

Contents	Page
CORPORATE INFORMATION	2
BOARD OF DIRECTORS	3-4
CHAIRMAN'S STATEMENT	5-6
CORPORATE GOVERNANCE STATEMENT	7-8
AUDIT COMMITTEE	9-10
INTERNAL CONTROL STATEMENT	11
DIRECTORS' REPORT	12-15
STATEMENT BY DIRECTORS	16
STATUTORY DECLARATION	16
AUDITOR'S REPORT	17-18
FINANCIAL STATEMENTS	
Balance Sheets	19
Income Statements	20
Statement of Changes in Equity	21
Cash Flow Statements	22-23
Notes to the Financial Statements	24-37
AGENDA	38-39
SHAREHOLDING STATISTICS	40-42
PROXY FORM	43

BOARD OF DIRECTORS :	Eg Kah Yee Eg Kaa Chee Chin Foong Ming Abdul Razak Bin Dato' Haji Ipap Chuan Wee Tze
COMPANY SECRETARIES :	Lim Seck Wah (MAICSA NO. 0799845) M. Chandrasegaran A/L S. Murugasu (MAICSA NO. 0781031)
REGISTERED OFFICE :	Level 11-2, Faber Imperial Court Jalan Sultan Ismail, 50250 Kuala Lumpur. Tel : 03-2692 4271 Fax : 03-2732 5388
PRINCIPAL PLACE OF BUSINESS:	9, Jalan 1/46A, Off Jalan Selingsing 7, Taman Niaga Waris, 51200 Kuala Lumpur.
AUDITOR :	FL Wong & Co., (AF 1085) Chartered Accountants 42B, Jalan SS21/39 Damansara Utama, 47400 PJ.
R&D OFFICE :	F05, 1st Floor, Block 1, Century Square, Cyberjaya.
REGISTRAR :	Mega Corporate Services Sdn Bhd Level 11-2, Faber Imperial Court Jalan Sultan Ismail, 50250 Kuala Lumpur. Tel : 03-2692 4271 Fax : 03-2732 5388
LISTING SPONSOR :	Affin Merchant Bank Berhad 27th Floor, Manara Boustead, 69, Jalan Raja Chulan, 50200 Kuala Lumpur. Tel : 03-2142 3700
PRINCIPAL BANKERS :	Public Bank Bhd HSBC Bank Malaysia Bhd
STOCK EXCHANGE LISTING :	Kuala Lumpur Stock Exchange MESDAQ Market

MR. EG KAH YEE

Managing Director

Mr. Eg Kah Yee, aged 43, 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 39, 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 43, 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 38 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 43, was appointed as the Independent Non-Executive Director on 4 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 2002.

OPERATIONS REVIEW

The year 2002 had seen the Group activities swift dramatically to maintain its competitiveness in the information technology industries. The Group started to focus more on expanding its broadband technology markets to provide consultancy services and related products.

In line with the Group's vision, on 1 November 2002, The Group's had announced through Affin Merchant Bank Berhad, its proposed acquisition of the entire paid up capital of Quadtel Asia Pte. Ltd. at a purchase consideration of RM1.6 million by shares, a foreign company specialized in distribution of broadband products and professional consulting services and related products. The Board believe that this synergistic acquisition will enhance the shareholders' value in the near future.

The operations costs of the Group increased from RM2.6 million to RM3.3 million in year 2002. The increased were mainly incurred for higher selling and marketing expenses which roused from RM375K to RM669K. The Company has also increased its R&D spending to expedite the developing of wireless roaming technology for hotspots by RM145K. Higher staff costs, rental expenses and depreciation had contributed to the remaining increase in operation costs as the Group had established new sales offices in Kuantan, Johor Baru and Jakarta in year 2002.

FINANCIAL PERFORMANCE

The Group had posted a total of RM28K pre-tax profit in year 2002 which is 93.6% lower as compared to year 2001. The poor performances were mainly attributable to weak demand of IT products from the overall consumer market and as well as the budget constraint from the corporate sectors. The increase in the operations overhead to anticipate higher turnover had contributed to the lower profit margin achieved.

The cancellation of EPF scheme has resulted in million of Ringgits in revenue loss in the Smart TV PC including cancellation of over RM1.5M of revenue. As a result, additional sales expenses were utilized to re-align the sales channels.

The above factors compounded with the global slowdown of the IT industry had affected the growth of the Group's revenue for the first time in year 2002. The Group had recorded a decrease in revenue from achieving only RM18.7 million in year 2002 as compared to RM28.7 million in year 2001.

DIVIDEND

There was no dividend being recommended by the Board of Directors for the financial year ended 31 December 2002 in view of the present economic situation.

CORPORATE GOVERNANCE

There were no sanctions and/or penalties imposed on the Company and its subsidiary, Directors or management by the relevant regulatory bodies for the year ended 31 December 2002.

