



Palette
MULTIMEDIA BERHAD

(420056-K)

www.palettemm.com

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BOARD OF DIRECTORS :

Eg Kah Yee (Managing Director)
Eg Kaa Chee (Non-Independent & Non-Executive Director)
Abdul Razak Bin Dato' Haji Ipap (Non-Executive Director)
Chin Foong Ming (Independent Non-Executive Director)
Chuan Wee Tze (Independent Non-Executive Director)

COMPANY SECRETARIES :

Lim Seck Wah
(MAICSA NO. 0799845)

M. Chandrasegaran A/L S. Murugasu
(MAICSA NO. 0781031)

REGISTERED OFFICE :

Level 15-2, Faber Imperial Court,
Jalan Sultan Ismail,
50250 Kuala Lumpur.
Tel : 03-2692 4271 Fax : 03-2732 5388

PRINCIPAL PLACE OF BUSINESS:

Level 10, Menara Luxor,
6B Persiaran Tropicana,
Tropicana Golf & Country Resort,
47410 Petaling Jaya,
Selangor Darul Ehsan.
Tel : 03-7806 1399 Fax : 03-7806 2599

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 15-2, 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 45, 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-Independent & Non-Executive Director

Mr. Eg Kaa Chee, aged 41, 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 45, 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 40 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 45, 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 2004.

OPERATIONS REVIEW

In 2004, the Group continued its effort in building the core business in the wireless space. The Group had successfully completed the first wireless e-lifestyle township project and had also completed a number of wireless outdoor projects related to surveillance, mobile advertisement on the buses, and deployment of wireless hotspots in university campus. The Group had successfully deployed 150 wireless schools in Malaysia.

The Group is the first company in Asia that started the Wireless Wizard Certification course and over 150 engineering professionals were certified. The Program was extended to institutes of higher learning so that the institutes can continue to provide the training and certification.

R & D spending continued and the Mobilette™ 3.0 is released. The product had been deployed in schools, hotels, hospitals and university campus.

The Group had made substantial success in the deployment of wireless solutions in the region including Indonesia, India and Pakistan. The business from Middle East had also increased significantly.

FINANCIAL PERFORMANCE

The Group posted a profit of RM2.8 million on revenue of RM14.8 million for the year ending 31 December 2004, a substantial increase from previous years. The Group had successfully transformed the business into a higher margin business with a net profit margin of close to 20% in 2004.

DIVIDEND

There was no dividend being recommended by the Board of Directors for the financial year ended 31 December 2004 in view of the financial situation.

CORPORATE GOVERNANCE

There were no sanctions and/or penalty imposed on the Company and its subsidiary. Directors or management by the relevant regulatory bodies for the year ended 31 December 2004.

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 2005

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 2004.

During the year ended 31 December 2004, 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	4/4
Chin Foong Ming	4/4
Chuan Wee Tze	3/4

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 2004 RM' 000	Total 2003 RM' 000
Executive	60.0	-	-	60.0	120.0
Non-Executives	-	39.0	-	39.0	18.0
	60.0	39.0	-	99.0	138.0

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 12 years.

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-Independent & 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 2004 and the attendance record is as follows:-

	Meetings attended
Chin Foong Ming	4/4
Eg Kaa Chee	4/4
Chuan Wee Tze	3/4

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 continuous 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 follow 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 2004.

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 RM	Company RM
Net profit after taxation	<u>2,862,059</u>	<u>1,966,541</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) there were no changes in authorised capital of the Company;
- (b) the Company increased its issued and paid-up share capital from RM24 million to RM26.4 million by way of the issuance of 9.6 million ordinary shares of RM0.25 each through a private placement at an issue price of RM0.495 per share for cash, for additional working capital purposes. The share premium amounted to RM2,352,000 and this has been credited to the share premium account. The new ordinary shares rank pari passu in all respects with existing ordinary shares.
- (c) there were no issue 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 liability 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
 Chin Foong Ming
 Abdul Razak Bin Dato' Haji Ipap
 Chuan Wee Tze

Pursuant to Articles 67 of the Articles of Association of the Company, Abdul Razak Bin Dato' Haji Ipap retires 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 Palette Multimedia Berhad			
		At		At	
		1.1.2004	Bought	Sold	31.12.2004
Eg Kah Yee	- Direct interest	51,134,921	-	-	51,134,921
	- Indirect interest (1)	685,579	-	-	685,579
Eg Kaa Chee	- Direct interest	474,401	-	-	474,401
	- Indirect interest (2)	51,134,921	-	-	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.

