

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008
(The figures have not been audited)**

	Current Qtr Ended 30/06/2008 RM'000	Comparative Qtr Ended 30/06/2007 RM'000	Cumulative YTD 30/06/2008 RM'000	Cumulative YTD 30/06/2007 RM'000
Revenue	1,651	1,273	2,782	4,276
Cost of sales	(807)	(481)	(1,428)	(2,353)
Gross (loss) / profit	<u>844</u>	<u>792</u>	<u>1,354</u>	<u>1,923</u>
Other income	20	14	60	14
Selling and distribution	(36)	(36)	(69)	(57)
Administrative and general expenses	(615)	(550)	(1,006)	(1,092)
(Loss) / Profit from operations	<u>213</u>	<u>220</u>	<u>339</u>	<u>788</u>
Finance Cost	(3)	(26)	(18)	(61)
(Loss) / Profit before taxation	<u>210</u>	<u>194</u>	<u>321</u>	<u>727</u>
Taxation	-	-	-	-
Net (loss) / profit for the financial period	<u>210</u>	<u>194</u>	<u>321</u>	<u>727</u>
Profit or loss attributable to:-				
Minority interest				
Equity holders of the parent	210	194	321	727
	<u>210</u>	<u>194</u>	<u>321</u>	<u>727</u>
EPS - Basic (sen)	0.07	0.18	0.11	0.69
- 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 2007 and the accompanying explanatory notes attached to the interim financial statements.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2008

(The figures have not been audited)

	Unaudited As At 30/06/2008 RM'000	Audited As At 31/12/2007 RM'000
Property, Plant and Equipment	190	228
Intangible Assets	20,690	20,439
Cash & Cash Equivalent - Restricted	12,932	12,932
Current Assets		
Inventories	2,611	2,555
Debtors	11,917	20,450
Cash and Cash Equivalents	1,899	2,244
	<u>16,427</u>	<u>25,249</u>
Current Liabilities		
Payables	17,251	25,220
Overdrafts and Short Term Borrowings	578	1,505
Taxation	1	1
	<u>17,830</u>	<u>26,726</u>
Net Current Assets	(1,403)	(1,477)
	<u>32,409</u>	<u>32,122</u>
Share Capital	29,053	29,053
Reserves	3,273	2,952
	<u>32,326</u>	<u>32,005</u>
Minority Interest	19	19
Total Equity	<u>32,345</u>	<u>32,024</u>
Long Term Liabilities		
Long Term Borrowings	64	98
	<u>32,409</u>	<u>32,122</u>
Net Assets Per Share Attributable to Equity of Parent (Sen)	11.13	11.02

Note:

The Condensed Consolidated Balance Sheets should be read in conjunction with the audited financial statements for the year ended 31 December 2007 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 30 JUNE 2008
(The figures have not been audited)**

	6 Months Ended 30/06/2008 RM'000	6 Months Ended 30/06/2007 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(loss) before taxation	321	727
Adjustment for:		
Depreciation	38	40
Amortisation of development cost	38	38
Bad debt Written off		
Unrealised exchange loss		
Gain on disposal of property plant & equipment		
Interest income	(61)	(14)
Interest expenses	18	115
Operating profit before working capital changes	<u>354</u>	<u>906</u>
Decrease in inventories	(56)	91
(Increase)/Decrease in receivables	8,533	769
Increase/(Decrease) in payables	(7,969)	207
Income generated from/(used in) operations	<u>862</u>	<u>1,973</u>
Interest paid	(18)	(115)
Development cost paid	(288)	(246)
Net cash flow generated from/(used in) operating activities	<u>556</u>	<u>1,612</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant & equipment	(1)	(7)
Proceeds from disposal of fixed assets		
Interest income	61	14
	<u>60</u>	<u>7</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in borrowings	(927)	(1,894)
Proceeds from issuance of ESOS	0	12
Proceeds from private placement	0	2,407
Repayment of term loan	(34)	(27)
	<u>(961)</u>	<u>498</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(345)	2,117
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD	15,176	14,182
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD	<u>14,831</u>	<u>16,299</u>

Note:

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 December 2007 and the accompanying notes attached to the interim financial statements.

The balance of cash and cash equivalents at end of financial period includes the amount of cash and cash equivalents that is restricted to be used, as shown in the interim Balance Sheet

PALETTE MULTIMEDIA BERHAD

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008
(The figures have not been audited)**

	Attributable to Equity Holders of the Parent					Total Equity RM'000
	Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Distributable Retained Profits RM'000	Minority Interest RM'000	
Quarter ended 30 June 2008						
At 1 January 2008	29,053	4,296	25	(1,369)	19	32,024
Net profit for the period	0	0	0	321	0	321
Exchange reserve	0	0	0	0	0	0
Total recognised income and expense for the period	0	0	0	321	0	321
At 30 June 2008	29,053	4,296	25	(1,048)	19	32,345
Quarter ended 30 June 2007						
At 1 January 2007	26,400	4,123	8	(1,805)	21	28,747
Net profit for the period	0	0	0	727	0	727
Exchange reserve	2,282	136	14	0	0	2,432
Total recognised income and expense for the period	2,282	136	14	727	0	3,159
At 30 June 2007	28,682	4,259	22	(1,078)	21	31,906

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 2007 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 statements of the Group are prepared under the historical cost convention. The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134 : Interim Financial Reporting and in accordance to the requirements of paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2007. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2007.