APPRECIATION

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

I would also like to extend my appreciation to the management and staff for their commitment and dedication in realizing the goal of the Group.

Thank you,

EG KAH YEE
Chairman

Date 09 April 2003

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 2002.

During the year ended 31 December 2002, 4 Board meetings were held and attendance record is as follows:-

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

DIRECTORS' REMUNERATION

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

	Basic Salary	Fees	Benefits-in-kind	Total 2002	Total 2001
	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000
1 Executive	120.0	-	-	120.0	120.0
4 Non-Executives	-	22.0		22.0	14.0

	120.0	22.0	-	144.0	134.0
	=====				

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

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

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

COMPOSITION AND DESIGNATION OF AUDIT COMMITTEE

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

AUDIT COMMITTEE REPORT

TERM OF REFERENCE OF THE AUDIT COMMITTEE

MEMBERSHIP

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

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

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

NOTICE OF MEETING AND ATTENDANCE

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

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

There were four Audit Committee meetings held during the financial year ended 31 December 2002 and the attendance record is as follows:-

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

AUTHORITY

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

DUTIES AND RESPONSIBILITIES

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

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

INTERNAL AUDIT FUNCTIONS

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

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

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

RESPONSIBILITY

The Board of Directors recognizes the importance of sound internal controls and risk management practices to good corporate governance. The Board affirms its overall responsibility for the Group’s systems of internal controls and risk management, and for reviewing the adequacy and integrity of those systems. However, such systems are designed to manage rather than eliminate the business risk totally. It should be noted that any system could provide only reasonable, and not absolute assurance against material misstatement or fraud.

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

RISK MANAGEMENT FRAMEWORK & ASSESSMENT

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

A risk analysis of the Group is conducted on quarterly basis and necessary measures being put up to assess and monitor the impacts on the operation and business. The audit program is being 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 2002.

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 for the financial year	<u>7,549</u>	<u>1,898,203</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 the authorised and issued and paid-up capital of the Company; and
- (b) there were no issued of debentures by the Company.

OPTIONS GRANTED OVER UNISSUED SHARES

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

BAD AND DOUBTFUL DEBTS

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

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

CURRENT ASSETS

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

At the date of this report, the directors are not aware of any circumstances which 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:

- (a) 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
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Group and of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may affect the ability of the Group and of the Company to meet its obligations 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, Eg Kaa Chee retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTORS' INTERESTS

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

		Number of ordinary shares of RM0.25 each in the Company			
		At			At
		1.1.2002	Bought	Sold	31.12.2002
Eg Kah Yee	- Direct interest	61,134,921	-	-	61,134,921
	- Indirect interest (1)	2,237,479	1,368,800	(2,810,800)	795,479
Eg Kaa Chee	- Direct interest	587,301	-	-	587,301
	- Indirect interest (2)	61,134,921	-	-	61,134,921
Chin Foong Ming	- Direct interest	100	-	-	100

(1) Deemed interest through his substantial shareholding in Digital Season Sdn. Bhd. and by virtue of his brother Eg Kaa Chee's shareholding.

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

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

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements, or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for any benefits which may be deemed to arise from transactions entered into in the ordinary course of business with companies in which certain directors have substantial financial interests as disclosed in Note 23 to the financial statements.

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

SIGNIFICANT EVENTS

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

SUBSEQUENT EVENTS

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

AUDITORS

The auditors, Messrs. FL Wong & 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

Petaling Jaya

Date: 09 April 2003

STATEMENT BY DIRECTORS

We, **EG KAH YEE** and **ABDUL RAZAK BIN DATO' HAJI IPAP**, being two of the directors of **PALETTE MULTIMEDIA BERHAD**., state that in the opinion of the directors, the financial statements set out on pages 19 to 37 are drawn up in accordance with applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2002 and of their results and cash flows for the financial year ended on that date.

EG KAH YEE

Director

ABDUL RAZAK BIN

DATO' HAJI IPAP

Director

Petaling Jaya,

Date: 09 April 2003

STATUTORY DECLARATION

I, **EG KAH YEE**, being the director primarily responsible for the financial management of **PALETTE MULTIMEDIA BERHAD**., do solemnly and sincerely declare that the financial statements set out on pages 19 to 37 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 Petaling Jaya in the state of Selangor Darul Ehsan)
on 09 April 2003)

Before me

EG KAH YEE

Director

S. SELVARAJAH

No. B144

Commissioner for Oaths

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

REPORT OF THE AUDITORS TO THE MEMBERS OF
PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

Company No: 420056-K

We have audited the financial statements set out on pages 19 to 37. 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 2002 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.

