding	His entitlement of Warrants	% of Warrants	Additional number of Warrants he undertakes to subscribe	% of Warrants
54,834,052	18.87	60,909,052	19.83	30,454,526	19.83	123,133,724	80.17

Eg Kah Yee has confirmed that he has sufficient financial resources to subscribe for up to 153,588,250 Warrants pursuant to his Undertaking. As the Adviser to the Rights Issue of Warrants, TA Securities has verified the confirmation made by Eg Kah Yee.

Assuming that Eg Kah Yee is the only subscriber for the Warrants, his shareholding in Palette will increase from 18.87% to 45.92% (under Minimum Scenario) or 46.55% (under Maximum Scenario) upon full exercise of the Warrants. Under such circumstance, Eg Kah Yee is obliged to undertake a mandatory general offer to the holders of the remaining Palette Shares and convertibles securities pursuant to Paragraph 9(1) of the Code. Eg Kah Yee has given his confirmation to observe and comply at all times with the provisions of the Code.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK



## 2.6 Details of other corporate exercises

Save for the Rights Issue of Warrants, the outstanding ESOS which are expiring on 6 April 2014 and as disclosed below, our Board is not aware of any outstanding corporate proposal which has been announced but pending completion prior to the printing of this AP.

On 15 October 2012, our Board announced that our Company has on the same date entered into a Sale and Purchase of Shares Agreement with Jaliah Binti Jalal and Ismail Bin Mohamadeen for the disposal of 649,999 ordinary shares of USD 1 each in PT Palette Multimedia (“PT Palette”), representing 99.99% of the total issued and paid-up share capital in PT Palette for a total cash consideration of RM1 (“Proposed Disposal”). The Proposed Disposal is currently pending the approval from the relevant authorities of Indonesia.

## 3 INSTRUCTIONS FOR ACCEPTANCE, PAYMENT, SALE/TRANSFER AND EXCESS APPLICATION FOR THE RIGHTS ISSUE OF WARRANTS

### 3.1 General

As you are an Entitled Shareholder, your CDS Account will be duly credited with the number of provisional Warrants which you are entitled to subscribe for in full or in part, under the terms of the Rights Issue of Warrants. You will find enclosed with this AP, the NPA notifying you of the crediting of such provisional Warrants into your CDS Account and the RSF to enable you to subscribe for the provisional Warrants, as well as to apply for excess Warrants if you choose to do so.

### 3.2 NPA

The provisional Warrants are prescribed securities pursuant to Section 14(5) of the SICDA and therefore, all dealings in the provisional Warrants will be by book entries through the CDS Accounts and will be governed by the SICDA and the Rules of Bursa Depository. You and/or your renounees (if applicable) are required to have valid and subsisting CDS Accounts when making your applications.

### 3.3 Last date and time for acceptance and payment

The last date and time for acceptance and payment for the provisional Warrants is at **5.00 p.m. on 14 March 2013**, or such extended date and time as our Board may decide at its absolute discretion. Where the closing date of the acceptance is extended from the original closing date, the announcement of such extension will be made not less than two (2) Market Days before the original closing date.

### 3.4 Procedure for full acceptance and payment by Entitled Shareholders

Acceptance of and payment for the provisional Warrants must be made on the respective RSF enclosed with this AP and must be completed in accordance with the notes and instructions contained in the RSF. Acceptances which do not conform to the terms of this AP, the NPA or the RSF or the notes and instructions contained in these documents or which are illegible may not be accepted at the absolute discretion of our Board.

**FULL INSTRUCTIONS FOR THE ACCEPTANCE OF AND PAYMENT FOR THE PROVISIONAL WARRANTS, EXCESS APPLICATION FOR THE RIGHTS ISSUE OF WARRANTS AND THE PROCEDURES TO BE FOLLOWED SHOULD YOU WISH TO SELL/TRANSFER ALL OR ANY PART OF YOUR ENTITLEMENT ARE SET OUT IN THIS AP AND THE ACCOMPANYING RSF.**

**YOU AND/OR YOUR RENOUNCEES (IF APPLICABLE) ARE ADVISED TO READ THIS AP, THE ACCOMPANYING RSF AND THE NOTES AND INSTRUCTIONS THEREIN CAREFULLY.**

If you wish to accept your entitlement, please complete Parts I(A) and II of the RSF in accordance with the notes and instructions provided in the RSF. Thereafter, please send each completed and signed RSF together with the relevant payment by using the envelope provided (at your own risk) to our Share Registrar by **ORDINARY POST** or **DELIVERED BY HAND** at the following address:

Tricor Investor Services Sdn. Bhd.  
Level 17, The Gardens North Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur

Tel: 603-2264 3883  
Fax No: 603-2282 1886

so as to arrive **not later than 5.00 p.m. on 14 March 2013**, being the last time and date for acceptance of and payment, or such extended time and date as may be determined and announced by our Board.

One (1) RSF can only be used for acceptance of provisional Warrants standing to the credit of one (1) CDS Account. Separate RSF(s) must be used for separate CDS Account(s). If successful, Warrants subscribed for will be credited into the CDS Account(s) where the Provisional Warrants are standing to the credit.

A reply envelope is enclosed with this AP. In order to facilitate the processing of the RSF by our Share Registrar for the Warrants, you are advised to use one (1) reply envelope for each completed RSF.

You and/or your renounee (if applicable) should take note that a trading board lot for the Warrants comprises 100 Warrants. The minimum number of the provisional Warrants that can be subscribed for or accepted is one (1) Warrant. Fractions of a Warrant arising from the Rights Issue of Warrants will be disregarded and shall be dealt with by our Board as they may deem fit and expedient and in the best interest of our Company.

If acceptance of and payment for the provisional Warrants is not received by our Share Registrar by **5.00 p.m. on 14 March 2013**, being the last time and date for acceptance of and payment for the provisional Warrants, or any other extended date and time as may be determined and announced by our Board, you will be deemed to have declined the provisional entitlement made to you and it will be cancelled. In the event that the Warrants are not fully taken up by such applicants, our Board will then have the right to allot such Warrants to the applicants who have applied for the excess Warrants in the manner as set out in Section 3.8 of this AP. Proof of time of postage shall not constitute proof of time of receipt by our Share Registrar. Our Board reserves the right not to accept any application or to accept any application in part only without providing any reason.

If you lose, misplace or for any other reasons require another copy of the RSF, you may obtain additional copies from your stockbrokers, Bursa Securities' website at <http://www.bursamalaysia.com>, our Share Registrar at the address stated above or our Registered Office.

**EACH COMPLETED RSF MUST BE ACCOMPANIED BY REMITTANCE IN RM FOR THE FULL AMOUNT IN THE FORM OF BANKER'S DRAFT(S)/ CASHIER'S ORDER(S)/ MONEY ORDER(S) OR POSTAL ORDER(S) DRAWN ON A BANK OR POST OFFICE IN MALAYSIA CROSSED "A/C PAYEE ONLY" AND MADE PAYABLE TO "PALETTE RIGHTS ISSUE ACCOUNT" AND ENDORSED ON THE REVERSE SIDE WITH YOUR NAME AND CDS ACCOUNT NUMBER IN BLOCK LETTERS SO AS TO BE RECEIVED BY OUR SHARE REGISTRAR.**

**APPLICATIONS ACCOMPANIED BY PAYMENTS OTHER THAN IN THE MANNER STATED ABOVE OR WITH EXCESS OR INSUFFICIENT REMITTANCES MAY NOT BE ACCEPTED AT THE ABSOLUTE DISCRETION OF OUR BOARD. DETAILS OF THE REMITTANCES MUST BE FILLED IN THE APPROPRIATE BOXES PROVIDED IN THE RSF.**

**NO ACKNOWLEDGEMENT OF RECEIPT OF THE RSF OR APPLICATION MONIES WILL BE ISSUED BY OUR COMPANY OR OUR SHARE REGISTRAR IN RESPECT OF THE RIGHTS ISSUE OF WARRANTS. HOWEVER, SUCCESSFUL APPLICANTS WILL BE ALLOTTED THEIR WARRANTS, AND NOTICES OF ALLOTMENT WILL BE ISSUED AND DESPATCHED BY ORDINARY POST TO THEM OR THEIR RENOUNCEES (IF APPLICABLE) AT THEIR OWN RISK TO THE ADDRESS SHOWN IN THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE AND TIME FOR ACCEPTANCE AND PAYMENT FOR THE RIGHTS ISSUE OF WARRANTS.**

**APPLICANTS SHOULD NOTE THAT THE RSF AND REMITTANCES SO LODGED WITH OUR SHARE REGISTRAR SHALL BE IRREVOCABLE AND CANNOT BE SUBSEQUENTLY WITHDRAWN.**

**WHERE AN APPLICATION IS NOT ACCEPTED OR IS ACCEPTED IN PART ONLY, THE FULL AMOUNT OR THE BALANCE OF THE APPLICATION MONIES, AS THE CASE MAY BE, SHALL BE REFUNDED WITHOUT INTEREST AND SHALL BE DESPATCHED TO THE APPLICANT WITHIN FIFTEEN (15) MARKET DAYS FROM THE LAST DATE FOR ACCEPTANCE AND PAYMENT FOR THE RIGHTS ISSUE OF WARRANTS BY ORDINARY POST TO THE ADDRESS SHOWN ON BURSA DEPOSITORY'S RECORD OF DEPOSITORS AT THE APPLICANTS' OWN RISK.**

**APPLICATIONS SHALL NOT BE DEEMED TO HAVE BEEN ACCEPTED BY REASON OF THE REMITTANCE BEING PRESENTED FOR PAYMENT.**

### **3.5 Procedure for part acceptance by Entitled Shareholders**

You are entitled to accept part of your provisional Warrants. The minimum number of the Warrant that can be subscribed for or accepted is one (1) Warrant.

You must complete both Part I(A) of the RSF by specifying the number of the Warrants which you are accepting and Part II of the RSF and deliver the completed and signed RSF together with the relevant payment to our Share Registrar in the manner set out in Section 3.4 of this AP.

**YOU ARE ADVISED TO READ, UNDERSTAND AND CONSIDER CAREFULLY THE CONTENT OF THIS AP AND ADHERE TO THE NOTES AND INSTRUCTIONS CONTAINED IN THIS AP AND THE RSF.**

The portion of the provisional Warrants that have not been accepted shall be allotted to any other persons allowed under the law, regulations or rules to accept the transfer of the provisional Warrants.

### **3.6 Procedure for sale/transfer of provisional Warrants**

As the provisional Warrants are prescribed securities, you may dispose of or transfer all or part of your entitlement to the Warrants to one (1) or more person(s) through your stockbrokers for the period up to the last date and time for sale or transfer of the provisional Warrants without first having to request for a split of the provisional Warrants standing to the credit of your CDS Accounts. To dispose or transfer all or part of your entitlement to the provisional Warrants, you may sell such entitlement in the open market or transfer such entitlement to such persons as may be allowed pursuant to the Rules of Bursa Depository. If you have sold or transferred only part of the provisional Warrants, you may still accept the balance of the provisional Warrants by completing Parts I(A) and II of the RSF. Please refer to Section 3.4 of this AP for the procedure, acceptance and payment.

In disposing/transferring all or part of your provisionally Warrants, you need not deliver any document including the RSF, to any stockbroker. However, you must ensure that there is sufficient provisional Warrants standing to the credit of your CDS Accounts that are available for settlement of the sale or transfer.

Purchaser(s) or transferee(s) of the provisional Warrants may obtain a copy of this AP and the RSF from their stockbrokers or from our Share Registrar or at our Registered Office. This AP and the RSF are also available on Bursa Securities' website at <http://www.bursamalaysia.com>.

### 3.7 Procedure for acceptance and payment by renounees

Renounees who wish to accept the provisional Warrants must obtain a copy of the RSF from their stockbrokers or our Share Registrar or at our Registered Office or from the Bursa Securities' website at <http://www.bursamalaysia.com> and complete the RSF and submit the same together with the remittance to our Share Registrar in accordance with the notes and instructions printed therein.

The procedure for acceptance and payment applicable to the Entitled Shareholders as set out in Section 3.4 of this AP also applies to renounees who wish to accept the provisional Warrants.

**RENOONEES ARE ADVISED TO READ, UNDERSTAND AND CONSIDER CAREFULLY THE CONTENTS OF THIS AP AND ADHERE TO THE NOTES AND INSTRUCTIONS CONTAINED IN THIS AP AND THE RSF.**

### 3.8 Procedure for application of excess Warrants

You and/or your renounees who accept the provisional Warrants may apply for excess Warrants by completing Part I(B) of the RSF (in addition to Parts I(A) and II) and forward it (together with a **separate remittance** for the full amount payable in respect of the excess Warrants applied for) to our Share Registrar **not later than 5.00 p.m. on 14 March 2013**, being the last time and date for acceptance and payment, or such extended time and date as may be determined and announced by our Board.

**PAYMENT FOR THE EXCESS WARRANTS APPLIED FOR SHOULD BE MADE IN THE SAME MANNER AS DESCRIBED IN SECTION 3.4 OF THIS AP, WHERE THE BANKER'S DRAFT(S)/CASHIER'S ORDER(S)/MONEY ORDER(S) OR POSTAL ORDER(S) DRAWN ON A BANK OR POST OFFICE IN MALAYSIA CROSSED "A/C PAYEE ONLY" AND MADE PAYABLE TO "PALETTE EXCESS RIGHTS ISSUE ACCOUNT" AND ENDORSED ON THE REVERSE SIDE WITH YOUR NAME AND CDS ACCOUNT NUMBER IN BLOCK LETTERS SO AS TO BE RECEIVED BY OUR SHARE REGISTRAR.**

It is the intention of our Board to allot the excess Warrants, if any, on a fair and equitable basis and in the following priority:

- (i) firstly, to minimise the incidence of odd lots;
- (ii) secondly, on the pro-rata basis to our Entitled Shareholders who have applied for the excess Warrants, taking into consideration their respective shareholdings in our Company as at the Entitlement Date on a board lot basis;
- (iii) thirdly, on a pro-rata basis to our Entitled Shareholders who have applied for excess Warrants, taking into consideration the quantum of their respective excess application;
- (iv) fourthly, for allocation to renounees who have applied for excess Warrants on a pro-rata basis and in board lot, taking into consideration the quantum of their respective excess application; and
- (v) lastly, in the event that there are still unsubscribed Warrants after allocating all the excess Warrants, the remaining unsubscribed Warrants will be subscribed by our substantial shareholder, namely Eg Kah Yee, pursuant to the Undertaking.

Nevertheless, our Board reserves the right to allot any excess Warrants applied for under Part I(B) of the RSF in such manner as it deems fit and expedient and in the best interest of our Company subject always to such allocation being made on a fair and equitable basis, and that the intention of our Board as set out in Section 3.8(i) to (v) above are achieved. Our Board also reserves the right to accept any excess Warrants application, in full or in part, without assigning any reason.

APPLICATIONS ACCOMPANIED BY PAYMENTS OTHER THAN IN THE MANNER STATED ABOVE OR WITH EXCESS OR INSUFFICIENT REMITTANCES MAY OR MAY NOT BE ACCEPTED AT THE ABSOLUTE DISCRETION OF OUR BOARD.

NO ACKNOWLEDGEMENT OF RECEIPT OF THE RSF OR APPLICATION MONIES WILL BE ISSUED BY OUR COMPANY OR OUR SHARE REGISTRAR IN RESPECT OF THE EXCESS WARRANTS. HOWEVER, SUCCESSFUL APPLICANTS WILL BE ALLOTTED THEIR WARRANTS, AND NOTICE OF ALLOTMENT WILL BE ISSUED AND DESPATCHED BY ORDINARY POST TO THE APPLICANTS AT THEIR OWN RISK TO THE ADDRESS SHOWN IN THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE FOR ACCEPTANCE AND PAYMENT FOR THE EXCESS WARRANTS.

IN RESPECT OF UNSUCCESSFUL OR PARTIALLY SUCCESSFUL EXCESS WARRANTS APPLICATIONS, THE FULL AMOUNT OR THE SURPLUS APPLICATION MONIES, WILL BE REFUNDED WITHOUT INTEREST WITHIN FIFTEEN (15) MARKET DAYS FROM THE LAST DATE FOR ACCEPTANCE OF AND PAYMENT FOR THE EXCESS WARRANTS BY ORDINARY POST TO THE ADDRESS SHOWN IN THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY AT THE APPLICANTS' OWN RISK.

### **3.9 Notice of allotment**

Upon allotment of the Warrants in respect of your acceptance and/or your renounee's acceptance (if applicable) and excess Warrants application (if any), the Warrants shall be credited directly into the respective CDS Account. No physical warrant certificates will be issued in respect of the Warrants. However, a notice of allotment will be despatched to you and/or your renounees (if applicable), by ordinary post within eight (8) Market Days from the last date of acceptance and payment for the Warrants and excess Warrants application, or such other period as may be prescribed or allowed by Bursa Securities, at the address shown in the Record of Depositors at your own risk.

Where any application for the Warrants is not accepted due to non-compliance with the terms of the Rights Issue of Warrants or accepted in part only, the full amount or the balance of the application monies, as the case may be, will be refunded without interest and be despatched to you within fifteen (15) Market Days from the last date and time for acceptance and payment of the Warrants by ordinary post to the address shown in the Record of Depositors at your own risk.

The allotment of the Warrants, despatch of notice of allotment and quotation for the Warrants will be made within eight (8) Market Days from the last date and time for acceptance of and payment for the Warrants.

Please note that a completed RSF and the payment thereof once lodged with our Share Registrar for the Rights Issue of Warrants cannot be withdrawn subsequently.

### **3.10 Form of issuance**

Bursa Securities has prescribed that our Shares listed on the ACE Market to be deposited with Bursa Depository. Accordingly, the Warrants and the new Shares to be issued arising from the exercise of Warrants are prescribed securities and as such the SICDA and the Rules of Bursa Depository shall apply in respect of the dealings in the Warrants.

Failure to comply with the specific instructions for applications or inaccuracy in the CDS Account number may result in the application being rejected. Your subscription for the Warrants shall mean your consent to receiving such Warrants as deposited securities which will be credited directly into your CDS Account. No physical warrant certificate will be issued to you under the Rights Issue of Warrants. Instead, the Warrants will be credited directly into your CDS Accounts, and notices of allotment will be despatched by ordinary post to you and/or your renounees (if applicable) at your own risk at the address shown in the Record of Depositors provided by Bursa Depository within eight (8) Market Days from the last date and time for acceptance and payment of the Rights Issue of Warrants.

Any person who has purchased the provisional Warrants or to whom provisional Warrants has been transferred and intends to subscribe for the Warrants must state his/her CDS Account number in the space provided in the RSF. The Warrants will be credited directly as prescribed securities into his/her CDS Account upon allotment and issue.

The excess Warrants, if allotted to the successful applicant who applies for excess Warrants, will be credited directly as prescribed securities into the CDS Account of the successful applicant. The allocation of the excess Warrants will be made on a fair and equitable basis as disclosed in Section 3.8 of this AP.

