



Palette
MULTIMEDIA BERHAD

(420056-K)

www.palettemm.com

CONTENTS

	Page
CORPORATE INFORMATION	2
BOARD OF DIRECTORS	3 - 4
CHAIRMAN'S STATEMENT	5 - 6
CORPORATE GOVERNANCE STATEMENT	7 - 8
AUDIT COMMITTEE	9 - 10
INTERNAL CONTROL STATEMENT	11
DIRECTORS' REPORT	12 - 15
FINANCIAL STATEMENTS	
Balance Sheets	16
Income Statements	17
Statement of Changes in Equity	18
Cash Flow Statements	19 - 20
Notes to the Financial Statements	21 - 34
STATEMENT BY DIRECTORS	35
STATUTORY DECLARATION	35
REPORT OF THE AUDITORS	36 - 37
AGENDA	38 - 41
SHAREHOLDING STATISTICS	42 - 44
FORM OF PROXY	45

CORPORATE INFORMATION

BOARD OF DIRECTORS :	Eg Kah Yee Eg Kaa Chee Abdul Razak Bin Dato' Haji Ipap Chin Foong Ming Chuan Wee Tze
COMPANY SECRETARIES :	Lim Seck Wah (MAICSA NO. 0799845) M. Chandrasegaran A/L S. Murugasu (MAICSA NO. 0781031)
REGISTERED OFFICE :	Level 11-2, Faber Imperial Court Jalan Sultan Ismail, 50250 Kuala Lumpur. Tel : 03-2692 4271 Fax : 03-2732 5388
PRINCIPAL PLACE OF BUSINESS:	9, Jalan 1/46A, Off Jalan Selingsing 7, Taman Niaga Waris, 51200 Kuala Lumpur. Tel : 03-6253 3299 Fax : 03-6250 1032
AUDITOR :	Cheng & Co. (AF 0886) 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
R&D OFFICE :	F05, 1st Floor, Block 1, Century Square, Cyberjaya.
REGISTRAR :	Mega Corporate Services Sdn Bhd Level 11-2, Faber Imperial Court Jalan Sultan Ismail, 50250 Kuala Lumpur. Tel : 03-2692 4271 Fax : 03-2732 5388
LISTING SPONSOR :	Affin Merchant Bank Berhad 27th Floor, Menara Boustead, 69, Jalan Raja Chulan, 50200 Kuala Lumpur. Tel : 03-2142 3700 Fax : 03-2141 7701
PRINCIPAL BANKERS :	Public Bank Bhd HSBC Bank Malaysia Bhd
STOCK EXCHANGE LISTING :	Bursa Malaysia Securities Berhad MESDAQ Market (Stock code : 0005)
CORPORATE WEBSITE:	www.palettemm.com

MR. EG KAH YEE
Managing Director

Mr. Eg Kah Yee, aged 44, is the founder, Chairman, Managing Director, Chief Executive Officer and Chief Technical Officer of Palette Multimedia Bhd. He obtained his Bachelor of Computer Science from West Virginia University, USA in 1983. He started his career as System Analyst with Phoenix Data Systems Inc., a Silicon Valley company in Santa Clara, California USA, where he developed VLSI Layout Verification System. In 1985, he joined Daisy Systems Corporation; a Silicon Valley company listed on NASDAQ based in Mountain View, California which he was the R&D Project Manager responsible for the development of second generation Digital Logic Simulator (DLSII) where he designed and implemented the simulation engine and DBMS. In 1988, he was promoted to be the Director of North Asia Region responsible for business in China, Hong Kong, Taiwan and Korea.

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

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

Presently, he is also an advisor for VC Partner, Inc. California, a venture capitalist and business consulting company. As a business advisor, his role is to provide business advise to the CEO of the VC Partner, Inc. for their Asian business on a part-time basis. Due to his contribution to Institute of Microelectronic of Tsin Hua University, Beijing, a top university in China, he was made an honorable Alumni of the University.

MR. EG KAA CHEE
Non-Executive Director

Mr. Eg Kaa Chee, aged 40, was appointed as the Director of Palette Multimedia Bhd 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 MCA Kepong Division, Persatuan Wu Malaysia, Koh Chow Association Malaysia, numerous companies and non-Governmental organizations.

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

En. Abdul Razak bin Dato' Hj. Ipap, aged 44, was appointed as the Director of Palette Multimedia Bhd 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.

MR. CHIN FOONG MING
Independent Non-Executive Director

Mr. Chin Foong Ming, aged 39 was appointed as the Independent Non-Executive Director of Palette Multimedia Bhd on 1 June 2001. He graduated with Bachelor of Science in Electrical Engineering from Mississippi State University, USA in 1989. He continued his study and obtained his Master of Science in Electrical Engineering (MSEE) from the same University. Upon his graduation, he worked as a hardware designer of industrial computer with Diversify Technology Inc., USA from 1991 to 1992. Upon his return to Malaysia, he worked as an Application Engineer in supporting EDA software in Terra Control Technologies Sdn Bhd, a subsidiary of Sapura Group from 1992 to 1994. He is currently the Managing Director of Trans-Dist Engineering Sdn Bhd, a company which he started in 1994 and is involved in the distribution of EDA and IC design services in Malaysia.

MR. CHUAN WEE TZE
Independent Non-Executive Director

Mr. Chuan Wee Tze, aged 44, was appointed as the Independent Non-Executive Director on 1 June 2001. Mr. Chuan specializes in the construction of high-tech buildings. He obtained his Diploma in Civil Engineering from Federal Institute of Technology in 1983. He started his career as the site supervisor in Daei Sdn Bhd. He joined YTL Construction in 1985 as a supervisor and later rose to the rank of Project Manager. In 1991, he left YTL to work as Project Manager for Tokyo Construction Pte Ltd, a Company based in Singapore and involved in construction of high-tech buildings. Currently, he is the Project Manager of Shimitsu Construction Pte Ltd, a company based in Singapore and involved in construction of hi-tech warehouse.

Eg Kah Yee and Eg Kaa Chee are brothers.

Dear Shareholders,
on behalf of the Board of Directors, I hereby present to you the Annual Report of Palette Multimedia Berhad for the year ended 31 December 2003.

OPERATIONS REVIEW

In 2003, the Group had continued its effort in putting more focus on broadband and wireless related products. The signing of distributor agreement for ASEAN market with Proxim Inc. a U.S. based NASDAQ listed company and the largest wireless equipment company in the world allowed the Group to make strong entry into the fast growing wireless market. The increasingly strong demand of Fixed Wireless equipment (outdoor wireless) had helped the Group in making strong penetration into this market. The technical capability that the Group had built up as a result is very valuable to the continuous development of our position in the wireless market.

R&D spending had increased to accelerate the release of Mobilette™ Solution 2.0., the next generation network access control management system for WLAN and LAN. The response on the Mobilette™ Solution was encouraging and resulted in 2 major deployments in Taiwan. R&D effort continued to grow and Mobilette™ Solution had a few major breakthroughs in the technology, giving the Group a strong position in the market place.

While the Group was making entry into the regional market in Asia with the Mobilette™ Solution, the excitement was disrupted by the outbreak of SARS in Asia in Q1 and Q2 of 2003. Road shows in the region came to a complete halt and deployment had to be delayed. The overall promotional plan is delayed.

The Group had decided to drop the proposed acquisition of Quadtel Asia Pte Ltd after stringent due diligence found that there were substantial discrepancies in the financial representation.

In 2003, the Group also streamlined its operation to focus on this high value wireless market and also high value-add products. Engineers and sales persons of the right expertise and experience are recruited and some of the staff is retrained. The Group's operation is positioned to future growth and success.