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: 26 April 2005

AS AT 31 DECEMBER 2004

	Note	Group		Company	
		2004 RM	2003 RM	2004 RM	2003 RM
ASSETS					
Property, plant and equipment	4	462,312	834,243	90,418	275,755
Investment in subsidiaries	5	-	-	2,561,387	2,561,387
Intangible assets	6	19,067,980	18,425,950	18,913,184	18,425,950
Deferred charges	7	-	5,424	-	-
Guarantee deposits		8,160	9,040	-	-
CURRENT ASSETS					
Inventories	8	4,954,536	7,381,476	1,978,660	2,415,637
Trade and other receivables	9	11,999,756	22,484,243	18,331,939	35,210,578
Fixed deposit with licensed banks	10	1,172,956	1,137,421	1,172,956	1,137,421
Cash and bank balances		13,096,394	364,172	12,945,380	22,296
		<u>31,223,642</u>	<u>31,367,312</u>	<u>34,428,935</u>	<u>38,785,932</u>
LESS: CURRENT LIABILITIES					
Trade and other payables	11	18,030,270	24,419,087	18,630,478	28,528,308
Short term borrowings	12	2,630,790	3,454,899	2,630,790	3,454,899
Provision for taxation		1,353	1,378	-	-
		<u>20,662,413</u>	<u>27,875,364</u>	<u>21,261,268</u>	<u>31,983,207</u>
NET CURRENT ASSETS		<u>10,561,229</u>	<u>3,491,948</u>	<u>13,167,667</u>	<u>6,802,725</u>
		<u>30,099,681</u>	<u>22,766,605</u>	<u>34,732,656</u>	<u>28,065,817</u>
Financed by:					
Share capital	13	26,400,000	24,000,000	26,400,000	24,000,000
Share premium	14	4,122,965	1,770,965	4,122,965	1,770,965
Reserves	14	53,017	258,345	-	-
Accumulated (loss) / Retained profits	14	(773,761)	(3,635,820)	3,934,238	1,967,697
SHAREHOLDERS' EQUITY		<u>29,802,221</u>	<u>22,393,490</u>	<u>34,457,203</u>	<u>27,738,662</u>
Minority shareholders' interest	15	22,007	45,099	-	-
LONG TERM AND DEFERRED TAXATION					
Deferred taxation		-	861	-	-
Long term borrowings	16	275,453	327,155	275,453	327,155
		<u>30,099,681</u>	<u>22,766,605</u>	<u>34,732,656</u>	<u>28,065,817</u>

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Note	Group		Company	
		2004 RM	2003 RM	2004 RM	2003 RM
Revenue	17	14,809,757	27,568,155	11,123,164	30,969,930
Cost of sales		(9,908,983)	(28,020,274)	(8,200,012)	(29,785,536)
Gross profit		4,900,774	(452,119)	2,923,152	1,184,394
Other income		250,559	83,972	59,960	96,496
Selling and distribution		(148,420)	(464,231)	(36,083)	(378,783)
Administrative and general expenses		(2,030,894)	(3,078,493)	(870,943)	(1,532,046)
Profit / (Loss) from operations	18	2,972,019	(3,910,871)	2,076,086	(629,939)
Finance costs	19	(106,061)	(167,468)	(106,061)	(167,468)
Profit / (Loss) before taxation		2,865,958	(4,078,339)	1,970,025	(797,407)
Taxation	20	(2,665)	(10,359)	(3,484)	(9,724)
Net profit / (Loss) for the financial year		2,863,293	(4,088,698)	1,966,541	(807,131)
LESS : Minority interest		(1,234)	2,261	-	-
Net profit / (Loss) after taxation and minority interest		2,862,059	(4,086,437)	1,966,541	(807,131)
Earnings per share (sen)					
- basic	21	2.8	(4.3)	-	-
- par value of 25 sen per share					
- diluted	21	2.8	(4.3)	-	-
- par value of 25 sen per share					

