



Annual Report 2009

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CORPORATE INFORMATION



| | |
|---------------------------------|--|
| BOARD OF DIRECTORS : | Eg Kah Yee (Chairman / Managing Director) Eg Kaa Chee (Non-Independent & Non-Executive Director) Abdul Razak Bin Dato' Haji Ipap (Independent Non-Executive Director) Sukhdev Singh A/L Banta Singh (Executive Director) Thong Kooi Pin (Independent Non-Executive Director) |
| COMPANY SECRETARIES : | Ng Yen Hoong (LS No. 008016) Loo Choon Keow (MAICSA No. 7039252) |
| REGISTERED OFFICE : | Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur. Tel : 03-2264 8888 Fax : 03-2282 2733 |
| BUSINESS ADDRESS : | Lot 6.04 Level 6 KPMG Tower, 8, First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan. Tel : 03-7728 9880 Fax : 03-7728 1080 |
| AUDITOR : | Cheng & Co. Chartered Accountants 18-2, Jalan 2/114, Kuchai Business Centre, Off Jalan Klang Lama, 58200 Kuala Lumpur. Tel : 03-7984 8988 Fax : 03-7984 4402 |
| REGISTRAR : | Tricor Investor Services Sdn. Bhd. (Formerly known as Tenaga Koperat Sdn. Bhd.) Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur. Tel : 03-2264 3883 Fax : 03-2282 1886 |
| CORPORATE SOLICITORS : | Rajah, Lau & Associates B-13-13, Block B, 13th Floor, Unit 13, Megan Phileo Avenue, 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur . Tel : 03-2710 5585 Fax : 03-2710 5589 |
| PRINCIPAL BANKERS : | Public Bank Bhd |
| STOCK EXCHANGE LISTING : | Bursa Malaysia Securities Berhad (ACE Market) Stock name : PALETTE Stock code : 0005 |
| CORPORATE WEBSITE : | www.palettemm.com |

BOARD OF DIRECTORS



EG KAH YEE

Chairman / Managing Director

Mr. Eg Kah Yee, a Malaysian, aged 49, is the founder, Chairman / Managing Director of Palette Multimedia Berhad. He obtained his Bachelor of Computer Science from West Virginia University, USA in 1983. He started his career as System Analyst with Phoenix Data Systems Inc., a Silicon Valley company in Santa Clara, California USA, where he developed VLSI Layout Verification System. In 1985, he joined Daisy Systems Corporation; a Silicon Valley company listed on NASDAQ based in Mountain View, California which he was the R&D Project Manager responsible for the development of second generation Digital Logic Simulator (DLSII) where he designed and implemented the simulation engine and DBMS. In 1988, he was promoted to be the Director of North Asia Region responsible for business in China, Hong Kong, Taiwan and Korea.

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

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

Currently, he also sits on the board of directors of Key ASIC Berhad and various private limited companies. He is the Chairman of the Option Committee of Palette.

EG KAA CHEE

Non-Independent & Non-Executive Director

Mr. Eg Kaa Chee, a Malaysian, aged 45, was appointed as the Director of Palette Multimedia Berhad since 1997. He obtained his LLB from University of Malaya in 1989. He started his legal practice in 1990. He specialized in litigation and conveyancing. He is the senior partner of Rajah, Lau & Associates. Presently he is the Legal Advisor for several companies and non-governmental organizations. He is a member of the Audit Committee of Palette.

BOARD OF DIRECTORS



ABDUL RAZAK BIN DATO' HJ. IPAP **Independent Non-Executive Director**

En. Abdul Razak Bin Dato' Hj. Ipap, a Malaysian, aged 50, was appointed as the Director of Palette Multimedia Berhad on 1 June 2001. He graduated with Bachelor of Science in Agribusiness from Universiti Pertanian Malaysia (currently known as Universiti Putra Malaysia) in 1988. He started his career by joining Shell Chemical Sdn Bhd as Trainee Executive in year 1986, responsible for sales development for the Company. In 1988, he joined United Engineers (M) Bhd as Business Development Executive where he was responsible for developing new sales and managing the existing project portfolio. From 1993 to 1995, he was attached to Sime Logistics Sdn Bhd as Manager in Operations and Marketing. In 1995, he joined Celcom (M) Sdn Bhd as Senior Manager (Logistics) responsible for the smooth flowing of the entire company's logistic and was subsequently promoted as the Vice President Logistics. He left Celcom in Year 2000 to start off his own career in IT business. He is the Chairman of the Audit Committee and a member of the Option Committee of Palette.