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

REPORT OF THE AUDITORS TO THE MEMBERS OF
PALETTE MULTIMEDIA BERHAD

(Incorporated in Malaysia)

Company No: 420056-K

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

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

FL WONG & CO.

Firm No: AF 1085
Chartered Accountants

Petaling Jaya,
Date 09 April 2003

WONG FOOK LIN

Approval No: 1700/5/03 (J/PH)

AS AT 31 DECEMBER 2002

		Group		Company	
	Note	2002	2001	2002	2001
		RM	RM	RM	RM
ASSETS					
Property, plant and equipment	4	1,087,349	681,401	494,317	629,712
Investment in subsidiaries	5	-	-	2,561,387	100,000
Intangible assets	6	18,501,000	18,501,000	18,501,000	18,501,000
Deferred charges	7	6,420	-	-	-
Guarantee deposits		8,560	-	-	-
CURRENT ASSETS					
Inventories	8	2,314,566	2,612,224	-	391,385
Trade and other receivables	9	7,107,445	4,231,889	11,259,081	6,848,361
Fixed deposit with licensed banks	10	1,096,067	3,584,269	1,096,067	3,584,269
Cash and bank balances		328,274	752,353	34,171	624,019
		<u>10,846,352</u>	<u>11,180,735</u>	<u>12,389,319</u>	<u>11,448,034</u>
LESS: CURRENT LIABILITIES					
Trade and other payables	11	756,491	560,577	2,117,789	442,630
Short term borrowings	12	2,859,002	3,018,391	2,859,002	3,018,391
Provision for taxation		43,182	150,000	43,134	150,000
		<u>3,658,675</u>	<u>3,728,968</u>	<u>5,019,925</u>	<u>3,611,021</u>
NET CURRENT ASSETS					
		<u>7,187,677</u>	<u>7,451,767</u>	<u>7,369,394</u>	<u>7,837,013</u>
		<u>26,791,006</u>	<u>26,634,168</u>	<u>28,926,098</u>	<u>27,067,725</u>
Financed by:					
Share capital	13	24,000,000	24,000,000	24,000,000	24,000,000
Share premium	14	1,770,965	1,770,965	1,770,965	1,770,965
Reserves	14	164,760	-	-	-
Retained profits	14	450,617	443,068	2,774,828	876,625
SHAREHOLDERS' EQUITY					
		<u>26,386,342</u>	<u>26,214,033</u>	<u>28,545,793</u>	<u>26,647,590</u>
Minority shareholders' interest	15	24,163	-	-	-
LONG TERM AND DEFERRED LIABILITIES					
Deferred taxation		196	-	-	-
Long term borrowings	16	380,305	420,135	380,305	420,135
		<u>26,791,006</u>	<u>26,634,168</u>	<u>28,926,098</u>	<u>27,067,725</u>

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

	Note	2002 RM	Group 2001 RM	2002 RM	Company 2001 RM
Revenue	17	18,738,179	28,676,942	15,752,887	30,237,646
Cost of sales		(15,588,136)	(25,580,547)	(13,154,468)	(28,482,001)
Gross profit		3,150,043	3,096,395	2,598,419	1,755,645
Other income		322,367	75,483	718,291	816,410
Selling and distribution costs		(669,221)	(374,676)	(404,723)	(278,840)
Administrative and general expenses		(2,673,966)	(2,191,487)	(889,942)	(1,253,943)
Profit from operations	18	129,223	605,715	2,022,045	1,039,272
Finance costs	19	(101,369)	(173,455)	(101,369)	(173,455)
Profit before taxation		27,854	432,260	1,920,676	865,817
Taxation	20	(22,669)	-	(22,473)	-
Net profit for the financial year		5,185	432,260	1,898,203	865,817
<u>Less: Minority interest</u>		2,364	-	-	-
Net profit after taxation and minority interest		7,549	432,260	1,898,203	865,817
Earnings per share (sen)	21				
- basic		0.007	0.52		
- par value of 25 sen per share					
- diluted		0.007	0.52		
- par value of 25 sen per share					

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

	Share Capital RM	Share Premium RM	Reserves RM	Retained Profits RM	Total RM
Group					
Balance at 1 January 2001	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 financial year	-	-	-	432,260	432,260
Balance at 31 December 2001	24,000,000	1,770,965	-	443,068	26,214,033
Net profit for the financial year	-	-	-	7,549	7,549
Foreign exchange reserves	-	-	164,760	-	164,760
Balance at 31 December 2002	24,000,000	1,770,965	164,760	450,617	26,386,342
Company					
Balance at 1 January 2001	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 financial year	-	-	-	865,817	865,817
Balance at 31 December 2001	24,000,000	1,770,965	-	876,625	26,647,590
Net profit for the financial year	-	-	-	1,898,203	1,898,203
Balance at 31 December 2002	24,000,000	1,770,965	-	2,774,828	28,545,793

