

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(The figures have not been audited)**

	2006 Current Qtr Ended 31 Dec RM'000	2005 Comparative Qtr Ended 31 Dec RM'000	2006 Cumulative YTD 31 Dec RM'000	2005 Cumulative YTD 31 Dec RM'000
Revenue	2,020	1,379	17,922	5,005
Cost of sales	(1,138)	(2,104)	(13,884)	(5,269)
Gross (loss) / profit	<u>882</u>	<u>(725)</u>	<u>4,038</u>	<u>(264)</u>
Other income	0	23	10	49
Selling and distribution	(25)	(19)	(96)	(209)
Administrative and general expenses	(465)	(456)	(1,901)	(2,174)
(Loss) / Profit from operations	<u>392</u>	<u>(1,177)</u>	<u>2,051</u>	<u>(2,598)</u>
Finance Cost	(36)	(60)	(148)	(157)
(Loss) / Profit before taxation	<u>356</u>	<u>(1,237)</u>	<u>1,903</u>	<u>(2,755)</u>
Taxation	0	0	0	0
Net (loss) / profit for the financial period	<u><u>356</u></u>	<u><u>(1,237)</u></u>	<u><u>1,903</u></u>	<u><u>(2,755)</u></u>
Profit or loss attributable to:-				
Minority interest		(1)	0	(1)
Equity holders of the parent	356	(1,238)	1,903	(2,756)
	<u><u>356</u></u>	<u><u>(1,239)</u></u>	<u><u>1,903</u></u>	<u><u>(2,757)</u></u>
EPS - Basic (sen)	0.34	(1.17)	1.80	(2.61)
- 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 SHEET AT 31 DECEMBER 2006

(The figures have not been audited)

	As At 31 December 2006 RM'000	As At 31 December 2005 RM'000
Property, Plant and Equipment	179	411
Intangible Assets	20,032	19,600
Current Assets		
Inventories	3,115	3,838
Debtors	18,271	8,979
Cash and Cash Equivalents	14,185	14,162
	<u>35,571</u>	<u>26,979</u>
Current Liabilities		
Payables	23,009	15,872
Overdrafts and Short Term Borrowings	3,791	4,026
Taxation	1	1
	<u>26,801</u>	<u>19,899</u>
Net Current Assets	8,770	7,080
	<u>28,981</u>	<u>27,091</u>
Share Capital	26,400	26,400
Reserves	2,360	449
	<u>28,760</u>	<u>26,849</u>
Minority Interest	22	22
Total Equity	<u>28,782</u>	<u>26,871</u>
Long Term Liabilities		
Long Term Borrowings	199	220
	<u>28,981</u>	<u>27,091</u>
	-	-
Net Assets Per Share Attributable to Equity of Parent (Sen)	27.23	25.43

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 THE YEAR ENDED 31 DECEMBER 2006
(The figures have not been audited)**

	12 Months Ending 31/12/2006 RM'000	12 Months Ending 31/12/2005 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(loss) before taxation	1,903	(2,755)
Adjustment for:		
Depreciation	238	273
Amortisation of development cost	75	75
Bad debt Written off	0	10
Unrealised exchange loss	10	(198)
Gain on disposal of property plant & equipment	0	(2)
Interest income	0	(8)
Interest expenses	287	157
Operating profit before working capital changes	<u>2,513</u>	<u>(2,448)</u>
Decrease in inventories	722	1,117
(Increase)/Decrease in receivables	(9,293)	3,019
Increase/(Decrease) in payables	7,138	(2,159)
Income generated from/(used in) operations	<u>1,080</u>	<u>(471)</u>
Interest paid	(287)	(157)
Development cost paid	(507)	(607)
Net cash flow generated from/(used in) operating activities	<u>286</u>	<u>(1,235)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant & equipment	(6)	(222)
Proceeds from disposal of fixed assets	0	2
Interest income	0	8
	<u>(6)</u>	<u>(212)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in borrowings	(182)	1,392
Repayment of term loan	(75)	(52)
	<u>(257)</u>	<u>1,340</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	23	(107)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	14,162	14,269
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>14,185</u>	<u>14,162</u>

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 THE YEAR ENDED 31 DECEMBER 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 31 December 2006</u>						
At 1 January 2006	26,400	4,123	(146)	(3,529)	22	26,870
Net profit for the period	0	0	0	1,903	0	1,903
Exchange reserve	0	0	9	0	0	9
Total recognised income and expense for the period	0	0	9	1,903	0	1,912
At 31 December 2006	26,400	4,123	(137)	(1,626)	22	28,782
<u>Quarter ended 31 December 2005</u>						
At 1 January 2005	26,400	4,123	53	(774)	22	29,824
Net profit for the period	0	0	0	(2,755)	0	(2,755)
Exchange reserve	0	0	(199)	0	0	(199)
Total recognised income and expense for the period	0	0	(199)	(2,755)	0	(2,954)
At 31 December 2005	26,400	4,123	(146)	(3,529)	22	26,870

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.