### **3.11 Laws of foreign jurisdictions**

This AP and the accompanying NPA and RSF have not been (and will not be) made to comply with the laws of any foreign jurisdiction and have not been (and will not be) lodged, registered or approved pursuant to or under any legislation (or with or by any regulatory authorities or other relevant bodies) of any foreign jurisdiction. The Rights Issue of Warrants will not be made or offered for subscription in any foreign jurisdiction.

Accordingly, this AP together with the accompanying documents will not be sent to the foreign Entitled Shareholders and/or their renounees (if applicable) who do not have a registered address in Malaysia. However, such foreign Entitled Shareholders and/or their renounees (if applicable) may collect this AP including the accompanying documents from our Share Registrar, in which event our Share Registrar shall be entitled to request for such evidence as it deems necessary to satisfy itself as to the identity and authority of the person collecting the documents relating to the Rights Issue of Warrants.

Foreign Entitled Shareholders and/or their renounees (if applicable) may only accept or renounce (as the case may be) all or any part of their entitlements and exercise any other rights in respect of the Rights Issue of Warrants only to the extent that it would be lawful to do so.

TA Securities, our Company and our Directors and officers would not, in connection with the Rights Issue of Warrants, be in breach of, responsible or liable under the laws of any jurisdiction to which that foreign Entitled Shareholders and/or their renounees (if applicable) are or may be subject to. He shall solely be responsible to seek advice as to the laws of the jurisdictions to which they are or may be subject to. TA Securities, our Company and our Directors and officers and other professional advisers shall not accept any responsibility or liability in the event that any acceptance or renunciation made by any foreign Entitled Shareholders and/or their renounees (if applicable), is or shall become unlawful, unenforceable, voidable or void in any such jurisdiction.

The foreign Entitled Shareholders and/or their renounees (if applicable) will be responsible for payment of any issue, transfer or any other taxes or other requisite payments due in such jurisdiction and our Company shall be entitled to be fully indemnified and held harmless by such foreign Entitled Shareholders and/or their renounees (if applicable) for any issue, transfer or other taxes or duties as such person may be required to pay. They will have no claims whatsoever against our Company and/or TA Securities in respect of their rights and entitlements under the Rights Issue of Warrants. Such foreign Entitled Shareholders and/or their renounees (if applicable) should consult their professional advisers as to whether they require any governmental, exchange control or other consents or need to comply with any other applicable legal requirements to enable them to accept the Rights Issue of Warrants.

By signing the RSF, the foreign Entitled Shareholders and/or their renounees (if applicable) are deemed to have represented, acknowledged and declared in favour of (and which representations, acknowledgements and declarations will be relied upon by) TA Securities, our Company and our Directors and officers that:

- (i) our Company would not, by acting on the acceptance or renunciation in connection with the Rights Issue of Warrants, be in breach of the laws of any jurisdiction to which that foreign Entitled Shareholders or renounees (if applicable) is or may be subject to;

- (ii) the foreign Entitled Shareholders and/or their renounees (if applicable) have complied with the laws to which they are or may be subject to in connection with the acceptance or renunciation of the provisional Warrants;
- (iii) the foreign Entitled Shareholders and/or their renounees (if applicable) are not a nominee or agent of a person in respect of whom we would, by acting on the acceptance or renunciation of the provisional Warrants, be in breach of the laws of any jurisdiction to which that person is or may be subject to;
- (iv) the foreign Entitled Shareholders and/or their renounees (if applicable) are aware that the Warrants can only be transferred, sold or otherwise disposed of, or charged, hypothecated or pledged in accordance with all applicable laws in Malaysia;
- (v) the foreign Entitled Shareholders and/or their renounees (if applicable) have received a copy of this AP and have been provided the opportunity to pose such questions to our representatives and receive answers thereto as the foreign Entitled Shareholders and/or their renounees (if applicable) deem necessary in connection with the foreign Entitled Shareholders and/or their renounees (if applicable) decision to subscribe for or purchase the Warrants. However, any information relevant to an investment shall be contained in this AP; and
- (vi) the foreign Entitled Shareholders and/or their renounees (if applicable) have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Warrants, and are and will be able, and are prepared to bear the economic and financial risks of investing in and holding the Warrants.

Persons receiving this AP, the NPA and the RSF (including without limitation custodians, nominees and trustees) must not, in connection with the offer, distribute or send it into any jurisdiction where to do so would or might contravene local securities, exchange control or relevant laws or regulations. If this AP, the NPA and the RSF are received by any persons in such jurisdiction, or by the agent or nominee of such a person, he must not seek to accept the offer unless he has complied with and observed the laws of the relevant jurisdiction in connection herewith.

Any person who does forward this AP, the NPA and the RSF to any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this section and we reserve the right to reject a purported acceptance of the Warrants from any such application by foreign Entitled Shareholders and/or their renounees (if applicable) in any jurisdiction other than Malaysia.

Our Company reserves the right, in our absolute discretion, to treat any acceptance of the Warrants as invalid if it believes that such acceptance may violate any applicable legal or regulatory requirements in Malaysia. For instance, if there is a breach of the Anti-Money Laundering and Anti-Terrorism Financing Act 2001, we will be required to treat the acceptance of the Warrants as invalid.

#### **4 RATIONALE FOR THE RIGHTS ISSUE OF WARRANTS**

Our Board is of the opinion that the Rights Issue of Warrants is currently the most appropriate option of raising funds for our Group as it will enable us to raise funds mainly for our working capital requirements without incurring additional interest expenses as well as to reduce cash outflow in respect of interest servicing cost.

The Rights Issue of Warrants will also strengthen the balance sheets and cash flows of our Group to the extent that the Warrants are exercised and will provide our Group with additional capital to finance the working capital requirements when the Warrants are exercised in the future.

Assuming all shareholders fully subscribe for their respective entitlements and exercise their Warrants subsequently, the Rights Issue of Warrants will not dilute the existing shareholders' equity interest in our Company and will provide our existing shareholders with an option to further increase their shareholdings in our Company at a pre-determined price during the Exercise Period.

## 5 UTILISATION OF PROCEEDS

The gross proceeds to be raised from the Rights Issue of Warrants (excluding proceeds from any exercise of the Warrants in the future, if any) are expected to be utilised in the following manner:

	Minimum Scenario RM	Maximum Scenario RM	Expected time frame for utilisation of proceeds from date of listing of the Warrants
Working capital for our Group <sup>(i)</sup>	2,355,265	2,521,765	Within 24 months
Payment of trade line facility <sup>(ii)</sup>	150,000	150,000	Within 6 months
Defray expenses in relation to the Rights Issue of Warrants <sup>(iii)</sup>	400,000	400,000	Within 2 weeks
<b>Total</b>	<b>2,905,265</b>	<b>3,071,765</b>	

Notes:

(i) The breakdown of the utilisation for working capital are as follows:

	Minimum Scenario RM	Maximum Scenario RM
Payments of salaries	100,000	100,000
Payments to trade creditors*	2,255,265	2,421,765
<b>Total</b>	<b>2,355,265</b>	<b>2,521,765</b>

\* The proceeds allocated for the payments to trade creditors will enable our Group to have additional funds to pay the creditors as and when required and enable our Group to continue the working relationship with the trade creditors to support our Group's on-going business operations.

(ii) As at the LPD, our Group has utilised a trade line facility of RM0.33 million from United Overseas Bank (Malaysia) Bhd. to finance the supply of wireless network equipment for our Group's on-going projects with TMB. Our Directors envisage that we will utilise the trade line facility from United Overseas Bank (Malaysia) Bhd. of at least RM0.15 million by 30 September 2013 for the payment to the suppliers based on the existing on-going and potential projects with TMB. As such, we intend to utilise RM0.15 million from the proceeds to repay the trade line facility as and when it is due. Based on the terms of the trade line facility, our Group is required to settle the outstanding trade line facility and interest incurred thereon only as and when it is due. Hence, our Group is not expected to have any interest saving upon repayment of the trade line facility. The balance of the outstanding trade line facility, if any, will be settled via our Group's internal generated funds.

As at the LPD, our Group has total borrowings of approximately RM0.69 million comprising bank overdraft, banker acceptance and trust receipt.

Any shortfall or excess in the funds allocated for the payment of trade line facility will be adjusted accordingly from/to the working capital purposes.

(iii) The expenses relating to the Rights Issue of Warrants comprise, amongst others, the estimated professional fees, fees payable to the relevant authorities, expenses to convene the EGM, printing, advertisement expenses and other ancillary expenses. If the actual expenses incurred are higher than the budgeted, the deficit will be funded from the portion allocated for our Group's working capital. Conversely, any surplus of funds following payment of expenses will be utilised as working capital for our Group.

The exact quantum of proceeds that may be raised from the exercise of the Warrants would depend upon the actual number of Warrants exercised. In any event, we intend to utilise the proceeds arising from the exercise of the Warrants as working capital for our Group.



## 6 RISK FACTORS

You and/or your renounees (if applicable) should consider carefully the following risk factors (which may not be exhaustive) which may have an impact on the future performance of our Group, in addition to other information contained elsewhere in this AP, before subscribing for or investing in the Rights Issue of Warrants.

### 6.1 Risks relating to our Group

#### (i) Financial position

Our Group incurred an audited LAT of RM3.80 million for the FYE 31 December 2011 and an unaudited LAT of RM0.11 million for the nine (9)-month period ended 30 September 2012 and we have an audited accumulated losses of RM14.01 million as at 31 December 2011.

Our auditors have expressed an opinion on going concern in our audited financial statements for the FYE 31 December 2011. This basis presumes our Group will continue to receive financial support from our shareholders, bankers and creditors and success of the future operations of our Group. Should any of the above underlying assumption be negated or substantially altered, the accompanying and financial statements may be affected materially.

In view of the above, there can be no assurance that our Group will be profitable subsequent to the completion of the Rights Issue of Warrants and thereby, reduce the accumulated losses in the near future. Nevertheless, our Directors believe that there will be improvement to our Group's financial condition after taking into consideration our future prospects as detailed in Section 7.3 of this AP.

#### (ii) Business risk

Our Group is subject to certain risk inherent in the ICT and telecommunication industry. Our Group's revenue and operating results could be adversely affected by many factors which include, amongst others, changes in operating expenses, rapid technological changes, the ability to develop and market new products services, the ability to response to the changes in the sentiments of the ICT industry, consumer preference and market perception, lower profit margins due to pricing competition, the ability to control cost and changes in the laws, regulations and policies applicable to the telecommunication and/or wireless industries.

Our Group has and will continue to limit these business risks through, *inter-alia*, prudent management policies, keeping abreast with the latest development in the ICT industry, taking proactive measures to develop marketing strategies and product development, maintain good relationship with customers and suppliers. Notwithstanding this, there can be no assurance that change in these factors will not have material adverse effect on our Group's business.

#### (iii) Competition risk

Our Group faces competition from both new and existing players which offer similar solutions of broadband, wireless and networking products as well as our products services which include the design, development, implementation, network management and business analysis of the technology and network.

In view of the competitive market environment, we will leverage and sharpen our competitive edge by providing innovative product differentiation and efficient products and services delivery and deployment, constantly guaranteeing quality and reliable products and services to our customers and offering competitive pricing and after sales services to our customers. However, there can be no assurance that our Group will be able to compete effectively against our competitors and that competitive pressure will not materially and adversely affect our Group's business, operations, results and/or financial conditions.

**(iv) Rapid technological change in the ICT industry**

The market for our Group's products and services involves rapid technological changes, evolving industry standards, swift changes in customer requirements, broadband, wireless and networking operating environments, ICT software and hardware applications and frequent new product introductions and enhancements. Our Group's future depends substantially upon our ability to address the increasingly sophisticated needs of our customers. Our Group's business, operating results and financial position can be affected by competing products and services which better address customers' requirements or for any reason is preferred by customers and the market.

In this regard, our Group continuously evaluates and analyses new and/or suitable technologies to be adopted or assimilated into our business as we strive to keep abreast with the ever changing market trends and demand, increase competitiveness and avoid technological obsolescence timely and cost effectively.

**(v) Dependence on key personnel**

We believe that our continued success is dependent, to a significant extent, upon the abilities, skills, experience, competency and continued efforts of our existing Directors and key management. The loss of any of our Directors or members of the key management may affect our performance. Our Company's key management has made significant contributions in leading the daily operations, sales and marketing efforts and in formulating strategies. Our Company's key management also has relevant experience in the business and operations of our Group and has been instrumental in the growth and expansion of our business.

Our Group is constantly reviewing our remuneration packages with the view to making them competitive and taking measures to attract new personnel as well as to retain existing staff. However, there can be no assurance that we will be able to successfully attract, train and retain the necessary skilled personnel.

**(vi) Adequacy of insurance coverage**

Our Group is aware of the adverse consequences arising from inadequate insurance coverage given that our Group's operations are vulnerable to general risks such as theft and outbreak of fire, lightning and other calamity which may cause significant losses or damage to our goods, equipment and office premises, thus disrupting and affecting our business operations.

Nevertheless, there can be no assurance that these risks will continue to be insurable in the future and/or that the amount insured would equal the replacement cost of these insured assets. Our Group will continue to review on a regular basis and ensure adequate coverage for our Group's material assets.

**(vii) Delay in R&D**

Our Group has on-going R&D programmes with the purpose of embarking on building expertise on products related to HSBB access solutions to meet the requirements and expectations of the market as well as the rapid changes in the current technological environment. There can be no assurance that these R&D programmes can be successfully completed on time so as to enable the roll-out of new or enhanced HSBB access solutions on a timely basis to meet market requirements and expectations.

Nevertheless, our Group believes that our current HSBB access solutions have been well-accepted by our customers and as such the effects of any material delay in the roll-out of new or enhanced solutions are partially mitigated by continued availability of our Group's existing HSBB access solutions. In addition, our key management constantly monitors the R&D activities and progresses and keeps abreast with the latest technological changes in the ICT industry.

**(viii) Delay in completion of projects**

The timely completion of a project is dependent on many external factors, including the delay information from clients, incomplete specification or unanticipated difficulties in developing the solutions, market conditions, human errors and compliance with the initial plan. Accordingly, the failure or delay in the implementation of the projects could result in the termination of contracts or claims being made against our Group.

As a mitigating factor, we will enter into contracts with favourable contractual terms, conducting studies on the complexity and specifications of each project to ensure smooth and efficient project implementation, and closely monitoring the progress of our Group's projects by providing post sales maintenance services.

**(ix) Economic, political and regulatory risks**

Our financial and business prospects are subject to the political, economic and regulatory front in Malaysia. As such, any adverse development in the political and regulatory conditions in Malaysia could materially and adversely affect the financial performance and operations of our Group. Political, economic and regulatory uncertainties includes, but is not limited to, global economic slowdown, war, changes in political leadership, changes in government policy and spending, changes in interest rates, method of taxation and currency rules.

Whilst our Board and management will continue to take effective measures such as prudent financial management and continue seeking new markets, there is no assurance that any change to these factors will not materially and adversely affect our financial position or business in the future.

**(x) Litigation**

Save for the material litigation disclosed in **Appendix VII**, Section 4 of this AP, our Group is not engaged in any material litigation, claim and arbitration, either as plaintiff or defendant, which has a material effect on the financial position of our Group and our Board is not aware of any proceedings which might materially and adversely affect the position of our Group.

In respect of the material litigation disclosed in **Appendix VII**, Section 4 of this AP, our Board considers that it has a reasonable chance of success if the matter is appealed and the Company has applied for leave to appeal to the Federal Court of Malaysia.

**6.2 Risks relating to the Rights Issue of Warrants**

**(i) Investment risk**

The market price of the Warrants, like all securities traded on Bursa Securities, is subject to fluctuation and will be influenced by, amongst others, the market price of our Shares, the remaining Exercise Period and the volatility of our Shares. In view of this, there can be no assurance that the Warrants will be traded higher or above the issue price of RM0.02 per Warrant subsequent to their listing and quotation on the ACE Market. Similarly, there can be no assurance that our Shares will be traded at or above the Exercise Price upon or subsequent to the listing and quotation of the new Shares arising from the exercise of Warrants on the ACE Market.

On the other hand, the market price of our Shares is fluctuated by, amongst others, the prevailing market sentiments, volatility of the stock market, our financial performance, the outlook of the ICT industry and changes in the regulatory requirements. In view of this, there can be no assurance that the Warrants will be in "in-the-money" during the Exercise Period. In the event the Warrants are not exercised during the Exercise Period, the unexercised Warrants will lapse and cease thereafter to be valid for any purpose.

**(ii) No prior market for the Warrants**

As there is no prior market for the Warrants, there can be no assurance that an active and liquid market for the Warrants will be developed or if developed, can be sustained upon the listing and quotation of the Warrants on the ACE Market.

The price at which the Warrants will be traded on Bursa Securities upon or subsequent to their listing is dependent upon market forces, which are beyond our control. Accordingly, there is no assurance that the market price of the Warrants will be at a level that meets the specific investment objectives or targets of any subscriber of the Warrants.

**(iii) Delay in or failure of the Rights Issue of Warrants**

The implementation of the Rights Issue of Warrants is exposed to the risk that it may be delayed or aborted on the occurrence of any one (1) or more of the following events:

- (a) Material adverse change of events/circumstances, which are beyond the control of our Company arising prior to or during the implementation of the Rights Issue of Warrant. Such events/circumstances include *inter-alia*, natural disasters, adverse developments in political, economic and government policies in Malaysia; and
- (b) Our substantial shareholder as set out in Section 2.5 of this AP may not fulfill or be able to fulfill his obligation pursuant to the Undertaking.

In the event the Rights Issue of Warrants is aborted, all the proceeds arising from the Rights Issue of Warrants will be returned without interest to the Entitled Shareholders and/or their renounees who have subscribed for the Warrants by ordinary post to the address as shown in the Record of Depositors.

**(iv) Capital market risks**

The performance of the local stock market is dependent on the economic and political condition in Malaysia as well as external factors such as, amongst others, the performance of the world bourses, flows of foreign funds and prices of commodities. These factors invariably contribute to the volatility and the liquidity of Bursa Securities, thus adding risk to the market price of the Warrants.

**(v) Forward-looking statements**

Certain statements in this AP are based on historical information, which may not be reflective of the future results, and others are forward-looking in nature, which are subject to uncertainties and contingencies.

All forward-looking statements contained in this AP are based on forecasts and assumptions made by our Company, unless stated otherwise. Although our Board believes that these forward-looking statements are reasonable, the statements are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. Such factors include, among others, the risk factors as set out in this section. In view of the above, the inclusion of any forward-looking statements in this AP should not be regarded as a representation or warranty by our Company that the plans and objectives of our Group will be achieved.

## 7 INDUSTRY OVERVIEW AND PROSPECTS OF OUR GROUP

### 7.1 Overview and prospects of the Malaysian economy

The Malaysian economy recorded a growth of 5.2% in the third quarter of 2012 (“**3Q 2012**”) (the second quarter of 2012 (“**2Q 2012**”): 5.6%). Growth was driven by a continued robust expansion in domestic demand amid weaker external demand. Net exports contracted further, with exports declining due to the deterioration in exports of manufactured goods and commodities.