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

	Note	Group		Company	
		2002 RM	2001 RM	2002 RM	2001 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		27,854	432,260	1,920,676	865,817
Adjustments for:					
Depreciation of property, plant and equipment		418,745	258,803	268,822	245,881
Bad debts written off		-	96,975	-	96,975
Interest income		(46,580)	(75,465)	(46,580)	(75,465)
Interest expense		101,369	173,455	101,369	173,455
Property, plant and equipment written off		7,746	-	7,746	-
Loss on disposal of property, plant and equipment		4,258	-	-	-
Unrealised loss on foreign exchange		166,424	-	-	-
Operating profit before working capital changes		679,816	886,028	2,252,033	1,306,663
Decrease/(Increase) in inventories		297,658	(60,675)	391,385	2,160,164
Decrease/(Increase) in trade and other receivables		(2,874,657)	(510,872)	(4,409,823)	1,391,797
Increase/(Decrease) in trade and other payables		224,277	(3,268,708)	1,703,522	(3,386,655)
Cash (used in)/generated from operations		(1,672,906)	(2,954,227)	(62,883)	1,471,969
Interest paid		(101,369)	(173,455)	(101,369)	(173,455)
Taxation paid		(129,292)	-	(129,339)	-
Net cash (used in)/generated from operating activities		(1,903,567)	(3,127,682)	(293,591)	1,298,514
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(849,698)	(204,898)	(141,173)	(140,287)
Proceeds from disposal of property, plant and equipment		13,000	-	-	-
Development cost		-	(1,501,000)	-	(1,501,000)
Acquisition of subsidiary		-	-	-	(100,000)
Investment in subsidiary		-	-	(2,461,387)	-
Interest income received		46,580	75,465	46,580	75,465
Net cash used in investing activities		(790,118)	(1,630,433)	(2,555,980)	(1,665,822)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

	Note	Group		Company	
		2002 RM	2001 RM	2002 RM	2001 RM
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	8,800,000	-	8,800,000
Proceeds from issue of shares from minority shareholders of a subsidiary		24,863	-	-	-
Listing expenses paid		-	(1,529,035)	-	(1,529,035)
Repayment of term loans		(39,830)	(35,327)	(39,830)	(35,327)
Payment of deferred charges		(6,420)	-	-	-
Payments of guarantee deposits		(8,560)	-	-	-
Advance to subsidiary		-	-	-	(4,519,141)
(Repayment to)/Advance from directors		(28,363)	12,557	(28,363)	12,557
Net cash (used in)/ generated from financing activities		<u>(58,310)</u>	<u>7,248,195</u>	<u>(68,193)</u>	<u>2,729,054</u>
Net (decrease)/increase in cash and cash equivalents		(2,751,995)	2,490,080	(2,917,764)	2,361,746
Cash and cash equivalents at beginning of financial year		1,354,795	(1,135,285)	1,226,461	(1,135,285)
Cash and cash equivalents at end of financial year	22	<u>(1,397,200)</u>	<u>1,354,795</u>	<u>(1,691,303)</u>	<u>1,226,461</u>

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

1. GENERAL INFORMATION

- (i) The Company is principally involved in the development and marketing of information technology related products and services. The principal activities of the subsidiaries are set out in Note 5 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.
- (ii) The registered office of the Company is located at Level 11-2, Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur.
- (iii) The principal place of business of the Company is located at 9, Jalan 1/46A, Off Jalan Selingsing 7, Taman Niaga Waris, 51200 Kuala Lumpur.
- (iv) The number of employees of the Group and of the Company as at 31 December 2002 were 30 and 6 (2001: 30 and 6).

2. BASIS OF ACCOUNTING

(a) **Basis of preparation**

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of consolidation**

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

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

(b) **Property, plant and equipment, and depreciation**

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

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

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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

(c) Impairment of assets

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

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks 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 five (5) year of their expected benefit.

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

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

(g) Inventories

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

(h) Trade and other receivables

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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

(i) **Revenue recognition**

Revenue from the sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer (generally on delivery, satisfactory installation and acceptance) and if any or performance of services.

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

(j) **Foreign currency**

(i) **Foreign currency transaction**

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

(ii) **Financial statements of foreign operations**

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

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

	2002	2001
	RM	RM
Foreign currency:		
1000 Indonesia Rupiah	0.00043	-

(k) **Deferred taxation**

Deferred taxation is provided on the liability method for all timing differences except where no liability is expected to arise in the foreseeable future and there are no indications the timing differences will reverse thereafter. Deferred tax benefits are only recognised where there is a reasonable expectation of realisation in the near future.