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Share Capital	Share Premium	Accumulated Losses/ Retained Reserves	Profits	Total
	RM	RM	RM	RM	RM
Group					
Balance at 1 January 2003	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
Foreign exchange reserves	-	-	(205,328)	-	(205,328)
Issue of shares	2,400,000	2,352,000	-	-	4,752,000
Net profit for the financial year	-	-	-	2,862,059	2,862,059
Balance at 31 December 2004	26,400,000	4,122,965	53,017	(773,761)	29,802,221

	Share Capital	Share Premium	Accumulated Losses/ Retained Reserves	Profits	Total
	RM	RM	RM	RM	RM
Company					
Balance at 1 January 2003	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
Issuance of shares	2,400,000	2,352,000	-	-	4,752,000
Net profit for the financial year	-	-	-	1,966,541	1,966,541
Balance at 31 December 2004	26,400,000	4,122,965	-	3,934,238	34,457,203

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Note	Group		Company	
		2004 RM	2003 RM	2004 RM	2003 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit / (Loss) before taxation		2,865,958	(4,078,339)	1,970,025	(797,407)
Adjustments for:					
Amortisation		80,210	76,367	75,050	75,050
Bad debts written off		9,721	-	-	-
Depreciation of property, plant and equipment		367,247	402,779	189,874	223,640
Gain on disposal of property, plant and equipment		(250)	(2,151)	-	(2,151)
Interest income		(21,019)	(42,147)	(19,579)	(41,355)
Interest expense		106,061	167,468	106,061	167,468
Loss on disposal of property, plant and equipment		-	682	-	23
Property, plant and equipment written off		23,184	-	-	-
Unrealised (gain) / loss on foreign exchange		(228,510)	114,387	-	-
Operating profit / (loss) before working capital changes		3,202,602	(3,360,954)	2,321,431	(374,732)
Decrease / (Increase) in inventories		2,426,940	(5,066,910)	436,977	(2,415,637)
Decrease / (Increase) in trade and other receivables		10,474,766	(15,376,798)	16,878,639	(23,951,497)
(Decrease) / Increase in trade and other payables		(6,402,280)	23,662,596	(9,911,293)	26,410,519
Cash generated from / (used in) operations		9,702,028	(142,066)	9,725,754	(331,347)
Interest paid		(106,061)	(167,468)	(106,061)	(167,468)
Taxation paid		(3,551)	(51,498)	(3,484)	(52,857)
Development cost paid		(717,080)	-	(562,284)	-
Net cash generated from / (used in) operating activities		<u>8,875,336</u>	<u>(361,032)</u>	<u>9,053,925</u>	<u>(551,672)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(18,501)	(149,964)	(4,538)	(6,180)
Proceeds from disposal of property, plant and equipment		250	3,355	-	3,230
Interest income received		21,019	42,147	19,579	41,355
Net cash generated from / (used in) investing activities		<u>2,768</u>	<u>(104,462)</u>	<u>15,041</u>	<u>38,405</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		4,752,000	-	4,752,000	-
Repayment of term loans		(48,094)	(44,082)	(48,094)	(44,082)
Advance from directors		13,463	-	13,463	-
Net cash generated from / (used in) financing activities		<u>4,717,369</u>	<u>(44,082)</u>	<u>4,717,369</u>	<u>(44,082)</u>
Net increase / (decrease) in cash and cash equivalents		13,595,473	(509,576)	13,786,335	(557,349)
Cash and cash equivalents at beginning of financial year		(1,906,776)	(1,397,200)	(2,248,652)	(1,691,303)
Cash and cash equivalents at end of financial year	22	<u>11,688,697</u>	<u>(1,906,776)</u>	<u>11,537,683</u>	<u>(2,248,652)</u>

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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 15-2, Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur.
- (iii) The principal place of business of the Company is located at Level 10, Menara Luxor, 6B, Persiaran Tropicana, Tropicana Golf & Country Resort, 47410 Petaling Jaya, Selangor Darul Ehsan.
- (iv) The number of employees of the Group and of the Company as at 31 December 2004 were 26 and 8 (2003: 30 and 7).

