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BOARD OF DIRECTORS :	Eg Kah Yee Eg Kaa Chee Chin Foong Ming (Appointed on 1 June 2001) Abdul Razak Bin Dato' Haji Ipap (Appointed on 1 June 2001) Chuan Wee Tze (Appointed on 1 June 2001)
COMPANY SECRETARIES :	Tan Yen Nee (MAICSA 7026045) (Appointed on 8 February 2002)  Enoch Ng (LS 01797) (Resigned on 8 February 2002)  Ivy Low May May (LS 005730) (Resigned on 8 February 2002)
REGISTERED OFFICE :	12M, Jalan SS21/58, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan Tel : 77258332, Fax : 77258330
PRINCIPAL PLACE : OF BUSINESS	9, Jalan 1/46A, Off Jalan Selingsing 7, Taman Niaga Waris, 51200 Kuala Lumpur,
AUDITOR :	FL Wong & Co., (AF 1085) Chartered Accountants
R&D OFFICE :	F05, 1st. Floor, Block 1, Century Square, Cyberjaya
LISTING SPONSOR :	K & N Kenanga Bhd 13th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur Tel : 21646828

Mr. Eg Kah Yee  
Managing Director

Mr. Eg Kah Yee, aged 41, 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.

Mr. Eg Kaa Chee  
Non-Executive Director

Mr. Eg Kaa Chee, aged 37, was appointed as the Director of the Palette Multimedia Bhd in 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 41, was appointed as the Director of Palette Multimedia Bhd on 1 June 2001. He graduated with a 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 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 2000 to start off his own career in the IT business.

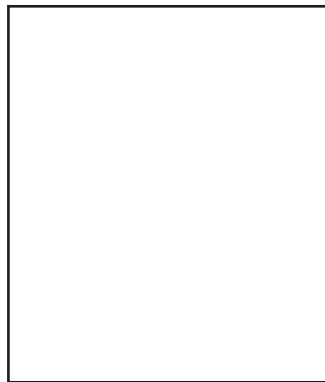
Mr. Chin Foong Ming  
Independent Non-Executive Director

Mr. Chin Foong Ming, aged 36 was appointed as the Independent Non-Executive Director of Palette Multimedia Bhd on 1 June 2001. He graduated with a Bachelor of Science in Electrical Engineering from Mississippi State University, USA in 1989. He continued his studies 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 that 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 41, 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 the 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,

It gives me a great pleasure as the Chairman of Palette Multimedia Bhd to present the Annual Report and the Audited Financial Statements of the Group for year ended 31 December 2001.

During the period under review, the Global IT industry continued to be very challenging coupled with the world wide economic downturn. IT segment was severely affected following the bursting of the dotcom bubble. The economic situation was worsened and spiraled into a high degree of uncertainty after the September 11 event in New York. Our strategy has constantly been dynamically refined and enhanced over the period in order to stay ahead of the rapid changes in technology and lessen the impact of current Global IT slowdown.

#### Financial Performance

I am pleased to announce that the Group has increased its turnover by 34% to RM28.7 million as compared to the fiscal year of 2001. The increase is the result from the export market of the Group's products mainly to Taiwan, Singapore and Brunei in the first 9 months of the fiscal year, which contributed 47% of the total turnover for year 2001. The broadband product offering has also contributed to the increase of the revenue.

The Group's has posted a total of RM0.4 million pre-tax profit, representing a decrease of 55% as compared to last year. The decrease of profit is largely attributable to the economic slowdown that resulted in a drastic increase in price competition and reduction in profit margins as well as the increase in the operational overheads after the public listing.

On 27 February 2002, the Group has signed up a new distribution agreement to distribute networking and broadband products with Allied Telesyn International Pte. Ltd. in line with our vision to build a broadband Company.

The Group in year 2001, has launched its first broadband product, Smart TV Personal Computer, a joint venture effort with Casaville Technology Services Sdn Bhd. The sales of the products is available nationwide and expected to contribute significantly to the growth of the Group in year 2002. Currently, the product is also available for purchase through EPF withdrawal scheme.

The new local sales office in Kuantan is expected to contribute to the Group revenue in the second quarter of year 2002.

#### Corporate Governance

Our statement on corporate governance can be found on page 7. 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 2001.

#### Utilisation of Proceeds from IPO

The proceeds pursuant to the IPO as published in the prospectus were approved for utilization to fund the Company research and development activities, expansion to open more sales offices regionally and locally and also for working capital in anticipating of higher sales.

From the gross proceeds of RM8.8 million, RM1.5 million was approved for research and development activities, RM5.95 million was approved for working capital and opening of new sales offices in Jakarta, Thailand, Johor Baru and Kuantan, whereas the remaining balance was allocated for the listing expenses.

The utilisation progress for the financial year ended 31 December 2001 were as follows :-

Description	Approved utilisation RM'000	Actual Utilisation RM'000	(Over)/Under utilisation RM'000
i) Research & Development	1,500	1,601	(101)
ii) Working Capital	5,950	770	5,180
iii) Listing Expenses	1,350	1,529	(179)
	<u>8,800</u>	<u>3,900</u>	<u>4,900</u>

The amount over utilised for R&D purposes was mainly due to the higher cost in acquiring software licensing for R&D products whereas the over utilisation of listing expenses was due to the higher cost in promoting the Company IPO abroad.

#### Future Outlook

The global economic recovery remains uncertain in the near future and the IT market is expected to remain challenging throughout the year 2002. Telecommunication companies in Malaysia have started offering broadband access though in limited areas, this will help to create awareness in the market and accelerate the adoption of broadband products and applications.

The subsidiaries in Indonesia and Thailand are expected to be operational this year and are expected to generate constant revenue streams for the year of 2002. However, this may be delayed or disrupted by the world political climate.

#### Appreciation

The Group is committed to its objective of high growth through the expansion of territory internationally and new product offerings. The business objectives could not have been successfully achieved without the strong support from the staff who have demonstrated a high degree of professionalism and capability.