Domestic demand expanded by 11.4% in the 3Q 2012 (2Q 2012: 14.0%) supported by the favourable performance of private consumption and investment activity by both the private and public sectors.

On the supply side, activity in most economic sectors moderated in the 3Q 2012. Growth in the manufacturing sector slowed, weighed down by the weaker external environment while the mining sector contracted due to a sharp decline in natural gas production following a prolonged planned shutdown of several gas facilities for maintenance purposes. In the agriculture sector, growth turned positive in line with the recovery in crude palm oil production and strong output of food crops. The construction sector continued to record robust growth, while growth in the services sector expanded further, driven by firm domestic demand.

The services sector expanded further in the 3Q 2012 by 7.0% (2Q 2012: 6.6%), as growth continued to be driven by firm domestic demand. The wholesale and retail trade sub-sector moderated to 4.4% (2Q 2012: 5.9%), weighed down by the wholesale segment amidst slower trade activity. Nonetheless, growth in the retail segment was sustained, supported by firm household spending. In the communication sub-sector, growth remained robust at 9.1% (2Q 2012: 9.5%), supported by continued demand for data communication services.

*(Source: Bank Negara Malaysia – Developments in the Malaysian Economy in the Third Quarter of 2012)*

### 7.2 Overview of the ICT industries in Malaysia

ICT infrastructure will be substantially extended under the Tenth (10<sup>th</sup>) Malaysia Plan period to facilitate connectivity to the global knowledge network. The Government will target 75.0% of households to have broadband by 2015.

Broadband is a key economic enabler and has the potential to revolutionise the way Malaysians live, work and play, while delivering real economic benefits via increased productivity. It will also spur the development of the domestic content industry and e-commerce. According to a World Bank study, a 10.0% increase in household broadband penetration can increase GDP growth by more than 1.0%. To capture this opportunity the Government has set a target of raising household broadband penetration to 75.0% by the end of 2015. This will be achieved via two main initiatives: the HSBB and BBGP, which leverage both wired and wireless technologies.

The HSBB initiative will cover about 1.3 million premises by 2012 in the high population, high economic impact areas where are the state capitals, large urban and industrial zones. HSBB will offer speeds of up to 100 megabits per second through fibre-to-the-home technology. The HSBB will be complemented by BBGP which will cover the semi-urban and rural areas. The national rollout of broadband is expected to incur a cost of approximately RM2.60 billion. The cost of HSBB rollout will be complemented by the private sector whereas that of BBGP will be partly funded through the Universal Services Provision Fund.

The MCMC will further strengthen the regulatory framework to ensure an equitable, non-discriminatory and a level playing field to increase competition and benefit consumers. Additionally, to stimulate demand for broadband, a series of measures will be introduced, including tax rebate for broadband subscription, providing affordable packages for students and the rural population, encouraging computer ownership as well as promoting development of local content both in the public and private sectors. The existing Uniform Building By-law 1984 will also be amended to make it mandatory for developers to provide broadband facilities in residential and commercial areas.

*(Source: Tenth (10<sup>th</sup>) Malaysia Plan: Creating the Environment for Unleashing Economic Growth)*

The communication sub-sector is estimated to grow 9.3% in 2012 (2011: 7.6%) attributed to strong expansion in the cellular, broadband and 3G segments.

As at end of June 2012, the broadband segment continued to expand 8.2% with the number of subscribers increasing to 5.8 million and reaching a household penetration rate of 63.7% (end of June 2011: 66.9%; 5.4 million; 60.1%). Growth was largely driven by intense promotional activities and improved network coverage. In addition, the growing popularity of social network sites such as Facebook and Twitter will further spur demand for broadband services. In the wireless broadband segment, the number of hotspot locations rose to 26,698 nationwide (end of June 2011: 16,851) mainly concentrated in Pulau Pinang, Selangor and Kuala Lumpur, which collectively accounted for 51.6% of total hotspot locations.

Meanwhile, the HSBB or UniFi services of TMB registered 405,839 subscribers as at end of July 2012, surpassing the year-end target of 400,000 subscribers. Broadband subscribers are expected to increase 3.5% to 5.9 million as at end of 2012 (end of 2011: 23.6%; 5.7 million) supported by the on-going extension of UniFi coverage and Government initiatives to provide broadband connectivity nationwide.

*(Source: Ministry of Finance – Economic Performance and Prospects 2012/2013)*

### 7.3 Prospects of our Group

Our Group will continue to focus on our existing business activities which are in designing, development and marketing of IT products and services related to providing HSBB access to the telecommunication market. Our Group believes that there is still room for growth in the ICT sector and in recent years, our Group's efforts in the HSBB area has made some significant gains especially in deploying large WiFi hotzones as well as high speed copper and fiber access solutions. The engagement with the telecommunication industry continues to show results and forms the basis for expanding our Group's business regionally if the opportunity arises in the future.

Our Group has entered into several contracts with TMB for the installation of WiFi services, network integration, maintenance services and supply of equipment for WiFi amounting to RM7.20 million for the period from 22 February 2008 to 20 July 2013 ("TMB Contract"). Our Group has completed the TMB Contract in September 2011 and was awarded a new contract amounting to RM4.24 million on 25 November 2011 for the installation of WiFi services, network integration, maintenance services and supply of equipment for WiFi from 25 November 2011 to 20 July 2013. Our Group has provided services to six (6) universities in Malaysia via the abovementioned contracts with TMB and expects to continue servicing some of the universities and to penetrate our services into the education industry. In addition, our Group has completed the setting up of hotzone for nine (9) towns in Negeri Sembilan with the State Government of Negeri Sembilan via our contracts with TMB.

Our R&D team is also embarking on building expertise by retaining existing key technical personnel and recruited a technical consulting manager to provide leadership on products related to deploying HSBB access solutions. The development of a key product family has been completed and our Group has completed a trial run for our products with a 3G and Wimax operator and has officially commercialised our products in 2012. Further development of these in-house products will continue over the years and will become a significant revenue source for our Group. Meanwhile, our Group has conducted a trial run for our cloud based access system for WiFi hotzones services in the third quarter of 2012 and has subsequently rolled out the system in the fourth quarter of 2012.

In addition, we have rolled out our mobile version of Palette's Access Management Gateway ("PAMG") in the fourth quarter of 2012 and is expected to have a positive impact on the performance of our Group. PAMG is a new service that allows our customers (mainly telecommunication operators) to deploy their network services by using our completely mobile backhaul which is able to support multiple backhauls from different operators.

Our Group has built up a significant expertise in designing and deploying HSBB network using copper, fiber and wireless technologies. The demand for these services is anticipated to keep on growing for several years both in Malaysia and in the region. Our Group's ability to offer highly customised solutions in this sector is anticipated to become a key business driver for the next few years, allowing us to service the fast growing telecommunications sector as well as branch into high end enterprise solutions.

Our management believes that our Group is able to benefit from the growing telecommunications sector with the recruitment of a technical consulting manager to provide leadership on products related to deploying HSBB access solutions and our continuous involvement in R&D to improve our customised solutions with the objective to provide better quality of products and services to our customers and to meet customers' requirements.

Our Group has submitted several tenders amounting to approximately RM300 million as at the LPD. However, these tenders are currently under evaluation by the relevant parties and our Company has not been awarded with any of the above mentioned tenders as at the LPD.

*(Source: Our management)*

## 8 FINANCIAL EFFECTS

### 8.1 Issued and paid-up share capital

The effects of the Rights Issue of Warrants on the issued and paid-up share capital of our Company are as follows:

	Minimum Scenario		Maximum Scenario	
	RM	Number of Shares	RM	Number of Shares
Existing issued and paid-up share capital as at the LPD	29,052,650	290,526,500	29,052,650	290,526,500
Full exercise of outstanding ESOS options	-	-	1,665,000	16,650,000
	29,052,650	290,526,500	30,717,650	307,176,500
Exercise of Warrants	14,526,325	145,263,250	15,358,825	153,588,250
<b>Enlarged after exercise of Warrants</b>	<b>43,578,975</b>	<b>435,789,750</b>	<b>46,076,475</b>	<b>460,764,750</b>

### 8.2 NA and gearing

Based on our audited statement of financial position as at 31 December 2011 and on the assumption that the Rights Issue of Warrants had been effected on that date, the proforma effect of the Rights Issue of Warrants on our NA per Share and gearing are as follows:

## (i) Minimum Scenario

	Audited as at 31 December 2011 RM	(I) Rights Issue of Warrants RM	(II) After (I) and assuming full exercise of the Warrants RM
Share capital	29,052,650	29,052,650	43,578,975
Share premium	4,296,261	4,296,261	6,801,526
ESOS reserves	13,136	13,136	13,136
Foreign exchange reserves	13,953	13,953	13,953
Warrant reserves	-	2,505,265*	-
Accumulated losses	(14,012,058)	(14,012,058)	(14,012,058)
Total equity attributable to owners of our Company	19,363,942	21,869,207	36,395,532
No. of Shares	290,526,500	290,526,500	435,789,750
NA per Share	0.07	0.08	0.08
Total bank borrowings	1,156,660	1,006,660	1,006,660
Gearing (times)	0.06	0.05	0.03

Note:

\* The Warrants are assumed to have a fair value of RM2.51 million based on the issue price of RM0.02 per Warrant and after taking into consideration of RM0.40 million estimated expenses for the Rights Issue of Warrants.

**REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**



## (ii) Maximum Scenario

		(I)	(II)	(III)
	Audited as at 31 December 2011 RM	Assuming full exercise of ESOS options RM	After (I) and the Rights Issue of Warrants RM	After (II) and assuming full exercise of the Warrants RM
Share capital	29,052,650	30,717,650	30,717,650	46,076,475
Share premium	4,296,261	4,309,397	4,309,397	6,981,162
ESOS reserves	13,136	-	-	-
Foreign exchange reserves	13,953	13,953	13,953	13,953
Warrant reserves	-	-	2,671,765*	-
Accumulated losses	(14,012,058)	(14,012,058)	(14,012,058)	(14,012,058)
Total equity attributable to owners of our Company	19,363,942	21,028,942	23,700,707	39,059,532
No. of Shares	290,526,500	307,176,500	307,176,500	460,764,750
NA per Share	0.07	0.07	0.08	0.08
Total bank borrowings	1,156,660	1,156,660	1,006,660	1,006,660
Gearing (times)	0.06	0.05	0.04	0.03

Note:

\* The Warrants are assumed to have a fair value of RM2.67 million based on the issue price of RM0.02 per Warrant and after taking into consideration of RM0.40 million estimated expenses for the Rights Issue of Warrants.

### 8.3 Earnings and EPS

The effect of the Rights Issue of Warrants on our earnings for the FYE 31 December 2013 will depend on the eventual returns derived from the utilisation of proceeds. The potential effect of the exercise of the Warrants on the future earnings and EPS of our Group will depend upon, amongst others, the number of Warrants exercised at any point in time and utilisation of proceeds arising from the exercise of the Warrants. Although the exercise of Warrants into new Palette Shares is expected to dilute the EPS of our Group as a result of the increase in our issued and paid-up share capital over time, the utilisation of proceeds raised from the exercise of Warrants is expected to contribute positively to the future earnings of our Group.

## 9 WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL COMMITMENTS

### 9.1 Working capital

Our Board is of the opinion that after taking into consideration the proceeds from the Rights Issue of Warrants, cash in hand, funds generated from our operation and banking facilities available, our Group will have sufficient working capital for a period of twelve (12) months from the date of this AP.

### 9.2 Borrowings

As at the LPD, our Group has total outstanding borrowings of RM692,912, all of which are interest-bearing and from local financial institutions, details of which are as follows:

	<b>Interest-bearing borrowing RM</b>
<b>Short term borrowings:</b>	
Bank overdraft (secured)	361,312
Bankers acceptance	316,000
Trust receipt	15,600
<b>Long term borrowings:</b>	-
<b>Total</b>	<u>692,912</u>

There is no non-interest bearing and foreign currency denominated borrowings as at the LPD.

There was no default on payment of either interest or principal sums in respect of any borrowing, throughout the past one (1) FYE 31 December 2011, and the subsequent financial period up to the LPD.

### 9.3 Contingent liabilities

Save for the sum referred to in Section 4(i)(c) of **Appendix VII**, our Board is not aware of any contingent liability incurred or known to be incurred by our Group as at the LPD, which in the opinion of our Board, upon becoming enforceable may substantially affect our Group's ability to meet our obligations as and when they fall due.

### 9.4 Material commitments

As at the LPD, there is no material commitment incurred or known to be incurred by our Group which, upon becoming enforceable, may have material impact on our Group's financial position.

## 10 TERMS AND CONDITIONS

The issuance of the Warrants pursuant to the Rights Issue of Warrants is governed by the terms and conditions as set out in this AP, the Deed Poll, the NPA and the RSF enclosed herewith.

**11. FURTHER INFORMATION**

You are requested to refer to the attached appendices for further information.

Yours faithfully  
For and behalf of the Board of  
**PALETTE MULTIMEDIA BERHAD**



**Eg Kah Yee**  
Chairman/Managing Director

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

**CERTIFIED TRUE EXTRACT OF THE ORDINARY RESOLUTION IN RELATION TO THE RIGHTS ISSUE OF WARRANTS PASSED AT OUR EGM HELD ON 15 JUNE 2012**

**PALETTE MULTIMEDIA BERHAD (420056-K)**  
(Incorporated in Malaysia)

**EXTRACT OF MINUTES OF THE EXTRAORDINARY GENERAL MEETING HELD ON FRIDAY, 15 JUNE 2012 AT 11.30 A.M.**

**ORDINARY RESOLUTION**

**PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 153,588,250 WARRANTS ("WARRANTS") AT AN INDICATIVE ISSUE PRICE OF RM0.03 FOR EACH WARRANT ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.10 EACH IN PALETTE ("PALETTE SHARES") HELD AS AT AN ENTITLEMENT DATE TO BE DETERMINED LATER ("PROPOSED RIGHTS ISSUE OF WARRANTS")**

**RESOLVED:-**

THAT subject to the approvals from relevant authorities being obtained where necessary, approval be and is hereby given for Palette to undertake the Proposed Rights Issue of Warrants as follows:

- (a) To issue and allot up to 153,588,250 Warrants to the shareholders of Palette whose names appear in the Record of Depositors of Palette as at the close of business on an entitlement date to be determined later ("Entitled Shareholders"), at an indicative issue price of RM0.03 for each Warrant on the basis of one (1) Warrant for every two (2) existing Palette Shares held;
- (b) To constitute the Warrants upon the terms and conditions of a deed poll to be executed by Palette ("Deed Poll"), the indicative salient terms of which are as set out in Section 2.4 of the Circular to Shareholders dated 9 May 2012 ("Circular");
- (c) To issue and allot such other additional Warrants as may be required or permitted to be issued as a result of any adjustment under the provisions of the Deed Poll;
- (d) To issue and allot such number of new Palette Shares arising from the exercise of the Warrants during the tenure of the Warrants;
- (e) To utilise the proceeds to be derived by the Proposed Rights Issue of Warrants in the manner as set out in Section 4 of the Circular and the Board be and are hereby authorised to revise the utilisation of the proceeds as they may deem fit and in the interest of the Company; and
- (f) Enter into and execute the Deed Poll constituting the Warrants and to do all acts, deeds and things as they may deem fit or expedient in order to implement, finalise and give effect to the Deed Poll;

**CERTIFIED TRUE EXTRACT OF THE ORDINARY RESOLUTION IN RELATION TO THE RIGHTS ISSUE OF WARRANTS PASSED AT OUR EGM HELD ON 15 JUNE 2012 (CONT'D)**

**PALETTE MULTIMEDIA BERHAD (420056-K)  
EXTRACT OF MINUTES OF THE EXTRAORDINARY GENERAL MEETING HELD ON 15 JUNE 2012**

Page 2 of 2

AND THAT the Board be and is hereby authorised to allocate the excess Warrants in a fair and equitable manner on a basis to be determined by the Board in its absolute discretion;

AND THAT the Board be and is hereby entitled to deal with all or any of the fractional entitlement of the Warrants arising from the Proposed Rights Issue of Warrants, which are not validly taken up or which are not allotted for any reason whatsoever, in such manner as the Board may in their absolute discretion deem fit and in the best interest of the Company;

AND THAT the new Palette Shares to be issued pursuant to the exercise of the Warrants, shall upon allotment and issue, rank *pari passu* in all respects with the then existing Palette Shares except that they will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is before the date of allotment of the new Palette Shares to be issued pursuant to the exercise of the Warrants (as the case may be);

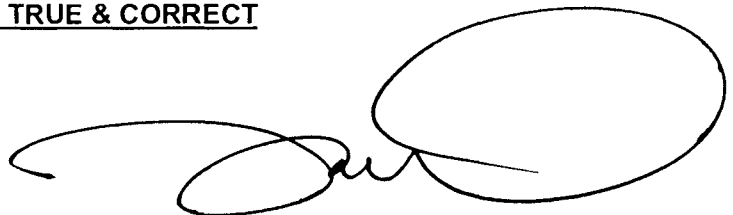
AND FURTHER THAT the Board be and is hereby authorised with full power to do all acts, deeds and things, to enter into all such transactions and arrangements, to execute, sign and deliver on behalf of the Company, all such documents and/or agreements as they may deem necessary, expedient and/or appropriate to implement, finalise and give full effect to and complete the Proposed Rights Issue of Warrants and to make, assent to and/or to effect any modifications, variations and/or amendments in any manner as they may deem necessary and in the best interest of the Company or as may be required by the relevant authority/authorities to give effect to the Proposed Rights Issue of Warrants, and to take all such steps as they may deem necessary or expedient in the best interests of the Company to implement, finalise and give full effect to the Proposed Rights Issue of Warrants.

Dated this:- 15 JUN 2012

**CERTIFIED TRUE & CORRECT**



**DIRECTOR  
EG KAH YEE**



**SECRETARY  
NG YEN HOONG (LS 008016)**

**INFORMATION ON OUR COMPANY****1. HISTORY AND BUSINESS**

Our Company was incorporated under the name of Properous Media Sdn. Bhd. in Malaysia under the Act on 19 February 1997 and subsequently changed our name to Palette Multimedia Sdn. Bhd. on 6 June 1997. Our Company was converted into a public limited company on 24 July 2000 and was listed on the MESDAQ Market of Bursa Securities (now known as ACE Market) on 8 August 2001.

Our Company is principally involved in investment holding and design, development and marketing of IT related products and services.

Further details of the principal activities of our subsidiary companies are set out in Section 5 of this Appendix.

**2. SHARE CAPITAL**

Our authorised and issued and paid-up share capital as at the LPD are as follows:

<b>Type</b>	<b>No. of Shares</b>	<b>Par value RM</b>	<b>Total RM</b>
Authorised share capital	500,000,000	0.10	50,000,000
Issued and fully paid-up share capital	290,526,500	0.10	29,052,650

There has been no change in the issued and paid-up share capital of our Company for the last three (3) years prior to the LPD.