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

Mr. Sukhdev Singh, a Malaysian, aged 54, was appointed as the Executive Director of Palette Multimedia Berhad on 29 May 2006. He obtained his Bachelor of Computer Science from London in 1982. He started his career as a System Analyst and subsequently Project Manager for ICL, being involved in a variety of technical and project areas. He subsequently joined Hewlett Packard Singapore as a Network consultant covering Asia Pacific. Later on moving to other roles involving systems integration and finally heading HP's server marketing for Asean. He then joined Intel Asia Pacific in 1994, heading up Intel's distribution business in South Asia as the Regional Manager for South Asia. Subsequent to that he was involved in one of Asia's leading IT distribution companies for a number of years. He joined Palette Multimedia Berhad as General Manager based in Singapore in 2002. His core interests and speciality lie in the area of computer network design and security and he retains a direct involvement in some of the leading technologies in this sphere. He is a member of the Option Committee of Palette.

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

Mr. Thong Kooi Pin, a Malaysian, aged 38, was appointed as the Independent Non-Executive Director of Palette Multimedia Berhad on 18 December 2006. He graduated with a professional degree in ACCA (Association of Chartered Certified Accountant) in 1998 and admitted as member of Malaysian Institute of Accountants as Chartered Accountant in year 2000. He further obtained his Master degree in business administration majoring in finance in year 2005 from Universiti Putra Malaysia. He also sits on the Board of M-Mode Berhad as the Executive Director since September 2005. He was re-designated as a Non-Independent Non-Executive Director of M-Mode Berhad on 1 December 2008. He is a member of the Audit Committee of Palette.

Eg Kah Yee and Eg Kaa Chee are brothers.

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

None of the Directors and CEO have any conflict of interest with the Company and none of the Directors and CEO have any convictions for offences other than traffic offences, if any, in the past 12 years.

Dear Shareholders,

I am pleased as the Chairman of Palette Multimedia Berhad (“Palette” or “the Company”) to present the Annual Report and the Audited Financial Statements of the Group and the Company for the financial year ended (“FYE”) 31 December 2009.

Financial & Operational Performance

The Group has posted a net loss of RM760,230 as compared to a net loss of RM5,121,064 over last year.

Industry Outlook & Development

In a year of economic uncertainty, albeit with signs of a recovery in the second half, the broadband arena continued to see investments. This is a recognition of the pressing need for such facilities nationwide and as an enabler for future economic growth.

In line with this push to higher capacity networks, we are seeing significant deployments being done on a large scale for wireless access. The very fast growth in mobile devices that are Wi-Fi ready is creating new opportunities as established telecoms players look towards Wi-Fi as an alternate access technology into their networks.

Palette has invested significant resources in new product development to allow us to deploy a range of wireless solutions that fit customer’s economic needs and the first such rollouts are starting to happen. We anticipate to continue this development in 2010 and see this as a technology edge we can offer to partners.

Prospects

The second half of 2009 saw some major projects deployed by Palette and we see this continuing into 2010. The focus on the Telco industry is paying off and Palette is increasingly involved with the major players in this arena in Malaysia and beyond.

Palette’s current R&D push is to further improve on our current products so as to be able to service trends within the Telco and high speed broadband industry. These include authentication products targeted at allowing mobile operators to offer enhanced services over Wi-Fi. This area offers good growth prospects and the products are currently undergoing trials.

We are seeing a strong demand for services such as network design, consulting and maintenance and Palette is now offering a broad range of services for customers for the management of multivendor networks, beyond just wireless networks.

The Palette R&D team has continued its development plan with the latest model of authentication solution in deployment, the first customer being an airport operator in the region. The total R&D expenditure incurred by the Group for FYE 2009 was RM0.40 million.

For the coming year the Palette R&D team will focus on developing products which allow for easy large scale installation of networks and remote management for such networks.