FINANCIAL PERFORMANCE

The Group posted a total loss of RM 4.086 million in the year 2003. The loss is largely due to the write down of the stock that was built for the Ministry of Education project. The order revised after the goods are made and in the middle of the delivery.

SARS was also contributing to the drop of revenue and delayed the growth of the regional business for the Group. However, the Group recorded total revenue of RM 27.568 million, an increase of 47% over year 2002.

CHAIRMAN'S STATEMENT

DIVIDEND

There was no dividend being recommended by the Board of Directors for the financial year ended 31 December 2003 in view of the present financial situation.

CORPORATE GOVERNANCE

There were no sanctions and/or penalties imposed on the Company and its subsidiary, Directors or management by the relevant regulatory bodies for the year ended 31 December 2003.

APPRECIATION

On Behalf of the Board, I wish to extend my appreciation to all the members of the Board of Directors, business associates, shareholders and customers for their effort, contribution and their continuing support to the Group.

I would also like to take this opportunity once again, to extend my appreciation to the management team and staff for their contribution and dedication to the Group.

Thank you

EG KAH YEE

Chairman

Date : 28 April 2004

CORPORATE GOVERNANCE STATEMENT

THE BOARD OF DIRECTORS

The Board of Directors is committed to ensuring that the highest standards of corporate governance are practiced throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of the Group.

The Board of Directors confirmed that the Group has complied with the best practices in corporate governance throughout the year ended 31 December 2003.

During the year ended 31 December 2003, 4 Board meetings were held and attendance record is as follows:-

	Meetings Attended
Eg Kah Yee	4/4
Eg Kaa Chee	4/4
Abdul Razak bin Dato' Hj. Ipap	3/4
Chin Foong Ming	3/4
Chuan Wee Tze	2/4

DIRECTORS' REMUNERATION

The aggregate remunerations of Directors for the financial year were categorized as follows:

	Basic Salary RM' 000	Fees RM' 000	Benefits- in-kind RM' 000	Total 2003 RM' 000	Total 2002 RM' 000
Executive	120.0	-	-	120.0	120.0
Non-Executives	-	18.0	-	18.0	22.0
	120.0	18.0	-	138.0	142.0

CONFLICTS OF INTEREST

To date, there has not been any conflict of interest exists between any of the directors and the Company. None of the director has been convicted of any offence in the past 11 years.

CORPORATE GOVERNANCE STATEMENT**STATEMENT OF DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS**

The Directors are required by the Companies Act 1965 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and Company at the end of the financial year.

In preparing the financial statements, the Directors have:-

- Selected suitable accounting policies and applied them consistently;
- Made judgments and estimates that are reasonable and prudent;
- Ensured that all applicable accounting standards have been followed; and
- Prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Group and Company and which enable them to ensure that the financial statements comply with the Companies Act 1965.

The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group to prevent and detect fraud and other irregularities.

COMPOSITION AND DESIGNATION OF AUDIT COMMITTEE

1. Chin Foong Ming (Chairman to the Audit Committee)
(Independent Non-Executive Director)
2. Eg Kaa Chee
(Non-Executive Director)
3. Chuan Wee Tze
(Independent Non-Executive Director)

AUDIT COMMITTEE REPORT

TERM OF REFERENCE OF THE AUDIT COMMITTEE

MEMBERSHIP

The Audit Committee shall be appointed by the Board of Directors from among their number and shall be composed of not fewer than 3 members of whom a majority shall be Independent Non-Executive Directors. A quorum shall be 2 members.

The members of the Audit Committee shall elect a chairman from among their member who is not an executive director or employees of the Company or any related corporation. The chairman elected shall be subjected to endorsement by the Board.

If a member of the Audit Committee resigns, dies or for any reason ceases to be a member with the results that the number is reduced below 3, the Board of Directors shall, within 3 months of that event, appoint such number of new members as may be required to make up the minimum number of 3 members.

NOTICE OF MEETING AND ATTENDANCE

The agenda for Audit Committee meetings shall be circulated before each meeting to members of the Committee. The Committee may require the external auditors and any official of the Company to attend any of its meetings as it determined. The external auditors shall have the right to appear and be heard at any meetings of the Audit Committee and shall appear before the Committee when required to do by the Committee.

The Company Secretary of the Company shall be the Secretary of the Committee.

There were four Audit Committee meetings held during the financial year ended 31 December 2003 and the attendance record is as follows:-

	Meetings attended
Chin Foong Ming	4/4
Eg Kaa Chee	4/4
Chuan Wee Tze	2/4

AUTHORITY

The Audit Committee is authorized to investigate any activity of the Company within its terms of reference and all employees shall be directed to co-operate with any request made by the Committee. The Committee shall be empowered to retain persons having special competence as necessary to assist the Committee in fulfilling its responsibilities.

DUTIES AND RESPONSIBILITIES

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

- to consider the appointment of the external auditors, the audit fees and any question of resignation or dismissal;
- to oversee all matters pertaining to audit including the review of the audit plan and report;
- to discuss problems and reservations arising from the interim and final results, and any matters the external auditors may wish to discuss (in absence of management where necessary);
- to keep under review the effectiveness of internal control systems, and in particular review the external auditors management letter and management's response;
- to review all transactions between the Company and its related company and disclosure on possible conflict of interest in the Company's annual reports with the Audit Committee commenting on all related transactions; and
- to consider other matters, act upon the Board of Directors request to investigate and report on any issues or concerns in regard to management of the Group, as defined.

INTERNAL AUDIT FUNCTIONS

Currently, the Group does not maintain an Internal Audit Department due to the economic scale of the Group is still relatively small. However, periodical audits were carried out by the head quarter based on the internal audit program covering all the units and branches operations.

The audit report findings will be forwarded to Audit Committee for approval together with any recommendation to address the weaknesses found.

A number of minor internal control weaknesses were identified during the year, all of which have been, or are being addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's annual report.

RESPONSIBILITY

The Board of Directors recognizes the importance of sound internal controls and risk management practices to good corporate governance. The Board affirms its overall responsibility for the Group's systems of internal controls and risk management, and for reviewing the adequacy and integrity of those systems. 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 reasonably assurance that business objective has been met. These controls are regularly reviewed by the Board and subject to continuous improvement.

RISK MANAGEMENT FRAMEWORK & ASSESSMENT

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

A risk analysis of the Group is conducted on quarterly basis and necessary measures being put up to assess and monitor the impacts on the operation and business. The audit program is being continuously updated at least once a year to accommodate changes in the assessment of risk to ensure that proper direction and focus of the business process is not interrupted.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

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

- Monthly monitoring of results against budget, with major variances being followed up and management action taken, where necessary;
- Regular and comprehensive information provided to management, covering financial performance and key business indicators, such as staff utilization and operations efficiency;
- Regular visits to operating branches by the member of the Board and senior management; and
- Quarterly performance meeting with all key personnel of the operating branches to address weaknesses found and improve efficiency.

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 2003.

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

RESULTS	Group	Company
	RM	RM
Net loss after taxation	<u>(4,086,437)</u>	<u>(807,131)</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

During the financial year,

- (a) the Company increased its authorised share capital from RM25,000,000 to RM50,000,000 by the creation of 100,000,000 new ordinary shares of RM0.25 each;
- (b) there were no changes in issued and paid-up capital of the Company; and
- (c) there were no issued of debentures by the Company.

OPTIONS GRANTED OVER UNISSUED SHARES

During the financial year, no options were granted by the Company to any person to take up any unissued shares in the Company.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances that would further require the writing off of bad debts, or additional allowance for doubtful debts in the financial statements of the Group and of the Company.