**3. BOARD OF DIRECTORS**

Please refer to Corporate Directory for details of our Board members (e.g., age, profession, nationality, designation and address).

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

## INFORMATION ON OUR COMPANY (CONT'D)

## 4. DIRECTORS AND SUBSTANTIAL SHAREHOLDERS' SHAREHOLDINGS

The proforma effects of the Rights Issue of Warrants on the shareholdings of our Directors and substantial shareholders based on their shareholdings as at the LPD are as follows:

## (i) Minimum Scenario

	As at the LPD				(I) After the Rights Issue of Warrants				(II) After (I) and assuming full exercise of the Warrants			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Eg Kah Yee*#	54,834,052	18.87	1,193,502 <sup>(i)</sup>	0.41	54,834,052	18.87	1,193,502 <sup>(i)</sup>	0.41	200,097,302 <sup>(ii)</sup>	45.92	1,193,502 <sup>(i)</sup>	0.27
Eg Kaa Chee*#	1,193,502	0.41	54,834,052 <sup>(i)</sup>	18.87	1,193,502	0.41	54,834,052 <sup>(i)</sup>	18.87	1,193,502	0.27	200,097,302 <sup>(ii)</sup>	45.92
Abdul Razak Bin Dato' Haji Ipap#	-	-	-	-	-	-	-	-	-	-	-	-
Sukhdev Singh A/L Banta Singh#	-	-	-	-	-	-	-	-	-	-	-	-
Thong Kooi Pin#	250	- <sup>(iii)</sup>	-	-	250	- <sup>(iii)</sup>	-	-	250	- <sup>(iii)</sup>	-	-
Yoong Shee Fatt#	-	-	-	-	-	-	-	-	-	-	-	-

Notes:

\* Substantial shareholders.

# Directors.

(i) Deemed interested by virtue of his brother's direct interest in our Company pursuant to Section 122A of the Act.

(ii) Assuming that Eg Kah Yee is the only subscriber for the Warrants.

(iii) Negligible.

## INFORMATION ON OUR COMPANY (CONT'D)

## (ii) Maximum Scenario

	As at the LPD				(I) After the exercise of outstanding ESOS options			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Eg Kah Yee**	54,834,052	18.87	1,193,502 <sup>(i)</sup>	0.41	60,909,052 <sup>(ii)</sup>	19.83	1,693,502 <sup>(i)</sup>	0.55
Eg Kaa Chee**	1,193,502	0.41	54,834,052 <sup>(i)</sup>	18.87	1,693,502 <sup>(ii)</sup>	0.55	60,909,052 <sup>(i)</sup>	19.83
Abdul Razak Bin Dato' Haji Ipap <sup>#</sup>	-	-	-	-	-	-	-	-
Sukhdev Singh A/L Banta Singh <sup>#</sup>	-	-	-	-	2,500,000 <sup>(ii)</sup>	0.81	-	-
Thong Kooi Pin <sup>#</sup>	250	- <sup>(iii)</sup>	-	-	250	- <sup>(iii)</sup>	-	-
Yoong Shee Fatt <sup>#</sup>	-	-	-	-	-	-	-	-

	(II) After (I) and Rights Issue of Warrants				(III) After (II) and assuming full exercise of the Warrants			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Eg Kah Yee**	60,909,052	19.83	1,693,502 <sup>(i)</sup>	0.55	214,497,302 <sup>(ii)</sup>	46.55	1,693,502 <sup>(i)</sup>	0.37
Eg Kaa Chee**	1,693,502	0.55	60,909,052 <sup>(i)</sup>	19.83	1,693,502	0.37	214,497,302 <sup>(i)</sup>	46.55
Abdul Razak Bin Dato' Haji Ipap <sup>#</sup>	-	-	-	-	-	-	-	-
Sukhdev Singh A/L Banta Singh <sup>#</sup>	2,500,000	0.81	-	-	2,500,000	0.54	-	-
Thong Kooi Pin <sup>#</sup>	250	- <sup>(iii)</sup>	-	-	250	- <sup>(iii)</sup>	-	-
Yoong Shee Fatt <sup>#</sup>	-	-	-	-	-	-	-	-



INFORMATION ON OUR COMPANY (CONT'D)

Notes:

- \* Substantial shareholders.
- # Directors.
- (i) Deemed interested by virtue of his brother's direct interest in our Company pursuant to Section 122A of the Act.
- (ii) Assuming Eg Kah Yee, Eg Kaa Chee and Sukhdev Singh A/L Banta Singh exercises their outstanding ESOS options of 6,075,000, 500,000 and 2,500,000 respectively.
- (iii) Negligible.
- (iv) Assuming that Eg Kah Yee is the only subscriber for the Warrants.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

**INFORMATION ON OUR COMPANY (CONT'D)****5. SUBSIDIARY AND ASSOCIATE COMPANIES**

The details of our subsidiary companies as at the LPD are as follows:

Subsidiaries	Date and place of incorporation	Principal activities	Issued and paid-up share capital	Effective equity interest %
Palette System Sdn. Bhd. (company no. 538216-T)	5 February 2001, Malaysia	Development and marketing ICT product	RM100,000	100.00
PT Palette <sup>(1)</sup> (company no. 09.05.1.72.42955)	8 January 2002, Indonesia	Dormant	USD650,000	99.99

*Note:*

(1) Refer to Section 2.6 of this AP for the details of the Proposal Disposal.

Our Company does not have any associate company as at the LPD.

**6. PROFIT AND DIVIDEND RECORDS**

The profit and dividend records based on our Group's audited consolidated financial statements from the FYE 31 December 2009 to 31 December 2011 and the unaudited consolidated financial statements for the nine (9)-month period ended 30 September 2012 are as follows:

<b>THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK</b>
--

## INFORMATION ON OUR COMPANY (CONT'D)

	<----- Audited----->			<----- Unaudited----->	
	FYE 31 December 2009 RM'000	FYE 31 December 2010 RM'000	FYE 31 December 2011 RM'000	9-month period ended 30 September 2011 <sup>(1)</sup> RM'000	9-month period ended 30 September 2012 RM'000
Revenue	3,552	2,432	6,289	5,088	2,586
Gross profit	1,617	937	1,623	1,313	1,294
Other operating income	343	-	138	127	695
EBITDA/(LBITDA)	(277)	(2,488)	(2,828)	(137)	642
(less):					
Interest expense	(51)	(26)	(49)	(22)	(35)
Depreciation and amortisation	(432)	(422)	(928)	(674)	(720)
LBT	(760)	(2,936)	(3,805)	(833)	(113)
Taxation	-	(22)	-	-	-
LAT	(760)	(2,958)	(3,805)	(833)	(113)
LAT attributable to:					
Owners of the Company	(757)	(2,957)	(3,805)	(833)	(114)
Minority interests	(3)	(1)	-( <sup>2</sup> )	-	1
Gross profit margin (%)	45.52	38.52	25.81	25.81	50.04
Basic net loss per Share (sen)	(0.26)	(1.02)	(1.31)	(0.29)	(0.04)
Diluted net loss per Share (sen)	-	-	-	-	-
Dividend per Share (sen)	-	-	-	-	-

*Notes:*(1) *Unaudited and for comparison purpose only.*(2) *Negligible.***Commentary on financial performance****(i) Nine (9)-month period ended 30 September 2012 compared to nine (9)-month period ended 30 September 2011**

Our revenue decreased by approximately RM2.50 million from RM5.09 million in the nine (9)-month period ended 30 September 2011 to RM2.59 million in the nine (9)-month period ended 30 September 2012. The decrease in revenue was mainly due to the decrease in sales of hardware for WiFi infrastructure which included WiFi equipment supplied to TMB pursuant to the TMB's contracts.

As compared to the nine (9)-month period ended 30 September 2011, our gross profit decreased by RM0.02 million mainly due to the decrease in revenue. However, our gross profit margin increased from 25.81% in the nine (9)-month period ended 30 September 2011 to 50.04% in the nine (9)-month period ended 30 September 2012 as a result of provision of maintenance services for WiFi infrastructure which has a higher profit margin as compared to sale of hardware.

**INFORMATION ON OUR COMPANY (CONT'D)**

As compared to the nine (9)-month period ended 30 September 2011, our LBT improved by RM0.72 million due to higher gross profit, grant income received, reversal of impairment loss on trade receivables and bad debt recovery in the nine (9)-month period ended 30 September 2012. Hence, LAT attributable to the owners of our Company for the nine (9)-month period ended 30 September 2012 improved by RM0.72 million as compared to RM0.83 million in the nine (9)-month period ended 30 September 2011.

**(ii) FYE 31 December 2011 compared to FYE 31 December 2010**

Our revenue increased by approximately RM3.86 million from RM2.43 million in the FYE 31 December 2010 to RM6.29 million in the FYE 31 December 2011. The increase in revenue was mainly attributable to sales of hardware for WiFi infrastructure.

As compared to the FYE 31 December 2010, our gross profit for the FYE 31 December 2011 increased by RM0.69 million to RM1.62 million mainly due to the increase in revenue. However, our gross profit margin decreased from 38.52% in the FYE 31 December 2010 to 25.81% in the FYE 31 December 2011 as a result of sale of hardware for WiFi infrastructure which has a lower profit margin as compared to other revenue.

Our LBT for the FYE 31 December 2011 increased by RM0.87 million to RM3.80 million despite higher gross profit mainly due to the provision for doubtful debts and the increases in amortisation of intangible assets. Hence, LAT attributable to the owners of our Company for the FYE 31 December 2011 increased by RM0.85 million to RM3.80 million as compared to RM2.96 million in the FYE 31 December 2010.

**(iii) FYE 31 December 2010 compared to FYE 31 December 2009**

Our revenue decreased by approximately RM1.12 million from RM3.55 million in the FYE 31 December 2009 to RM2.43 million in the FYE 31 December 2010. The decrease in revenue was mainly attributable to lower revenue derived from the TMB Contract.

As compared to the FYE 31 December 2009, our gross profit for the FYE 31 December 2010 decreased by RM0.68 million to RM0.94 million mainly due to the decrease in revenue. Our gross profit margin also decreased from 45.52% in the FYE 31 December 2009 to 38.52% in the FYE 31 December 2010 as a result of lower revenue contribution of the TMB Contract which has a higher profit margin as compared to other revenue.

Our LBT for the FYE 31 December 2010 increased by RM2.18 million to RM2.94 million mainly due to the decrease in gross profit, the impairments of receivables and intangible assets, the diminution in value for inventories and the increase in unrealised foreign exchange losses. Hence, LAT attributable to the owners of our Company for the FYE 31 December 2010 increased by RM2.20 million to RM2.96 million as compared to RM0.76 million in the FYE 31 December 2009.

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

**INFORMATION ON OUR COMPANY (CONT'D)****7. HISTORICAL PRICES OF PALETTE SHARES**

The monthly highest and lowest market prices of Palette Shares traded on Bursa Securities for the past twelve (12) months from February 2012 to January 2013 are as follows:

	<b>High RM</b>	<b>Low RM</b>
<b>2012</b>		
February	0.085	0.070
March	0.095	0.065
April	0.080	0.070
May	0.075	0.060
June	0.070	0.060
July	0.075	0.060
August	0.075	0.060
September	0.070	0.060
October	0.060	0.055
November	0.065	0.050
December	0.055	0.050
<b>2013</b>		
January	0.055	0.045

Last transacted market price of our Shares on 6 September 2011 (being the last trading date prior to the announcement of the Rights Issue of Warrants) was RM0.070 per Share.

Last transacted market price of our Shares on 22 February 2013 (being the last day on which our Shares were traded prior to the ex-date of the Rights Issue of Warrants) was RM0.050 per Share.

Last transacted market price of our Shares on 29 January 2013 (being the latest practicable date prior to printing of this AP) was RM0.050 per Share.

*(Source: Bloomberg Finance L. P.)*

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON**

**TAN CHIN HUAT & CO**

AF 1395  
Chartered Accountants

No: 232 2nd Floor Block A Damansara Intan  
No: 1 Jalan SS 20/27 47400 Petaling Jaya  
Tel: 03-77268992  
Fax: 03-77284992

REPORTING ACCOUNTANTS' LETTER  
ON THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Prepared for inclusion in this Abridged Prospectus)

Date: **19 FEB 2013**

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

Dear Sirs,

**PALETTE MULTIMEDIA BERHAD ("PALETTE" or "the Company")**  
**REPORTING ACCOUNTANTS' LETTER ON THE**  
**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011**

We have reviewed the presentation of the Proforma Consolidated Statements of Financial Position of PALETTE and its subsidiaries (collectively defined as "PALETTE Group" or "the Group") as at 31 December 2011, for which the Directors are solely responsible, as set out in the accompanying statements (stamped by us for purpose of identification), prepared for inclusion in the abridged prospectus to shareholders of PALETTE ("Abridged Prospectus") in relation to the renounceable rights issue of up to 153,588,250 warrants ("Warrants") at an issue price of RM0.02 for each Warrant on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.10 each in PALETTE ("PALETTE Shares") ("Rights Issue of Warrants").

The proforma consolidated statements of financial position, because of its nature, may not be reflective of PALETTE Group's actual financial position had the transactions or events occurred as at 31 December 2011. Further, such financial information does not purport to predict the future financial position of PALETTE Group.

**Responsibilities**

It is solely the responsibility of the Board of Directors of PALETTE to prepare the proforma consolidated statements of financial position.

It is our responsibility to form an opinion, as required by the Guidelines as to the proper compilation of the proforma consolidated statements of financial position, and to report our opinion to you.

In providing this opinion, we are not responsible in updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the proforma consolidated statements of financial position, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**Basis of opinion**

We conducted our work in accordance with Malaysian Approved Standard on Assurance, ISAE 3000 - Assurance Engagements Other Than Audit or Review Historical Information. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, including the adjustments to PALETTE Group's accounting policies, nor of the proforma assumptions stated in the notes to the proforma consolidated statements of financial position, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the proforma adjustments and discussing the proforma consolidated statements of financial position with PALETTE Group's management. We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the proforma consolidated statements of financial position have been properly compiled on the basis stated and that such basis is consistent with the accounting policies of PALETTE Group and materially in compliance with Financial Reporting Standards in Malaysia.

In our opinion:

- (i) the proforma consolidated statements of financial position which has been prepared by the Directors of PALETTE have been properly compiled on the basis stated in the accompanying notes using the financial statements prepared in accordance with Financial Reporting Standards in Malaysia and in a manner consistent with both the format of the financial statements and the accounting policies adopted by PALETTE Group; and
- (ii) each material adjustment made to the information used in the preparation of the proforma consolidated statements of financial position is appropriate for the purposes of preparing the proforma consolidated statements of financial position.

**Other matters**

We understand that this letter will be used solely for the purpose for inclusion in the Abridged Prospectus to be dated **27 FEB 2013** in connection to the Rights Issue of Warrants. As such, this letter should not be used for any other purpose without our prior written consent.

Yours faithfully,



TAN CHIN HUAT & CO  
Firm No : AF 1395  
Chartered Accountants



TAN CHIN HUAT  
Approval No: 2037/6/14(J)  
Chartered Accountant

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

The following is a summary of the Proforma Consolidated Statements of Financial Position of PALETTE Group as at 31 December 2011, prepared for illustration purposes only to show the effects of the Rights Issue of Warrants and assuming full exercise of the Warrants on the assumption that these transactions were completed on 31 December 2011:-

**MINIMUM SCENARIO**

	Audited as at 31 December 2011 RM	Adjustments RM	(i) Assuming non exercise of ESOS Options RM	Adjustments RM	(ii) After (i) and Rights Issue of Warrants RM	Adjustments RM	(iii) After (ii) and assuming full exercise of the Warrants RM
<b>ASSETS</b>							
<b>Non-current assets</b>							
Property, plant and equipment	425,961		425,961		425,961		425,961
Intangible assets	17,171,295		17,171,295		17,171,295		17,171,295
Guarantee deposits	6,980		6,980		6,980		6,980
Receivables	12,931,935		12,931,935		12,931,935		12,931,935
Total non-current assets	30,536,171		30,536,171		30,536,171		30,536,171
<b>Current assets</b>							
Inventories	822,064		822,064		822,064		822,064
Trade receivables	2,074,361		2,074,361		2,074,361		2,074,361
Other receivables and prepaid expenses	2,466,170		2,466,170		2,466,170		2,466,170
Cash and bank balances	233,076		233,076	2,355,265	2,588,341	14,526,325	17,114,666
Total current assets	5,595,671		5,595,671		7,960,936		22,477,261
Total assets	36,131,842		36,131,842		38,487,107		53,013,432
<b>EQUITY AND LIABILITIES</b>							
<b>Capital and reserves</b>							
Share capital	29,052,650		29,052,650		29,052,650	14,526,325	43,578,975
Share premium	4,296,261		4,296,261		4,296,261	2,505,265	6,801,526
ESOS reserve	13,136		13,136		13,136		13,136
Foreign exchange reserve	13,953		13,953		13,953		13,953
Warrant reserve	-		-	2,505,265	2,505,265	(2,505,265)	-
Accumulated loss	(14,012,058)		(14,012,058)		(14,012,058)		(14,012,058)
Total equity attributable to Owners of the Company	19,363,942		19,363,942		21,869,207		36,395,532
Non-controlling interests	18,092		18,092		18,092		18,092
Total equity	19,382,034		19,382,034		21,887,299		36,413,624





**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Cont)**

	Audited as at 31 December 2011 RM	(i) Assuming non exercise of ESOS Options RM	(ii) After (i) and Rights Issue of Warrants RM	(iii) After (ii) and assuming full exercise of the Warrants RM
Note	Adjustments RM	Adjustments RM	Adjustments RM	Adjustments RM
<b>Non-current liability</b>				
Trade payables	13,522,930	13,522,930	13,522,930	13,522,930
<b>Current liabilities</b>				
Trade payables	1,587,965	1,587,965	1,587,965	1,587,965
Other payables and accrued expenses	466,160	466,160	466,160	466,160
Amount due to directors	14,473	14,473	14,473	14,473
Loans and borrowings	1,156,660	(150,000)	1,006,660	1,006,660
Tax liabilities	1,620	1,620	1,620	1,620
<b>Total current liabilities</b>	<u>3,226,878</u>	<u>3,226,878</u>	<u>3,076,878</u>	<u>3,076,878</u>
<b>Total liabilities</b>	<u>16,749,808</u>	<u>16,749,808</u>	<u>16,599,808</u>	<u>16,599,808</u>
<b>Total equity and liabilities</b>	<u>36,131,842</u>	<u>36,131,842</u>	<u>38,487,107</u>	<u>53,013,432</u>
<b>Net assets (NA)/Proforma NA (excluding non-controlling interests)</b>	19,363,942	19,363,942	21,869,207	36,395,532
No. of ordinary shares of RM0.10 each assumed in issue	290,526,500	290,526,500	290,526,500	435,789,750
NA/Proforma NA per share (excluding non-controlling interests) (RM)	0.07	0.07	0.08	0.08
Total bank borrowings (RM)	1,156,660	1,156,660	1,006,660	1,006,660
Gearings (times)	0.06	0.06	0.05	0.03