Appreciation

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

Thank You.

EG KAH YEE
Chairman

STATEMENT OF CORPORATE GOVERNANCE



The Board recognizes the importance of good corporate governance in discharging its responsibilities, protecting and enhancing shareholders' value through promoting and practising high standards of corporate governance throughout the Group. The Board adopts and applies the principles and best practices as governed by the Listing Requirements of the ACE Market of Bursa Malaysia Securities Berhad and Malaysian Code on Corporate Governance ("Code").

The following statements set out the Company's compliance with the principles of the Code.

A. Directors

(i) The Board

The Board is primarily responsible for the strategic directions of the Group and is scheduled to meet at least four (4) times a year. However, additional meetings may be convened as and when deemed necessary as determined by the members of the Board.

During the financial year ended 31 December 2009, five (5) board meetings were held and the details of each Directors' attendance are set out as follows:-

| Directors | Meeting Attendance |
|--------------------------------|--------------------|
| Eg Kah Yee (Chairman) | 5/5 |
| Eg Kaa Chee | 5/5 |
| Abdul Razak Bin Dato' Hj. Ipap | 5/5 |
| Sukhdev Singh A/L Banta Singh | 5/5 |
| Thong Kooi Pin | 5/5 |

(ii) Board Balance & Composition

The current Board has five (5) members comprising two (2) Executive Directors (including the Chairman / Managing Director), one (1) Non-Independent Non-Executive Director and two (2) Independent Non-Executive Directors. The Board is satisfied that the current composition fairly reflects the investment of shareholders and balance in view of the Group's business. Together, the Directors bring a wide range of experience relevant to the direction and objectives of the Group as they come from various different backgrounds ranging from business, marketing, legal and technical. A brief description of the background of each Director is presented on pages 3 to 4 of this Annual Report.

(iii) Supply of Information

The Board assumes the following responsibilities:-

- reviewing and adopting a strategic plan for the Group;
- identifying risks and assume active role in ensuring the implementation of appropriate systems to manage or mitigate these risks;
- succession planning, including appointing, training, fixing the compensation of the key managements;
- developing and implementing an investor relations programme or shareholder communications policy for the Group; and
- reviewing the adequacy and integrity of the Group's internal control systems and management information systems, including system for compliance with applicable laws, regulations, rules, directives and guidelines.

STATEMENT OF CORPORATE GOVERNANCE



All Directors including Independent Non-Executive Directors have full and timely access to information concerning the Company or other external information as they may feel necessary. Board papers and reports which include the Group's performance and major operational, financial and corporate information are distributed to the Directors with sufficient time prior to Board meetings to enable Directors to obtain further explanation, where necessary, in order to be properly briefed before the meeting.

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

(iv) Appointment to the Board and Re-election

In accordance to the Company's Articles of Association, Directors appointed during the year is required to retire and seek election by shareholders at the following Annual General Meeting ("AGM") immediately after their appointment. The Articles also require one-third of the Directors to retire by rotation and seek re-election at each AGM and that each Director shall submit himself for re-election every three (3) years.

(v) Directors' Training

All Directors have attended conferences, seminar and training during the financial year ended 31 December 2009 in the area of financials, industry and technical update. All Board members are encouraged to attend any relevant training programme to further enhance their knowledge that enable them to discharge their responsibilities more effectively.

B. Director Remuneration

Director remuneration is evaluated by the Board. The Board has not set up a Remuneration Committee as the Board, as a whole, determines the remuneration of the Directors.

The aggregate remuneration of Directors for the financial year were categorised as follows:-

| | Executive Directors (RM'000) | Non-Executive Directors (RM'000) |
|-----------------|---|---|
| Basic salary | 168.0 | - |
| Fees | - | 18.0 |
| Benefit in kind | - | - |
| Total | 168.0 | 18.0 |

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

| Band of remuneration | Executive Directors | Non-Executive Directors |
|-----------------------------|----------------------------|--------------------------------|
| RM 50,000 and below | - | 3 |
| RM 50,001 - RM100,000 | 2 | - |
| | 2 | 3 |

C. Relationship with Shareholders

The Company maintains various methods of dissemination of information important to shareholders, stakeholders and the public at large through timely announcement of events, quarterly announcement of financial results and product information on the Company's various website.