I wish to record my appreciation to all the members of the Board of Directors for their effort, contribution and their continuous support to the Company.

Thank you,

EG KAH YEE  
Chairman

Date: 20 March 2002

## 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 shareholders' 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 2001.

During the year ended 31 December 2001, 12 Board meetings were held and attended by all Directors except for Mr. Chuan Wee Tze and Mr. Chin Foong Ming who attended 1 and 2 meetings respectively.

## Directors' Remuneration

The detail of the remuneration of each Director during the period are as follows:-

	Basic Salary RM'000	Fees RM'000	Benefits in-kind RM'000	Total 2001 RM'000	Total 2000 RM'000
Executive					
Eg Kah Yee	120.0	-	-	120.0	90.0
Non-Executive					
Eg Kaa Chee	-	3.5	-	3.5	-
Abdul Razak bin Dato' Hj. Ipap	-	3.5	-	3.5	-
Chin Foong Ming	-	3.5	-	3.5	-
Chuan Wee Tze	-	3.5	-	3.5	-
	120.0	14.0	-	134.0	90.0

## Conflict of Interest

To date, there has not been any conflict of interest between any of the directors and the Company. None of the Directors have been convicted of any offence in the past 10 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 judgements 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)
2. Eg Kaa Chee  
(Member)
3. Chuan Wee Tze  
(Member)

## AUDIT COMMITTEE REPORT TERMS OF REFERENCE OF THE AUDIT COMMITTEE

### Membership and Duties

The Audit Committee, comprising two (2) Independent Non-Executive Directors and one (1) Non-Executive Director, is responsible for the recommendations to the Board of Directors regarding the selection of the external auditors, reviewing the results and scope of the audit and other services provided by the Company's external auditors and reviews and evaluates the Company's internal audit and control functions.

The Audit Committee is also responsible for the assessment of financial risk and matters relating to related party transactions and conflict of interests. The Audit Committee may obtain advice from independent parties and other professionals in the performance of its duties.

### Notice of Meeting and Attendance

Meetings shall be held for not less than four (4) times a year and will normally be attended by the Chief Executive Officer, Financial Controller and external auditor if required.

During the year, the Committee had four meetings which were attended by all members except for Mr. Chuan Wee Tze. The Group's Chief Executive Officer and the Finance Manager attended all meetings. The Company's secretary was present to minute the meeting.

### 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.

### Internal Audit Functions

Currently, the Group does not maintain an Internal Audit Department due to the economic scale. However, an Internal Audit team was formed and periodical audits were carried out 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 reasonable 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 impact on the operations and business. The audit program is continuously being enhanced to accommodate changes in the assessment of risk to ensure proper control of the business operations.

### 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 members of the Board and senior management; and
- Quarterly Staff Management Business Review meeting with all key personnel of the operating branches to address weaknesses and improve efficiency.

DIRECTORS' REPORT  
made pursuant to Section 169 of the  
Companies Act, 1965

The Directors have pleasure in submitting their report and the audited financial statements of the Group and the Company for the financial year ended 31 December 2001.

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 subsidiary company are set out in Note 6 to the financial statements.

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

RESULTS	Group RM	Company RM
Net profit for the financial year	<u>432,260</u>	<u>865,817</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.

## ISSUES OF SHARES AND DEBENTURES

Pursuant to the Company's listing on the Malaysian Exchange of Securities Dealing & Automated Quotation Bhd (MESDAQ) during the financial year, the Company increased its issued and fully paid up capital from RM18,000,000 to RM24,000,000. The increase was made through the following exercise:-

- i) On 21 June 2001, the bonus issue of 2,000,000 new ordinary shares of RM0.25 each on the basis of approximately 1 new ordinary shares for every 36 existing ordinary shares of RM0.25 each held through capitalisation from its retained profit.
- ii) On 19 July 2001, by the allotment of 22,000,000 new ordinary shares of RM0.25 each at an issue price of RM0.40 per share for cash by way of private placement and public offer. The new shares issued rank *pari passu* in all respects with the existing shares of the Company.

There were no issues of debenture 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.

## DIRECTORS

The Directors who have held office during the financial year since the date of the last report are as follows:-

Eg Kah Yee	
Eg Kaa Chee	
Chin Foong Ming	(Appointed on 1 June 2001)
Abdul Razak Bin Dato' Haji Ipap	(Appointed on 1 June 2001)
Chuan Wee Tze	(Appointed on 1 June 2001)

Pursuant to Articles 72 of the Articles of Association of the Company, Chin Foong Ming, Abdul Razak Bin Dato' Haji Ipap and Chuan Wee Tze retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

#### DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than benefits 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 Directors 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 the Note 23 to the financial statements.

Neither during nor at the end of the financial year was 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.

#### DIRECTORS' INTERESTS IN SHARES

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 1.1.2001	Bought	Sold	At 31.12.2001
Eg Kah Yee	- direct interest	61,428,572	1,706,349	2,000,000	61,134,921
	- indirect interest *	10,571,428	336,651	8,670,600	2,237,479
Eg Kaa Chee	- direct interest	571,428	15,873	-	587,301
	- indirect interest **	61,428,572	1,706,349	2,000,000	61,134,921

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

\*\* By virtue of his brother, Eg Kah Yee's shareholding.

#### DIRECTORS' INTERESTS IN SHARES (CONT'D)

By virtue of their interests of more than 15% in the Company, Eg Kah Yee and Eg Kaa Chee are also deemed to have interest in the shares of its subsidiary company to the extent that the Company has an interest.

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.

#### SIGNIFICANT EVENTS

The significant events during the financial year are as disclosed in Note 25 to the financial statements.

#### STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statement and balance sheet were made out, the Directors took reasonable steps:

- a) to ascertain that proper action had been taken in relation to the writing of off 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; and
- b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and the Company had 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:

- a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and the Company inadequate to any substantial extent; or
- b) which would render the values attributed to current assets in the financial statement of the Group and the Company misleading; or
- c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.

## STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONT'D)

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or the Company to meet their obligations when they fall due.

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

- a) any charge on the assets of the Group or the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- b) any contingent liability of the Group or the Company which has arisen since the end of the financial year.

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 which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

- a) the results of the Group's and the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.
- b) 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 to affect substantially the results of the operations of the Group or the Company for the financial year in which this report is made.

AUDITORS

The auditors, Messrs. FL Wong & Co., have expressed their willingness to continue in office.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS

EG KAH YEE  
Director

ABDUL RAZAK BIN DATO' HAJI IPAP  
Director

Petaling Jaya

Date: 20 March 2002

STATEMENT BY DIRECTORS  
Pursuant to Section 169 (15) of the Companies Act, 1965

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 19 to 39 are drawn up 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 2001 and of the results and cash flows of the Group and of the Company for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

Sign on behalf of the board of Directors in accordance with a resolution of the Directors.

EG KAH YEE  
Director

ABDUL RAZAK BIN DATO' HAJI IPAP  
Director

Petaling Jaya

Date: 20 March 2002

STATUTORY DECLARATION  
Pursuant to Section 169 (16) of the Companies Act, 1965

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 19 to 39 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared )  
by the abovenamed EG KAH YEE )  
at Petaling Jaya in the state of Selangor Darul Ehsan )  
on 20 March 2002

Before me, EG KAH YEE  
Director

Commissioner for Oaths

FL WONG & CO. (AF 1085)  
Chartered Accountants  
42B, Jalan SS21/39,  
Damansara Utama,  
47400 Petaling Jaya,  
Selangor Darul Ehsan.

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

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We have audited the financial statements set out on pages 19 to 39. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- a) the financial statements have been prepared 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 matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - ii) the state of affairs of the Group and of the Company as at 31 December 2001 and of the results and cash flows of the Group and the Company for the financial year ended on that date; and
- b) the accounting and other records and the registers required by the Act, to be kept by the Company and by the subsidiary company of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiary company that have been consolidated with the Company's financial statements are in the 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.

The auditors' report on the financial statements of the subsidiary company were not subject to any qualification and did not include any comment made under subsection 3 of section 174 of the Act.

FL WONG & CO.  
Firm Number: AF 1085  
Chartered Accountants

WONG FOOK LIN  
Approval Number: 1700/5/03 (J/PH)

Petaling Jaya

Date: 20 March 2002

BALANCE SHEET  
AS AT 31 DECEMBER 2001

	NOTE	Group 2001 RM	Company 2001 RM	2000 RM
PROPERTY, PLANT AND EQUIPMENT	5	681,401	629,712	735,306
SUBSIDIARY COMPANY	6	-	100,000	-
INTANGIBLE ASSETS	7	18,501,000	18,501,000	17,000,000
CURRENT ASSETS				
Inventories	8	2,612,224	391,385	2,551,549
Trade and other receivables	9	4,231,889	2,329,220	3,817,992
Amount owing by subsidiary company		-	4,519,141	-
Fixed deposit with financial institutions	10	3,584,269	3,584,269	20,204
Cash and bank balances		752,353	624,019	784,116
		11,180,735	11,448,034	7,173,861
CURRENT LIABILITIES				
Trade and other payables	11	531,204	413,257	3,799,912
Amount owing to Directors	12	29,373	29,373	16,816
Bank borrowings	13	3,018,391	3,018,391	1,972,389
Provision for taxation		150,000	150,000	150,000
		3,728,968	3,611,021	5,939,117
NET CURRENT ASSETS		7,451,767	7,837,013	1,234,744
		26,634,168	27,067,725	18,970,050
Financed by:				
SHARE CAPITAL	14	24,000,000	24,000,000	18,000,000
SHARE PREMIUM RESERVE	15	1,770,965	1,770,965	-
RETAINED PROFIT		443,068	876,625	510,808
		26,214,033	26,647,590	18,510,808
LONG TERM LIABILITY				
Long term borrowings	16	420,135	420,135	459,242
		26,634,168	27,067,725	18,970,050

*The annexed notes form an integral part of these financial statements.*

INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2001

INCOME STATEMENT

GROUP	NOTE	Group 2001 RM	Company 2001 RM	2000 RM
Revenue	17	28,676,942	30,237,646	21,713,986
Cost of sales		(25,580,547)	(28,482,001)	(18,824,756)
Gross profit		3,096,395	1,755,645	2,889,230
Other operating income		75,483	816,410	2,965
Selling and distribution expenses		(374,676)	(278,840)	(158,745)
Administration and general expenses		(2,191,487)	(1,253,943)	(1,586,831)
Profit from operations	18	605,715	1,039,272	1,146,619
Finance cost	19	(173,455)	(173,455)	(24,949)
Profit before taxation		432,260	865,817	1,121,670
Taxation	20	-	-	(150,000)
Profit after taxation for the financial year		432,260	865,817	971,670
EARNINGS PER SHARE (SEN)	21			
- Basic		0.52	N/A	
- Par value of 25 sen per share				
- Diluted		0.52	N/A	
- Par value of 25 sen per share				

*The annexed notes form an integral part of these financial statements.*

## STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGE IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2001

GROUP	NOTE	Share Capital RM	Share Premium Reserve RM	Retained Profit RM	Total RM
At 1 January 2000		2,100,000	-	439,138	2,539,138
Arising from bonus issue		900,000	-	-	900,000
Capitalisation as bonus issue		-	-	(900,000)	(900,000)
Issue of shares		15,000,000	-	-	15,000,000
Net profit for the year		-	-	971,670	971,670
At 31 December 2000		18,000,000	-	510,808	18,510,808
Arising from bonus issue		500,000	-	-	500,000
Capitalisation as bonus issue		-	-	(500,000)	(500,000)
Issue of shares		5,500,000	3,300,000	-	8,800,000
Listing expenses written off		-	(1,529,035)	-	(1,529,035)
Net profit for the year		-	-	432,260	432,260
At 31 December 2001		24,000,000	1,770,965	443,068	26,214,033