## APPENDIX III

## PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)

## PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Cont'd)

## MAXIMUM SCENARIO

	Audited as at 31 December 2011 RM	Note	Adjustments RM	(i) Assuming full exercise of ESOS Options RM	Adjustments RM	(ii) After (i) and Rights Issue of Warrants RM	Adjustments RM	(iii) After (ii) and assuming full exercise of the Warrants RM
<b>ASSETS</b>								
<b>Non-current assets</b>								
Property, plant and equipment	425,961			425,961		425,961		425,961
Intangible assets	17,171,295			17,171,295		17,171,295		17,171,295
Guarantee deposits	6,980			6,980		6,980		6,980
Receivables	12,931,935			12,931,935		12,931,935		12,931,935
Total non-current assets	30,536,171			30,536,171		30,536,171		30,536,171
<b>Current assets</b>								
Inventories	822,064			822,064		822,064		822,064
Trade receivables	2,074,361			2,074,361		2,074,361		2,074,361
Other receivables and prepaid expenses	2,466,170			2,466,170		2,466,170		2,466,170
Cash and bank balances	233,076	5	1,665,000	1,898,076	2,521,765	4,419,841	15,358,825	19,778,666
Total current assets	5,595,671			7,260,671		9,782,436		25,141,261
Total assets	36,131,842			37,796,842		40,318,607		55,677,432
<b>EQUITY AND LIABILITIES</b>								
<b>Capital and reserves</b>								
Share capital	29,052,650	6	1,665,000	30,717,650		30,717,650		46,076,475
Share premium	4,296,261	7	13,136	4,309,397		4,309,397		6,981,162
ESOS reserve	13,136	8	(13,136)	-		-		-
Foreign exchange reserve	13,953	9		13,953		13,953		13,953
Warrant reserve	-			-		2,671,765		-
Accumulated loss	(14,012,058)			(14,012,058)		(14,012,058)		(14,012,058)
Total equity attributable to Owners of the Company	19,363,942			21,028,942		23,700,707		39,059,532
Non-controlling interests	18,092			18,092		18,092		18,092
Total equity	19,382,034			21,047,034		23,718,799		39,077,624



## APPENDIX III

## PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)

## PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Cont'd)

	Note	Audited as at 31 December 2011 RM	Adjustments RM	(i) Assuming full exercise of ESOS Options RM	Adjustments RM	(ii) After (i) and Rights Issue of Warrants RM	Adjustments RM	(iii) After (ii) and assuming full exercise of the Warrants RM
<b>Non-current liability</b>								
Trade payables		13,522,930		13,522,930		13,522,930		13,522,930
<b>Current liabilities</b>								
Trade payables		1,587,965		1,587,965		1,587,965		1,587,965
Other payables and accrued expenses		466,160		466,160		466,160		466,160
Amount due to directors		14,473		14,473		14,473		14,473
Loans and borrowings	10	1,156,660		1,156,660	(150,000)	1,006,660		1,006,660
Tax liabilities		1,620		1,620		1,620		1,620
Total current liabilities		3,226,878		3,226,878		3,076,878		3,076,878
Total liabilities		16,749,808		16,749,808		16,599,808		16,599,808
<b>Total equity and liabilities</b>		36,131,842		37,796,842		40,318,607		55,677,432
Net assets (NA)/Proforma NA (excluding non-controlling interests)		19,363,942		21,028,942		23,700,707		39,059,532
No. of ordinary shares of RM0.10 each assumed in issue		290,526,500		307,176,500		307,176,500		460,764,750
NA/Proforma NA per share (excluding non-controlling interests) (RM)		0.07		0.07		0.08		0.08
Total bank borrowings (RM)		1,156,660		1,156,660		1,006,660		1,006,660
Gearings (times)		0.06		0.05		0.04		0.03



**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011**

**1 BASIS OF PREPARATION**

The Proforma Consolidated Statements of Financial Position are provided for illustrative purposes only and have been prepared based on the audited consolidated financial statements of PALETTE Group for the year ended 31 December 2011 and on the assumption that the following transactions had been effected on 31 December 2011.

The Proforma Consolidated Statements of Financial Position have been prepared on bases and accounting policies consistent with those previously adopted by PALETTE Group in the preparation of audited consolidated financial statements and with the adoption of a new accounting policy on warrant reserve as set out below:

Warrants issued are recognised on the date of issue in the financial statements as warrant reserve. Proceeds from the issuance of warrants, net of issue costs, are credited as warrant reserve which is non-distributable. The attributable amount of warrant reserve is reclassified as share premium upon the exercise of warrants, while the remaining amount of warrant reserve in relation to the unexercised warrants upon the expiry of exercise period is transferred directly to retained profits.

For illustration purposes, the Proforma Consolidated Statements of Financial Position of PALETTE Group have been prepared assuming the completion of the Rights Issue of Warrants based on the following scenarios:

**(a) MINIMUM SCENARIO**

The minimum scenario assuming none of the existing outstanding employees' share option scheme ("ESOS") option is exercised prior to the implementation of the Rights Issue of Warrants.

- (i) Renounceable rights issue of 145,263,250 Warrants at an issue price of RM0.02 for each Warrant on the basis of one (1) Warrant for every two (2) existing PALETTE Shares and the utilisation of proceeds raised from the Rights Issue of Warrants for the payment of trade line facility.
- (ii) Assuming full exercise of 145,263,250 Warrants at an exercise price of RM0.10 per PALETTE Share.

**(b) MAXIMUM SCENARIO**

The maximum scenario assuming exercise of all the existing outstanding 16,650,000 ESOS options into 16,650,000 PALETTE Shares.

- (i) Assuming full exercise of all the existing outstanding 16,650,000 ESOS options into 16,650,000 PALETTE Shares.
- (ii) Renounceable rights issue of 153,588,250 Warrants at an issue price of RM0.02 for each Warrant on the basis of one (1) Warrant for every two (2) existing PALETTE Shares and the utilisation of proceeds raised from the Rights Issue of Warrants for the payment of trade line facility.
- (iii) Assuming full exercise of 153,588,250 Warrants at an exercise price of RM0.10 per PALETTE Share.



---

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

---

**2 PROFORMA I*****Minimum Scenario***

Proforma I under Minimum Scenario assumed that none of the existing outstanding ESOS options is exercised prior to the implementation of the Rights Issue of Warrants and therefore, no impact on the Consolidated Statement of Financial Position as compared to audited Consolidated Statement of Financial Position as at 31 December 2011.

***Maximum Scenario***

Proforma I under Maximum Scenario incorporates the audited Consolidated Statement of Financial Position as at 31 December 2011, adjusted for the exercise of all the existing outstanding 16,650,000 ESOS options into 16,650,000 PALETTE Shares at an exercise price of RM0.10 each.

The ESOS reserve is transferred to share premium upon the full exercise of the ESOS options.

**3 PROFORMA II*****Minimum Scenario***

Proforma II incorporates the effects of Proforma I and the effects of the renounceable rights issue of 145,263,250 Warrants at an issue price of RM0.02 for each Warrant on the basis of one (1) Warrant for every two (2) existing PALETTE Shares and the utilisation of proceeds raised from the Rights Issue of Warrants for the payment of trade line facility and on the assumption that the Warrants are not exercised.

The net proceeds of RM2,355,265 from the Rights Issue of Warrants (after deducting the estimated expenses for the Rights Issue of Warrants of RM400,000 and the payment of trade line facility of RM150,000) are deemed for the present purpose to be retained in cash and bank balances under current assets when received.

***Maximum Scenario***

Proforma II incorporates the effects of Proforma I and the effects of the renounceable rights issue of 153,588,250 Warrants at an issue price of RM0.02 for each Warrant on the basis of one (1) Warrant for every two (2) existing PALETTE Shares and the utilisation of proceeds raised from the Rights Issue of Warrants for the payment of trade line facility and on the assumption that the Warrants are not exercised.

The net proceeds of RM2,521,765 from the Rights Issue of Warrants (after deducting the estimated expenses for the Rights Issue of Warrants of RM400,000 and the payment of trade line facility of RM150,000) are deemed for the present purpose to be retained in cash and bank balances under current assets when received.

**4 PROFORMA III*****Minimum Scenario***

Proforma III incorporates the effects of Proforma II and assumes the full exercise of 145,263,250 Warrants based on the conversion price of RM0.10 per Warrant.

***Maximum Scenario***

Proforma III incorporates the effects of Proforma II and assumes the full exercise of 153,588,250 Warrants based on the conversion price of RM0.10 per Warrant.



**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

## 5 CASH AND BANK BALANCES

	MINIMUM SCENARIO RM	MAXIMUM SCENARIO RM
As at 31 December 2011	233,076	233,076
Full exercise of outstanding ESOS options	-	- 1,665,000
As per Proforma I	233,076	1,898,076
Rights Issue of Warrants	2,905,265	3,071,765
Estimated expenses pursuant to the		
Rights Issue of Warrants	(400,000)	(400,000)
Payment of trade line facility	(150,000)	(150,000)
As per Proforma II	2,588,341	4,419,841
Exercise of Warrants to ordinary shares	14,526,325	15,358,825
As per Proforma III	<u>17,114,666</u>	<u>19,778,666</u>

The proceeds raised from the Rights Issue of Warrants will be utilised in the following manner:

	MINIMUM SCENARIO RM	MAXIMUM SCENARIO RM
Working capital for the Group <sup>(i)</sup>	2,355,265	2,521,765
Payment of trade line facility <sup>(ii)</sup>	150,000	150,000
Defray expenses in relation to the Rights Issue of Warrants <sup>(iii)</sup>	400,000	400,000
	<u>2,905,265</u>	<u>3,071,765</u>

Notes:

<sup>(i)</sup> The breakdown of the utilisation for working capital are as follows:

	MINIMUM SCENARIO RM	MAXIMUM SCENARIO RM
Payment of salaries	100,000	100,000
Payment to trade creditors*	2,255,265	2,421,765
Total	<u>2,355,265</u>	<u>2,521,765</u>

\* The proceeds allocated for the payments to trade creditors will enable the Group to have additional funds to pay the creditors as and when required and enable the Group to continue the working relationship with the trade creditors to support the Group's on-going business operations.

<sup>(ii)</sup> As at 28 January 2013, being the latest practicable date ("LPD") prior to the printing of this Abridged Prospectus, the Group has utilised a trade line facility of RM0.33 million from United Overseas Bank (Malaysia) Bhd. to finance the supply of wireless network equipment for the Group's on-going projects with Telekom Malaysia Bhd ("TMB"). The Directors envisage that they will utilise the trade line facility from United Overseas Bank (Malaysia) Bhd. of at least RM0.15 million by 30 September 2013 for the payment to the suppliers based on the existing on-going and potential projects with TMB. As such, they intend to utilise RM0.15 million from the proceeds to repay the trade line facility as and when it is due. Based on the terms of the trade line facility, the Group is required to settle the outstanding trade line facility and interest incurred thereon only as and when it is due. Hence, the Group is not expected to have any interest saving upon repayment of the trade line facility. The balance of the outstanding trade line facility, if any, will be settled via the Group's internal generated funds.



**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

As at the LPD, the Group has total borrowings of approximately RM0.69 million comprising bank overdraft, banker acceptance and trust receipt.

Any shortfall or excess in the funds allocated for the payment of trade line facility will be adjusted accordingly from/to the working capital purposes.

(iii) The expenses relating to the Rights Issue of Warrants comprise, amongst others, the estimated professional fees, fees payable to the relevant authorities, expenses to convene the EGM, printing, advertisement expenses and other ancillary expenses. If the actual expenses incurred are higher than the budgeted, the deficit will be funded from the portion allocated for the Group's working capital. Conversely, any surplus of funds following payment of expenses will be utilised as working capital for the Group.

**6 SHARE CAPITAL**

	MINIMUM SCENARIO RM	MAXIMUM SCENARIO RM
<b>As at 31 December 2011</b>	29,052,650	29,052,650
Full exercise of outstanding ESOS options	-	1,665,000
<b>As per Proforma I</b>	<u>29,052,650</u>	<u>30,717,650</u>
Rights Issue of Warrants	-	-
<b>As per Proforma II</b>	<u>29,052,650</u>	<u>30,717,650</u>
Full exercise of Warrants	14,526,325	15,358,825
<b>As per Proforma III</b>	<u><u>43,578,975</u></u>	<u><u>46,076,475</u></u>

**7 SHARE PREMIUM**

	MINIMUM SCENARIO RM	MAXIMUM SCENARIO RM
<b>As at 31 December 2011</b>	4,296,261	4,296,261
Full exercise of outstanding ESOS options	-	13,136
<b>As per Proforma I</b>	<u>4,296,261</u>	<u>4,309,397</u>
Rights Issue of Warrants	-	-
<b>As per Proforma II</b>	<u>4,296,261</u>	<u>4,309,397</u>
Full exercise of Warrants	2,505,265	2,671,765
<b>As per Proforma III</b>	<u><u>6,801,526</u></u>	<u><u>6,981,162</u></u>

**8 ESOS RESERVE**

	MINIMUM SCENARIO RM	MAXIMUM SCENARIO RM
<b>As at 31 December 2011</b>	13,136	13,136
Full exercise of outstanding ESOS options	-	(13,136)
<b>As per Proforma I</b>	<u>13,136</u>	<u>-</u>
Rights Issue of Warrants	-	-
<b>As per Proforma II</b>	<u>13,136</u>	<u>-</u>
Full exercise of Warrants	-	-
<b>As per Proforma III</b>	<u><u>13,136</u></u>	<u><u>-</u></u>



**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF OUR GROUP AS AT 31 DECEMBER 2011 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**9 WARRANT RESERVE**

	MINIMUM SCENARIO RM	MAXIMUM SCENARIO RM
As at 31 December 2011	-	-
Full exercise of outstanding ESOS options	-	-
<b>As per Proforma I</b>	-	-
Rights Issue of Warrants	2,905,265	3,071,765
Estimated expenses pursuant to the Rights Issue of Warrants	<u>(400,000)</u>	<u>(400,000)</u>
<b>As per Proforma II</b>	2,505,265	2,671,765
Full exercise of Warrants	<u>(2,505,265)</u>	<u>(2,671,765)</u>
<b>As per Proforma III</b>	<u>-</u>	<u>-</u>

**10 LOANS AND BORROWINGS**

	MINIMUM SCENARIO RM	MAXIMUM SCENARIO RM
As at 31 December 2011/As per Proforma I	1,156,660	1,156,660
Payment of trade line facility	<u>(150,000)</u>	<u>(150,000)</u>
<b>As per Proforma II and III</b>	<u>1,006,660</u>	<u>1,006,660</u>





# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS

FOR

THE YEAR ENDED DECEMBER 31, 2011

### CONTENTS

	<b>Page No.</b>
Corporate information	1
Directors' report	2 - 6
Statements of financial position	7
Statements of comprehensive income	8
Statements of changes in equity	9 - 10
Statements of cash flows	11 - 12
Notes to the financial statements	13 - 49
Statement by directors	50
Declaration by the director primarily responsible for the financial statements of the Company	50
Independent auditors' report	51 - 52

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## CORPORATE INFORMATION

### DIRECTORS :-

Eg Kah Yee	Sukhdev Singh A/L Banta Singh
Eg Kaa Chee	Thong Kooi Pin
Abdul Razak Bin Dato' Haji Ipap	Yoong Shee Fatt

### COMPANY SECRETARIES :-

Ng Yen Hoong ( F ) ( LS 008016 )  
Joanne Toh Joo Ann ( F ) ( LS 0008574 )

### REGISTERED OFFICE :-

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

### BUSINESS ADDRESS :-

6 Floor, Unit 4,  
8, First Avenue,  
Bandar Utama,  
47800 Petaling Jaya,  
Selangor Darul Ehsan.

### AUDITORS :-

MESSRS. CHENG & CO.  
Firm No : AF-0886  
No. 18 - 2, Jalan 2/114,  
Kuchai Business Centre,  
Off Jalan Klang Lama,  
58200 Kuala Lumpur.

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## DIRECTORS' REPORT

made pursuant to Section 169 of the  
Companies Act, 1965

The directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended December 31, 2011.

### PRINCIPAL ACTIVITY

The Company is principally involved in investment holding and design, development and marketing of information technology related products and services. The principal activities of the subsidiaries are set out in Note 6 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

### RESULTS

	GROUP RM	COMPANY RM
Loss for the financial year	(3,804,878)	(16,229,227)
Attributable to minority interests	118	-
Attributable to owners of the parent	<u>(3,804,760)</u>	<u>(16,229,227)</u>

### DIVIDEND

No dividend was paid or declared since the end of the previous financial year and the directors do not recommend any dividend to be paid for the financial year.

### RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year except as disclosed in the financial statements.

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31 DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## ISSUE OF SHARES AND DEBENTURES

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

## EMPLOYEE SHARE OPTION SCHEME

The Company implemented an ESOS on April 7, 2004 for a period of 10 years. The ESOS is governed by the by-laws which were approved by the shareholders.

Details of ESOS are set out in Note 13 to the financial statements.

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

2011	<u>No. of options over the ordinary shares of RM 0.10 each in the Company</u>			
	At 1.1.2011	Exercised	Lapsed	At 31.12.2011
Name of Option holders				
Hee Tai Wui	500,000	-	-	500,000
Liew Wai Han	250,000	-	-	250,000
Mohd Zambri Bin Ismail	75,000	-	-	75,000
Rahimi Binti Burhanudin	100,000	-	(100,000)	-
Ng Geok Lui	3,750,000	-	-	3,750,000
See Lee Ming	3,500,000	-	-	3,500,000
Lee Man Soon	1,250,000	-	-	1,250,000
Sukhdev Singh A/L Banta Singh	2,500,000	-	-	2,500,000
Eg Kah Yee	6,075,000	-	-	6,075,000
Eg Kaa Chee	500,000	-	-	500,000

## DIRECTORS

The directors who served since the date of the last report are as follows :-

Eg Kah Yee  
Eg Kaa Chee  
Abdul Razak Bin Dato' Haji Ipap  
Sukhdev Singh A/L Banta Singh  
Thong Kooi Pin  
Yoong Shee Fatt

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company or its related corporations during the financial year are as follows :-

### Number of ordinary shares of RM 0.10 each in Palette Multimedia Berhad

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

( 1 ) Deemed interest through his brother, Eg Kaa Chee's shareholding.

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

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

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

## DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit ( other than a benefits included in the aggregate amount of emoluments received or due and by directors as shown in the financial statements, or the fixed salary of a full - time employee of the Company ) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for any benefits which may be deemed to arisen from transactions entered into the ordinary course of business with companies in which certain directors have substantial financial interests as disclosed in Note 21 to the financial statements.

Neither during, nor at the end of the financial year, was the Group or the Company a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the Employees Shares Option Scheme ( "ESOS" ).

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## OTHER STATUTORY INFORMATION

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

## SIGNIFICANT EVENTS

The significant events involving the Group and the Company are disclosed in Note 24 to the financial statements.