(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.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

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 2002	479,191	31,904	50,612	119,694	681,401
Additions	693,621	19,964	25,504	110,609	849,698
Depreciation charge	(294,427)	(20,603)	(36,570)	(67,145)	(418,745)
Disposal	(25,005)	-	-	-	(25,005)
At 31 December 2002	853,380	31,265	39,546	163,158	1,087,349
At 31 December 2002					
Cost	1,487,152	109,456	185,829	340,146	2,122,583
Accumulated depreciation	(633,772)	(78,191)	(146,283)	(176,988)	(1,035,234)
Net book value	853,380	31,265	39,546	163,158	1,087,349
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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

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 2002	435,962	29,853	50,013	113,884	629,712
Additions	71,078	7,710	8,845	53,540	141,173
Disposal	(7,746)	-	-	-	(7,746)
Depreciation charge	(161,048)	(18,927)	(33,684)	(55,163)	(268,822)
At 31 December 2002	338,246	18,636	25,174	112,261	494,317
At 31 December 2002					
Cost	831,704	94,638	168,421	275,815	1,370,578
Accumulated depreciation	(493,458)	(76,002)	(143,247)	(163,554)	(876,261)
Net book value	338,246	18,636	25,174	112,261	494,317
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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

5. INVESTMENT IN SUBSIDIARIES

	2002	Company
	RM	2001
		RM
Unquoted shares, at cost	2,561,387	100,000
	<u>2,561,387</u>	<u>100,000</u>

Details of the subsidiaries company are as follows:-

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

*Audited by another firm of auditors

6. INTANGIBLE ASSETS

Group/Company	Intangible assets	Development cost	Total
	RM	RM	RM
Net book value			
At 1 January 2002	17,000,000	1,501,000	18,501,000
Additions	-	-	-
At 31 December 2002	<u>17,000,000</u>	<u>1,501,000</u>	<u>18,501,000</u>
At 31 December 2002			
Cost	17,000,000	1,501,000	18,501,000
Amortisation	-	-	-
Net Book Value	<u>17,000,000</u>	<u>1,501,000</u>	<u>18,501,000</u>
At 31 December 2001			
Cost	17,000,000	1,501,000	18,501,000
Amortisation	-	-	-
Net Book Value	<u>17,000,000</u>	<u>1,501,000</u>	<u>18,501,000</u>

7. DEFERRED CHARGES

This represents the purchase of computer software of the subsidiary Company, PT Palette Multimedia and will be amortised in 5 years starting 2003.

8. INVENTORIES

	2002	Group	2002	Company
	RM	2001	RM	2001
		RM		RM
At cost:				
Hardware	2,291,957	2,612,224	-	391,385
Software	22,609	-	-	-
	<u>2,314,566</u>	<u>2,612,224</u>	<u>-</u>	<u>391,385</u>

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

9. TRADE AND OTHER RECEIVABLES

	2002 RM	Group 2001 RM	2002 RM	Company 2001 RM
Trade receivables	6,742,025	3,906,797	3,635,732	2,004,128
Bad debts written off	-	(96,975)	-	(96,975)
	<u>6,742,025</u>	<u>3,809,822</u>	<u>3,635,732</u>	<u>1,907,153</u>
Other receivables	194,859	318,008	190,303	318,008
Deposits	111,530	103,279	92,344	103,279
Prepayments	59,031	780	-	780
Amount due from subsidiaries	-	-	7,340,702	4,519,141
	<u>7,107,445</u>	<u>4,231,889</u>	<u>11,259,081</u>	<u>6,848,361</u>

The amount due from subsidiaries principally trade transactions which is unsecured, bear interest at 9% per annum and have no fixed terms of repayment.

10. FIXED DEPOSIT WITH LICENSED BANKS

Included in fixed deposit of the Group and of the Company are amounts in total of RM1,000,000 (2001: RM3,500,000) pledged to the licensed banks for banking facilities extended to the Group and the Company.

11. TRADE AND OTHER PAYABLES

	2002 RM	Group 2001 RM	2002 RM	Company 2001 RM
Trade payables	716,040	506,462	99,143	396,958
Accrued expenses	39,441	24,742	11,116	16,299
Amount due to subsidiaries	-	-	2,006,520	-
Amount due to directors	1,010	29,373	1,010	29,373
	<u>756,491</u>	<u>560,577</u>	<u>2,117,789</u>	<u>442,630</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

	2002 RM	Group 2001 RM	2002 RM	Company 2001 RM
Current:				
Bank overdraft (Secure)	1,429,541	913,930	1,429,541	913,930
Bankers' acceptance	1,392,000	2,067,000	1,392,000	2,067,000
Current portion of:				
Long term loan (Note 16)	37,461	37,461	37,461	37,461
	<u>2,859,002</u>	<u>3,018,391</u>	<u>2,859,002</u>	<u>3,018,391</u>

