

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE 6 MONTH ENDING 30 JUNE 2006
(The figures have not been audited)**

	2006 Current Qtr Ended 30 June RM'000	2005 Comparative Qtr Ended 30 June RM'000	2006 Cumulative YTD 30 June RM'000	2005 Cumulative YTD 30 June RM'000
Revenue	5,541	1,083	10,740	2,533
Cost of sales	<u>(4,887)</u>	<u>(680)</u>	<u>(9,467)</u>	<u>(1,484)</u>
Gross (loss) / profit	654	403	1,273	1,049
Other income	3	13	3	16
Selling and distribution	(29)	(60)	(50)	(103)
Administrative and general expenses	<u>(474)</u>	<u>(506)</u>	<u>(972)</u>	<u>(1,047)</u>
(Loss) / Profit from operations	154	(150)	254	(85)
Finance Cost	(37)	(61)	(73)	(121)
(Loss) / Profit before taxation	117	(211)	181	(206)
Taxation	0	0	0	0
Net (loss) / profit for the financial period	<u>117</u>	<u>(211)</u>	<u>181</u>	<u>(206)</u>
Profit or loss attributable to:-				
Minority interest	0	0	0	0
Equity holders of the parent	117	(211)	181	(206)
	<u>117</u>	<u>(211)</u>	<u>181</u>	<u>(206)</u>
EPS - Basic (sen)	0.11	(0.20)	0.17	(0.20)
- Diluted (sen)	N/A	N/A	N/A	N/A

Note:

The Condensed Consolidated Income Statements should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

CONDENSED CONSOLIDATED BALANCE SHEETS AT 30 JUNE 2006

(The figures have not been audited)

	As At 30 JUNE 2006 RM'000	As At 31 December 2005 RM'000
Property, Plant and Equipment	292	411
Intangible Assets	19,840	19,600
Current Assets		
Inventories	3,078	3,838
Debtors	17,361	8,979
Cash and Cash Equivalents	14,152	14,162
	34,591	26,979
Current Liabilities		
Payables	23,499	15,872
Overdrafts and Short Term Borrowings	3,944	4,026
Taxation	1	1
	27,444	19,899
Net Current Assets	7,147	7,080
	27,279	27,091
Share Capital	26,400	26,400
Reserves	637	449
	27,037	26,849
Minority Interest	22	22
Tota Equity	27,059	26,871
Long Term Liabilities		
Long Term Borrowings	220	220
	27,279	27,091
	-	-
Net Assets Per Share (Sen)	25.62	25.45

Note:

The Condensed Consolidated Balance Sheets should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying explanatory notes attached to the interim financial statements.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR 6 MONTHS ENDING 30 JUNE 2006
(The figures have not been audited)**

	6 Months Ending 30 JUNE 2006 RM'000	6 Months Ending 30 JUNE 2005 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(loss) before taxation	117	(211)
Adjustment for:		
Depreciation	119	128
Amortisation of development cost	38	38
Unrealised exchange loss	44	14
Gain on disposal of property plant & equipment	0	0
Interest expenses	147	121
Operating profit before working capital changes	465	90
Decrease in inventories	760	310
(Increase)/Decrease in receivables	(8,382)	12
Increase/(Decrease) in payables	7,627	(691)
	<hr/>	<hr/>
Income generated from/(used in) operations	470	(279)
Interest paid	(147)	(121)
Development cost paid	(278)	(230)
Net cash flow generated from/(used in) operating activities	<hr/> 45 <hr/>	<hr/> (630) <hr/>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant & equipment	0	(202)
	<hr/> 0 <hr/>	<hr/> (202) <hr/>
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in borrowings	(45)	791
Repayment of term loan	(38)	(38)
	<hr/> (83) <hr/>	<hr/> 753 <hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(38)	(79)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	14,190	14,269
CASH AND CASH EQUIVALENTS AT 30 JUNE	<hr/> 14,152 <hr/>	<hr/> 14,190 <hr/>

Note:

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying notes attached to the interim financial statements.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR 6 MONTHS ENDING 30 JUNE 2006
(The figures have not been audited)**