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## AUDITORS

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

SIGNED IN ACCORDANCE WITH A  
RESOLUTION OF THE DIRECTORS



**EG KAH YEE**  
Director



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

Kuala Lumpur  
Date : 19 APR 2012

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31 DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## STATEMENTS OF FINANCIAL POSITION AS AT DECEMBER 31, 2011

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

See the accompanying notes to the financial statements.



**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2011

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

See the accompanying notes to the financial statements.

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

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

GROUP			FOREIGN		EQUITY		
	SHARE CAPITAL RM	SHARE PREMIUM RM	CURRENCY TRANSLATION RESERVE RM	ACCUMULATED LOSSES RM	ATTRIBUTABLE TO OWNERS OF THE PARENT RM	MINORITY INTERESTS RM	TOTAL EQUITY RM
Balance at January 1, 2009	29,052,650	4,296,261	23,846	(7,250,129)	26,122,628	19,629	26,142,257
Foreign exchange difference	-	-	3,999	-	3,999	(1,158)	2,841
Total comprehensive loss for the year	-	-	-	(2,957,051)	(2,957,051)	(806)	(2,957,857)
Balance at December 31, 2010	<u>29,052,650</u>	<u>4,296,261</u>	<u>27,845</u>	<u>(10,207,180)</u>	<u>23,169,576</u>	<u>17,665</u>	<u>23,187,241</u>
Foreign exchange difference	-	-	(756)	-	(756)	309	(447)
Total comprehensive loss for the year	-	-	-	(3,804,878)	(3,804,878)	118	(3,804,760)
Balance at December 31, 2011	<u>29,052,650</u>	<u>4,296,261</u>	<u>27,089</u>	<u>(14,012,058)</u>	<u>19,363,942</u>	<u>18,092</u>	<u>19,382,034</u>

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

## PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

**STATEMENT CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2011**

COMPANY	RETAINED PROFITS / ACCUMULATED				TOTAL RM
	SHARE CAPITAL RM	SHARE PREMIUM RM	RESERVES RM	LOSSES RM	
Balance at January 1, 2010	29,052,650	4,296,261	13,136	3,461,719	36,823,766
Total comprehensive loss for the year	-	-	-	(2,066,755)	(2,066,755)
Balance at December 31, 2010	<u>29,052,650</u>	<u>4,296,261</u>	<u>13,136</u>	<u>1,394,964</u>	<u>34,757,011</u>
Total comprehensive loss for the year	-	-	-	(16,229,227)	(16,229,227)
Balance at December 31, 2011	<u><u>29,052,650</u></u>	<u><u>4,296,261</u></u>	<u><u>13,136</u></u>	<u><u>(14,834,263)</u></u>	<u><u>18,527,784</u></u>

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOW  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	GROUP		COMPANY	
	2011 RM	2010 RM	2011 RM	2010 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss before taxation	(3,804,760)	(2,936,254)	(16,229,227)	(2,045,152)
Adjustments for :				
Amortisation of intangible assets	742,790	250,409	547,865	75,050
Depreciation of property, plant and equipment	185,223	171,639	184,405	169,291
Impairment of intangible assets	-	534,850	-	534,850
Investment written off	-	-	99,999	-
Interest expense	49,083	25,721	49,083	25,721
Provision for doubtful debts	1,621,721	-	-	-
Unrealised loss on foreign exchange translation	(539)	210,179	-	207,000
Impairment on trade receivables	-	853,404	-	853,404
Operating loss before working capital changes	(1,206,482)	(890,052)	(15,347,875)	(179,836)
Decrease in inventories	1,097,884	444,373	556,493	444,373
( Increase ) / Decrease in trade and other receivables	(1,176,615)	2,434,821	13,583,825	1,853,516
Increase / ( Decrease ) in trade and other payables	173,120	(969,163)	403,029	(1,176,136)
Cash ( used in ) / generated from operations	(1,112,093)	1,019,979	(804,528)	941,917
Interest paid	(49,083)	(25,721)	(49,083)	(25,721)
Development cost paid	(1,928)	(220,043)	(1,928)	(203,088)
Tax paid	-	(21,603)	-	(21,603)
Net cash ( used in ) / generated from operating activities	(1,163,104)	752,612	(855,539)	691,505

See the accompanying notes to the financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## STATEMENTS OF CASH FLOW (CONT'D) FOR THE YEAR ENDED DECEMBER 31, 2011

	NOTE	GROUP		COMPANY	
		2011 RM	2010 RM	2011 RM	2010 RM
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		(110,940)	(33,216)	(110,940)	(32,717)
Interest income received		-	-	-	-
Net cash used in investing activities		<u>(110,940)</u>	<u>(33,216)</u>	<u>(110,940)</u>	<u>(32,717)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>					
Repayment of term loans		-	(23,748)	-	(23,748)
Net cash used in from financing activity		<u>-</u>	<u>(23,748)</u>	<u>-</u>	<u>(23,748)</u>
<b>NET ( DECREASE ) / INCREASE IN CASH AND CASH EQUIVALENTS</b>		(1,274,044)	695,648	(966,479)	635,040
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		350,460	(345,188)	274,974	(360,066)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	20	<u>(923,584)</u>	<u>350,460</u>	<u>(691,505)</u>	<u>274,974</u>

See the accompanying notes to the financial statements.

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 1. GENERAL INFORMATION

The Company is principally involved in investment holding, design, development and marketing of information technology related products and services. The principal activities of the subsidiaries are set out in Note 6 to the financial statements.

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

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

The principal place of business of the Company is located at 6 Floor, Unit 4, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on April 19, 2012.

The financial statements of each entity in the Group are presented in the functional currency, which is the currency of the primary economic environment in which the entities operate.

The functional currency of the Company is Ringgit Malaysia (RM) as the sales and purchase are mainly denominated in RM, receipts from operations are mainly retained in RM and funds from financing activities are mainly generated in RM.

For the purpose of the consolidated financial statements, the financial statements of each entity within the group are expressed in RM which is the functional currency of the Company, and the presentation currency of the consolidated financial statements.

### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

#### (a) Basis of preparation

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

**PALETTE MULTIMEDIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011****2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT'D)****(b) Changes in accounting policies**

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

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

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

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

#### (c) Malaysia Financial Reporting Standards

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

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

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

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

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



# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

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

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

The Group has prepared its financial statements by applying the going concern assumption, notwithstanding that the Group incurred a net loss of RM 3,804,760 during the year ended 31 December 2011, thereby indicating the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The liability of the Group to continue as going concern is dependent on continuing financial support by the shareholders, bankers and creditors and success of the future operations of the Group. Accordingly, the financial statements of the Group do not include any adjustments relating to the amounts and the classification of assets and liabilities that might be necessary should the Group be unable to continue as going concern.

#### (b) Basis of consolidation

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

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

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

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

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

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (c) Intangible assets

##### Research and development costs

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

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

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

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

##### Subsequent expenditure

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

##### Amortisation and impairment

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

License	2 - 5 years
---------	-------------

**PALETTE MULTIMEDIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(d) Property, plant and equipment**

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

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

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

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

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

The carrying amounts of items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising from the derecognition of items of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amounts of the item, is included in profit or loss. Neither the sale proceeds nor any gain on disposal is classified as revenue.

**(e) Inventories**

Inventories include computer equipment and software products purchased for resale. Inventories are valued at the lower of cost and net realisable value. Cost is determined on the first - in - first - out method and comprises the original purchase price plus cost incurred in bringing the inventories to their present location.

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES ( CONT'D )

( f ) **Receivables and bank balances**

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

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

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

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

( g ) **Cash and cash equivalents**

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

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

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

##### (ii) Equity Instruments

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

##### (iii) Financial Liabilities

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

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

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

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES ( CONT'D )

#### ( i ) Employee benefits

##### ( i ) Short term employee benefits

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

##### ( ii ) Post - employment benefits

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

##### ( iii ) Defined contribution plans

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

##### ( iv ) Share - based compensation

The Group operates an equity - settled, share - based compensation plan for the employees of the Group. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the income statement over the vesting periods of the grant with a corresponding increase in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non - market vesting conditions ( for example, profitability and sales growth targets ). Non - market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revised its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital ( nominal value ) and share premium when the options are exercised.

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (j) Impairment of Assets Other Than Goodwill and Financial Assets

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

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

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

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

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

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) **Foreign Currencies**

(i) Foreign Currency Transactions

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

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

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

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

(ii) Exchange Differences on Net Investment in Foreign Operations

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

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

(l) **Provisions**

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

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



# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES ( CONT'D )

( m ) **Revenue**

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

( n ) **Income tax**

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

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

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

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

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

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

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES ( CONT'D )

#### ( n ) **Income tax ( Cont'd )**

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

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

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

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

#### ( o ) **Operating segments**

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

#### **Capitalised development costs**

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

#### **Income taxes**

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

#### **Impairment of non - financial assets**

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

#### **Amortisation of development expenditure**

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

#### **Impairment of trade and other receivables**

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

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31 DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)

## PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

5. PROPERTY, PLANT AND EQUIPMENT

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

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)

## PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

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

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31 DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 6. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2011 RM	2010 RM
Unquoted shares, at cost	2,561,387	2,561,387
Less : Investment written off	(99,999)	-
	<u>2,461,388</u>	<u>2,561,387</u>

Details of the subsidiary companies are as follows :-

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

\* Audited by another firm of auditors

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

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

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

7. INTANGIBLE ASSETS	Intellectual Property and License Right RM	Development cost RM	Total RM
<b>Group</b>			
Cost at 1.1.2011	13,965,150	4,994,486	18,959,636
Additions during the year	-	1,928	1,928
Reclassification	-	-	-
Cost at 31.12.2011	<u>13,965,150</u>	<u>4,996,414</u>	<u>18,961,564</u>
Less : Cumulative amortisation			
At 1.1.2011	-	(1,047,479)	(1,047,479)
Charge for the year	-	(742,790)	(742,790)
At 31.12.2011	-	(1,790,269)	(1,790,269)
Balance at 31.12.2011	<u>13,965,150</u>	<u>3,206,145</u>	<u>17,171,295</u>
Balance at 31.12.2010	<u>13,965,150</u>	<u>3,947,007</u>	<u>17,912,157</u>
Amortisation at 31.12.2011	<u>-</u>	<u>742,790</u>	<u>742,790</u>
<b>Company</b>			
Cost at 1.1.2011	13,965,150	3,865,075	17,830,225
Additions during the year	-	1,928	1,928
Cost at 31.12.2011	<u>13,965,150</u>	<u>3,867,003</u>	<u>17,832,153</u>
Less : Cumulative amortisation			
At 1.1.2011	-	(652,893)	(652,893)
Charge for the year	-	(547,865)	(547,865)
At 31.12.2011	-	(1,200,758)	(1,200,758)
Balance at 31.12.2011	<u>13,965,150</u>	<u>2,666,245</u>	<u>16,631,395</u>
Balance at 31.12.2010	<u>13,965,150</u>	<u>3,212,182</u>	<u>17,177,332</u>
Amortisation at 31.12.2011	<u>-</u>	<u>547,865</u>	<u>547,865</u>

Included in development cost of the Group and of the Company are directors' remuneration capitalised during the year amounting to RM Nil ( 2010 : RM 168,185.00 ) and RM Nil ( 2010 : RM 127,975 ) respectively.

### Amortisation expense

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 7. INTANGIBLE ASSETS ( CONT'D )

#### Impairment testing of intellectual property and right

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

- IT segment

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

	IT Segment	
	2011	2010
	RM	RM
Intellectual property and right	<u>14,500,000</u>	<u>14,500,000</u>

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

	IT Segment	
	2011	2010
	RM	RM
Growth rate	10.00%	-
Pre-tax discount rate	<u>3.13%</u>	<u>5.49 %</u>

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

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

**Growth rate** - The forecasted growth rate is nil.

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

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



**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

8.	<b>RECEIVABLES</b>	<b>Group</b>		<b>Company</b>	
		<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
		<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
	Non - current assets				
	Cash at bank	<u>12,931,935</u>	<u>12,931,935</u>	<u>12,931,935</u>	<u>12,931,935</u>
	This amount held by the Company is not available for use by the Group [ Refer Note 24 ].				
9.	<b>INVENTORIES</b>	<b>Group</b>		<b>Company</b>	
		<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
		<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
	At costs :				
	Hardware	822,064	1,914,314	502,631	1,059,124
	Software	-	5,635	-	-
		<u>822,064</u>	<u>1,919,949</u>	<u>502,631</u>	<u>1,059,124</u>
10.	<b>TRADE AND OTHER RECEIVABLES</b>	<b>Group</b>		<b>Company</b>	
		<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
		<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
	Trade receivables	3,596,279	4,072,268	2,985,250	3,463,100
	Less : Allowance for impairment	(853,404)	(853,404)	(853,404)	(853,404)
	Less : Provision for doubtful debts	(668,514)	(668,514)	(522,132)	(522,132)
	Trade receivables - Net	<u>2,074,361</u>	<u>2,550,350</u>	<u>1,609,714</u>	<u>2,087,564</u>
	Other receivables	1,020,334	913,532	235,136	235,334
	Deposits	1,444,436	1,520,355	1,440,130	1,511,269
	Prepayments	1,400	1,400	-	-
	Amount due from subsidiaries	-	-	-	13,034,638
		<u>4,540,531</u>	<u>4,985,637</u>	<u>3,284,980</u>	<u>16,868,805</u>

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

11. TRADE AND OTHER PAYABLES	GROUP		COMPANY	
	2011 RM	Restated 2010 RM	2011 RM	Restated 2010 RM
<b>Current</b>				
Trade payables	1,587,965	1,227,965	883,533	523,533
Accrued expenses	466,160	413,040	371,101	328,072
Amount due to subsidiaries	-	-	1,984,777	1,984,777
Amount due to directors	14,473	14,473	14,473	14,473
	<u>2,068,598</u>	<u>1,655,478</u>	<u>3,253,884</u>	<u>2,850,855</u>
<b>Non - current</b>				
Trade payables	13,522,930	13,762,930	13,522,930	13,762,930
	<u>15,591,528</u>	<u>15,418,408</u>	<u>16,776,814</u>	<u>16,613,785</u>

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

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

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

- (i) an amount of RM 11,087,183.25 which is involved in dispute as per Note 24, and
- (ii) RM 2,435,747 ( 2010 : RM 2,195,747 ) to be repayable by RM 20,000.00 per month as per settlement agreement with Achieva Technology Sdn. Bhd. dated August 1, 2009.

12. LOANS AND BORROWINGS	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
<b>Current :</b>				
Bank overdraft ( secured )	345,660	317,047	345,660	317,047
Bankers' acceptances	811,000	94,431	811,000	94,431
	<u>1,156,660</u>	<u>411,478</u>	<u>1,156,660</u>	<u>411,478</u>

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

13.	<b>SHARE CAPITAL</b>	<b>Group and Company</b>	
		<b>2011</b>	<b>2010</b>
		<b>RM</b>	<b>RM</b>
	Ordinary shares of RM 0.10 each		
	Authorised :	<u>50,000,000</u>	<u>50,000,000</u>
	Issued and fully paid - up :	<u>29,052,650</u>	<u>29,052,650</u>

### Employee Share Option Scheme

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

Share options are granted to directors and to selected employees. The exercise price under the ESOS is the average of the mean market quotation of the shares of the Company as quoted in the Daily Official List issued by the Bursa Malaysia Securities Berhad for the five market days preceding the offer date, or the par value of the shares of the Company of RM 0.25, whichever is the higher.

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

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

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

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

The options outstanding at year end has exercise prices of RM 0.10.

Options granted during the period will expire on April 5, 2014.

**PALETTE MULTIMEDIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

14. SHARE PREMIUM AND RESERVES	Group / Company			
	Group		Company	
	2011	2010	2011	2010
	RM	RM	RM	RM
(a) Share premium			4,296,261	4,296,261
(b) ESOS reserves				
	2011	2010	2011	2010
	RM	RM	RM	RM
Options granted	13,136	13,136	13,136	13,136
	2011	2010	2011	2010
	RM	RM	RM	RM
(c) Foreign exchange reserves				
At January 1	14,709	10,710	-	-
Currency translation difference	(756)	3,999	-	-
At December 31	13,953	14,709	-	-
(d) Accumulated ( losses ) / retained profits	(14,012,058)	(10,207,180)	(14,834,263)	1,394,964

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

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31 DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

16. LOSS BEFORE TAXATION

The following items have been charged / (credited) in arriving at loss before taxation :-

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

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

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Non - executive directors				
Below RM 50,000	4	3	4	3
Executive director				
Below RM 50,000	-	-	-	1
RM 50,000 - RM 100,000	-	2	1	1
RM 100,000 - RM 150,000	1	-	-	-
RM 200,000 - RM 250,000	1	-	1	-

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31 DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

17. FINANCE COSTS	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Bankers' acceptance interest	41,195	9,756	41,195	9,756
Bank interest charges	7,888	15,680	7,888	15,680
Term loan interest	-	285	-	285
	<u>49,083</u>	<u>25,721</u>	<u>49,083</u>	<u>25,721</u>

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

The effective tax rate of the Group is lower than that of the statutory tax rate mainly due to the non provision of income tax by a subsidiary which has unabsorbed business losses carried forward during the financial year and the Company which has been granted an income tax free period of up to five years as a result of it being awarded the Multimedia Super Corridor ("MSC") status on October 6, 2000. The extension of Pioneer Status for the Company has been approved by authorities concerned for another five year period from the date of expiry of the first five year period ( September 30, 2005 ) in accordance with the Bill of Guarantees provided to all MSC Malaysia Status companies.

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

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

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

19.	<b>EARNINGS PER SHARE</b>	<b>Group</b>	
		2011	2010
	Earnings per ordinary share of RM 0.10 each is calculated as follows :-		
	<b>Basic :-</b>		
	Net loss for the year attributable to equity holders of the parent company	(3,804,878)	(2,957,051)
	Basic earnings per share	(1.31) sen	(1.02) sen
	Issued ordinary shares at December 31,	<u>290,526,500</u>	<u>290,526,500</u>

20.	<b>CASH AND CASH EQUIVALENTS</b>	
	For the purpose of the cash flow statements, cash and cash equivalent comprise the followings :-	

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

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

Bank overdrafts are denominated in RM, bear interest at 0.5 % above BLR p.a. and are secured by :

- ( a ) Landed properties owned by director.
- ( b ) Guaranteed by the Company directors.
- ( c ) Guaranteed by Palette Corporation Sdn. Bhd.

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

**PALETTE MULTIMEDIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011****21. RELATED PARTY TRANSACTIONS**

A party is related to an entity if :-

- ( i ) directly, or indirectly through one or more intermediaries, the party:-
  - controls, is controlled by, or is under common control with, the entity ( this includes parents, subsidiaries and fellow ;
  - has an interest in the entity that gives it significant influence over the entity ; or
  - has joint control over the entity ;
- ( ii ) the party is an associate of the entity ;
- ( iii ) the party is a joint venture in which the entity is a venturer ;
- ( iv ) the party is a member of the key management personnel of the entity or its parent ;
- ( v ) the party is a close member of the family of any individual referred to in ( i ) or ( iv ) ;
- ( vi ) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- ( vii ) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party or the entity.