CURRENT ASSETS

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, including their value as shown in the accounting records of the Group and of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances that would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

- (i) any charge on the assets of the Group and of the Company that 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 and of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Group and of the Company has become enforceable or is likely to become enforceable within the period of twelve (12) months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amounts stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and of the Company during the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group and of the Company for the financial year.

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
 Chin Foong Ming
 Chuan Wee Tze

Pursuant to Articles 67 of the Articles of Association of the Company, Chin Fong Ming retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTORS' INTERESTS

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

		Number of ordinary shares of RM0.25 each in the Company			
		At		At	
		1.1.2003	Bought	Sold	31.12.2003
Eg Kah Yee	- Direct interest	61,134,921	-	10,000,000	51,134,921
	- Indirect interest (1)	795,479	-	109,900	685,579
Eg Kaa Chee	- Direct interest	587,301	-	109,900	477,401
	- Indirect interest (2)	61,134,921	-	10,000,000	51,134,921
Chin Foong Ming	- Direct interest	100	-	-	100

(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 benefit included in the aggregate amount of emoluments received or due and receivable 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 arise from transactions entered into, in the ordinary course of business with companies in which certain directors have substantial financial interests as disclosed in Note 23 to the financial statements.

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

SIGNIFICANT EVENTS

The significant events involving the Group and the Company during the financial year are disclosed in Note 26 to the financial statements.

SUBSEQUENT EVENTS

The significant events of the Group subsequent to the balance sheet date are disclosed in Note 27 to the financial statements.

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

ABDUL RAZAK BIN
DATO' HAJI IPAP
Director

Kuala Lumpur
Date: 28 April 2004

AS AT 31 DECEMBER 2003

	Note	Group		Company	
		2003 RM	2002 RM	2003 RM	2002 RM
ASSETS					
Property, plant and equipment	4	834,243	1,087,349	275,755	494,317
Investment in subsidiaries	5	-	-	2,561,387	2,561,387
Intangible assets	6	18,425,950	18,501,000	18,425,950	18,501,000
Deferred charges	7	5,424	6,420	-	-
Guarantee deposits		9,040	8,560	-	-
CURRENT ASSETS					
Inventories	8	7,381,476	2,314,566	2,415,637	-
Trade and other receivables	9	22,484,243	7,107,445	35,210,578	11,259,081
Fixed deposit with licensed banks	10	1,137,421	1,096,067	1,137,421	1,096,067
Cash and bank balances		364,172	328,274	22,296	34,171
		<u>31,367,312</u>	<u>10,846,352</u>	<u>38,785,932</u>	<u>12,389,319</u>
LESS: CURRENT LIABILITIES					
Trade and other payables	11	24,419,087	756,491	28,528,308	2,117,789
Short term borrowings	12	3,454,899	2,859,002	3,454,899	2,859,002
Provision for taxation		1,378	43,182	-	43,134
		<u>27,875,364</u>	<u>3,658,675</u>	<u>31,983,207</u>	<u>5,019,925</u>
NET CURRENT ASSETS		<u>3,491,948</u>	<u>7,187,677</u>	<u>6,802,725</u>	<u>7,369,394</u>
		<u>22,766,605</u>	<u>26,791,006</u>	<u>28,065,817</u>	<u>28,926,098</u>
Financed by:					
Share capital	13	24,000,000	24,000,000	24,000,000	24,000,000
Share premium	14	1,770,965	1,770,965	1,770,965	1,770,965
Reserves	14	258,345	164,760	-	-
Retained (loss) / profits	14	(3,635,820)	450,617	1,967,697	2,774,828
SHAREHOLDERS' EQUITY		<u>22,393,490</u>	<u>26,386,342</u>	<u>27,738,662</u>	<u>28,545,793</u>
Minority shareholders' interest	15	45,099	24,163	-	-
LONG TERM AND DEFERRED TAXATION					
Deferred taxation		861	196	-	-
Long term borrowings	16	327,155	380,305	327,155	380,305
		<u>22,766,605</u>	<u>26,791,006</u>	<u>28,065,817</u>	<u>28,926,098</u>

INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	Note	Group		Company	
		2003 RM	2002 RM	2003 RM	2002 RM
Revenue	17	27,568,155	18,738,179	30,969,930	15,752,887
Cost of sales		(28,020,274)	(15,588,136)	(29,785,536)	(13,154,468)
Gross profit		(452,119)	3,150,043	1,184,394	2,598,419
Other income		83,972	322,367	96,496	718,291
Selling and distribution		(464,231)	(669,221)	(378,783)	(404,723)
Administrative and general expenses		(3,078,493)	(2,673,966)	(1,532,046)	(889,942)
(Loss) / Profit from operations	18	(3,910,871)	129,223	(629,939)	2,022,045
Finance costs	19	(167,468)	(101,369)	(167,468)	(101,369)
(Loss) / Profit before taxation		(4,078,339)	27,854	(797,407)	1,920,676
Taxation	20	(10,359)	(22,669)	(9,724)	(22,473)
Net (loss) / profit for the financial year		(4,088,698)	5,185	(807,131)	1,898,203
<u>Less: Minority interest</u>		2,261	2,364	-	-
Net (loss) / profit after taxation and minority interest		(4,086,437)	7,549	(807,131)	1,898,203
Earnings per share (sen)					
- basic	21	(0.043)	0.007	-	-
- par value of 25 sen per share					

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	Share Capital RM	Share Premium RM	Reserves RM	Retained Profits RM	Total RM
Group					
Balance at 1 January 2002	24,000,000	1,770,965	-	443,068	26,214,033
Net profit for the financial year	-	-	-	7,549	7,549
Foreign exchange reserves	-	-	164,760	-	164,760
Balance at 31 December 2002	24,000,000	1,770,965	164,760	450,617	26,386,342
Foreign exchange reserves	-	-	93,585	-	93,585
Net loss for the financial year	-	-	-	(4,086,437)	(4,086,437)
Balance at 31 December 2003	24,000,000	1,770,965	258,345	(3,635,820)	22,393,490

	Share Capital RM	Share Premium RM	Reserves RM	Retained Profits RM	Total RM
Company					
Balance at 1 January 2002	24,000,000	1,770,965	-	876,625	26,647,590
Net profit for the financial year	-	-	-	1,898,203	1,898,203
Balance at 31 December 2002	24,000,000	1,770,965	-	2,774,828	28,545,793
Net loss for the financial year	-	-	-	(807,131)	(807,131)
Balance at 31 December 2003	24,000,000	1,770,965	-	1,967,697	27,738,662

CASH FLOW STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	Note	Group		Company	
		2003 RM	2002 RM	2003 RM	2002 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss) / Profit before taxation		(4,078,339)	27,854	(797,407)	1,920,676
Adjustments for:					
Amortisation		76,367	-	75,050	-
Depreciation of property, plant and equipment		402,779	418,745	223,640	268,822
Gain on disposal of property, plant and equipment		(2,151)	-	(2,151)	-
Interest income		(42,147)	(46,580)	(41,355)	(46,580)
Interest expense		167,468	101,369	167,468	101,369
Property, plant and equipment written off		-	7,746	-	7,746
Loss on disposal of property, plant and equipment		682	4,258	23	-
Unrealised loss on foreign exchange		114,387	166,424	-	-
Operating profit before working capital changes		(3,360,954)	679,816	(374,732)	2,252,033
Decrease / (Increase) in inventories		(5,066,910)	297,658	(2,415,637)	391,385
Increase in trade and other receivables		(15,376,798)	(2,874,657)	(23,951,497)	(4,409,823)
Increase in trade and other payables		23,662,596	224,277	26,410,519	1,703,522
Cash used in operations		(142,066)	(1,672,906)	(331,347)	(62,883)
Interest paid		(167,468)	(101,369)	(167,468)	(101,369)
Taxation paid		(51,498)	(129,292)	(52,857)	(129,339)
Net cash (used in)/generated from operating activities		(361,032)	(1,903,567)	(551,672)	(293,591)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(149,964)	(849,698)	(6,180)	(141,173)
Proceeds from disposal of property, plant and equipment		3,355	13,000	3,230	-
Investment in subsidiary		-	-	-	(2,461,387)
Interest income received		42,147	46,580	41,355	46,580
Net cash (used in) / generated from investing activities		(104,462)	(790,118)	38,405	(2,555,980)