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%

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(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) years of their expected benefits. This is a departure from the MASB 4, Research and Development costs, which requires amortisation over a period not exceeding five years.

(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 amortisation 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.

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(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 on 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:

	2004	2003
	RM	RM
Foreign currency: 1000 Indonesia Rupiah	0.408	0.452

(k) Income Tax

The tax expense in the income statement represents the aggregate amounts of current tax and deferred tax included in the determination of net profit or loss for the year.

On the balance sheet date deferred tax liability is recognised for taxable temporary differences while a deferred tax asset is only recognised for deductible temporary differences, unutilised tax losses and unutilised tax credits to the extent that it is probable that taxable profit will be available in future against which the deductible temporary differences, tax losses and tax credits can be utilised.

No deferred tax is recognised for temporary differences arising from :

- (i) goodwill for which amortization is not deductible for tax purposes, or
- (ii) negative goodwill which is treated as deferred income, or
- (iii) the initial recognition of an asset or liability which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured based on tax consequences that would follow from the manner in which the asset or liability is expected to be recovered or settled, and based on the tax rates enacted at the balance sheet date that are expected to apply to the period when the asset is realised or when the liability settled.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, whether in the same or a different period, directly to equity.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

- (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.

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 2004	661,400	19,377	38,884	114,582	834,243
Additions	12,893	-	5,608	-	18,501
Depreciation charge	(304,049)	(6,262)	(12,751)	(44,185)	(367,247)
Disposal	(7,596)	(7,254)	(3,354)	(4,981)	(23,185)
At 31 December 2004	<u>362,648</u>	<u>5,861</u>	<u>28,387</u>	<u>65,416</u>	<u>462,312</u>
At 31 December 2004					
Cost	1,603,071	98,403	188,755	338,426	2,228,655
Accumulated depreciation	(1,240,423)	(92,542)	(160,368)	(273,010)	(1,766,343)
Net book value	<u>362,648</u>	<u>5,861</u>	<u>28,387</u>	<u>65,416</u>	<u>462,312</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>

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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 2004	179,637	9,266	15,300	71,552	275,755
Additions	-	-	4,537	-	4,537
Depreciation charge	(148,037)	(4,398)	(6,538)	(30,901)	(189,874)
Disposal	-	-	-	-	-
At 31 December 2004	<u>31,600</u>	<u>4,868</u>	<u>13,299</u>	<u>40,651</u>	<u>90,418</u>
At 31 December 2004					
Cost	824,270	94,638	160,022	275,815	1,354,745
Accumulated depreciation	(792,670)	(89,770)	(146,723)	(235,164)	(1,264,327)
Net book value	<u>31,600</u>	<u>4,868</u>	<u>13,299</u>	<u>40,651</u>	<u>90,418</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>

5. INVESTMENT IN SUBSIDIARIES

	Company	
	2004 RM	2003 RM
Unquoted shares, at cost	<u>2,561,387</u>	<u>2,561,387</u>
	<u>2,561,387</u>	<u>2,561,387</u>

Details of the subsidiaries companies 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

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6. INTANGIBLE ASSETS

	Intangible assets RM	Development cost RM	Total RM
Group			
Cost at 1 January 2004	17,000,000	1,501,000	18,501,000
Additions during the year	-	717,080	717,080
Cost at 31 December 2004	<u>17,000,000</u>	<u>2,218,080</u>	<u>19,218,080</u>
Less : Cumulative Amortisation			
At 1 January 2004	-	(75,050)	(75,050)
Charge for the year	-	(75,050)	(75,050)
At 31 December 2004	-	(150,100)	(150,100)
Balance at 31 December 2004	<u>17,000,000</u>	<u>2,067,980</u>	<u>19,067,980</u>
Balance at 31 December 2003	<u>17,000,000</u>	<u>1,425,950</u>	<u>18,425,950</u>
Amortisation at 31 December 2003	-	75,050	75,050