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

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



**PALETTE MULTIMEDIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

21. RELATED PARTY TRANSACTIONS (CONT'D)	2011 RM	2010 RM
<b>Director</b> <b>Palette Computer Sdn. Bhd.</b> in which Abdul Razak Bin Dato' Haji Ipap (Director of the Company), is a director Sale of goods	<u>229</u>	<u>121,599</u>
Significant outstanding balances at the balance sheet date, arising from :		
Sale and purchases of goods	<u>354,213</u>	<u>111,599</u>
<b>Director</b> <b>Palette Internet Sdn. Bhd.</b> in which Eg Kah Yee, and Eg Kaa Chee (Director of the Company), is a director Significant outstanding balances at the balance sheet date, arising from :		
Sale of goods and services	<u>2,182</u>	<u>2,182</u>
<b>Director</b> <b>Key ASIC Berhad</b> in which Eg Kah Yee (Director of the Company), is a director Significant outstanding balances at the balance sheet date, arising from :		
Sale of goods and services and advances	<u>1,529</u>	<u>1,529</u>

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 22. FINANCIAL INSTRUMENTS

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

#### (a) Financial risk management policies

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

##### (i) Market risk

###### (i) Foreign currency risk

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

If the Ringgit Malaysia weaken against USD by 1.75 % ( 2010 : -9.77 % ) with all other variables including the tax rate being held constant, the loss before tax would decrease by RM 224.

###### (ii) Interest rate risk

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

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

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

###### (iii) Equity price risk

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

**PALETTE MULTIMEDIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011****22. FINANCIAL INSTRUMENTS (CONT'D)****(a) Financial risk management policies (cont'd)****(ii) Credit risk**

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

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

Ageing analysis

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

<b>The Group</b>	<b>Gross Amount RM</b>	<b>Individual Impairment RM</b>	<b>Carrying Value RM</b>
Yaer 2011			
Current	1,021,160	-	1,021,160
31 - 60	5,100	-	5,100
61 - 90	-	-	0
91 - 120	-	-	0
> 120	1,901,505	(853,404)	1,048,101
	<u>2,927,765</u>	<u>(853,404)</u>	<u>2,074,361</u>

**PALETTE MULTIMEDIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011****22. FINANCIAL INSTRUMENTS (CONT'D)****(a) Financial risk management policies (cont'd)****(ii) Credit risk (cont'd)**

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

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

Trade receivables that are past due but not impaired

The Group believes that no impairment is necessary in respect of these trade receivables. They are substantially companies with good collection track record and no recent history of default.

Trade receivables that are neither past due nor impaired

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 22. FINANCIAL INSTRUMENTS (CONT'D)

#### (a) Financial risk management policies (cont'd)

##### (iii) Liquidity risk

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

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

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

## 22. FINANCIAL INSTRUMENTS (CONT'D)

## (a) Financial risk management policies (cont'd)

## (iii) Liquidity risk (cont'd)

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

**PALETTE MULTIMEDIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011****22. FINANCIAL INSTRUMENTS (CONT'D)****(b) Capital management policies**

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

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

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

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

# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### 22. FINANCIAL INSTRUMENTS (CONT'D)

#### (c) Classification of financial instruments

Year 2011	Group RM	Company RM
<b>Financial assets</b>		
<u>Loans and receivables financial assets</u>		
Trade receivables	2,074,361	1,609,714
Other receivables and deposits	2,466,170	1,675,266
Cash and bank balances	233,076	225,155
	<u>4,773,607</u>	<u>3,510,135</u>
<b>Financial liabilities</b>		
<u>Other financial liabilities</u>		
Trade payables	15,110,895	14,406,463
Other payables and accruals	466,160	371,101
Amount owing to subsidiary	-	1,984,777
Amount owing to directors	14,473	14,473
Loans and borrowings	1,156,660	1,156,660
	<u>16,748,188</u>	<u>17,933,474</u>
<b>Year 2010</b>	<b>Group RM</b>	<b>Company RM</b>
<b>Financial assets</b>		
<u>Loans and receivables financial assets</u>		
Trade receivables	2,550,350	2,087,564
Other receivables and deposits	2,435,287	1,746,603
Amount due from subsidiaries	-	13,034,638
Cash and bank balances	761,938	688,452
	<u>5,747,575</u>	<u>17,557,257</u>
<b>Financial liabilities</b>		
<u>Other financial liabilities</u>		
Trade payables	14,990,895	14,286,463
Other payables and accruals	413,040	328,072
Amount owing to subsidiary	-	1,984,777
Amount owing to directors	14,473	14,473
Loans and borrowings	411,478	411,478
	<u>15,829,886</u>	<u>17,025,263</u>



**PALETTE MULTIMEDIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011****23. OPERATING SEGMENTS**

Segment information is presented in report of the Group's geographical segment. Inter - segment pricing is determined based on negotiated terms.

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

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

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

**24. SIGNIFICANT EVENTS**

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

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

**PALETTE MULTIMEDIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011****25. SUPPLEMENTARY INFORMATION - DISCLOSURE OF REALISED AND UNREALISED PROFITS / LOSSES**

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

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

**26. COMPARATIVE FIGURES**

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

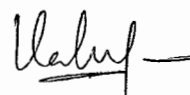
# PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

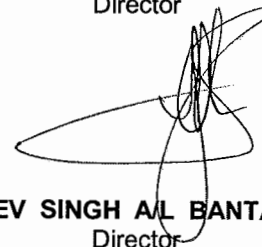
## STATEMENT BY DIRECTORS

We, Eg Kah Yee and Sukhdev Singh A/L Banta Singh, being two of the directors of Palette Multimedia Berhad, do hereby state that, in our opinion, the financial statements as set out on pages 7 to 49, are drawn up in accordance with applicable Approved Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2011 and of the results of its operation and cash flows of the Group and of the Company for the year ended on that date.

SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS



**EG KAH YEE**  
Director



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

Kuala Lumpur,

Date : 19 APR 2012

## STATUTORY DECLARATION

I, Sukhdev Singh A/L Banta Singh, I/C No. : 551111 - 04 - 5203 being the director primarily responsible for the financial management of Palette Multimedia Berhad, do solemnly and sincerely declare that the financial statements as set out on pages 7 to 49, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named

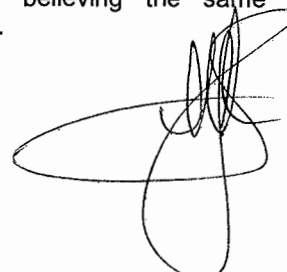
**SUKHDEV SINGH A/L BANTA SINGH**

at Kuala Lumpur in the Federal Territory

on this

19 APR 2012

Before me,



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

84, Tingkat Bawah, Jalan Tuba,  
Off Jalan Kampung Attap,  
50460 Kuala Lumpur /

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31 DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
PALETTE MULTIMEDIA BERHAD**

( Company No. 420056 K )

(Incorporated in Malaysia)

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of Palette Multimedia Berhad, which comprise the statements of financial position as at December 31, 2011 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flow of the Group and of the Company for the year then ended and a summary of significant accounting policies and other explanatory information as set out on pages 7 to 49.

**Directors' Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards in Malaysia and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of **December 31, 2011** and their performance and cash flow for the year then ended.

**Emphasis of matter**

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

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

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

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE FYE 31  
DECEMBER 2011 TOGETHER WITH THE AUDITORS' REPORT THEREON (CONT'D)**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF (CONT'D)**

**PALETTE MULTIMEDIA BERHAD**

(Company No. 420056 K)

(Incorporated in Malaysia)

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

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

**Other Matters**

The supplementary information set out in Note 25 on page 49 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ('MIA Guidance') and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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

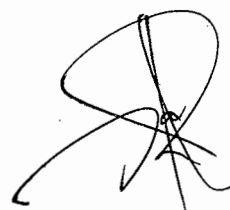


**CHENG & CO.**

Firm No. : AF - 0886

Chartered Accountants (Malaysia)

18 - 2, Jalan 2/114, Kuchai Business Centre,  
Off Jalan Klang Lama, 58200 Kuala Lumpur.



**YAP PENG BOON**

Partner

No. Kelulusan 2118/12/12 (J)

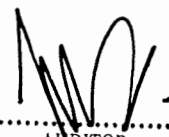
Kuala Lumpur,  
Date : April 19, 2012

**UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF OUR GROUP FOR THE NINE (9)-  
MONTH PERIOD ENDED 30 SEPTEMBER 2012**

**CERTIFIED TRUE COPY**

PALETTE MULTIMEDIA BERHAD  
(Company No.: 420056-K)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 SEPTEMBER 2012

  
.....  
AUDITOR  
PROF. DR. PAUL CHENG CHAI LIOU, C.A. (M)  
NO. KELULUSAN JURUAUDIT 1561/03/13(U)

	Unaudited 2012 Current Qtr Ended 30-Sep RM'000	Unaudited 2011 Comparative Qtr Ended 30-Sep RM'000	Unaudited 2012 Cumulative YTD 30-Sep RM'000	Unaudited 2011 Cumulative YTD 30-Sep RM'000
Revenue	963	1,210	2,586	5,088
Cost of sales	(313)	(907)	(1,292)	(3,775)
<b>Gross (loss) / profit</b>	<b>650</b>	<b>303</b>	<b>1,294</b>	<b>1,313</b>
Other income	294	-	695	127
Selling and distribution	(24)	(44)	(159)	(173)
Administrative and general expenses	(650)	(757)	(1,908)	(2,078)
<b>(Loss) / Profit from operations</b>	<b>270</b>	<b>(498)</b>	<b>(78)</b>	<b>(811)</b>
Finance Cost	(7)	(13)	(35)	(22)
<b>(Loss) / Profit before taxation</b>	<b>263</b>	<b>(511)</b>	<b>(113)</b>	<b>(833)</b>
<b>Profit/(Loss) before tax is stated after charging/(crediting):-</b>				
Reversal of impairment loss on trade receivables	(144)	-	(348)	-
Bad debts recovered	-	-	(172)	-
Other income	(150)	-	(175)	(127)
Interest expenses	7	13	35	22
Depreciation and amortisation	237	232	720	674
Foreign exchange (gain) / loss	3	2	13	(24)
Taxation	-	-	-	-
<b>Net (loss) / profit for the financial period</b>	<b>263</b>	<b>(511)</b>	<b>(113)</b>	<b>(833)</b>
Foreign currency translation	2	-	2	-
<b>Total comprehensive income / (loss)</b>	<b>265</b>	<b>(511)</b>	<b>(111)</b>	<b>(833)</b>
Profit or loss attributable to:-				
Minority interest	1	-	1	-
Equity holders of the parent	262	(511)	(114)	(833)
	<b>263</b>	<b>(511)</b>	<b>(113)</b>	<b>(833)</b>
Total comprehensive income / (loss) attributable to:-				
Minority interest	(1)	-	(1)	-
Equity holders of the parent	266	(511)	(110)	(833)
	<b>265</b>	<b>(511)</b>	<b>(111)</b>	<b>(833)</b>
EPS - Basic (sen)	0.09	(0.18)	(0.04)	(0.29)
- Diluted (sen)	N/A	N/A	N/A	N/A

Note:

The Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.

**UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF OUR GROUP FOR THE NINE (9)-MONTH PERIOD ENDED 30 SEPTEMBER 2012 (CONT'D)**
**PALETTE MULTIMEDIA BERHAD**

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2012**

	Unaudited As At 30 September 2012 RM'000	Audited As At 31 December 2011 RM'000
Property, Plant and Equipment	285	426
Intangible Assets	16,598	17,171
Cash & Cash Equivalent - Restricted	12,932	12,932
<b>Current Assets</b>		
Inventories	827	822
Trade Receivables	2,944	2,081
Other Receivables	1,611	2,467
Cash and Cash Equivalents	149	233
	<u>5,531</u>	<u>5,603</u>
<b>Current Liabilities</b>		
Payables	1,740	2,069
Overdrafts and Short Term Borrowings	811	1,157
Taxation	1	1
	<u>2,552</u>	<u>3,227</u>
<b>Net Current Assets</b>	<u>2,979</u>	<u>2,376</u>
	<u>32,794</u>	<u>32,905</u>
Share Capital	29,053	29,053
Share Premium	4,296	4,296
Retained Earnings	(14,126)	(14,012)
Other Reserves	31	27
	<u>19,254</u>	<u>19,364</u>
Minority Interest	17	18
<b>Total Equity</b>	<u>19,271</u>	<u>19,382</u>
<b>Long Term Liabilities</b>		
Payables	13,523	13,523
	<u>32,794</u>	<u>32,905</u>
Net Assets Per Share Attributable to Equity of Parent (Sen)	6.63	6.67

Note:

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.

**UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF OUR GROUP FOR THE NINE (9)-  
MONTH PERIOD ENDED 30 SEPTEMBER 2012 (CONT'D)**

## PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 SEPTEMBER 2012**

	Unaudited 9 Months Ended 30/09/2012 RM'000	Unaudited 9 Months Ended 30/09/2011 RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit/(loss) before taxation	(113)	(833)
Adjustment for:		
Amortisation of intangible assets	573	536
Depreciation of property, plant and equipment	147	138
Impairment of intangible assets	-	-
Other income	(175)	(127)
Interest expense	35	22
Provision for and written off of inventories	-	-
Provision for and written off of receivables	-	-
Unrealised loss on foreign exchange translation	-	-
Impairment loss on trade receivables	-	-
Operating profit before working capital changes	<u>467</u>	<u>(264)</u>
Decrease / (Increase) in inventories	(5)	149
Decrease / (Increase) in trade and other receivables	(7)	(1,089)
(Decrease) / Increase in trade and other payables	<u>(329)</u>	<u>1,025</u>
Income generated from / (used in) operations	127	(179)
Interest paid	(35)	(22)
Development cost paid	-	-
Tax paid	-	-
Net cash flow generated from/(used in) operating activities	<u>92</u>	<u>(201)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant & equipment	(5)	(35)
Proceeds from disposal of fixed assets	-	-
Other income	175	127
	<u>170</u>	<u>92</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
(Decrease) / Increase in borrowings	(346)	430
Repayment of term loan	-	-
	<u>(346)</u>	<u>430</u>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(84)</b>	<b>321</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD</b>	<b>13,165</b>	<b>13,694</b>
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD</b>	<b><u>13,081</u></b>	<b><u>14,015</u></b>

## Note:

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 December 2011 and the accompanying notes attached to the interim financial statements.

The balance of cash and cash equivalents at end of financial period includes the amount of cash and cash equivalents that is restricted to be used, as shown in the interim Balance Sheet



**UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF OUR GROUP FOR THE NINE (9)- MONTH PERIOD ENDED 30 SEPTEMBER 2012  
(CONT'D)**

PALETTE MULTIMEDIA BERHAD

(Company No. 420056-K)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 SEPTEMBER 2012**

	Attributable to Equity Holders of the Parent ----->		Distributable		Total Equity RM'000
	Share Capital RM'000	Share Premium RM'000	Foreign Currency Translation Reserve RM'000	Retained Profits RM'000	
<b>Quarter ended 30 September 2012</b>					
At 1 January 2012	29,053	4,296	27	(14,012)	18
Foreign exchange difference	0	0	4	0	(2)
Total Other comprehensive income for the period	0	0	4	0	(2)
Profit / (Loss) for the period	0	0	0	(114)	1
Comprehensive Income / (loss) for the period	0	0	4	(114)	(1)
At 30 September 2012 (Unaudited)	29,053	4,296	31	(14,126)	17
<b>Quarter ended 30 September 2011</b>					
At 1 January 2011	29,053	4,296	28	(10,208)	18
Total comprehensive income / (loss)	0	0	0	(833)	0
At 30 September 2011 (Unaudited)	29,053	4,296	28	(11,041)	18

Note:

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 December 2011 and the accompanying notes attached to the interim financial statements.

**UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF OUR GROUP FOR THE NINE (9)-  
MONTH PERIOD ENDED 30 SEPTEMBER 2012 (CONT'D)**

## PALETTE MULTIMEDIA BERHAD

(Company No : 420056-K)

## SELECTED EXPLANATORY NOTES

## 1. Accounting Policies and Methods Of Computation

The 3rd quarterly financial report ended 30 September 2012 is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134 "Interim Financial Reporting" and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the ACE Market.

The report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2011. The explanatory notes attached to the quarterly financial report provide an explanation on events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2011.

The accounting policies and methods of computation adopted by the Group in the quarterly financial report are consistent with those adopted in the audited financial statements of the Group for the financial year ended 31 December 2011, except for the adoption of new/revised FRSs that are effective 1 January 2012. These new/revised FRSs are not expected to have significant impact on the financial position or results.

## 2. Audit Report

Other than qualification on the foreign subsidiary on the appropriateness of preparing the financial statements on a going concern basis, the auditors' report of the Company's annual financial statements for the financial year ended 31 December 2011 was not subject to any other qualification.

## 3. Segmental Reporting

<u>Geographical segments</u>	Malaysia RM'000	Indonesia RM'000	Elimination RM'000	Consolidated RM'000
<b>Current Quarter ended 30 September 2012</b>				
<b>Segment Revenue</b>				
Revenue	963	-	-	963
Inter-Segment Sales	-	-	-	-
<b>Total Revenue</b>	<b>963</b>	<b>-</b>	<b>-</b>	<b>963</b>
<b>Segment PBT / (LBT)</b>				
Segment Results				120
Unallotted Corporate Exp.				-
Operating Loss				120
Interest Expense				(7)
Other Income				150
<b>Profit Before Taxation</b>				<b>263</b>
Depreciation	46	-	-	46
Non cash expenses other than depreciation	191	-	-	191
<b>Cumulative YTD ended 30 September 2012</b>				
<b>Segment Revenue</b>				
Revenue	2,586	-	-	2,586
Inter-Segment Sales	-	-	-	-
<b>Total Revenue</b>	<b>2,586</b>	<b>-</b>	<b>-</b>	<b>2,586</b>
<b>Segment PBT / (LBT)</b>				
Segment Results				(253)
Unallotted Corporate Exp.				-
Operating Loss				(253)
Interest Expense				(35)
Other Income				175
<b>Loss Before Taxation</b>				<b>(113)</b>

**UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF OUR GROUP FOR THE NINE (9)-  
MONTH PERIOD ENDED 30 SEPTEMBER 2012 (CONT'D)**

**PALETTE MULTIMEDIA BERHAD**

(Company No.: 420056-K)

**SELECTED EXPLANATORY NOTES**

Depreciation	147	-	-	147
Non cash expenses other than depreciation	573	-	-	573
Segment assets	38,322	1,784	(4,760)	35,346
Segment liabilities	32,272	44	(16,241)	16,075
Capital expenditure	5	-	-	5

**4. Unusual Items**

During the quarter under review, there were no unusual items affecting assets, liabilities, equity, net income, or cash flows of the Group.