CASH FLOW STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	Note	Group		Company	
		2003 RM	2002 RM	2003 RM	2002 RM
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares from minority shareholders of a subsidiary		-	24,863	-	-
Repayment of term loans		(44,082)	(39,830)	(44,082)	(39,830)
Payment of deferred charges		-	(6,420)	-	-
Payments of guarantee deposits		-	(8,560)	-	-
(Repayment to) / Advance from directors		-	(28,363)	-	(28,363)
Net cash used in financing activities		<u>(44,082)</u>	<u>(58,310)</u>	<u>(44,082)</u>	<u>(68,193)</u>
Net decrease in cash and cash equivalents		(509,576)	2,751,995	(557,349)	2,917,764
Cash and cash equivalents at beginning of financial year		(1,397,200)	1,354,795	(1,691,303)	1,226,461
Cash and cash equivalents at end of financial year	22	<u>(1,906,776)</u>	<u>(1,397,200)</u>	<u>(2,248,652)</u>	<u>(1,691,303)</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

1. GENERAL INFORMATION

- (i) The Company is principally involved in the development and marketing of information technology related products and services. The principal activities of the subsidiaries are set out in Note 5 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.
- (ii) The registered office of the Company is located at Level 11-2, Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur.
- (iii) The principal place of business of the Company is located at 9, Jalan 1/46A, Off Jalan Selingsing 7, Taman Niaga Waris, 51200 Kuala Lumpur.
- (iv) The number of employees of the Group and of the Company as at 31 December 2003 were 30 and 7 (2002: 30 and 6).

2. BASIS OF ACCOUNTING

(a) Basis of preparation

The financial statements of the Group and of the Company are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with applicable approved accounting standards in Malaysia.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively cease. Subsidiaries are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the period are included from the date of acquisition or up to the date of disposal. All significant intercompany balances and transactions are eliminated in the preparation of the consolidated financial statements.

(b) Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and less any impairment losses.

The straight line method is used to write off the cost of the following assets over the term of its estimated useful lives at the following principal annual rates:

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

(c) Impairment of assets

The carrying amount of the Group's assets, other than assets arising from inventories and financial assets (other than investments in subsidiaries and associates) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. For an assets that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversed is recognised in the income statement.

(d) Investments in subsidiaries

Investments in subsidiaries are held on a long term basis and are stated at cost. Provision for any permanent diminution in value is only made if the directors are of the opinion that the diminution is permanent.

(e) Research and development cost

Research and development costs are expensed in the period in which they are incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Other development expenditure is recognised as an expense when incurred.

Development costs that have been capitalised are amortised from the commencement of the commercial production of the product or process is available for sale or use to which they relate on the straight line basis over a period of twenty (20) year of their expected benefit.

(f) Treatment of Intellectual Property (IP) and Licence Right

IP and Licence Right have been capitalised as permanent items as they have indefinite life pursuant to the agreement for continuous technical upgrading support from the vendor. Therefore, the IP and Licence Right have not been amortised. This is a departure from the International Accounting Standards (IAS) 38: Intangible Assets, which requires amortised over the best estimate of their useful life.

(g) 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.

(h) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

(i) Revenue recognition

Revenue from the sale of goods is recognised when significant risk and rewards of ownership are transferred to the buyer (generally on delivery, satisfactory installation and acceptance) and if any or performance of services. Other operating income mainly consist of interest income, trade interest income and research and development income.

(j) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated in Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average rates. Foreign exchange differences arising on translation are included in the foreign exchange reserve in shareholders' equity.

The closing rate used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:

	2003	2002
	RM	RM
Foreign currency:		
1000 Indonesia Rupiah	0.452	0.43

(k) Deferred taxation

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised only to the extent that is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Prior to the adoption of MASB 25, Income Taxes, deferred tax was provided for using the liability method in respect of material timing differences. Deferred tax assets were recognised only when there was reasonable expectation of their realisation. This change in accounting policy has been accounted for retrospectively. Comparative figures have not been restated and no prior year adjustment is recognised as there is no material impact on the prior year's group financial statements.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances, demand deposits, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Financing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

4. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Total RM
Group					
Net book value					
At 1 January 2003	853,380	31,265	39,546	163,158	1,087,349
Additions	123,258	-	20,836	5,870	149,964
Depreciation charge	(315,578)	(12,390)	(20,023)	(54,788)	(402,779)
Disposal	(180)	-	(1,705)	-	(1,885)
Exchange difference	520	502	230	342	1,594
At 31 December 2003	<u>661,400</u>	<u>19,377</u>	<u>38,884</u>	<u>114,582</u>	<u>834,243</u>
At 31 December 2003					
Cost	1,601,906	110,074	188,544	346,440	2,246,964
Accumulated depreciation	(940,506)	(90,697)	(149,660)	(231,858)	(1,412,721)
Net book value	<u>661,400</u>	<u>19,377</u>	<u>38,884</u>	<u>114,582</u>	<u>834,243</u>
At 31 December 2002					
Cost	1,487,152	109,456	185,829	340,146	2,122,583
Accumulated depreciation	(633,722)	(78,191)	(146,283)	(176,988)	(1,035,234)
Net book value	<u>853,380</u>	<u>31,265</u>	<u>39,546</u>	<u>163,158</u>	<u>1,087,349</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

4. PROPERTY, PLANT AND EQUIPMENT (continued)

	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Total RM
Company					
Net book value					
At 1 January 2003	338,246	18,636	25,174	112,261	494,317
Additions	1,690	-	4,490	-	6,180
Depreciation charge	(160,119)	(9,370)	(13,442)	(40,709)	(223,640)
Disposal	(180)	-	(922)	-	(1,102)
At 31 December 2003	<u>179,637</u>	<u>9,266</u>	<u>15,300</u>	<u>71,552</u>	<u>275,755</u>
At 31 December 2003					
Cost	824,270	94,638	155,485	275,815	1,350,208
Accumulated depreciation	(644,633)	(85,372)	(140,185)	(204,263)	(1,074,453)
Net book value	<u>179,637</u>	<u>9,266</u>	<u>15,300</u>	<u>71,552</u>	<u>275,755</u>
At 31 December 2002					
Cost	831,704	94,638	168,421	275,815	1,370,578
Accumulated depreciation	(493,458)	(76,002)	(143,247)	(163,554)	(876,261)
Net book value	<u>338,246</u>	<u>18,636</u>	<u>25,174</u>	<u>112,261</u>	<u>494,317</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

5. INVESTMENT IN SUBSIDIARIES

	Company	
	2003 RM	2002 RM
Unquoted shares, at cost	2,561,387	2,561,387
	<u>2,561,387</u>	<u>2,561,387</u>

Details of the subsidiaries company are as follows:-

Name of Company	Country of incorporation	Group's effective interest	Principal activities
Palette System Sdn. Bhd.	Malaysia	100%	Development and marketing IT product.
PT Palette Multimedia*	Indonesia	99%	Development and marketing IT product.