The Company's AGM also provides an effective mean of face to face communication with the shareholders where they are encouraged to participate in the open question and answering session during the AGM. Shareholders are notified of the meeting and provided with a copy of the Company's Annual Report at least 21 days before the AGM in order for them to have sufficient time to read and understand the Company's financial and non-financial performance before the actual event takes place.

D. Accountability and Audit

(i) Financial Reporting

It is the Board's responsibility to ensure that the financial statements are prepared in accordance with the Companies Act, 1965 and the applicable approved accounting standards set by Malaysian Accounting Standard Board so as to present a balanced and fair assessment of the Group's financial position and prospects. The Directors are also responsible for keeping proper accounting records, safeguarding the assets of the Company and taking reasonable steps to prevent and enable detection of fraud and other irregularities.

In preparing the financial statements, the Directors have taken the necessary steps and actions as follows:-

- (a) selecting suitable accounting policies and then applying them consistently;
- (b) stating whether applicable accounting standards have been followed;
- (c) making judgements and estimates that are reasonable and prudent; and
- (d) preparing the financial statements on a going concern basis, having made reasonable enquiries and assessment on the resources of the Company on its ability to continue further business in foreseeable future.

(ii) Internal Control

The Board acknowledges its overall responsibility for maintaining a sound system of internal controls to safeguard shareholders' investment and the Group's assets. However, the Board recognizes that such system is structured to manage rather than eliminate the possibility of encountering risk of failure to achieve corporate objectives.

The Statement of Internal Controls is set out on page 12 of the Annual Report providing an overview of the state of internal controls within the Group.

(iii) Relationships With Auditors

The Board has established a transparent relationship with the external auditors through the Audit Committee, which has been accorded the authority to communicate directly with the external auditors. The auditors in turn are able to highlight matters which require the attention of the Board effectively to the Audit Committee in terms of compliance with the accounting standards and other related regulatory requirements.

E. Corporate Social Responsibilities

The Company did not undertake any corporate social responsibility activities or practices during the financial year under review.

The Audit Committee was established with the primary objective to provide assistance to the Board in fulfilling its fiduciary responsibilities relating to the corporate governance and practices for the Group, to improve the business efficiency and enhance the independent role of external and internal auditors.

1. Composition of Audit Committee

The present members of the Audit Committee comprise of:-

Chairman

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

Members

Eg Kaa Chee - Non-Independent & Non-Executive Director

Thong Kooi Pin - Independent Non-Executive Director

2. Terms of Reference

A. Composition

The Committee shall be appointed by the Board of Directors from amongst its members which fulfils the following requirements:-

- (i) shall comprise not less than 3 members;
- (ii) the majority shall be independent directors;
- (iii) all members must be non-executive directors; and
- (iv) at least one member:
 - (a) must be a member of the Malaysian Institute of Accountants; or
 - (b) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
 - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
 - (c) fulfils such other requirements as prescribed or approved by the Exchange.

In the event of any vacancy in the audit committee resulting in the non-compliance of the above, the Board shall within three (3) months appoint new members as required to make up the minimum numbers.

B. Authority

The Audit Committee is empowered by the Board to investigate, deliberate, discuss and review any activity within its terms of reference and access to any resources within the Company which are required to perform its duties without any restriction. The Committee is authorised to have direct communication channels with the external auditors and person(s) carrying out the internal audit function or convene meetings with them excluding the attendance of the executive members of the Company whenever is deemed necessary.

The Committee is also authorised to obtain independent/external professional or other advices and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

C. Functions and Duties

The duties and responsibilities of the Audit Committee shall be:-

- 1) To review the following and report the same to the Board:-
 - (i) The audit plan before the audit commences, the evaluation of the system of internal controls and the audit report with the external auditors.
 - (ii) The appointment of the external auditor, the audit fee and any question of resignation or dismissal.