	<----- Attributable to Equity Holders of the Parent ----->					Total Equity RM'000
	Share Capital RM'000	<-- Non-Distributable --> Share Premium RM'000	Other Reserves RM'000	Distributable Retained Profits RM'000	Minority Interest RM'000	
<u>Quarter ended 30 June 2006</u>						
At 1 January 2006	26,400	4,123	(144)	(3,530)	22	26,871
Net profit for the period	0	0	0	181	0	181
Exchange reserve	0	0	7	0	0	7
Total recognised income and expense for the period	0	0	7	181	0	188
At 30 June 2006	26,400	4,123	(137)	(3,349)	22	27,059
<u>Quarter ended 30 JUNE 2005</u>						
At 1 January 2005	26,400	4,123	53	(774)	22	29,824
Net profit for the period	0	0	0	0	0	0
Exchange reserve	0	0	(42)	0	0	(42)
Total recognised income and expense for the period	0	0	(42)	0	0	(42)
At 30 June 2005	26,400	4,123	11	(774)	22	29,782

Note:

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 December 2005 and the accompanying notes attached to the interim financial statements.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES

1. Accounting Policies and Methods Of Computation

The interim financial report has been prepared in accordance with FRS 134 (formerly known as MASB 26-Interim Financial Reporting) and Appendix 7A of the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market. The same accounting policies and methods of computation are followed in the interim financial statements as compared with the annual financial statements for the financial year ended 31 December 2005 other than adoption of the new FRS as mentioned in note 2.

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2005. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2005.

2. Changes in Accounting Policies

FRS 101 : Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of the minority interest in particular to the Group and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity whereas in the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period.

Likewise on the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and the minority interest would need to be disclosed. The current quarter's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives related to conform with the current quarter's presentation.

3. Comparatives

The comparative figures are not affected by the adoption of the FRSs.

4. Audit Report

Other than qualification on the stock value on the local subsidiary and qualification on the foreign subsidiary on the appropriateness of preparing the financial statements on a going concern basis, the auditors' report of the Company's annual financial statements for the financial year ended 31 December 2005 was not subject to any qualification.

5. Segmental Reporting

<u>Geographical segments</u>	Malaysia RM'000	Indonesia RM'000	Elimination RM'000	Consolidated RM'000
REVENUE				
Revenue	10,740	-		10,740
Inter-Segment Sales	98	-	(98)	-
Total Revenue	10,838	-	(98)	10,740
RESULTS				
Segment Results		-	-	254
Unallotted Corporate Exp.				-
Operating Loss				254
Interest Expense				(73)
Interest Income				-

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES

Loss Before Taxation

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6. Unusual Items

During the quarter under review, there were no unusual items affecting assets, liabilities, equity, net income, or cash flows of the Group.

7. Changes In Estimates Of Amount Reported Previously Affecting Current Interim Period

There are no changes in estimates of amount reported that will have a material effect in the current interim period other than those disclosed under note 2.

8. Seasonality or Cyclicity

The operations of the Group are not subject to any seasonality or cyclicity factors.

9. Dividends Paid Or Proposed

Dividends were neither paid nor proposed during the current interim period.

10. Valuation of Property, Plant and Equipment

The Group has not carried out any valuation on its property, plant & equipment.

11. Debts and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities.

12. Change In The Composition of The Group

There has been no change in the composition of the Group during the interim period under review.

13. Discontinued Operation

There were no discontinued operations within the activities of the Group for the quarter under review.

14. Capital Commitments

There were no capital commitments for the purchase of any property, plant and equipment or any other expenses that were not accounted for in the financial statements of the quarter under review.

15. Changes In Contingent Liabilities & Assets

There are no material contingent liabilities as at the date of this report.

16. Subsequent Events

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES

There were no material events subsequent to the end of the reporting quarter that have not been reflected in the quarter under review.