*The annexed notes form an integral part of these financial statements.*

## STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGE IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2001

COMPANY	NOTE	Share Capital RM	Share Premium Reserve RM	Retained Profit RM	Total RM
At 1 January 2000		2,100,000	-	439,138	2,539,138
Arising from bonus issue		900,000	-	-	900,000
Capitalisation as bonus issue		-	-	(900,000)	(900,000)
Issue of shares		15,000,000	-	-	15,000,000
Net profit for the year		-	-	971,670	971,670
At 31 December 2000		18,000,000	-	510,808	18,510,808
Arising from bonus issue		500,000	-	-	500,000
Capitalisation as bonus issue		-	-	(500,000)	(500,000)
Issue of shares		5,500,000	3,300,000	-	8,800,000
Listing expenses written off		-	(1,529,035)	-	(1,529,035)
Net profit for the year		-	-	865,817	865,817
At 31 December 2001		24,000,000	1,770,965	876,625	26,647,590

*The annexed notes form an integral part of these financial statements.*

CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2001

	NOTE	Group 2001 RM	Company 2001 RM	2000 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation		432,260	865,817	1,121,670
Adjustments for:				
Depreciation of property, plant and equipment		258,803	245,881	217,824
Bad debts written off		96,975	96,975	-
Interest income		(75,465)	(75,465)	-
Interest expense		173,455	173,455	-
Operating profit before working capital changes		886,028	1,306,663	1,339,494
(Decrease)/Increase in inventories		(60,675)	2,160,164	(1,201,989)
(Decrease)/Increase in trade and other receivables		(510,872)	1,391,797	(1,578,888)
Decrease in trade and other payable		(3,268,708)	(3,386,655)	211,958
Decrease in Directors' account		12,557	12,557	125,613
Net cash (used in)/generated from operating activities		(2,941,670)	1,484,526	(1,103,812)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment		(204,898)	(140,287)	(661,555)
Development cost		(1,501,000)	(1,501,000)	-
Acquisition of subsidiary		-	(100,000)	-
Interest income received		75,465	75,465	-
Net cash used in investing activities		(1,630,433)	(1,665,822)	(661,555)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issue of shares		8,800,000	8,800,000	-
Listing expenses paid		(1,529,035)	(1,529,035)	-
Proceeds from bank borrowings		-	-	500,000
Repayment of term loans		(35,327)	(35,327)	(7,974)
Advance to subsidiary		-	(4,519,141)	-
Interest expense paid		(173,455)	(173,455)	-
Net cash generated from financial activities		7,062,183	2,543,042	492,026
Net increase in cash and cash equivalents		2,490,080	2,361,746	(1,273,341)
Cash and cash equivalents at beginning of year		(1,135,285)	(1,135,285)	138,056
Cash and cash equivalents at end of year	22	1,354,795	1,226,461	(1,135,285)

*The annexed notes form an integral part of these financial statements.*

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2001

## 1. GENERAL INFORMATION

The Company was incorporated as a public company limited by shares under the Malaysian Companies Act, 1965. The domicile of the Company is Malaysia.

The registered office is located at 12M, Jalan SS21/58, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan.

The place of business is located at 9, Jalan 1/46A, Off Jalan Selingsing 7, Taman Niaga Waris, 51200 Kuala Lumpur.

The financial statements are expressed in Ringgit Malaysia.

## 2. 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 subsidiary company are set out in Note 6 to the financial statements.

## 3. BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention and in compliance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

## 4. SIGNIFICANT ACCOUNTING POLICIES

## a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary company made up to 31 December 2001.

The acquisition method is used for consolidation of the results of the subsidiary company acquired during the financial year are included in the Group financial statements from the effective date of acquisition. All significant intercompany balances and transactions have been eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

b) Property, plant and equipment, and depreciation

Property, plant and equipment are initially stated at cost. All property, plant and equipment are stated at cost less accumulated depreciated and less any impairment losses.

Depreciation is provided on the straight line method in order to write off each asset over its estimated useful life. The principal annual rate used are as follow:

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

c) Subsidiary company

Investments in subsidiary company 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.

d) 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 five (5) years of their expected benefit.

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

IP and Licence Right have been capitalised as permanent item 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 the departure from the International Accounting Standards (IAS) 38: Intangible Assets, which requires amortised over the best of their useful life.

However, a provision for impairment losses is made when the Directors are of the view that there is an indication of impairment exists.

f) Inventories

Inventories include computer equipment and software products purchased for resale. Inventories are stated at lower of cost and net realisable value. The historical cost of inventories is arrived at using first-in-first-out basis.

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

## g) Trade receivables

Trade receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

## h) Revenue recognition

Revenue from sales of goods are recognised upon delivery of products and customer acceptance, net of returns and discounts, if any, or performance of services, and after eliminating sales within the Group.

Other operating income mainly consist of interest income, trade interest income and research and development income.

## i) Foreign currency translations

Transactions in foreign currencies are recorded in Ringgit Malaysia at the exchange rates approximately those ruling at the transaction dates. Foreign currency assets and liabilities at the financial year end are reported at the exchange rates approximately those ruling at that date. All exchange differences are taken to the income statement.

## j) Deferred taxation

Deferred taxation is provided in the financial statements on the liability method for taxation, deferred by capital allowances and other timing differences, except where tax effects on these timing differences are expected to be deferred indefinitely.

Deferred tax benefits are recognised only if there is a reasonable expectation of their realisation.

## k) Cash and cash equivalents

Cash and cash equivalents comprise cash in 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 subjected to an insignificant risk of changes in value.