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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 FRSSs.

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 other qualification.

5. Segmental Reporting

<u>Geographical segments</u>	Malaysia RM'000	Indonesia RM'000	Elimination RM'000	Consolidated RM'000
REVENUE				
Revenue	17,922	-		17,922
Inter-Segment Sales	208	-	(208)	-
Total Revenue	18,130	-	(208)	17,922
RESULTS				
Segment Results		-	-	2,051
Unallotted Corporate Exp.				-
Operating Loss				2,051
Interest Expense				(148)
Interest Income				-
Loss Before Taxation				1,903

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SELECTED EXPLANATORY NOTES

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 Cyclicalities

The operations of the Group are not subject to any seasonality or cyclicalities 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

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

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SELECTED EXPLANATORY NOTES

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 RM0.36 million on the back of RM2.02 million revenue representing an increase as compared to a net loss attributable to equity holders of parent of RM1.24 million in the comparative quarter of the preceding year. The higher profits were attributable to higher revenue mainly due to projects from overseas 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 RM0.36million in the current quarter as compared to a net profit before tax of RM1.37 million in the immediate preceding quarter. This representing a decrease of approximately 74% as compared to preceding quarter mainly due to lower sales revenue recorded in the current quarter. The lower sales in the current quarter however does not impact severely the financial status of the Group and the Board is pleased to record a full year profits for year ended 31 December 2006.

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 is in the process of renewing the second term of the pioneer status which is expected to be completed before the end of the current financial year, 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

The Company has on 26 December 2006 announced via Public Investment Bank to undertake two (2) corporate proposal as follows:-

(1) Proposed Share Spilt Involving The Subdivision of Every One (1) Existing Issued and Fully Paid-Up Ordinary Share of RM0.25 Each into Two and A Half (2 1/2) New Ordinary share of RM0.10 Each ("Proposed Share Spilt")

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SELECTED EXPLANATORY NOTES

The Proposed Share Split shall involve the subdivision of every one (1) existing and fully paid-up ordinary share of RM0.25 in the Company into two and a half (2 1/2) new ordinary shares of RM0.10 each held by the shareholders of the Company whose names appear in the Record of Depositors as at the close of business on a date to be determined by the Board and which will be announced after all the relevant approvals for the Proposed Share Split have been obtained. The Company has obtained approvals from Securities Commission ("SC") and Bursa Securities respectively on 6 February 2007 and 14 February 2007. The Proposed Share Split is now pending the approval from shareholders before it can be implemented.

(2) Proposed Private Placement of up to 15% of The Issued and Paid Up Share Capital of The Company ("Proposed Private Placement")

The Company has submitted its application to SC on the 2nd February 2007 and currently pending the approval from SC before filing for listing application to Bursa Securities. The Proposed Share Split and Proposed Private Placement are not inter-conditional.

(3) Proposed Amendment to The Memorandum of Association of the Company to Facilitate the Implementation of the Proposed Share Split And Proposed Private Placement

The proposed Amendment shall involve the alteration of the authorised share capital of the Company of RM50,000,000 divided into 200,000,000 Palette's shares into RM50,000,000 divided into 500,000,000 Split Shares in the Memorandum of Association of the Company. The Proposed Amendment is pending the approval from the shareholders.

25. Group Borrowings and Debt Securities

Group Borrowings denominated in Ringgit Malaysia as at 31 Dcember 2006 are as follows:-

	Short Term RM '000	Long Term RM '000	Total RM '000
Secured	1,405	199	1,604
Unsecured	2,386		2,386
Total	<u>3,791</u>	<u>199</u>	<u>3,990</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

On the on-going litigation between the Company and Asustek Computer Inc and Bumiputra Commerce Bank Berhad registered under High Court suit no. D4-22-293-04, the Court has adjourned the case management of the above matter to 16th April 2007 in addition to the earlier announcements in previous quarters. 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>Cumulative YTD</u>	
	<u>31-Dec-06</u>	<u>31-Dec-05</u>	<u>31-Dec-06</u>	<u>31-Dec-05</u>
Net Profit After Taxation & Minority Interest (RM'000)	356	(1,238)	1,903	(2,756)

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SELECTED EXPLANATORY NOTES

Weighted average number of ordinary shares in issue ('000)	105,600	105,600	105,600	105,600
Basic Earnings Per Share (sen)	0.34	(1.17)	1.80	(2.61)
Diluted Earnings Per Share (Sen)	N/A	N/A	N/A	N/A

30. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 27 February 2007.