INTANGIBLE ASSETS

	Intangible assets RM	Development cost RM	Total RM
Company			
Cost at 1 January 2004	17,000,000	1,501,000	18,501,000
Additions during the year	-	562,284	562,284
Cost at 31 December 2004	<u>17,000,000</u>	<u>2,063,284</u>	<u>19,063,284</u>
Less : Cumulative Amortisation			
At 1 January 2004	-	(75,050)	(75,050)
Charge for the year	-	(75,050)	(75,050)
At 31 December 2004	-	(150,100)	(150,100)
Balance at 31 December 2004	<u>17,000,000</u>	<u>1,913,184</u>	<u>18,913,184</u>
Balance at 31 December 2003	<u>17,000,000</u>	<u>1,425,950</u>	<u>18,425,950</u>
Amortisation at 31 December 2003	-	75,050	75,050

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7. DEFERRED CHARGES

This represents the purchase of computer software of the subsidiary Company, PT Palette Multimedia. The balance of deferred charges is fully amortised during the year.

8. INVENTORIES

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
At costs:				
Hardware	4,949,895	7,364,848	1,978,660	2,411,864
Software	4,641	16,628	-	3,773
	<u>4,954,536</u>	<u>7,381,476</u>	<u>1,978,660</u>	<u>2,415,637</u>

9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Trade receivables	10,579,244	22,186,281	6,773,855	18,567,015
Other receivables	424,603	188,061	232,047	188,061
Deposits	994,439	89,736	982,753	78,051
Prepayments	1,470	20,165	-	-
Amount due from subsidiaries	-	-	10,343,284	16,377,451
	<u>11,999,756</u>	<u>22,484,243</u>	<u>18,331,939</u>	<u>35,210,578</u>

The amount due from subsidiaries, principally trade transactions which is unsecured, non- interest bearing 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 (2003: RM1,000,000) pledged to the licensed banks for banking facilities extended to the Group and the Company.

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11. TRADE AND OTHER PAYABLES

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Trade payables	17,799,734	24,321,540	16,485,766	25,469,289
Accrued expenses	216,063	96,537	160,660	62,103
Amount due to subsidiaries	-	-	1,969,579	2,995,906
Amount due to directors	14,473	1,010	14,473	1,010
	<u>18,030,270</u>	<u>24,419,087</u>	<u>18,630,478</u>	<u>28,528,308</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	
	2004 RM	2003 RM	2004 RM	2003 RM
Current:				
Bank overdraft (Secured)	1,463,653	1,394,370	1,463,653	1,394,370
Bankers' acceptance	1,117,000	2,014,000	1,117,000	2,014,000
Current portion of:				
Long term loan (Note 16)	50,137	46,529	50,137	46,529
	<u>2,630,790</u>	<u>3,454,899</u>	<u>2,630,790</u>	<u>3,454,899</u>

The bankers' acceptance facilities are secured by way of personal guarantee 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.

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13. SHARE CAPITAL

	Group / Company	
	2004 RM	2003 RM
Ordinary shares of RM0.25 each		
AUTHORISED		
At beginning of financial year	50,000,000	25,000,000
Addition	-	25,000,000
At end of financial year	<u>50,000,000</u>	<u>50,000,000</u>
ISSUED AND FULLY PAID-UP		
At beginning of financial year	24,000,000	24,000,000
Private placement of 96,000,000 (2003:NIL) ordinary shares of RM0.25 each	2,400,000	-
At end of financial year	<u>26,400,000</u>	<u>24,000,000</u>

14. SHARE PREMIUM AND RESERVES

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Non-distributable reserves				
(a) Share premium				
At 1 January 2004/2003	1,770,965	1,770,965	1,770,965	1,770,965
Issuance of share capital	2,352,000	-	2,352,000	-
At 31 December 2004/2003	<u>4,122,965</u>	<u>1,770,965</u>	<u>4,122,965</u>	<u>1,770,965</u>
(b) Foreign exchange reserves				
At 1 January 2004/2003	258,345	164,760	-	-
Currency translation difference	(205,328)	93,585	-	-
	<u>53,017</u>	<u>258,345</u>	<u>-</u>	<u>-</u>
(c) Retained profits	<u>(773,761)</u>	<u>(3,635,820)</u>	<u>3,934,238</u>	<u>1,967,697</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.