- (iii) The quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
 - changes in or implementation of major accounting policy changes;
 - significant and unusual events; and
 - compliance with accounting standards and other legal requirements.
 - (iv) Problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary).
 - (v) The external auditors' management letter and management's response.
- 2) To do the following, in relation to the internal audit function:-
- (i) review the adequacy of the scope, functions competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - (ii) review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function.
- 3) To review any related party transaction and conflict of interest situation that may arise within the Company and Group including any transaction, procedure or course of conduct that raises questions of management integrity.
- 4) Monitor the Group's compliance with relevant laws, regulations and code of conduct.

D. Retirement and Resignation

In the event of any vacancy in the Audit Committee, the Company shall fill in the vacancy within two (2) months, but in any case not later than three (3) months.

E. Meetings

The members of the Committee shall select a Chairman from among their members who is an Independent Non-Executive Director and majority of members present must be Independent Directors in order to form a quorum in the audit committee meeting.

Any member may at any time, and the head of group finance and the Company Secretary shall on the requisition of any of the members or the external auditors summon a meeting. The Committee shall meet on at least four (4) occasions each year. The external auditors may request a meeting if they consider this necessary.

Except in the case of any emergency, reasonable notice of every meeting shall be given in writing and the notice of each meeting shall be served to any member entitled personally or by sending it via fax or through post or by courier or by email to such member to his registered address as appearing in the Register of Directors, as the case may be.

In addition to the Committee members, meetings would normally be attended by a representative of the external auditors, the financial controller and head of internal audit at the invitation of the Committee. Other Board members may also attend the Audit Committee meetings only at the Committee's invitation.

The Committee should meet with the internal / external auditors without executive board members present at least twice a year. A resolution put to the vote of the meeting shall be decided on a show of hands. In the case of an equality of votes, the Chairman shall be entitled to a second or casting vote. The minutes of meetings shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting and shall be circulated to the Committee and the Board of Directors.

The minutes of meetings shall be taken by the Company Secretary and be kept at the Company's Registered Office.

3. Summary of Meeting and Activities Undertaken

There were five (5) Audit Committee meetings held during the financial year ended 31 December 2009 and the attendance record are as follows:-

| | Meeting attended |
|---------------------------------|------------------|
| Abdul Razak Bin Dato' Haji Ipap | 5/5 |
| Eg Kaa Chee | 5/5 |
| Thong Kooi Pin | 5/5 |

Summary of Activities of Committee

During the financial year ended 31 December 2009, the Committee has carried out the following activities:-

- reviewed the quarterly reports and audited financial statements of the Group prior to submission to the Board for consideration and approval;
- in conjunction with the quarterly reports, review is made for the Company's compliance with the Listing Requirement, MASB and applicable regulatory requirements.
- reviewed the related party transactions entered into by the Group;
- reviewed the fees of the external auditors;
- consider the re-appointment of external auditors;
- reviewed with the external auditors the audit plan, scope of work and audit report; and
- reviewed the management letter issues and Management's response.

4. Internal Audit Function

Internal auditor is reporting directly to the Audit Committee. The functions of the internal auditor are to ensure a regular review of the adequacy and integrity of its internal control system. The internal auditor will also be required to assist the Group in enhancing its existing risk management framework and adopting a risk-based approach.

The internal auditor is required to conduct regular and systematic reviews on all operating units and submitting an independent report to the Audit Committee for review and approval to ensure adequate coverage.

The total cost incurred for Internal Audit during the financial year was RM85,700.00

5. Employees' Share Option Scheme (ESOS)

The ESOS or Option Committee was established following the implementation of the ESOS. Members of the Option Committee comprise of:-

Members

| | |
|---------------------------------|--------------------------------------|
| Eg Kah Yee | - Chairman / Managing Director |
| Sukhdev Singh A/L Banta Singh | - Executive Director |
| Abdul Razak Bin Dato' Haji Ipap | - Independent Non-Executive Director |

The objectives of the Option Committee are to:-

- assist the Board of the Company in discharging its responsibilities relating to the implementation of the ESOS in accordance with the relevant laws and regulations including the By-Law.
- carry out functions relating to the ESOS assigned by the Board of the Company.
- oversees the Management's implementation of the Scheme with regard to the eligibility of employees participate in ESOS, offer date, basis of allotment and option allocations after taking into considerations the performance, number of years of service and the employees' contribution to the Group.