*Audited by another firm of auditors

6. INTANGIBLE ASSETS

Group/Company	Intangible assets	Development cost	Total
	RM	RM	RM
Net book value			
At 1 January 2003	17,000,000	1,425,950	18,425,950
Additions	-	-	-
At 31 December 2003	<u>17,000,000</u>	<u>1,425,950</u>	<u>18,425,950</u>
At 31 December 2003			
Cost	17,000,000	1,501,000	18,501,000
Amortisation	-	(75,050)	(75,050)
Net Book Value	<u>17,000,000</u>	<u>1,425,950</u>	<u>18,425,950</u>
At 31 December 2002			
Cost	17,000,000	1,501,000	18,501,000
Amortisation	-	-	-
Net Book Value	<u>17,000,000</u>	<u>1,501,000</u>	<u>18,501,000</u>

7. DEFERRED CHARGES

This represents the purchase of computer software of the subsidiary Company, PT Palette Multimedia and will be amortised in 5 years starting this year.

8. INVENTORIES

	Group		Company	
	2003 RM	2002 RM	2003 RM	2002 RM
At costs:				
Hardware	7,364,848	2,291,957	2,411,864	-
Software	16,628	22,609	3,773	-
	<u>7,381,476</u>	<u>2,314,566</u>	<u>2,415,637</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 RM	2002 RM	2003 RM	2002 RM
Trade receivables	22,186,281	6,742,025	18,567,015	3,635,732
Bad debts written off	-	-	-	-
	<u>22,186,281</u>	<u>6,742,025</u>	<u>18,567,015</u>	<u>3,635,732</u>
Other receivables	188,061	194,859	188,061	190,303
Deposits	89,736	111,530	78,051	92,344
Prepayments	20,165	59,031	-	-
Amount due from subsidiaries	-	-	16,377,451	7,340,702
	<u>22,484,243</u>	<u>7,107,445</u>	<u>35,210,578</u>	<u>11,259,081</u>

The amount due from subsidiaries, principally trade transactions which is unsecured, non- interest bearing (2002 : 9% per annum) and have no fixed terms of repayment.

10. FIXED DEPOSIT WITH LICENSED BANKS

Included in fixed deposit of the Group and of the Company are amounts in total of RM1,000,000 (2002: RM1,000,000) pledged to the licensed banks for banking facilities extended to the Group and the Company.

11. TRADE AND OTHER PAYABLES

	Group		Company	
	2003 RM	2002 RM	2003 RM	2002 RM
Trade payables	24,321,540	716,040	25,469,289	99,143
Accrued expenses	96,537	39,441	62,103	11,116
Amount due to subsidiaries	-	-	2,995,906	2,006,520
Amount due to directors	1,010	1,010	1,010	1,010
	<u>24,419,087</u>	<u>756,491</u>	<u>28,528,308</u>	<u>2,117,789</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.

12. SHORT TERM BORROWINGS

	Group		Company	
	2003 RM	2002 RM	2003 RM	2002 RM
Current:				
Bank overdraft (Secured)	1,394,370	1,429,541	1,394,370	1,429,541
Bankers' acceptance	2,014,000	1,392,000	2,014,000	1,392,000
Current portion of:				
Long term loan (Note 16)	46,529	37,461	46,529	37,461
	<u>3,454,899</u>	<u>2,859,002</u>	<u>3,454,899</u>	<u>2,859,002</u>

The bankers' acceptance facilities are secured by way of personal guaranteed by the Company directors. The bank overdraft of the Group and of the Company are secured by way of fixed deposit pledged to the licensed banks.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

13. SHARE CAPITAL

	Group / Company	
	2003 RM	2002 RM
Ordinary shares of RM0.25 each AUTHORISED		
At beginning of financial year	25,000,000	25,000,000
Addition	25,000,000	-
At end of financial year	<u>50,000,000</u>	<u>25,000,000</u>
ISSUED AND FULLY PAID-UP		
At beginning of financial year	<u>24,000,000</u>	<u>24,000,000</u>
At end of financial year	<u>24,000,000</u>	<u>24,000,000</u>

14. SHARE PREMIUM AND RESERVES

	Group		Company	
	2003 RM	2002 RM	2003 RM	2002 RM
Non-distributable reserves				
(a) Share premium				
At 1 January 2003/2002	1,770,965	1,770,965	1,770,965	1,770,965
(b) Foreign exchange reserves				
At 1 January 2003/2002	164,760	-	-	-
Currency translation difference	93,585	164,760	-	-
	<u>2,029,310</u>	<u>1,935,725</u>	<u>1,770,965</u>	<u>1,770,965</u>
(c) Retained profits	<u>(3,635,820)</u>	<u>450,617</u>	<u>1,967,697</u>	<u>2,774,828</u>

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

15. MINORITY SHAREHOLDERS' INTEREST

This consist of the minority shareholders' proportion of share capital and reserve of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

16. LONG TERM BORROWINGS

	Group / Company	
	2003 RM	2002 RM
Current:		
Term Loan (Note 12)	46,529	37,461
Non-current:		
Long term loan	<u>327,155</u>	<u>380,305</u>
	<u>373,684</u>	<u>417,766</u>

The term loan bear interest at 8.30% to 10.05% per annum and are secured as follows:

- By way of third party, second and third loan agreement of RM500,000 each and existing Deed of Assignment over the landed properties.
- To be additionally guaranteed by the Company directors.
- To be corporate guaranteed by Palette Corporation Sdn. Bhd.

	Group / Company	
	2003 RM	2002 RM
The loan is repayable as follow:		
Current:	46,529	37,461
Within two years:	200,077	74,922
Within two to five years:	<u>127,078</u>	<u>305,383</u>
	<u>373,684</u>	<u>417,766</u>

17. REVENUE

	Group		Company	
	2003 RM	2002 RM	2003 RM	2002 RM
Sale of goods	27,135,059	18,515,459	30,969,930	15,752,887
PC rental	<u>433,096</u>	<u>222,720</u>	-	-
	<u>27,568,155</u>	<u>18,738,179</u>	<u>30,969,930</u>	<u>15,752,887</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

18. (LOSS) / PROFIT FROM OPERATIONS

	Group		Company	
	2003	2002	2003	2002
	RM	RM	RM	RM
The following items have been charged/(credited) in arriving at loss from operations:				
Audit fee	17,850	20,835	7,000	7,000
Amortisation of development cost	76,367	-	75,050	-
Directors' remuneration	138,000	131,500	78,000	126,500
Depreciation of property, plant and equipment	402,779	418,745	223,640	268,822
Interest expenses	167,468	101,369	167,468	101,369
Loss on stolen stock	2,241	-	2,241	-
Loss on disposal of property, plant and equipment	682	-	23	-
Leasing charges	4,020	-	-	-
Rental expenses	289,181	305,157	186,359	32,665
Gain on disposal of property, plant and equipment	(2,151)	-	(2,151)	-
Net on exchange gain - Realised	(18,534)	912	(18,534)	863
Interest income	(42,147)	(46,878)	(41,355)	(46,580)
Research and development income	-	(198,152)	(13,776)	(198,152)
Trade interest income	-	(76,425)	-	(472,696)
	<u>-</u>	<u>(76,425)</u>	<u>-</u>	<u>(472,696)</u>
(a) Directors' remuneration:				
Fees	78,000	26,500	18,000	21,500
Salary	60,000	105,000	60,000	105,000
	<u>138,000</u>	<u>131,500</u>	<u>78,000</u>	<u>126,500</u>