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16. LONG TERM BORROWINGS

	Group / Company	
	2004 RM	2003 RM
Current:		
Term Loan (Note 12)	50,137	46,529
Non-current:		
Long term loan	<u>275,453</u>	<u>327,155</u>
	<u>325,590</u>	<u>373,684</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 additionally guaranteed by the Company directors.
- To be corporate guaranteed by Palette Corporation Sdn. Bhd.

	Group / Company	
	2004 RM	2003 RM
The loan is repayable as follow:		
Current:	50,137	46,529
Within two years:	101,280	200,077
Within two to five years:	<u>174,173</u>	<u>127,078</u>
	<u>325,590</u>	<u>373,684</u>

17. REVENUE

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Sale of goods	14,590,215	27,135,059	11,123,164	30,969,930
PC rental	<u>219,542</u>	<u>433,096</u>	-	-
	<u>14,809,757</u>	<u>27,568,155</u>	<u>11,123,164</u>	<u>30,969,930</u>

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18. PROFIT / (LOSS) FROM OPERATIONS

	Group		Company	
	2004	2003	2004	2003
	RM	RM	RM	RM
The following items have been charged/(credited) in arriving at profit / (loss) from operations:				
Audit fee	17,000	17,850	7,000	7,000
Amortisation of development cost	80,210	76,367	75,050	75,050
Bad debts written off	9,721	-	-	-
Directors' remuneration	99,000	138,000	39,000	78,000
Depreciation of property, plant and equipment	367,247	402,779	189,874	223,640
Interest expenses	106,061	167,468	106,061	167,468
Loss on stolen stock	-	2,241	-	2,241
Loss on disposal of property, plant and equipment	-	682	-	23
Leasing charges	360	4,020	-	-
Property, plant and equipment written off	23,184	-	-	-
Rental expenses	205,257	289,181	136,888	186,359
Gain on disposal of property, plant and equipment	(250)	(2,151)	-	(2,151)
Net on exchange gain - Realised	(196,290)	(18,534)	(7,381)	(18,534)
Interest income	(21,019)	(42,147)	(19,579)	(41,355)
Research and development income	-	-	-	(13,776)
	<u>99,000</u>	<u>138,000</u>	<u>39,000</u>	<u>78,000</u>
(a) Directors' remuneration:				
Fees	39,000	78,000	39,000	18,000
Salary	60,000	60,000	-	60,000
	<u>99,000</u>	<u>138,000</u>	<u>39,000</u>	<u>78,000</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	
	2004	2003	2004	2003
	RM	RM	RM	RM
Non-executive directors				
Below RM50,000	<u>5</u>	<u>4</u>	<u>5</u>	<u>4</u>
Executive director				
RM100,000 - RM150,000	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>

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19. FINANCE COSTS

	Group		Company	
	2004	2003	2004	2003
	RM	RM	RM	RM
Bankers' acceptance interest	79,600	136,993	79,600	136,993
Term loan interest	26,461	30,475	26,461	30,475
	<u>106,061</u>	<u>167,468</u>	<u>106,061</u>	<u>167,468</u>

20. TAXATION

	Group		Company	
	2004	2003	2004	2003
	RM	RM	RM	RM
Tax charge for the financial year				
Malaysia -Current	-	-	-	-
-Underprovision in previous year	3,484	9,724	3,484	9,724
Overseas -Current	(819)	635	-	-
	<u>2,665</u>	<u>10,359</u>	<u>3,484</u>	<u>9,724</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 has unabsorbed business losses carried forward during the financial year and the Company which has been granted an income tax free period of up to five years as a result of it being awarded the Multimedia Super Corridor ("MSC") status on 6 October 2000.

21. EARNINGS PER SHARE

Basic earnings per share for the financial year is arrived at dividing the Group's profit after taxation of RM2,862,059 [2003: (RM4,086,437)] by the weighted average number of 104,000,000 (2003: 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	
	2004	2003	2004	2003
	RM	RM	RM	RM
Fixed deposit with licensed banks	1,172,956	1,137,421	1,172,956	1,137,421
Cash at bank	13,093,227	361,844	12,945,380	21,937
Cash in hand	3,167	2,329	-	360
Deposits, cash and bank balances	<u>14,269,350</u>	<u>1,501,594</u>	<u>14,118,336</u>	<u>1,159,718</u>
Bank overdrafts	(1,463,653)	(1,394,370)	(1,463,653)	(1,394,370)
Bankers' acceptance	(1,117,000)	(2,014,000)	(1,117,000)	(2,014,000)
	<u>11,688,697</u>	<u>(1,906,776)</u>	<u>11,537,683</u>	<u>(2,248,652)</u>