The accounting policies and methods of computation adopted in this interim financial report are consistent with those adopted in the most recent annual financial statements except for the adoption of the following Financial Reporting Standards (FRS), amendment to FRS and Interpretations ("IC Interpretations") issued by MASB that are effective for the Group's annual reporting date, 31 December 2008.

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 129	Financial Reporting in Hyperinflationary Economies
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS 129 - Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2

The adoption of the above FRSs, amendment to FRS and IC Interpretations are not expected to have any significant impact on the financial statements of the Group.

2. Comparatives

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

3. Audit Report

Other than qualification on the 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 2007 was not subject to any other qualification.

4. Segmental Reporting

<u>Geographical segments</u>	Malaysia RM'000	Indonesia RM'000	Elimination RM'000	Consolidated RM'000
<u>REVENUE</u>				
Revenue	2,782	-		2,782
Inter-Segment Sales	6	-	(6)	-
Total Revenue	2,788	-	(6)	2,782

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SELECTED EXPLANATORY NOTES

RESULTS

Segment Results	-	-	339
Unallotted Corporate Exp.			-
Operating Loss			339
Interest Expense			(18)
Interest Income			-
Profit Before Taxation			321

5. Unusual Items

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

6. 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.

7. Seasonality or Cyclicity

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

8. Dividends Paid Or Proposed

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

9. Valuation of Property, Plant and Equipment

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

10. Debts and Equity Securities

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

11. Change In The Composition of The Group

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

12. Discontinued Operation

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

13. 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.

14. Changes In Contingent Liabilities & Assets

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

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SELECTED EXPLANATORY NOTES

15. 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.

Additional Informations As Per Mesdaq Market Listing Requirement

16. Review Of Performance

During the current quarter under review, the Group recorded a net profit attributable to equity holders of parent of RM0.21 million on the back of RM1.65 million revenue representing an increase as compared to a net profit attributable to equity holders of parent of RM0.19 million in the comparative quarter of the preceding year.

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

The Group recorded a profit before tax of RM0.21 million in the current quarter as compared to a net profit before tax of RM0.19 million in the immediate preceding quarter. This representing an increase of approximately 10.53% as compared to preceding quarter mainly due to higher revenue recorded in the quarter under review.

18. 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.

19. 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.

20. 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.

21. Unquoted Investments / Properties

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

22. Purchase or Disposal of Quoted Securities

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

23. Status of Corporate Proposal

(1) Memorandum of Understanding between TT dotCom Sdn Bhd and Palette Multimedia Berhad

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The company has on 30th August 2007, entered into a Memorandum of Understanding with TT dotCom Sdn Bhd to provide high bandwidth internet access service for wired and wireless networks within the Damansara Perdana area and Jaya 33 building in Petaling Jaya.

For the purpose of the joint services to be offered in Damansara Perdana, Palette will charge a rate of RM25,000 per month on a flat basis to TIME for the provision of 2nd and 3rd line support.

There is no material development pertaining to the Memorandum of Understanding between TT dotCom Sdn Bhd and Palette Multimedia Berhad.

24. Group Borrowings and Debt Securities

Group Borrowings denominated in Ringgit Malaysia as at 30 June 2008 are as follows:-

	Short Term RM '000	Long Term RM '000	Total RM '000
Secured	578	64	642
Unsecured	-	-	-
Total	<u>578</u>	<u>64</u>	<u>642</u>

25. Off Balance Sheet Financial Instruments

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

26. 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 28th January 2009 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.

The disputed amount has been reclassified as non-current asset in accordance to the accounting standard since it is restricted for use until the full judgement of the case is delivered. The Board is in the opinion that the outcome of the judgement will not have any material financial impact to the Group as the restricted cash & cash equivalent will be used to set off the corresponding liabilities if any reflected in the trade payables under the current liabilities. The disputed amount reflected in the payables owing to Asustek Computer Inc is RM11.09 million.

27. Dividends Payable

The Board of Directors does not recommend any interim dividends for the current quarter ended 30 June 2008.

28. Basic Earnings Per Share

(a) Basic

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>	
	30-Jun-08	30-Jun-07	30-Jun-08	30-Jun-07
Net Profit After Taxation & Minority Interest (RM'000)	210	194	321	727
Weighted average number of ordinary shares in issue ('000)	290,527	105,848	290,527	105,848

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SELECTED EXPLANATORY NOTES

Basic Earnings Per Share (sen)	0.07	0.18	0.11	0.69
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(b) Diluted

There is no dilution effect on the earning per share during the quarter and cumulative year to date since the exercise price of the outstanding options is higher than the weighted average market price of share traded.

29. 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 21 August 2008.