The details of emoluments for the directors of the Group and of the Company received/receivable for the financial year by category and in bands of RM50,000 are as follows:-

	Group		Company	
	2003	2002	2003	2002
Non-executive directors				
Below RM50,000	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>
Executive director				
RM100,000 - RM150,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

19. FINANCE COSTS

	Group		Company	
	2003	2002	2003	2002
	RM	RM	RM	RM
Bankers' acceptance interest	136,993	66,644	136,993	66,644
Term loan interest	<u>30,475</u>	<u>34,725</u>	<u>30,475</u>	<u>34,725</u>
	<u>167,468</u>	<u>101,369</u>	<u>167,468</u>	<u>101,369</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

20. TAXATION

	Group		Company	
	2003 RM	2002 RM	2003 RM	2002 RM
Tax charge for the financial year				
Malaysia -Current	-	3,319	-	3,319
-Underprovision in previous year	9,724	19,154	9,724	19,154
Deferred tax charge				
Overseas -Current	635	196	-	-
	<u>10,359</u>	<u>22,669</u>	<u>9,724</u>	<u>22,473</u>

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 incurred a loss 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 6 October 2000.

21. EARNINGS PER SHARE

Basic earnings per share for the financial year is arrived at dividing the Group's loss after taxation of RM4,086,437 (2002: RM7,549) by the number of 96,000,000 ordinary shares of RM0.25 each in issue during the financial year.

22. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2003 RM	2002 RM	2003 RM	2002 RM
Fixed deposit with licensed banks	1,137,421	1,096,067	1,137,421	1,096,067
Cash at bank	361,844	327,713	21,937	34,171
Cash on hand	2,329	561	360	-
Deposits, cash and bank balances	<u>1,501,594</u>	<u>1,424,341</u>	<u>1,159,718</u>	<u>1,130,238</u>
Bank overdrafts	(1,394,370)	(1,429,541)	(1,394,370)	(1,429,541)
Bankers' acceptance	(2,014,000)	(1,392,000)	(2,014,000)	(1,392,000)
	<u>(1,906,776)</u>	<u>1,397,200</u>	<u>(2,248,652)</u>	<u>(1,691,303)</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

23. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party in making financial and operating decisions.

Some of the Company's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in the financial statements. The balances are without fixed repayment terms and interest unless stated otherwise.

Significant transaction with related parties are as follows:

	2003	2002
	RM	RM
Subsidiary Company		
Palette System Sdn. Bhd.		
Sale of goods and services	782,920	879,039
Purchases of goods and services	9,961,788	11,846,125
Payment of rental offices	-	250,725
Charges on R&D income	13,776	198,152
Charges on trade overdue interest	-	396,271
	<u> </u>	<u> </u>
Significant outstanding balances at the balance sheet date, arising from:		
Sale and purchases of goods and services and advances	<u>13,381,546</u>	<u>7,340,704</u>
PT Palette Multimedia		
Significant outstanding balances at the balance sheet date, arising from:		
Sale and purchases of goods and services	<u>(2,006,520)</u>	<u>(2,006,520)</u>
Director		
Palette Computer Sdn. Bhd.		
in which Abdul Razak Bin Dato' Haji Ipap (Director of the Company), is a director Sale of goods and services	<u>(162,859)</u>	<u>-</u>
Significant outstanding balances at the balance sheet date, arising from:		
Sale of goods and services	<u>(206,152)</u>	<u>683,013</u>
Palette Internet Sdn. Bhd.		
in which Eg Kah Yee, and Eg Kaa Chee (Director of the Company), is a director		
Sale of goods and services	<u>-</u>	<u>-</u>
Significant outstanding balances at the balance sheet date, arising from:		
Sale of goods and services	<u>-</u>	<u>2,182</u>

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

24. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Groups and businesses whilst managing its market, credit, liquidity and cash flow, and currency risk.

Market risk

The Group has in place policies to manage its competitive risks from its competitors in providing better services. Hence the Group's regularly takes part in various research to develop better and more attractive packages or products.

Credit risk

The Group has a credit policy in place and the exposure to credit risk is monitored on a going basis.

Liquidity and cash flow risk

Prudent liquidity management requires the Group to minimise the mismatch of financial assets and liabilities and to maintain sufficient funds for contingent funding requirement of working capital. Due to the dynamic nature of business, the Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

Currency risk

The Group is exposed to currency risk as a result of the foreign currency transactions entered into by a subsidiary other than its functional currency. The Group policy is to minimise the exposure of overseas operating subsidiary to transaction risk by matching local currency income against local currency costs.

Fair values

As at balance sheet date, the Company has no financial assets or financial liabilities that are carried at fair value.

There is no disclosure of fair value for the investment in the subsidiaries as this is excluded from MASB 24 - Financial Instruments : Disclosure and Presentation.

25. SEGMENTAL INFORMATION

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

	Revenue		Profit/(Loss) before tax	
	2003	2002	2003	2002
	RM	RM	RM	RM
Major segment by country				
- Revenue from external customer				
Malaysia	38,298,532	18,709,395	(3,852,863)	264,039
Indonesia	14,331	28,784	(225,476)	(236,185)
- Inter segment				
Revenue from Malaysia	-	12,684,349	-	-
Revenue from Indonesia	-	-	-	-
	38,312,863	31,422,528	(4,078,339)	27,854
Eliminations	(10,744,708)	(12,684,349)	-	-
	<u>27,568,155</u>	<u>18,738,179</u>	<u>(4,078,339)</u>	<u>27,854</u>

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

26. SIGNIFICANT EVENTS

- (a) The Company proposed an Employee share options Scheme ("ESOS") for the benefit of eligible employees (including Executive Directors) of the Company and its subsidiaries in accordance with the provisions of the By-Law of the ESOS. The acquisition is still pending approvals of relevant authorities.
- (b) Corporate guarantee in favour of a third party for trade purchases made by a subsidiary Company amounting to RM300,000 for a period of one year with effect from October 1, 2003.

27. SUBSEQUENT EVENTS

The Company increased its paid up capital from RM24,000,000 to RM26,400,000 through allotment of RM9,600,00 new ordinary shares of RM0.25 each at an issue price of RM0.495 per placement share via private placement.

28. COMPARATIVE FIGURES

Additional comparative figures have been provided where necessary to comply with the disclosure requirement of all the MASB Standards which are applicable to these financial statements.

STATEMENT BY DIRECTORS

We, EG KAH YEE and ABDUL RAZAK BIN DATO' HAJI IPAP, being two of the directors of PALETTE MULTIMEDIA BERHAD, state that in the opinion of the directors, the financial statements set out on pages 16 to 34 are drawn up in accordance with applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2003 and of their results and cash flows for the financial year ended on that date.

EG KAH YEE
Director

ABDUL RAZAK BIN
DATO' HAJI IPAP
Director

Kuala Lumpur,
Date: 28 April 2004

STATUTORY DECLARATION

I, EG KAH YEE, being the director primarily responsible for the financial management of PALETTE MULTIMEDIA BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 16 to 34 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
EG KAH YEE, I/C No: 600713-10-6737
at Kuala Lumpur in the Federal Territory
on 28 April 2004

Before me

EG KAH YEE
Director

Ong Kah Chong
No. W145
Commissioner for Oaths

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

REPORT OF THE AUDITORS TO THE MEMBERS OF
PALETTE MULTIMEDIA BERHAD
(Incorporated in Malaysia)

Company No: 420056-K

We have audited the financial statements as set out on pages 16 to 34. The preparation of the financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-
 - (i) the state of affairs of the Group and of the Company at 31 December 2003 and their results and cash flows for the financial year ended on that date; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and

- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

REPORT OF THE AUDITORS

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

REPORT OF THE AUDITORS TO THE MEMBERS OF
PALETTE MULTIMEDIA BERHAD
(Incorporated in Malaysia)

Company No: 420056-K

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

Other than the qualification on the appropriateness of preparing the financial statements of the subsidiaries on a going concern basis. The auditor's report on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection 3 of section 174 of the Companies Act, 1965.