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

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:

	2004	2003
	RM	RM
Subsidiary Company		
Palette System Sdn. Bhd.		
Sale of goods and services	730,419	782,920
Purchases of goods and services	1,214,003	9,961,788
Charges on R&D income	<u>-</u>	<u>13,776</u>
Significant outstanding balances at the balance sheet date, arising from:		
Sale and purchases of goods and services and advances	<u>10,343,284</u>	<u>13,381,546</u>
PT Palette Multimedia		
Significant outstanding balances at the balance sheet date, arising from:		
Sale and purchases of goods and services	<u>(1,969,579)</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>279,870</u>	<u>(162,859)</u>
Significant outstanding balances at the balance sheet date, arising from:		
Sale of goods and services	<u>46,155</u>	<u>(206,152)</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>2,182</u>	<u>-</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.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

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 Group's 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 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

The carrying amounts of the financial assets and liabilities of the Group and the Company, approximate their fair value due to the relatively short term maturities of these balances.

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	
	2004	2003	2004	2003
	RM	RM	RM	RM
Major segment by country				
- Revenue from external customer				
Malaysia	14,598,310	38,298,532	2,743,363	(3,852,863)
Indonesia	211,447	14,331	(16,353)	(225,476)
- Inter segment				
Revenue from Malaysia	1,944,422	-	-	-
Revenue from Indonesia	-	-	-	-
	16,754,179	38,312,863	2,727,010	(4,078,339)
Eliminations	(1,944,422)	(10,744,708)	-	-
	<u>14,809,757</u>	<u>27,568,155</u>	<u>2,727,010</u>	<u>(4,078,339)</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.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

26. SIGNIFICANT EVENTS

- (a) On 14 May 2004, the Company filed a legal suit at the High Court of Kuala Lumpur for defects of goods valued at RM3.6 million against a supplier of the Company, which is a public listed company in Taiwan, specialising in manufacturing computer and multimedia related products. A sum of RM12,944,815.39 which is involved in this dispute has been reflected in the Company's bank balances.
- (b) In its continuous effort to be the regional leader in providing wireless broadband products and solutions, on 14 January 2004, the Company had signed an agreement with Nasioncom Berhad to deploy next generation of telecommunication technology and network.

27. COMPARATIVE FIGURES

The presentation and classification of items in the current year financial statements have been consistent with the previous year.

We, EG KAH YEE and ABDUL RAZAK BIN DATO' HAJI IPAP, being two of the directors of PALETTE MULTIMEDIA BERHAD, do hereby state that, in our opinion, the financial statements as set out on pages 15 to 33 are drawn up in accordance with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2004 and of the results of its operation and cash flows of the Group and of the Company for the year ended on that date.

EG KAH YEE
Director

ABDUL RAZAK BIN
DATO' HAJI IPAP
Director

Kuala Lumpur,
Date: 26 April 2005

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 as set out on pages 15 to 33, 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 26 April 2005

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 15 to 33. 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 2004 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.

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 non-qualification on the local subsidiary and qualification on the foreign subsidiary on the appropriateness of preparing the financial statements on a going concern basis. The auditor's report on the financial statements of the subsidiaries were not subjected 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: 29 April 2005

DR PAUL CHENG CHAI LIOU
No. Kelulusan 1561/03/07 (J)

NOTICE IS HEREBY GIVEN that the Eighth Annual General Meeting of the Company will be held at Hibiscus Roon (Mezzanine Floor), Melia Kuala Lumpur, 16, Jalan Imbi, 55100 Kuala Lumpur on Tuesday , 28 June 2005 at 3.00 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 2004 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 2004. (Resolution 2)
- 3) To re-elect the Director, Encik Abdul Razak Bin Dato' Hj. Ipap 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) 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 : 6 June 2005
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 15-2, 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 :-
	<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>