## 5. PROPERTY, PLANT AND EQUIPMENT

Group 2001	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Total RM
Net book value At 1 January 2001	565,047	38,321	68,772	63,166	735,306
Additions	23,040	8,918	13,156	95,173	140,287
Addition arising from acquisition of subsidiary company	54,036	2,564	749	7,262	64,611
Depreciation charge arising from acquisition of subsidiary company	(10,807)	(513)	(150)	(1,452)	(12,922)
Depreciation charge	(152,125)	(17,386)	(31,915)	(44,455)	(245,881)
At 31 December 2001	479,191	31,904	50,612	119,694	681,401
At 31 December 2001					
Cost	814,662	89,492	160,325	229,537	1,294,016
Arising from acquisition of subsidiary company	(10,807)	(513)	(150)	(1,452)	(12,922)
Accumulated depreciation	(324,664)	(57,075)	(109,563)	(108,391)	(599,693)
Net Book Value	479,191	31,904	50,612	119,694	681,401
At 31 December 2000					
Cost	737,586	78,010	146,420	127,102	1,089,118
Accumulated depreciation	(172,539)	(39,689)	(77,648)	(63,936)	(353,812)
Net Book Value	565,047	38,321	68,772	63,166	735,306

## 5. PROPERTY, PLANT AND EQUIPMENT

Company 2001	Computer equipment and software RM	Furniture and fittings RM	Office equipment RM	Renovation RM	Total RM
Net book value At 1 January 2001	565,047	38,321	68,772	63,166	735,306
Additions	23,040	8,918	13,156	95,173	140,287
Depreciation charge	(152,125)	(17,386)	(31,915)	(44,455)	(245,881)
At 31 December 2001	435,962	29,853	50,013	113,884	629,712
At 31 December 2001					
Cost	760,626	86,928	159,576	222,275	1,229,405
Accumulated depreciation	(324,664)	(57,075)	(109,563)	(108,391)	(599,693)
Net Book Value	435,962	29,853	50,013	113,884	629,712
At 31 December 2000					
Cost	737,586	78,010	146,420	127,102	1,089,118
Accumulated depreciation	(172,539)	(39,689)	(77,648)	(63,936)	(353,812)
Net Book Value	565,047	38,321	68,772	63,166	735,306

6. SUBSIDIARY COMPANY	2001 RM	Company 2000 RM
Unquoted shares, at cost	100,000	-
	<u>100,000</u>	<u>-</u>

Details of the subsidiary company are as follows:-

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

The amount owing by the subsidiary company principally trade transactions which is unsecured, bear interest at 9% per annum and has no fixed terms of repayment and as disclosed in Note 23 to the financial statements.

7. INTANGIBLE ASSETS	Intangible assets RM	Development cost RM	Total RM
Group / Company			
Net book value as at 1 January 2001	17,000,000	-	17,000,000
Additions	-	1,501,000	1,501,000
	<u>17,000,000</u>	<u>1,501,000</u>	<u>18,501,000</u>
At 31 December 2001			
At 31 December 2001	17,000,000	1,501,000	18,501,000
	<u>17,000,000</u>	<u>1,501,000</u>	<u>18,501,000</u>
At 31 December 2001			
Cost	17,000,000	1,501,000	18,501,000
Accumulated amortisation	-	-	-
	<u>17,000,000</u>	<u>1,501,000</u>	<u>18,501,000</u>
Net Book Value	17,000,000	1,501,000	18,501,000
	<u>17,000,000</u>	<u>1,501,000</u>	<u>18,501,000</u>
At 31 December 2000			
Cost	17,000,000	-	17,000,000
Accumulated amortisation	-	-	-
	<u>17,000,000</u>	<u>-</u>	<u>17,000,000</u>
Net Book Value	17,000,000	-	17,000,000
	<u>17,000,000</u>	<u>-</u>	<u>17,000,000</u>

8.	INVENTORIES	Group 2001 RM	2001 RM	Company 2000 RM
	At realisable value			
	Computer peripherals	2,612,224	391,385	2,551,549
		2,612,224	391,385	2,551,549
9.	TRADE AND OTHER RECEIVABLES			
		Group 2001 RM	2001 RM	Company 2000 RM
	Trade receivables	3,906,797	2,004,128	2,591,574
	Bad debts written off	(96,975)	(96,975)	-
		3,809,822	1,907,153	2,591,574
	Other receivables	318,008	318,008	1,092,816
	Deposits	103,279	103,279	70,745
	Prepayments	780	780	62,856
		4,231,889	2,329,220	3,817,991

Included in trade receivables of the Group and the Company is RM691,095 owing by a related party as disclosed in Note 23 to the financial statements.

10. FIXED DEPOSIT WITH FINANCIAL INSTITUTIONS

Included in fixed deposits of the Group and the Company are amounts in total of RM3,500,000 pledged to the financial institutions for banking facilities extended to the Group and the Company.

11. TRADE AND OTHER PAYABLES

		Group 2001 RM	2001 RM	Company 2000 RM
	Trade payables	506,462	396,958	3,750,271
	Accruals	24,742	16,299	49,641
		531,204	413,257	3,799,912

12. AMOUNT OWING TO DIRECTORS

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

13. BANK BORROWINGS

	Group 2001 RM	2001 RM	Company 2000 RM
Current			
Bank overdraft (Secure)	913,930	913,930	445,605
Banker's acceptance	2,067,000	2,067,000	1,494,000
Current portion of long term loan (Note 16)	37,461	37,461	32,784
	<u>3,018,391</u>	<u>3,018,391</u>	<u>1,972,389</u>

The banker's acceptance facilities are secured by way of personal guarantees by the Company's Director.

The bank overdrafts of the Group and the Company are secured by way of fixed deposits pledged to the financial institutions.