The Audit Committee has verified there was no options granted for the year ended 31 December 2009.

STATEMENT OF INTERNAL CONTROL



1. Introduction

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

2. Board Responsibilities

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

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

3. Internal Control Framework

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

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

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

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

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

The Board is of the view that there is no significant breakdown or weaknesses in the system of internal control of the Group that may have material impact against the operations of the Group for the financial year ended 31 December 2009.

4. Conclusion

Although the Board is of the view that the present internal control is adequately in place to safeguard the Company's assets and sufficient to detect any fraud or irregularities, the Board is on a constant watch for any improvement that may strengthen its current system from time to time.

ADDITIONAL COMPLIANCE INFORMATION



1. Non-Statutory Audit Fees

The Company did not pay any amount of non-statutory audit fees to external auditors or company affiliated to the auditors' firm for the financial year.

2. Option, Warrant and Convertible Securities

There were no options, warrants or convertible securities exercised during the financial year.

3. Material Contracts

There were none other than as disclosed in the Audited Financial Statements for the year ended 31 December 2009.

4. Recurrent Related Party Transactions ("RRPT")

All Recurrent Related Party Transactions entered into by the Group during the financial year are disclosed in Note 24 to the Financial Statements in page 33 of this Annual Report.

5. Sanctions or Penalties

There were no sanctions or material penalties imposed by any regulatory body to the Company and its subsidiary, Directors or management.

6. Variance in Result

There was no material variation between the audited results for the financial year ended 31 December 2009 and the unaudited results previously announced for the similar period.

7. Profit Guarantees

There is no profit guarantees committed by the Company to any party.

8. Revaluation Policy

The Company and its subsidiary do not own any landed property and therefore, there is no revaluation policy being adopted or put in place.

9. American Depositary Receipt ("ADR") or Global Depositary Receipt ("GDR") Programme

During the financial year, the Company did not sponsor any ADR or GDR programme

10. Share Buy-backs

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

DIRECTORS' REPORT



The directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2009.

PRINCIPAL ACTIVITIES

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

RESULTS

| | Group RM | Company RM |
|---|------------------|----------------|
| (Loss) / Profit for the year :- | | |
| Attributable to equity holders of the Company | (757,396) | 280,595 |
| Attributable to minority interests | (2,834) | - |
| | <u>(760,230)</u> | <u>280,595</u> |

DIVIDEND

No dividend was paid or declared during the financial year and the directors do not recommend any dividend to be paid for the financial year.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

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

EMPLOYEE SHARE OPTION SCHEME

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

Details of ESOS are set out in Note 14 to the financial statements.

The name of the option holders and the number of options granted to them during the year, are set out below :

| 2009 | No. of options over the ordinary shares of RM0.10 each in the Company | | | |
|-------------------------------|--|-----------|--------|------------------|
| | At 1.1.2009 | Exercised | Lapsed | At 31.12.2009 |
| 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 |
| Norhasshila A. Rahim | 125,000 | - | - | 125,000 |
| 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

DIRECTORS' INTERESTS

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

Number of ordinary shares of RM0.10 each in Palette Multimedia Berhad

| | | At 1.1.2009 | Bought | Sold | At 31.12.2009 |
|----------------|-------------------------|----------------|--------|------------|------------------|
| Eg Kah Yee | - Direct interest | 72,834,052 | - | 18,000,000 | 54,834,052 |
| | - Indirect interest (1) | 1,917,947 | - | 724,445 | 1,193,502 |
| Eg Kaa Chee | - Direct interest | 1,193,502 | - | - | 1,193,502 |
| | - Indirect interest (2) | 72,834,052 | - | 18,000,000 | 54,834,052 |
| Thong Kooi Pin | - Direct interest | 250 | - | - | 250 |

- (1) Deemed interest through his substantial shareholding in Digital Season Sdn. Bhd. and by virtue of 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 interest, in accordance with Section 6A of the Companies Act, 1965.

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefits included in the aggregate amount of emoluments received or due and by directors as shown in the financial statements, or the fixed salary of a full - time employee of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for any benefits which may be deemed to arisen from transactions entered into the ordinary course of business with companies in which certain directors have substantial financial interests as disclosed in Note 24 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").