Shareholding Statistics as at 10 May 2005

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 share

Analysis of Shareholdings As at 10 May 2005

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares Held
Less than 100 Shares	4	0.257	100	0.000
100 to 999 Shares	291	18.678	51,600	0.049
1,000 to 4,999 Shares	512	32.863	1,087,100	1.030
5,000 to 10,000 Shares	425	27.278	3,218,100	3.047
10,001 to 100,000 Shares	272	17.458	8,800,100	8.333
100,001 to 1,000,000 Shares	47	3.017	17,335,379	16.416
Above 1,000,000 Shares	7	0.449	75,107,621	71.125
Total	1,558	100.000	105,600,000	100.000

30 Largest Shareholders As at 10 May 2005 (As per the Register of Members)

No.	Shareholders	No. of Shares	%
1.	Eg Kah Yee	50,134,921	47.476
2.	Lembaga Tabung Haji	11,603,800	10.988
3.	Employees Provident Fund Board	6,974,300	6.605
4.	ACE Partner Group Limited	2,277,000	2.156
5.	RHB Nominees (Tempatan) Sdn Bhd - Pledged securities account for Lee Kin Hin	1,544,900	1.463
6.	Kenanga Nominees (Tempatan) Sdn Bhd - Pledged securities account for Eg Kah Yee	1,348,700	1.277
7.	Yap Pin Ho	1,224,000	1.159

8.	Affin Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Rolles Rudolf Jurgen August	1,000,000	0.947
9.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Teo Hoo Seng	1,000,000	0.947
10.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Teo Cheng Tuan Donald	1,000,000	0.947
11.	Mayban Nominees (Tempatan) Sdn Bhd - Mayban Trustees Berhad for Hidden Treasures Fund	1,000,000	0.947
12.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Tan See Tee	948,700	0.898
13.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Tan Tiong Beng	900,000	0.852
14.	Chuan Tsui Ju	630,300	0.597
15.	Tsao Tony An-Pang	614,200	0.582
16.	Jyuo-Min Shyu	500,000	0.474
17.	Alliance Group Nominees (Tempatan) Sdn Bhd - Pledged securities account for Ong Kaik Yong	500,000	0.474
18.	Eg Kaa Chee	477,401	0.452
19.	HLG Nominees (Tempatan) Sdn Bhd - Pledged securities account for Oan Choon Kiat	456,100	0.432
20.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Ng Ser Miang	450,000	0.426
21.	TA Nominees (Tempatan) Sdn Bhd - Pledged securities account for Tan Ser Lay	446,000	0.422
22.	Lee Kin Hin	419,900	0.398
23.	Teo Kin Swee	416,000	0.394
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 Gerald Yeo @ Yeo Ah Khe	400,000	0.379
26.	AMSec Nominees (Asing) Sdn Bhd - UOB Kay Hian Pte Ltd for Low Hui Goh	350,000	0.331
27.	Leong Vee Cheong	347,000	0.329
28.	Woo Wing Kong	294,400	0.279
29.	Digital Season Sdn Bhd	289,778	0.274
30.	Mayban Nominees (Tempatan) Sdn Bhd - Pledged securities account for Chai Nyuk Kiong	260,000	0.246
Total		88,207,400	83.530

Substantial Shareholders
As at 10 May 2005 (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 *	51,483,621	48.753	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	51,483,621	48.753

* 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 10 May 2005 (As per the Register of Directors' Shareholding)

No.	Director	No. of Shares Held			
		Direct	%	Indirect	%
1.	Eg Kah Yee *	51,483,621	48.753	481,879	0.456
2.	Eg Kaa Chee **	477,401	0.452	51,483,621	48.753
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

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

No. of ordinary shares held

I/We..... I/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 Eighth Annual General Meeting of the Company to be held at Hibiscus Roon (Mezzanine Floor), Melia Kuala Lumpur, 16, Jalan Imbi, 55100 Kuala Lumpur on Tuesday, 28 June 2005 at 3:00pm. 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				

(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.....2005 ,
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 15-2, 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.

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STAMP

Company Secretary
Mega Corporate Services Sdn Bhd
Level 15-2, Faber Imperial Court
Jalan Sultan Ismail,
P. O Box 12337
50774 Kuala Lumpur.
Tel : 03-2692 4271 Fax : 03-2732 5388

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