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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

13. SHARE CAPITAL

	2002	Company
	RM	2001
		RM
Ordinary shares of RM0.25 each AUTHORISED		
At beginning of financial year	25,000,000	25,000,000
At end of financial year	<u>25,000,000</u>	<u>25,000,000</u>
ISSUED AND FULLY PAID-UP		
At beginning of financial year	24,000,000	18,000,000
Bonus issue	-	500,000
Issued during the financial year	-	5,500,000
At end of financial year	<u>24,000,000</u>	<u>24,000,000</u>

14. SHARE PREMIUM AND RESERVES

	2002	Group	2002	Company
	RM	2001	RM	2001
		RM		RM
Non-distributable reserves				
(a) Share premium				
At 1 January 2002/2001	1,770,965	-	1,770,965	-
Arising from issue of shares by way of private placement and public offer	-	3,300,000	-	3,300,000
Listing expenses written off	-	(1,529,035)	-	(1,529,035)
(b) Foreign exchange reserves				
At 1 January 2002/2001	-	-	-	-
Currency translation difference	164,760	-	-	-
Total	<u>1,935,725</u>	<u>1,770,965</u>	<u>1,770,965</u>	<u>1,770,965</u>
(c) Retained profits	<u>450,617</u>	<u>443,068</u>	<u>2,774,828</u>	<u>876,625</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.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

16. LONG TERM BORROWINGS

	Group/Company	
	2002	2001
	RM	RM
Current:		
Term Loan (Note 12)	37,461	37,461
Non-current:		
Long term loan	380,305	420,135
	<u>417,766</u>	<u>457,596</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	
	2002	2001
	RM	RM
Current:	37,461	37,461
Within two years:	74,922	74,922
Within two to five years:	305,383	345,213
	<u>417,766</u>	<u>457,596</u>

17. REVENUE

	Group		Company	
	2002	2001	2002	2001
	RM	RM	RM	RM
Sale of goods	18,515,459	28,676,942	15,752,887	30,237,646
PC rental	222,720	-	-	-
	<u>18,738,179</u>	<u>28,676,942</u>	<u>15,752,887</u>	<u>30,237,646</u>

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

18. PROFIT FROM OPERATIONS

	2002	Group	2002	Company
	RM	2001	RM	2001
		RM		RM
The following items have been charged/(credited) in arriving at profit from operations:				
Audit fee				
- current year	20,835	15,000	7,000	10,000
- overprovision in prior year	-	(4,000)	-	(4,000)
Bad debts written off	-	96,975	-	96,975
Directors' remuneration	131,500	134,000	126,500	134,000
Depreciation of property, plant and equipment	418,745	258,803	268,822	245,881
Rental expenses	305,157	241,337	32,665	61,571
Net on exchange gain - Realised	912	-	863	-
Interest income	(46,878)	(75,465)	(46,580)	(75,465)
Research and development income	(198,152)	-	(198,152)	(412,519)
Trade interest income	(76,425)	-	(472,696)	(328,408)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(a) Directors' remuneration:				
Fees	26,500	14,000	21,500	14,000
Salary	105,000	120,000	105,000	120,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	131,500	134,000	126,500	134,000

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:-

	2002	Group	2002	Company
		2001		2001
Non-executive directors				
Below RM50,000	4	4	4	4
Executive director				
RM100,000 - RM150,000	1	1	1	1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

19. FINANCE COSTS

	2002	Group	2002	Company
	RM	2001	RM	2001
		RM		RM
Bankers' acceptance interest	66,644	133,328	66,644	133,328
Term loan interest	34,725	40,127	34,725	40,127
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	101,369	173,455	101,369	173,455

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

20. TAXATION

	2002	Group	2002	Company
	RM	2001	RM	2001
		RM		RM
Tax charge for the financial year				
Malaysia -Current	3,319	-	3,319	-
-Underprovision in previous year	19,154	-	19,154	-
Deferred tax charge				
Overseas -Current	196	-	-	-
	<u>22,669</u>	<u>-</u>	<u>22,473</u>	<u>-</u>

The effective tax rate of the Group is lower than that of the statutory tax rate mainly due to the non provision of income tax by a subsidiary which incurred a loss during the financial year and the Company which has been granted an income tax free period of up to five years as a result of it being awarded the Multimedia Super Corridor ("MSC") status on 6 October 2000.

21. EARNINGS PER SHARE

Basic earnings per share for the financial year is arrived at dividing the Group's profit after taxation of RM7,549 (2001: RM432,260) by the number of 96,000,000 ordinary shares of RM0.25 each in issue during the financial year (2001: weighted average number of 83,068,493 ordinary shares of RM0.25 each).