14.	SHARE CAPITAL	2001 No. of shares	2000 No. of shares	Group and Company 2001 RM	2000 RM
	Authorised ordinary shares Of RM0.25 each				
	At start of year	100,000,000	20,000,000	25,000,000	5,000,000
	Created during the year	-	80,000,000	-	20,000,000
	At end of year	<u>100,000,000</u>	<u>100,000,000</u>	<u>25,000,000</u>	<u>25,000,000</u>
	Issued and fully paid ordinary shares of RM0.25 each				
	At start of year	72,000,000	8,400,000	18,000,000	2,100,000
	Bonus issue	2,000,000	3,600,000	500,000	900,000
	Issued during the year	22,000,000	60,000,000	5,500,000	15,000,000
	At end of year	<u>96,000,000</u>	<u>72,000,000</u>	<u>24,000,000</u>	<u>18,000,000</u>

During the financial year, the issued and fully paid up capital was increased from 72,000,000 ordinary shares of RM0.25 each to 96,000,000 ordinary shares of RM0.25 each by way of:

- i) Bonus issue of 2,000,000 new ordinary shares of RM0.25 each on the basis of approximately 1 new ordinary shares for the every 36 existing ordinary shares of RM 0.25 each through capitalisation from its retained profit.
- ii) The additional 22,000,000 ordinary shares of RM0.25 each was issued during the financial year by way of private placement and public offer. The new shares issued rank pari passu in all respects with the existing shares of the Company.

15.	SHARE PREMIUM RESERVE (NON-DISTRIBUTABLE)	Group/Company 2001 RM	2000 RM
	Arising from issue of shares by way of private placement and public offer	3,300,000	-
	Listing expenses written off	(1,529,035)	-
	At 31 December 2001	<u>1,770,965</u>	<u>-</u>

16.	LONG TERM BORROWINGS	Group/Company 2001 RM	2000 RM
	Current		
	Term Loan (Note 13)	37,461	32,784
	Non-current		
	Long term loan	420,135	459,242
		<u>457,596</u>	<u>492,026</u>

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

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

The loan is repayable as follow:	Group/Company 2001 RM	2000 RM
Current:	37,461	32,784
Within two years :	74,922	65,568
Within two to five years :	345,213	393,674
	<u>457,596</u>	<u>492,026</u>

17. REVENUE

Revenue of the Group comprises the invoiced value of goods sold less returns and trade discounts.

Revenue of the Company comprises the invoiced value of goods sold less returns, trade discounts and interest income. The trade interest income and R&D income derived mainly from the subsidiary company.

18. PROFIT FROM OPERATIONS

	Group 2001 RM	2001 RM	Company 2000 RM
The following items have been charged in arriving at profit/(loss) from operation:			
Audit fee			
- current year	15,000	10,000	8,000
- overprovision in prior year	(4,000)	(4,000)	-
Bad debts written off	96,975	96,975	-
Directors' remuneration	134,000	134,000	90,000
Depreciation of property, plant and equipment	258,803	245,881	217,824
Rental expenses	241,337	61,571	166,775
Interest income	(75,465)	(75,465)	(782)
R&D income	-	(412,519)	-
Trade Interest income	-	(328,408)	-
	<hr/>	<hr/>	<hr/>
(a) Directors' remuneration:	Group 2001 RM	2001 RM	Company 2000 RM
Fees	14,000	14,000	-
Salary	120,000	120,000	90,000
	<hr/>	<hr/>	<hr/>
	134,000	134,000	90,000
	<hr/>	<hr/>	<hr/>
(b) Employee information:	2001 RM	2001 RM	2000 RM
Staff costs	801,327	335,231	566,551
	<hr/>	<hr/>	<hr/>

19.	FINANCE COST	Group 2001 RM	2001 RM	Company 2000 RM
	Interest expense:			
	Bank overdraft interest	-	-	5,409
	Banker's acceptance interest	133,328	133,328	8,875
	Term loan interest	40,127	40,127	10,665
		<u>173,455</u>	<u>173,455</u>	<u>24,949</u>
20.	TAXATION	Group 2001 RM	2001 RM	Company 2000 RM
	Current			
	In Malaysia			
	Current year provision	-	-	150,000
		<u>-</u>	<u>-</u>	<u>150,000</u>

The income of the Company is non-taxable as it is a Company with MSC status under Section 14A, Promotion of Investment (Amendment) Act 1986.

No provision for taxation has been made in the financial statements as the subsidiary Company incurred a loss during the financial year.

21. EARNING PER SHARE

Basic earning per share for the financial year is arrived at dividing the Group's profit after taxation of RM432,260 by the weighted average number of 83,068,493 ordinary shares of RM0.25 each in issue during the financial year.

22. CASH AND CASH EQUIVALENTS

For the purpose of cash flow statement, cash and cash equivalents comprise of the following :-

	Group 2001 RM	2001 RM	Company 2000 RM
Deposits with financial institutions	3,584,269	3,584,269	20,204
Cash at bank	748,114	619,780	780,090
Cash in hand	4,239	4,239	4,026
	<hr/>	<hr/>	<hr/>
Deposits, cash and bank balances	4,336,622	4,208,288	804,320
Bank overdrafts	(913,930)	(913,930)	(445,605)
Banker's acceptance	(2,067,897)	(2,067,897)	(1,494,000)
	<hr/>	<hr/>	<hr/>
	1,354,795	1,226,461	(1,135,285)
	<hr/>	<hr/>	<hr/>

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:

Subsidiary company	31.12.2001 RM
Palette System Sdn Bhd	
Purchases of goods and services	23,475,050
Sales of goods and services	1,460,002
Receipt of rental offices	179,766
Receipt of R&D income	421,519
Receipt of trade interest income	<u>328,408</u>

Significant outstanding balances at the balance sheet date, arising from:

Sales of goods and services	<u>4,519,141</u>
-----------------------------	------------------

23. RELATED PARTY TRANSACTIONS (CONT'D)

Significant transactions with related parties are as follows

Director Palette Computer Sdn. Bhd in which Abdul Razak Bin Dato' Haji Ipap (Director of the Company) is a Director Sales of goods and services	<u>688,913</u>
Significant outstanding balances at the balance sheet date, arising from: Sales of goods and services	<u>688,913</u>
Director Palette Internet Sdn. Bhd in which Eg Kah Yee and Eg Kaa Chee (Directors of the Company) are Directors Sales of goods and services	<u>2,182</u>
Significant outstanding balances at the balance sheet date, arising from: Sales of goods and services	<u>2,182</u>

In the opinion of the Directors, the above transactions had been entered into in the normal course of business and had been established under mutually agreed term arranged with the related parties.