CHENG & CO.
Firm No: AF 0886
Chartered Accountants (Malaysia)

Kuala Lumpur,
Date: 28 April 2004

DR PAUL CHENG CHAI LIOU
No. Kelulusan 1561/03/05 (J/PH)

NOTICE IS HEREBY GIVEN that the Seventh Annual General Meeting of the Company will be held at Royale Bintang Hotel (Formerly known as Novotel Century Kuala Lumpur), 17-21, Jalan Bukit Bintang, 55100 Kuala Lumpur on Wednesday , 30 June 2004 at 3.30 p.m. for the following purposes:-

AGENDA

- 1) To receive and adopt the Audited Financial Statements of the Company and its group for the financial year ended 31 December 2003 together with the Reports of the Directors and Auditors thereon.
(Resolution 1)
- 2) To approve the payment of Directors' Fees for the financial year ended 31 December 2003.
(Resolution 2)
- 3) To re-elect the Director, Mr Chin Foong Ming retiring in accordance with Article 67 of the Company's Articles of Association and being eligible, offers himself for re-election.
(Resolution 3)
- 4) To re-appoint Messrs Cheng & Co. as the Auditors of the Company to hold office until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.
(Resolution 4)

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions :-

- 5) ORDINARY RESOLUTION
AUTHORITY TO ISSUE AND ALLOT SHARES PURSUANT TO SECTION 132D OF COMPANIES ACT, 1965
"THAT, subject always to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby empowered, pursuant to Section 132D of the Companies Act, 1965, to issue shares in the Company from time to time and upon such terms and conditions and for such purposes as the directors may deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being excluding the number of ordinary shares arising from the exercise of Employees' Share Option Scheme (ESOS), and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."
(Resolution 5)
- 6) ORDINARY RESOLUTION
PROPOSED RATIFICATION FOR A DISCOUNT OF TEN PERCENT (10%) FROM THE FIVE (5)-DAY WEIGHTED AVERAGE MARKET PRICE FOR THE ISSUE PRICE OF THE NEW ORDINARY SHARES OF THE COMPANY PURSUANT TO A PRIVATE PLACEMENT
"THAT, a discount of ten percent (10%) from the five (5)-day weighted average market price for the issue price of the 9,600,000 ordinary shares of RM0.25 each in the Company pursuant to a private placement, which was completed on 9 March 2004, is hereby approved and ratified."
(Resolution 6)

7) ORDINARY RESOLUTION

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE WITH PALETTE COMPUTER SDN BHD ("PCSB") ("PROPOSED RENEWAL OF MANDATE WITH PCSB")

"THAT, approval be and hereby given to the Company and its subsidiaries ("Group") to enter into the recurrent related party transactions with PCSB of a revenue or trading nature ("Recurrent Transactions") as set out in Section 2.2 of the Circular to Shareholders dated 8 June 2004 ("Circular") which are necessary for the Group's day-to-day operations subject to the following:-

(a) the transactions are carried out in the ordinary course of business on normal commercial terms which are not more favourable to the related parties ("Related Parties") as stated in Section 2.2 of the Circular than those generally available to the public and are not detrimental to the minority shareholders of the Company; and

(b) disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the Proposed Renewal of Mandate with PCSB during the financial year stating:-

(i) the type of the Recurrent Transactions made; and

(ii) the names of the Related Parties involved in each type of the Recurrent Transactions made and their relationships with the Group;

and in the annual reports for the subsequent financial years that the Proposed Renewal of Mandate with PCSB continues to be in force.

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

(a) the conclusion of the next AGM of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed;

(b) the expiration of the period within which the next AGM after the date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("CA") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the CA); or

(c) revoked or varied by resolution passed by the shareholders in a general meeting,

whichever is the earlier.

AND THAT, the Directors of the Company be and hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the Proposed Renewal of Mandate with PCSB."

(Resolution 7)

8) ORDINARY RESOLUTION
 PROPOSED RENEWAL OF MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE WITH RAJAH LAU & ASSOCIATES ("RLA") ("PROPOSED RENEWAL OF MANDATE WITH RLA")
 "THAT, approval be and hereby given to the Company and its subsidiaries ("Group") to enter into the recurrent related party transactions with RLA of a revenue or trading nature ("Recurrent Transactions") as set out in Section 2.2 of the Circular to Shareholders dated 8 June 2004 ("Circular") which are necessary for the Group's day-to-day operations subject to the following:-

- (a) the transactions are carried out in the ordinary course of business on normal commercial terms which are not more favourable to the related parties ("Related Parties") as stated in Section 2.2 of the Circular than those generally available to the public and are not detriment to the minority shareholders of the Company; and
- (b) disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the Proposed Renewal of Mandate with RLA during the financial year stating:-
 - (i) the type of the Recurrent Transactions made; and
 - (ii) the names of the Related Parties involved in each type of the Recurrent Transactions made and their relationships with the Group;

and in the annual reports for the subsequent financial years that the Proposed Renewal of Mandate with RLA continues to be in force.

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

- (a) the conclusion of the next AGM of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed;
- (b) the expiration of the period within which the next AGM after the date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("CA") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the CA); or
- (c) revoked or varied by resolution passed by the shareholders in a general meeting,

whichever is the earlier.

AND THAT, the Directors of the Company be and hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the Proposed Renewal of Mandate with RLA."

(Resolution 8)

9) To transact any other business which may properly be transacted at an Annual General Meeting of which due notice shall have been given.

By Order of the Board

LIM SECK WAH (MAICSA NO. 0799845)
 M. CHANDRASEGARAN A/L S. MURUGASU (MAICSA NO. 0781031)
 Company Secretaries

Date : 8 June 2004
 Kuala Lumpur

NOTES:-

1.	A member entitled to attend and vote at the meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2.	Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the company standing to the credit of the said securities account.
3.	Where a member appoints two proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
4.	If the appointer is a corporation, this form must be executed under its Common Seal or under the hand of its attorney duly authorized.
5.	The Form of Proxy must be deposited at the Registered Office of the Company at Level 11-2, Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
6.	Explanatory Notes on Special Business :-
6.1	<p>Ordinary Resolution 5</p> <p>The effect of the resolution under item 5 of the agenda, if passed, will give the flexibility and authority to the Directors of the Company, from the date of the above AGM, to issue and allot shares in the Company up to and not exceeding in total 10% of the issued and paid-up share capital of the Company for the time being, for such purposes as they consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.</p>
6.2	<p>Ordinary Resolution 6</p> <p>Affin Merchant Bank Berhad, the adviser appointed for the Proposed Private Placement, had on 12 January 2004, announced that all the Proposed Private Placement of up to 9,600,000 new ordinary shares of RM0.25 each in Palette ("Proposed Private Placement") has been approved by Bursa Malaysia Securities Berhad ("BMSB") vide its letter of 8 January 2004 and Securities Commission vide its letter of 6 January 2004.</p> <p>BMSB has also approved Palette's application to vary the operation of Rule 3.13.1(b) of the MMLR to permit the Company to price the new ordinary shares of RM0.25 each in Palette to be issued pursuant to the Proposed Private Placement at a discount of up to ten (10) percent from the five (5)-day weighted average market price of the shares of Palette prior to placement. However, the Company is required to seek subsequent ratification of its shareholders for the discount at the forthcoming Annual General Meeting of the Company.</p> <p>On 4 March 2004, on behalf of the Board of Directors of Palette, Affin Merchant Bank Berhad announced that all of the 9,600,000 Placement Shares have been fully placed out and accordingly allotted to the identified placees at RM0.495 per Placement Share, representing a discount of 10% from the (5)-day weighted average market price of Palette.</p>
6.3	<p>Ordinary Resolutions 7 & 8</p> <p>The proposed Resolutions 7 & 8, if passed will mandate the Company to enter into the categories of recurrent transactions of a revenue or trading nature and with those related parties specified in Section 2.2 of the Circular to Shareholders dated 8 June 2004.</p>