Additional Informations As Per Mesdaq Market Listing Requirement

17. Review Of Performance

During the current quarter under review, the Group recorded a net profit attributable to equity holders of parent of RM117,000 on the back of revenue of RM5.5million an increase as compared to a net loss attributable to equity holders of parent of RM211,000 in the comparative quarter of the preceding year. The higher profits were attributable to higher revenue mainly due to completion of new projects during the quarter under review .

18. Material Change In the Profit Before Taxation Compared To The Results of Immediate Preceding Quarter

The Group recorded a profit before tax of RM117,000 in the current quarter as compared to a net profit before tax of RM65,000 in the immediate preceding quarter mainly due to the completion of new projects during the current quarter under review.

19. Commentary Of Prospects

Moving ahead, the Group will continue its focus on R & D and overseas sales and marketing effort. The Group expects to see a continuous growth of wireless adoption in the ASEAN region, the Indian sub-continent and the Middle East countries over the next few years.

20. Profit Forecast

There were no profit forecast announced in the current interim period and financial year to date under review, hence there was no comparison between actual and forecast results.

21. Taxation

The company currently has MSC Status and have been granted pioneer status, therefore there is no taxation in the current interim period under review. For its subsidiaries, no taxable profit is expected due to the losses made in prior years.

22. Unquoted Investments / Properties

There were no purchase or sales of unquoted investments or properties during the current interim period under review.

23. Purchase or Disposal of Quoted Securities

There were no purchase or disposal of quoted securities during the current interim period under review.

24. Corporate Proposal

There was no corporate proposal announced but not completed in the current interim period under review.

25. Group Borrowings and Debt Securities

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES

Group Borrowings denominated in Ringgit Malaysia as at 30 June 2006 are as follows:-

	Short Term RM '000	Long Term RM '000	Total RM '000
Secured	1,013	220	1,233
Unsecured	2,931		2,931
Total	<u>3,944</u>	<u>220</u>	<u>4,164</u>

26. Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments as at the date of this report.

27. Material Litigation

The Company has filed a suit in the High Court of Malaya in Kuala Lumpur on 9 March 2004 against Asustek Computer Inc. ("Asustek"), a company incorporated in Taiwan for the supply of defective goods valued at RM3,634,993.49, as the first defendant. The suit has been fixed for case management on 26 May 2005. The first defendant's application to amend its Statement of Defence and Counterclaim has also been fixed for hearing on 26 May 2005 which was subsequently postponed to 26 July 2005. However, the Court had adjourned the hearing date to 27 September 2005 for further case management as the Learned Judge was not available on 26 July 2005.

The Company has also successfully obtained an order to stop and restrain the second defendant, Bumiputra-Commerce Bank Berhad, from releasing any payments to the first defendant under the letter of credit issued. On 16 November 2005, the Court allowed Asustek's application to amend their Statement of Defence and Counterclaim. Meanwhile the Court has also fixed the above matter for further case management on 3 April 2006 to enable the parties to complete the Analysis of Pleadings as well as the Bundle of Documents. However, the court has fixed 13 September 2006 for further case management as the Court has directed the lawyer to further annotate the Analysis of Pleadings with regards to the issue of late as well as short delivery of the goods by the 1st Defendant to the Plaintiff and to particularise the damages suffered by the plaintiff as a result thereof. The Directors of Palette are of the opinion that the outcome of the suit is favourable.

There was no pending material litigation as at the date of this announcement other than that mentioned above.

28. Dividends Payable

The Board of Directors does not recommend any interim dividends for the current quarter ended 30 June 2006.

29. Basic Earnings Per Share

The basic earnings per share for the quarter and cumulative year to date are computed as follow:

	<u>Individual quarter ended</u>		<u>30-Jun-05</u>
	<u>30-Jun-06</u>	<u>30-Jun-05</u>	
Net Profit After Taxation & Minority Interest (RM'000)	117	(211)	(206)
Weighted average number of ordinary shares in issue ('000)	105,600	105,600	105,600
Basic Earnings Per Share (sen)	0.11	(0.20)	(0.20)

30. Authorisation for Issue

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SELECTED EXPLANATORY NOTES

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 August 2006.