22. CASH AND CASH EQUIVALENTS

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

	2002	Group	2002	Company
	RM	2001	RM	2001
		RM		RM
Fixed deposit with licensed banks	1,096,067	3,584,269	1,096,067	3,584,269
Cash at bank	327,713	748,114	34,171	619,780
Cash on hand	561	4,239	-	4,239
Deposits, cash and bank balances	<u>1,424,341</u>	<u>4,336,622</u>	<u>1,130,238</u>	<u>4,208,288</u>
Bank overdrafts	(1,429,541)	(913,930)	(1,429,541)	(913,930)
Bankers' acceptance	(1,392,000)	(2,067,897)	(1,392,000)	(2,067,897)
	<u>(1,397,200)</u>	<u>1,354,795</u>	<u>(1,691,303)</u>	<u>1,226,461</u>

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

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	2002 RM	2001 RM
Palette System Sdn. Bhd.		
Sale of goods and services	879,039	1,460,002
Purchases of goods and services	11,816,125	23,475,050
Payment of rental offices	250,725	179,766
Charging on R&D income	198,152	412,519
Charging on trade overdue interest	<u>396,271</u>	<u>328,408</u>

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

Sale and purchases of goods and services and advances	<u>7,340,704</u>	<u>4,519,141</u>
-------------------------------------------------------	------------------	------------------

PT Palette Multimedia

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

Sale and purchases of goods and services	<u>(2,006,520)</u>	<u>-</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>-</u>	<u>688,913</u>
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Significant outstanding balances at the balance sheet date, arising from:

Sale of goods and services	<u>683,013</u>	<u>688,913</u>
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Director

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>2,182</u>
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Significant outstanding balances at the balance sheet date, arising from:

Sale of goods and services	<u>2,182</u>	<u>2,182</u>
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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 2002

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 and businesses whilst managing its market, credit, liquidity and cash flow, and currency risk.

Market risk

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

Credit risk

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

25. SEGMENTAL INFORMATION

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

	2002	Revenue	Profit/(Loss) before tax	
	2001	2001	2002	2001
	RM	RM	RM	RM
Major segment by country				
- Revenue from external customer				
Malaysia	18,709,395	-	264,039	-
Indonesia	28,784	-	(236,185)	-
- Inter segment				
Revenue				
Malaysia	12,684,349	-	-	-
Indonesia	-	-	-	-
	<u>31,422,528</u>	<u>-</u>	<u>27,854</u>	<u>-</u>
Eliminations	(12,684,349)	-	-	-
	<u>18,738,179</u>	<u>-</u>	<u>27,854</u>	<u>-</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 2002

26. SIGNIFICANT EVENTS

- (i) Effective from 1 August 2002, Affin Merchant Bank has been appointed as the sponsor to the Company in place of K & N Kenanga Bhd as per the listing requirements of Kuala Lumpur Stock Exchange of the MESDAQ Market.
- (ii) In line with the Group's vision, the Company had on 24 October 2002 launched its wireless hotspots service branded as Yellowspots in Malaysia. Yellowspots' technology provides seamless access for users in the office to the public locations with front to back security. The unique technology deployed allows mobile users of notebook, table PC or PDA to get connected without any configuration to their system, no wire and no dial up.
- (iii) On 1 November 2002, the Company announced a proposed acquisition of the entire issued and paid up share capital of Quadtel Asia Pte. Ltd. for a purchase consideration of RM1,600,000 and proposed employee share option scheme. The said applications have yet to be finalized for the submission to the relevant authorities for approvals.

27. SUBSEQUENT EVENTS

- (i) In its continuous effort to be the regional leader in providing wireless broadband products and solutions, the Company had signed a regional distribution agreement with Proxim Corporation on 25 February 2003 to offer full range of wireless products under the brand name of Orinoco, Tsunami and etc.

28. COMPARATIVE FIGURES

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

The following comparative figures have been reclassified to conform with the current financial year's presentation:-

	Group RM	As Restated Company RM	As Previously Reported Group RM	Company RM
Balance sheet (Extract):-				
Trade and other receivables	4,231,889	6,848,361	4,231,889	2,329,220
Amount due from subsidiaries	-	-	-	4,519,141
Trade and other payables	560,577	442,630	531,204	413,257
Amount due to directors	-	-	29,373	29,373

NOTICE IS HEREBY GIVEN that the Sixth Annual General Meeting of the Company will be held at Novotel Century Kuala Lumpur, 17-21, Jalan Bukit Bintang, 55100 Kuala Lumpur on Friday, 23 May 2003 at 3:00 pm for the following purposes:-

AGENDA

- 1) To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2002 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 2002.