SHAREHOLDING STATISTICS

Shareholding Statistics as at 14 May 2004

Authorised Share Capital	:	RM50,000,000.00
Issued and fully paid-up Share Capital	:	RM26,400,000.00
Class of Shares	:	Ordinary shares of RM0.25 each
Voting Rights	:	1 vote per ordinary shares

Analysis of Shareholdings As at 14 May 2004

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares Held
Less than 100 Shares	4	0.251	100	0.000
100 to 999 Shares	301	18.860	54,100	0.051
1,000 to 4,999 Shares	574	35.965	1,228,978	1.164
5,000 to 10,000 Shares	445	27.882	3,283,500	3.109
10,001 to 100,000 Shares	225	14.098	7,249,700	6.865
100,001 to 1,000,000 Shares	38	2.381	14,384,801	13.622
Above 1,000,000 Shares	9	0.564	79,398,821	75.188
Total	1,596	100.000	105,600,000	100.000

30 Largest Shareholders As at 14 May 2004 (As per the Register of Members)

No.	Shareholders	No. of Shares	%
1.	Eg Kah Yee	51,134,921	48.423
2.	Lembaga Tabung Haji	11,603,800	10.988
3.	Employees Provident Fund Board	6,974,300	6.604
4.	Cartaban Nominees (Asing) Sdn Bhd - Credit Suisse Singapore for ACE Partner Group Limited	2,500,000	2.367
5.	RHB Nominees (Tempatan) Sdn Bhd - Pledged securities account for Lee Kin Hin	2,245,900	2.127
6.	Lee Kin Hin	1,447,400	1.371
7.	Yap Pin Ho	1,224,000	1.159

SHAREHOLDING STATISTICS

8.	Commerce Technology Ventures Sdn Bhd	1,158,700	1.097
9.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Lim Chye Huat @ Bobby Lim Chye Huat	1,109,800	1.051
10.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Teo Cheng Tuan Donald	1,000,000	0.947
11.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Teo Hoo Seng	1,000,000	0.947
12.	Affin Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Rolles Rudolf Jurgen August	1,000,000	0.947
13.	Tsao Tony An-Pang	950,000	0.900
14.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Tan See Tee	948,800	0.898
15.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Tan Tiong Beng	900,000	0.852
16.	Chuan Tsui Ju	609,000	0.577
17.	OSK Nominees (Asing) Sdn Bhd - Pledged securities account for Finest Rainbow Sdn Bhd	500,000	0.473
18.	Jyuo-Min Shyu	500,000	0.473
19.	Eg Kaa Chee	477,401	0.452
20.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Ng Ser Miang	450,000	0.426
21.	Botly Nominees (Tempatan) Sdn Bhd - Pledged securities account for Tan Ser Lay	446,000	0.422
22.	Teo Kin Swee	416,000	0.394
23.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Gerald Yeo @ Yeo Ah Khe	400,000	0.379
24.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Tan Kah Hock	400,000	0.379
25.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Low Hui Goh	350,000	0.331
26.	LYF & Co. Equity Sdn Bhd	330,000	0.313
27.	Botly Nominees (Tempatan) Sdn Bhd - Pledged securities account for Lim Sai Mooi	303,000	0.287
28.	Mayban Nominees (Tempatan) Sdn Bhd - Pledged securities account for Chai Nyuk Kiong	260,000	0.246
29.	Chien Pai Yang @ Jien Pai Yang	249,700	0.236
30.	Freida Binti Mohd Pilus	219,100	0.207
Total		91,107,822	86.276

SHAREHOLDING STATISTICS

Substantial Shareholders

As at 14 May 2004 (As per the Register of Members and Pursuant to Section 69E of the Companies Act, 1965)

No.	Shareholders	No. of Shares Held			
		Direct	%	Indirect	%
1.	Eg Kah Yee *	51,134,921	48.423	481,879	0.456
2.	Lembaga Tabung Haji	11,603,800	10.988	0	0.000
3.	Employees Provident Fund Board	6,974,300	6.604	0	0.000
4.	Eg Kaa Chee **	477,401	0.452	51,134,921	48.423

* Deemed interest through his shareholding in Digital Season Sdn Bhd and by virtue of his brother, Eg Kaa Chee's shareholding.

** Deemed interest by virtue of his brother's (Eg Kah Yee) shareholdings.

Directors' Shareholdings

As at 14 May 2004 (As per the Register of Directors' Shareholding)

No.	Director	No. of Shares Held			
		Direct	%	Indirect	%
1.	Eg Kah Yee *	51,134,921	48.423	481,879	0.456
2.	Eg Kaa Chee **	477,401	0.452	51,134,921	48.423
3.	Chin Foong Ming	100	0.000	0	0

* Deemed interest through his shareholding in Digital Season Sdn Bhd and by virtue of his brother, Eg Kaa Chee's shareholding.

** Deemed interest by virtue of his brother's (Eg Kah Yee) shareholdings.

FORM OF PROXY

No. of ordinary shares held

FORM OF PROXY
(Before completing this form please refer to the notes below)

I/We...../C No./Co. No./CDS A/C No.
(Full name in block letters)

of.....
(Full address)

being a member/members of PALETTE MULTIMEDIA BHD hereby appoint the following person(s):-

Name of proxy, NRIC No. & Address No. of shares to be represented by proxy

1.....

2.....

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf at the Seventh Annual General Meeting of the Company to be held at Royale Bintang Hotel (Formerly known as Novotel Century Kuala Lumpur), 17-21, Jalan Bukit Bintang, 55100 Kuala Lumpur on Wednesday, 30 June 2004 at 3:30 pm. My/our proxy/proxies is to vote as indicated below:-

	FIRST PROXY		SECOND PROXY	
	FOR	AGAINST	FOR	AGAINST
Ordinary Resolution 1				
Ordinary Resolution 2				
Ordinary Resolution 3				
Ordinary Resolution 4				
Ordinary Resolution 5				
Ordinary Resolution 6				
Ordinary Resolution 7				
Ordinary Resolution 8				

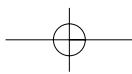
(Please indicate with a "√" or "x" in the space provided how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion).

Dated this.....day of.....2004

.....
Signature/Common Seal

Notes :-

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. Where a member is an authorised nominee as defined under the Securities Industries (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
3. Where a member appoints two proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
4. If the appointer is a corporation, this form must be executed under its Common Seal or under the hand of its attorney duly authorized.
5. The Form of Proxy must be deposited at the Registered Office of the Company at Level 11-2, Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.



Fold Here

STAMP

Company Secretary
Mega Corporate Services Sdn Bhd
Level 11-2, Faber Imperial Court
Jalan Sultan Ismail,
P. O Box 12337
50774 Kuala Lumpur.
Tel : 03-2692 4271 Fax : 03-2732 5388

Fold Here