As permitted by para 29 of MASB 8 on Related Party Disclosures, no comparative information has been presented as this is the first reporting period in which the Company is applying this standard.

24. NUMBER OF EMPLOYEES

	Group 2001 RM	2001 RM	Company 2000 RM
Number of employees at the balance sheet date	<u>30</u>	<u>6</u>	<u>27</u>

## 25. SIGNIFICANT EVENTS

## i) Acquisition of subsidiary company

On 2 April 2001, the Company acquired the entire issued and paid up capital of Palette System Sdn. Bhd., comprising of 2 ordinary shares of RM1.00 each for cash consideration. On 17 May 2001, the Company increased its issued and fully paid up capital from RM2 to RM100,00 through an issue of 99,998 ordinary shares of RM1 each to provide working capital.

## ii) Bonus Issue of 2,000,000 ordinary shares

On 21 June 2001, the Company carried out a bonus issue of 2,000,000 ordinary shares by capitalising RM500,000 from its retained profit on the basis of 1 new ordinary shares for every 36 existing ordinary shares held before the bonus issue. All shares issued pursuant to the bonus issue rank pari passu in all respects with the existing shares of the Company.

## iii) Reward Scheme

Subsequent arising from the bonus issue, Eg Kah Yee sold 2,000,000 ordinary shares to its Technology advisor, Jyuo-Min Shyu, its marketing consultant, Ng Geok Lui and selective existing employees ("Entitled Employees") for a nominal consideration of RM1.00 per block of shares. Ng Geok Lui and Jyuo-Min Shyu, both received 778,000 shares and 500,000 shares respectively, are rewarded for their contribution to the Company during early formation of the Company.

Entitled Employees are selected based on length of employment (must be more than one year), seniority and work performance.

A total of fifteen (15) employees received the Reward Scheme shares totalling 722,000 shares.

## (iv) Issue of 22,000,000 new ordinary share on MESDAQ

With the completion of the above exercise and the subsequent issue 22,000,000 new ordinary shares of RM0.25 each at a premium of RM0.15 by way of private placement and public offer, the Group was listed on the Malaysia Exchange of Securities Dealing & Automated Quotation Bhd (MESDAQ) on 27 July 2001.

## (v) In line with its MSC Status, the Company relocated its R&amp;D activities to Cyberjaya in November 2001.

## 25. SIGNIFICANT EVENTS (CONT'D)

- (vi) On 19 November 2001, the Company obtained approval from the Indonesian Government to form a wholly owned foreign subsidiary with an authorised, issued and paid up capital of RM2,500,000. In addition, the Company also opened a sales office in Johor Bahru in December 2001 to expand its direct and indirect physical sales channels in Malaysia.

## 26. SUBSEQUENT EVENTS

On 27 February 2002, the Company signed a distribution agreement with Allied Telesyn International (Asia) Pte Ltd for the distribution of the latter's networking and broadband products.

## 27. SEGMENTAL REPORTING

No segmental information is provided as the Company operations principally in Malaysia and in one major business segment.

## 28. COMPARATIVE FIGURES

The financial statements are prepared in accordance with MASB standards for the first time together with the relevant comparatives.

**PALETTE MULTIMEDIA BHD**  
(Company No. 420056-K; Incorporated in Malaysia)

NOTICE IS HEREBY GIVEN that the Fifth Annual General Meeting of PALETTE MULTIMEDIA BHD, will be held at Novotel Century Kuala Lumpur, 17-21, Jalan Bukit Bintang, 55100 Kuala Lumpur on 22nd May, 2002 at 3.00 pm for the following purpose:-

AGENDA

- |    |  |                       |
|----|--|-----------------------|
| 1. | To receive and adopt the audited Financial Statement for the year ended 31st December, 2001 together with the Reports of the Directors and Auditors thereon. | Ordinary Resolution 1 |
| 2. | To re-elect the following Directors retiring pursuant to Article 72 of the Articles of Association of the Company.   |                       |
|    | a) Mr. Chin Foong Ming   | Ordinary Resolution 2 |
|    | b) En. Abdul Razak Bin Dato' Haji Ipap   | Ordinary Resolution 3 |
|    | c) Mr. Chuan Wee Tze   | Ordinary Resolution 4 |
| 3. | To approve the Directors' fees of RM134,000.00 for the financial year ended 31st December, 2001.   | Ordinary Resolution 5 |
| 4. | To re-appoint Messrs. FL Wong & Co., as auditors of the Company and to authorise the Directors to fix their remuneration.                                    | Ordinary Resolution 6 |
| 5. | Special business.  | Ordinary Resolution 7 |
- To consider and if thought fit, pass the following resolutions :

**AUTHORITY TO ALLOT SHARES PURSUANT TO SECTION 132D OF COMPANIES ACT, 1965**

“That pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorised to issue shares in the capital of the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit provided that the aggregate number of shares to be issued does not exceed ten per centum (10%) of the issued share capital of the Company for the time being, subject to the Companies Act, 1965, the Article of Association of the Company and approval from the MESDAQ Stock Exchange and other relevant bodies where such approval is necessary.”