**5. Changes In Estimates Of Amount Reported Previously Affecting Current Interim Period**

There are no changes in estimates of amount reported that will have a material effect in the current interim period other than those disclosed under note 2.

**6. Seasonality or Cyclicity**

The operations of the Group are not subject to any seasonality or cyclicity factors.

**7. Dividends Paid Or Proposed**

Dividends were neither paid nor proposed during the current interim period.

**8. Valuation of Property, Plant and Equipment**

The Group has not carried out any valuation on its property, plant & equipment.

**9. Debts and Equity Securities**

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities.

**10. Change In The Composition of The Group**

There has been no change in the composition of the Group during the interim period under review.

**11. Discontinued Operation**

There were no discontinued operations within the activities of the Group for the quarter under review.

**12. Capital Commitments**

There were no capital commitments for the purchase of any property, plant and equipment or any other expenses that were not accounted for in the financial statements of the quarter under review.

**13. Changes In Contingent Liabilities & Assots**

There are no material contingent liabilities as at the date of this report.

**14. Subsequent Events**

There were no material events subsequent to the end of the reporting quarter that have not been reflected in the quarter under review.

---

**UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF OUR GROUP FOR THE NINE (9)-MONTH PERIOD ENDED 30 SEPTEMBER 2012 (CONT'D)**

---

**PALETTE MULTIMEDIA BERHAD**

(Company No.: 420056-K)

**SELECTED EXPLANATORY NOTES****Additional Informations As Per ACE Market Listing Requirement****15. Review Of Performance**

During the current quarter under review, the Group recorded a net profit attributable to equity holders of parent of RM0.26 million on the back of RM0.96 million revenue representing an increase in profit as compared to a net loss attributable to equity holders of parent of RM0.51 million in the comparative quarter of the preceding year. The increase in profit is mainly contributed by higher gross profit and Grant income received from MGS which are recorded in current quarter.

**16. Material Change In the Profit Before Taxation Compared To The Results of Immediate Preceding Quarter**

The Group recorded a profit before tax of RM0.26 million in the current quarter as compared to a net loss before tax of RM0.16 million in the immediate preceding quarter. This representing a increase in profit of approximately 263%. The increase in profit is mainly due to higher gross profit, reversal of impairment loss on trade receivable and Grant income received from MGS which are recorded in the current quarter.

**17. Commentary Of Prospects**

Palette continues the deployment of its in-house development network access management products and is seeing strong interest from telcos as wide scale rollout of high speed broadband networks increase both in Malaysia and the region. Q4 will see the rollout of the mobile version of Palette's Access Management Gateway and the initial deployments. Overall we are confident of a positive impact on the company from these new products and development to further improve the products is ongoing.

**18. Profit Forecast**

There were no profit forecast announced in the current interim period and financial year to date under review, hence there was no comparison between actual and forecast results.

**19. Taxation**

The company currently has MSC Status and the extension of Pioneer Status for the Company has been approved by authorities concerned for another five year period from the date of the expiry of the first five year period (30 September 2005) in accordance to the Bill of Guarantees provided to all MSC Malaysia Status Companies, therefore there is no taxation in the current interim period under review. For its subsidiaries, no taxable profit is expected due to the losses made in prior years.

**20. Unquoted Investments / Properties**

There were no purchase or sales of unquoted investments or properties during the current interim period under review.

**21. Purchase or Disposal of Quoted Securities**

There were no purchase or disposal of quoted securities during the current interim period under review.

**22. Status of Corporate Proposal**

*(1) Memorandum of Understanding between TT dotCom Sdn Bhd and Palette Multimedia Berhad*

The company has on 30th August 2007, entered into a Memorandum of Understanding with TT dotCom Sdn Bhd to provide high bandwidth internet access service for wired and wireless networks within the Damansara Perdana area and Jaya 33 building in Petaling Jaya.

For the purpose of the joint services to be offered in Damansara Perdana, Palette will charge a rate of RM25,000 per month on a flat basis to TIME for the provision of 2nd and 3rd line support.

**UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF OUR GROUP FOR THE NINE (9)-  
MONTH PERIOD ENDED 30 SEPTEMBER 2012 (CONT'D)**

## PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

## SELECTED EXPLANATORY NOTES

There is no material development pertaining to the Memorandum of Understanding between TT dotCom Sdn Bhd and Palette Multimedia Berhad.

*(2) Renounceable rights issue warrant ("Proposal")*

On 7 September 2011, the Company has announced to undertake the proposed renounceable rights issue of up to 154,513,250 warrants ("Warrants") at an indicative issue price of RM0.03 for each Warrant on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.10 each in the Company ("Proposed Rights Issue of Warrants").

Bursa Securities on 4 April 2012 approved the listing application pursuant to the Proposed Rights Issue of Warrants. The approval of Bursa Securities is subject to compliance with certain conditions imposed by Bursa Securities.

The Proposed Rights Issue of Warrants has been approved by the shareholders of the Company at the Extraordinary General Meeting held on 15 June 2012.

Further extension of time of 6 months from 4 October 2012 until 3 April 2013 to complete the implementation of the rights issue has been approved by Bursa Securities on 20 September 2012.

**23. Group Borrowings and Debt Securities**

Group Borrowings denominated in Ringgit Malaysia as at 30 September 2012 are as follows:-

	Short Term RM '000	Long Term RM '000	Total RM '000
Secured	703	-	703
Unsecured	108	-	108
<b>Total</b>	<b>811</b>	<b>-</b>	<b>811</b>

**24. Off Balance Sheet Financial Instruments**

There were no off balance sheet financial instruments as at the date of this report.

**25. Material Litigation**

On the on-going litigation between the Company and Asustek Computer Inc and Bumiputra Commerce Bank Berhad registered under High Court suit no. D4-22-293-04, the Company had on 1 July 2010 been notified by its legal representative that a Notice of Appeal, against the decision of the Kuala Lumpur High Court dated 4 June 2010, has been filed into Court on 29 June 2010. There was no pending material litigation as at the date of this announcement other than that mentioned above.

The disputed amount has been reclassified as non-current asset in accordance to the accounting standard since it is restricted for use until the full judgment of the case is delivered. The Board is in the opinion that the outcome of the judgment will not have any material financial impact to the Group as the restricted cash & cash equivalent will be used to set off the corresponding liabilities if any reflected in the trade payables under the long term liabilities. The disputed amount reflected in the payables owing to Asustek Computer Inc is RM11.09 million.

**26. Realised and Unrealised Profits/Losses**

On 25 March 2010, Bursa Securities issued a directive to all listed issuers pursuant to Rules 2.07 and 2.23 of Bursa Securities ACE Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits and losses.

On 20 December 2010, Bursa Securities further issued guidance on the disclose and the format period.

**UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF OUR GROUP FOR THE NINE (9)-  
MONTH PERIOD ENDED 30 SEPTEMBER 2012 (CONT'D)**

**PALETTE MULTIMEDIA BERHAD**

(Company No. : 420056-K)

**SELECTED EXPLANATORY NOTES**

The breakdown of accumulated losses of the Group and the Company as at the reporting date, into realised and unrealised losses, pursuant to the directive, is as follows:

	Group 30/09/2012 RM'000	Group 30/06/2012 RM'000
Total accumulated losses of Palette Multimedia Berhad and it's subsidiaries:		
- Realised	(14,126)	(14,383)
- Unrealised - in respect of other items of income and expense		
Total Group accumulated losses as per consolidated accounts	<u>(14,126)</u>	<u>(14,383)</u>

The determination of realised and unrealised losses is based on the Guidedance of 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 Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

**27. Dividends Payable**

The Board of Directors does not recommend any interim dividends for the current quarter ended 30 September 2012.

**28. Basic Earnings Per Share**

(a) Basic

The basic earnings per share for the quarter and cumulative year to date are computed as follow:

	<u>Individual Quarter Ended</u>		<u>Cumulative YTD</u>	
	30-Sep-12	30-Sep-11	30-Sep-12	30-Sep-11
Net Profit/(Loss) After Tax & Minority Interest (RM'000)	262	(511)	(114)	(833)
Weighted average number of ordinary shares in issue ('000)	290,527	290,527	290,527	290,527
Basic Profit / (Loss) Per Share (sen)	<u>0.09</u>	<u>(0.18)</u>	<u>(0.04)</u>	<u>(0.29)</u>

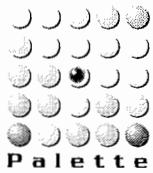
(b) Diluted

There is no dilution effect on the earning per share during the quarter and cumulative year to date since the exercise price of the outstanding options is higher than the weighted average market price of share traded.

**29. Authorisation for Issue**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 22nd November 2012.

DIRECTORS' REPORT



**Palette Multimedia Berhad (420056-K)**

6 Floor, Unit 4, 8 First Avenue, Bandar Utama  
47800 Petaling Jaya, Selangor Malaysia  
Tel: 603-7728 9880 Fax: 603 - 7728 1080

Website: [www.palettemm.com](http://www.palettemm.com) Hotspots: [www.yellowspots.com](http://www.yellowspots.com)

**Registered Office:**

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

**19 FEB 2013**

To: The shareholders of Palette Multimedia Berhad (“**Palette**” or “**Company**”)

Dear Sir/Madam,

On behalf of the Board of Directors of Palette (“**Board**”), I wish to report that after making due enquiries in relation to the Company and its subsidiaries (“**Group**”) during the period between 31 December 2011 (being the date on which the latest audited consolidated financial statements have been made up) to the date thereof (being a date not earlier than fourteen (14) days before the date of this Abridged Prospectus), that:

- (i) in the opinion of the Board the business of the Group has been satisfactorily maintained;
- (ii) in the opinion of the Board, no circumstance has arisen since the last audited consolidated financial statements of the Group which has adversely affected the trading or the value of the assets of the Group;
- (iii) the current assets of our Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) there is no contingent liability which has arisen by reason of any guarantee or indemnity given by the Group;
- (v) since the last audited consolidated financial statements of the Group, there has been no default or any known event that could give rise to a default situation, in respect of payment of either interest and/or principal sums in relation to any borrowing in which the Board is aware of; and
- (vi) save as disclosed in this Abridged Prospectus, there has been no material change in the published reserves or any unusual factor affecting the result of the Group since the last audited consolidated financial statements of the Group.

Yours faithfully  
For and behalf of the Board of  
**PALETTE MULTIMEDIA BERHAD**

**Eg Kah Yee**  
Chairman/Managing Director

**ADDITIONAL INFORMATION****1. SHARE CAPITAL**

- 1.1 Save for the Warrants and new Shares to be issued pursuant to the exercise of the Warrants, no securities in our Company will be allotted or issued on the basis of this AP later than twelve (12) months after the date of the issuance of this AP.
- 1.2 As at the date of this AP, there is no founder, management, deferred shares or preference shares in the share capital of our Company. There is only one (1) class of shares in our Company, namely ordinary shares of RM0.10 each, all of which rank *pari passu* with one another.
- 1.3 Saved as disclosed below, no person has been or is entitled to be granted an option to subscribe for any share, stock or debenture of our Company or subsidiaries as at the LPD:
- (i) our Entitled Shareholders who will be provisionally allotted the Warrants pursuant to the Rights Issue of Warrants; and
  - (ii) our eligible Directors and employees who had been granted the free options under our ESOS. The particulars of our ESOS are as follows:
 

No. of ESOS options outstanding as at the LPD	:	16,650,000 ESOS options which are exercisable into 16,650,000 new Palette Shares
Exercise price of ESOS option	:	The exercise price of ESOS options is RM0.10 for every one (1) new Palette Share
Option period	:	A period of ten (10) years commencing from 7 April 2004 and expiring on 6 April 2014

**2. REMUNERATION OF DIRECTORS**

The provisions in our Company's Articles of Association in relation to the remuneration of our Directors are as follows:

*Remuneration of Directors*

*Article 102 Subject to these Articles, the remuneration of the Directors shall from time to time be determined by the Company in general meeting and such fees shall be divided among the Directors in such proportions and manner as the Directors may determine provided always that:*

- (1) fees payable to Directors not holding any executive office in the Company shall be a fixed sum and shall not be payable by a commission on or percentage of profits or turnover;*
- (2) salaries payable to Directors holding executive office in the Company may not include a commission on or a percentage of turnover;*
- (3) all remuneration payable to Directors shall be deemed to accrue from day to day;*
- (4) fees payable to Directors shall not be increased except pursuant to a resolution passed by the Company in general meeting, where notice of the proposed increase has been given in the notice convening the meeting;*
- (5) any fee paid to alternate Director shall be agreed between him and his appointor and shall be deducted from his appointor's remuneration.*



**ADDITIONAL INFORMATION (CONT'D)**Expenses

*Article 103 The Directors may be paid all travelling, hotel, and other expenses, properly incurred by them in attending and returning from meetings of the Directors or any committee of Directors or general or other meetings of the Company or in connection with the business of the Company.*

Special remuneration

*Article 104 The Directors may grant special remuneration to any Director who (on request by the Directors) is willing to:*

- (1) render any special or extra services to the Company; or*
- (2) to go or reside outside his country of domicile or residence in connection with the conduct of any of the Company's affairs.*

*Such special remuneration may be paid to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be paid in a lump sum by way of salary, or by a percentage of profits, or by all or any of such methods but shall not include (where such special remuneration is paid by way of salary) a commission on or a percentage of turnover.*

**3. MATERIAL CONTRACTS**

Save as disclosed below, neither we nor our subsidiaries have entered into any material contract, (not being contracts entered into in the ordinary course of business) within the two (2) years immediately preceding the date of this AP:

- (i) our Company had on 15 October 2012 entered into a Sale and Purchase of Shares Agreement with Jaliah Binti Jalal and Ismail Bin Mohamadeen for the disposal of 649,999 ordinary shares of USD 1 each in PT Palette, representing 99.99% of the total issued and paid-up share capital in PT Palette for a total cash consideration of RM1; and*
- (ii) the Deed Poll dated 13 February 2013 executed by our Company constituting the Warrants.*

**4. MATERIAL LITIGATION**

Save as disclosed below, as at the LPD, neither we nor our subsidiaries are engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and our Board does not have any knowledge of any proceedings, pending or threatened, against us or our subsidiaries or of any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of our Company or our subsidiaries:

- (i) On 12 March 2004, Palette obtained an interim ex-parte injunction to restrain Bumiputera-Commence Bank Berhad (now known as CIMB Bank Berhad) from releasing any payment to Asustek Computer Inc. prior to commencement of action. On 9 May 2004, Palette claimed against Asustek Computer Inc. ("**First Defendant**") for the defects of goods valued at RM3.6 million, and subsequently on 24 January 2006, Palette obtained an inter-party order to restrain CIMB Bank Berhad ("**Second Defendant**") from releasing any payment to the First Defendant. On 4 June 2010, the High Court of Malaya ("**Court**") dismissed Palette's claims against the First Defendant and Second Defendant with costs and allowed the First Defendant's counter claims against Palette and the Second Defendant as follows:*
  - (a) The sum due under the letter of credit of RM11,005,218;*
  - (b) Recovery of compact disc license fee of RM9,500;*

**ADDITIONAL INFORMATION (CONT'D)**

- (c) Interest at the rate of 6% per annum on the sum of RM11,005,218 from 19 January 2004 to the date of full settlement; and
- (d) Costs to be taxed, unless agreed.

We had on 29 June 2010 filed a notice of appeal against the above decision by the Court and were notified that the Court of Appeal of Malaysia had on 2 January 2013 dismissed our appeal against the decision of the Court. Our Board considers that it has a reasonable chance of success if the matter is appealed and our Company has applied for leave to appeal to the Federal Court of Malaysia.

In the event that the final appeal to the Federal Court is unsuccessful, our consolidated net profit and shareholders' fund for the financial year ending 31 December 2013 will reduce by approximately RM5.94 million (calculated based on the interest of 6% per annum on the sum of approximately RM11.01 million from 19 January 2004 up to the LPD).

**5. GENERAL**

- 5.1 There is no existing or proposed service contract entered or to be entered into by our Company with any Director or proposed Director, other than those which are expiring or determinable by the employing company without payment of compensation (other than statutory compensation) within one (1) year from the date of this AP.
- 5.2 Save as disclosed in this AP and to the best knowledge of our Board, the financial conditions and operations of our Group are not affected by any of the following:
  - (i) known trends or demands, commitments, events or uncertainties that will result in or are likely to materially increase or decrease our Group's liquidity;
  - (ii) material commitments for capital expenditure of our Group;
  - (iii) unusual, infrequent events or transactions or significant economic changes that will materially affect the amount of reported income from operations;
  - (iv) known trends or uncertainties that have had or that our Group reasonably expects will have, a material favourable or unfavourable impact on our Group's revenue or operating income;
  - (v) substantial increase in revenues; and
  - (vi) material information, including trading factors or risks, which are unlikely to be known or anticipated by the general public and which could materially affect our profits.

**6. CONSENTS**

Our Adviser, Company Secretaries, Share Registrar and Solicitors for the Rights Issue of Warrants, Principal Bankers and Bloomberg Finance L.P. have given and have not subsequently withdrawn their written consents to the inclusion in this AP of their names and all references thereto in the form and context in which they appear in this AP.

The written consent of our Reporting Accountants and Auditors to the inclusion in this AP of their names and letter relating to our proforma consolidated statements of financial position as at 31 December 2011 and the Auditors' Report on the audited consolidated financial statements for the FYE 31 December 2011 respectively, and all reference thereto in the form and context in which they appear have been given before the issuance of this AP and have not subsequently been withdrawn.

**ADDITIONAL INFORMATION (CONT'D)****7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at our Registered Office at Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur during normal business hours from 9.00 a.m. to 5.00 p.m. from Monday to Friday (excluding public holidays) for a period of twelve (12) months from the date of this AP:

- (i) our Memorandum of Association;
- (ii) the audited consolidated financial statements of our Group for the past two (2) FYEs 31 December 2011 and 31 December 2010 and the latest unaudited consolidated financial statements of our Group for the nine (9)-month period ended 30 September 2012;
- (iii) the proforma consolidated statements of financial position as at 31 December 2011 and the Reporting Accountants' letter thereon as set out in **Appendix III** of this AP;
- (iv) the Undertaking as referred to in Section 2.5 of this AP.
- (v) Directors' Report referred to **Appendix VI** of this AP;
- (vi) the Deed Poll and Sale and Purchase of Shares Agreement referred to in Section 3 of **Appendix VII** of this AP;
- (vii) the letters of consent referred to in Section 6 of **Appendix VII**; and
- (viii) the writs and cause papers in relation to the material litigation referred to in Section 4 of this **Appendix VII**.

**8. RESPONSIBILITY STATEMENT**

This AP together with its accompanying documents have been seen and approved by our Board and they collectively and individually accept full responsibility for the accuracy of the information given herein and confirm that, after having made all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts, the omission of which would make any statement herein false or misleading.

TA Securities, being the Adviser for the Rights Issue of Warrants, acknowledges that, based on all available information and to the best of its knowledge and belief, this AP constitutes a full and true disclosure of all material facts concerning this Rights Issue of Warrants.

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**