(Resolution 2)

- 3) To re-elect the Director, Mr Eg Kaa Chee 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 FL Wong & 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

- 5) To consider and if thought fit, to pass the following resolution :-

i) ORDINARY RESOLUTION

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

"That the authorised share capital of the Company be and is hereby increased from RM25,000,000.00 divided into 100,000,000 ordinary shares of RM0.25 each to RM50,000,000.00 by the creation of an additional 100,000,000 ordinary shares of RM0.25 each in the Company to rank pari passu in all respects with the existing shares of the Company AND THAT clause 5 of the Company's Memorandum of Association be amended accordingly"

(Resolution 5)

ii) ORDINARY RESOLUTION

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

"That pursuant to Section 132D of the Companies Act, 1965 and subject to Ordinary Resolution 5 having been duly passed, 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 Articles of Association of the Company and approval from the Kuala Lumpur Stock Exchange and other relevant bodies where such approval is necessary."

(Resolution 6)

- 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

Kuala Lumpur

Date : 23 May 2003

NOTES:-

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

In order to accommodate the future increases in the issued and paid up capital and flexibility to Board members, the Directors propose that the authorised share capital of the Company be increased from RM25,000,000.00 to RM50,000,000.00 divided into 200,000,000 ordinary shares through the creation of 100,000,000 new ordinary shares.

The present paid-up capital of the Company is RM24,000,000.00 divided into 96,000,000 ordinary shares of RM0.25 each.
 - 6.2 Ordinary Resolution 6

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.

Shareholding Statistics as at 08 April 2003

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 shares

Analysis of Shareholdings

As at 08 April 2003

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares Held
Less than 100 shares	4	0.475	100	0.000
100 to 999 Shares	316	37.530	58,900	0.061
1,000 to 4,999 Shares	339	40.261	613,378	0.639
5,000 to 10,000 Shares	102	12.114	729,600	0.760
10,001 to 100,000 Shares	65	7.720	1,650,900	1.720
100,001 to 1,000,000 Shares	9	1.069	2,698,701	2.811
Above 1,000,000 Shares	7	0.831	90,248,421	94.009
Total	842	100.000	96,000,000	100.000

20 Largest Shareholders

As at 08 April 2003 (As per the Register of Members)

No.	Shareholders	No. of Shares	%
1.	Eg Kah Yee	51,134,921	53.266
2.	Lembaga Tabung Haji	12,000,000	12.500
3.	Cartaban Nominees (Tempatan) Sdn Bhd - Credit Suisse Singapore For Eg kah Yee	10,000,000	10.417
4.	Employees Provident Fund Board	7,144,500	7.442
5.	MSC Venture One Sdn Bhd	4,735,000	4.932
6.	Commerce Technology Ventures Sdn Bhd	4,144,000	4.317
7.	Tsao Tony An-Pang	1,090,000	1.135

8.	Eg Kaa Chee	587,301	0.611
9.	Chuan Tsui Ju	540,300	0.563
10.	Jyuo-Min Shyu	500,000	0.512
11.	Chien Pai Yang @ Jien Pai Yang	249,700	0.260
12.	See Lee Ming	235,000	0.245
13.	Ng Geok Lui	165,600	0.173
14.	Lee Kin Hin	158,800	0.165
15.	Loh Chai Kian	155,000	0.161
16.	Tan Wei Mun	107,000	0.111
17.	Lai Yit Loong	100,000	0.104
18.	Khoo Kok Leong	89,800	0.094
19.	Cimsec Nominees (Tempatan) Sdn Bhd - Pledge Securities Account for Kam Kar Cheong	80,000	0.083
20.	Lee Kau Chai	67,000	0.070

Substantial Shareholders

As at 08 April 2003 (as per Register of Members)

No.	Shareholders	No. of Shares Held			
		Direct	%	Indirect	%
1.	Eg Kah Yee *	61,134,921	63.682	591,779	0.616
2.	Lembaga Tabung Haji	12,000,000	12.500	-	-
3.	Employees Provident Fund Board	7,144,500	7.442	-	-
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 08 April 2003 (As per the Register of Directors' Shareholding)

No.	Director	No. of Shares Held			
		Direct	%	Indirect	%
1.	Eg Kah Yee *	61,134,921	63.682	591,779	0.616
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.

No. of ordinary shares held

FORM OF PROXY

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

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):-

<u>Name of proxy, NRIC No. & Address</u>	<u>No. of shares to be represented by proxy</u>
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 Sixth Annual General Meeting of the Company to be held at **NOTICE IS HEREBY GIVEN** that the Sixth Annual General Meeting of the Company will be held at Novotel Century Kuala Lumpur, 17-21, Jalan Bukit Bintang, 55100 Kuala Lumpur on Friday, 23 May 2003 at 3:00 pm. My/our proxy/proxies is to vote as indicated below:-

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

(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.....2003

.....
 Signature/Common Seal

Notes :-

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

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STAMP

Company Secretary

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

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