BY ORDER OF THE BOARD

TAN YEN NEE  
(MAICSA 7026045)  
Secretary

Petaling Jaya  
6 May, 2002

**NOTE:-**

A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy may but need not be a member of the Company but in accordance with Section 149 of the Companies Act, 1965, a member shall not be entitled to appoint a person who is not a member as his proxy unless that person is a qualified legal practitioner, an approved company auditor or a person approved by the Registrar of the Companies in a particular case.

The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or such appointer is a corporation, either under its common seal or the hand of an officer or attorney duly authorised.

The instrument appointing a proxy must be deposited at the Registered Office of the Company at No.12M, Jalan SS 21/58, Damansara Utama, 47400 Petaling Jaya not less than 48 hours before the time fixed for the Meeting.

## Shareholding Statistics as at 09 April 2002

Authorised Share Capital	:	RM25,000,000
Issued and fully paid-up Share Capital	:	RM24,000,000
Class of Shares	:	Ordinary shares of RM0.25 each
Voting Rights	:	1 vote per ordinary share

Analysis of Shareholdings  
As at 09 April 2002

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares Held
Less than 100 shares	4	0.650	100	0.000
100 to 999 Shares	275	44.715	45,100	0.047
1,000 to 4,999 Shares	221	35.935	373,000	0.389
5,000 to 10,000 Shares	64	10.406	456,700	0.476
10,001 to 100,000 Shares	38	6.179	1,145,100	1.193
100,001 to 1,000,000 Shares	7	1.138	2,633,401	2.743
Above 1,000,000 Shares	6	0.977	91,346,599	95.152
Total	615	100.000	96,000,000	100.000

20 Largest Shareholders  
As at 09 April 2002 (As per the Register of Members)

No.	Shareholders	No. of Shares	%
1.	Eg Kah Yee	61,134,921	63.682
2.	Lembaga Tabung Haji	12,000,000	12.500
3.	Employees Provident Fund Board	7,330,500	7.636
4.	MSC Venture One Sdn Bhd	4,750,000	4.948
5.	Commerce Technology Ventures Sdn Bhd	4,750,000	4.948
6.	Digital Season Sdn Bhd	1,381,178	1.439
7.	Ng Geok Lui	630,000	0.656
8.	Eg Kaa Chee	587,301	0.611

9.	Jyuo-Min Shyu	500,000	0.521
10.	RHB Capital Nominees (Tempatan) Sdn Bhd A/C for Low Bee Kiew	299,800	0.312
11.	Chien Pai Yang @ Jien Pai Yang	249,700	0.260
12.	Lee Kin Hin	209,400	0.218
13.	See Lee Ming	157,200	0.164
14.	Thong Kooi Pin	80,300	0.084
15.	Chuan Tsui Ju	70,000	0.073
16.	Sia Chung Hua	61,000	0.064
17.	Cimsec Nominees (Tempatan) Sdn Bhd A/C for Kam Kar Cheong	60,000	0.063
18.	RHB Capital Nominees (Tempatan) Sdn Bhd A/C for Huo Kio Tew	59,800	0.062
19.	Lee Kau Chai	59,000	0.061
20.	Ng Kee Cheong	50,000	0.052

Substantial Shareholders  
As at 09 April 2002 (as per Register of Members)

No.	Shareholder	No. of Shares Held			
		Direct	%	Indirect	%
1.	Eg Kah Yee *	61,134,921	63.682	1,968,479	2.050
2.	Lembaga Tabung Haji	12,000,000	12.500	-	
3.	Employees Provident Fund Board	7,330,500	7.636	-	-
4.	Eg Kaa Chee **	587,301	0.612	61,134,921	63.682

\* Deemed interest through his substantial 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 09 April 2002 (As per the Register of Directors' Shareholding)

No.	Shareholder	No. of Shares Held			
		Direct	%	Indirect	%
1.	Eg Kah Yee *	61,134,921	63.682	2,122,479	2.211
2.	Eg Kaa Chee **	587,301	0.612	61,134,921	63.682
3.	Chin Foong Ming	100	0.000	-	-

\* Deemed interest through his substantial 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.

PALETTE MULTIMEDIA BHD  
(Company No. 420056-K; Incorporated in Malaysia)

PROXY FORM

PROXY FORM

I/We \_\_\_\_\_ of \_\_\_\_\_  
(BLOCK LETTERS) (FULL ADDRESS)

being (a) member of PALETTE MULTIMEDIA BHD, hereby appoint(s) the Chairman of the Meeting  
or, \_\_\_\_\_ of \_\_\_\_\_

or failing him/her, \_\_\_\_\_  
of \_\_\_\_\_

as my/our proxy to attend and vote for me/us on my behalf at the Fifth Annual General Meeting of the Company to be held at the Novotel Century Kuala Lumpur, 17-21, Jalan Bukit Bintang, 55100 Kuala Lumpur on 22nd May, 2002 at 3.00 pm or at any adjournment thereof.

I/We hereby indicate with an 'x' in the space provided below how I/we wish my/our vote/votes to be cast on the resolutions specified in the Notice of Meeting.

<i>ORDINARY RESOLUTIONS</i>	<i>FOR</i>	<i>AGAINST</i>
1. Adoption of Financial Statement and Report		
2. Re-election of Mr. Chin Foong Ming		
3. Re-election of En. Abdul Razak Bin Dato' Haji Ipap		
4. Re-election of Mr. Chuan Wee Tze		
5. Approval of Directors' fees of RM134,000.00		
6. Re-appointment of Auditors		
7. Authority to the Directors to issue Shares pursuant to Section 132D of the Companies Act ,1965		

Signed this \_\_\_\_\_ day of \_\_\_\_\_, 2002

No. of Ordinary shares held

.....  
Signature/Common Seal of Member

NOTE:-

A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy may but need not be a member of the Company but in accordance with Section 149 of the Companies Act, 1965, a member shall not be entitled to appoint a person who is not a member as his proxy unless that person is a qualified legal practitioner, an approved company auditor or a person approved by the Registrar of the Companies in a particular case.

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