

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

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

	Current Qtr Ended 30/09/2008 RM'000	Comparative Qtr Ended 30/09/2007 RM'000	Cumulative YTD 30/09/2008 RM'000	Cumulative YTD 30/09/2007 RM'000
Revenue	411	2,472	3,192	6,748
Cost of sales	(321)	(1,533)	(1,749)	(3,885)
Gross (loss) / profit	<u>90</u>	<u>939</u>	<u>1,443</u>	<u>2,863</u>
Other income	18	13	79	27
Selling and distribution	(74)	(102)	(143)	(159)
Administrative and general expenses	(694)	(337)	(1,700)	(1,429)
(Loss) / Profit from operations	<u>(660)</u>	<u>513</u>	<u>(321)</u>	<u>1,302</u>
Finance Cost	(3)	(21)	(21)	(82)
(Loss) / Profit before taxation	<u>(663)</u>	<u>492</u>	<u>(342)</u>	<u>1,220</u>
Taxation	-	-	-	-
Net (loss) / profit for the financial period	<u>(663)</u>	<u>492</u>	<u>(342)</u>	<u>1,220</u>
Profit or loss attributable to:-				
Minority interest				
Equity holders of the parent	(663)	492	(342)	1,220
	<u>(663)</u>	<u>492</u>	<u>(342)</u>	<u>1,220</u>
EPS - Basic (sen)	(0.23)	0.17	(0.12)	0.42
- 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 SEPTEMBER 2008

(The figures have not been audited)

	Unaudited As At 30/09/2008 RM'000	Audited As At 31/12/2007 RM'000
Property, Plant and Equipment	171	228
Intangible Assets	20,808	20,439
Cash & Cash Equivalent - Restricted	12,932	12,932
Current Assets		
Inventories	2,462	2,555
Debtors	10,033	20,450
Cash and Cash Equivalents	<u>2,932</u>	<u>2,244</u>
	<u>15,427</u>	<u>25,249</u>
Current Liabilities		
Payables	17,040	25,220
Overdrafts and Short Term Borrowings	568	1,505
Taxation	1	1
	<u>17,609</u>	<u>26,726</u>
Net Current Assets	(2,182)	(1,477)
	<u>31,729</u>	<u>32,122</u>
Share Capital	29,053	29,053
Reserves	<u>2,610</u>	<u>2,952</u>
	31,663	32,005
Minority Interest	19	19
Total Equity	<u>31,682</u>	<u>32,024</u>
Long Term Liabilities		
Long Term Borrowings	47	98
	<u>31,729</u>	<u>32,122</u>
Net Assets Per Share Attributable to Equity of Parent (Sen)	10.90	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 SEPTEMBER 2008
(The figures have not been audited)**

	9 Months Ended 30/09/2008 RM'000	9 Months Ended 30/09/2007 RM'000
Net Cash Flows From Operating Activities	1,598	1,172
Net cash Flows From Investing Activities	78	(112)
Net Cash Flows From Financing Activities	(988)	413
Net Change in Cash & Cash Equivalents	<u>688</u>	<u>1,473</u>
Cash & Cash Equivalents at Beginning of Financial Period	15,176	14,182
Cash & Cash Equivalents at End of Financial Period	<u>15,864</u>	<u>15,655</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

(Company No.: 420056-K)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 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 Septemebr 2008						
At 1 January 2008	29,053	4,296	25	(1,369)	19	32,024
Net profit for the period	0	0	0	(342)	0	(342)
Exchange reserve	0	0	0	0	0	0
Total recognised income and expense for the period	0	0	0	(342)	0	(342)
At 30 Septemebr 2008	29,053	4,296	25	(1,711)	19	31,682
Quarter ended 30 September 2007						
At 1 January 2007	26,400	4,123	8	(1,805)	21	28,747
Net profit for the period	0	0	0	1,220	0	1,220
Exchange reserve	2,653	173	14	0	0	2,840
Total recognised income and expense for the period	2,653	173	14	1,220	0	4,060
At 30 September 2007	29,053	4,296	22	(585)	21	32,807

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.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420058-K)

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.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES**4. Segmental Reporting**

<u>Geographical segments</u>	Malaysia RM'000	Indonesia RM'000	Elimination RM'000	Consolidated RM'000
REVENUE				
Revenue	3,192	-		3,192
Inter-Segment Sales	6	-	(6)	-
Total Revenue	3,198	-	(6)	3,192
RESULTS				
Segment Results		-	-	(321)
Unallotted Corporate Exp.				-
Operating Loss				(321)
Interest Expense				(21)
Interest Income				-
Loss Before Taxation				(342)

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.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420058-K)

SELECTED EXPLANATORY NOTES

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.

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 loss attributable to equity holders of parent of RM0.66 million on the back of RM0.41 million revenue representing a decrease as compared to a net profit attributable to equity holders of parent of RM0.49 million in the comparative quarter of the preceding year due to lower revenue being generated.

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

The Group recorded a loss before tax of RM0.66 million in the current quarter as compared to a net profit before tax of RM0.26 million in the immediate preceding quarter. This representing a decrease of approximately 353.85% as compared to preceding quarter mainly due to lower revenue recorded in the quarter under review.

18. Commentary Of Prospects

With the maturing of the wireless marketplace, allied with the growth in hand held devices such as PDAs, netbooks and other wifi based devices, PMB sees strong growth ahead in the deployment of hotspots both in Malaysia and in the Asia Pacific region. PMB is particularly well placed to capitalize on this having won two major deployment tenders which will run into 2009. PMB's R&D Group has finished a new range of products target at very high return on investment for hotspot and hotzone operators and we see the first major deployment of these products in Q1 2009.

The company is also expanding into the wired infrastructure space for high speed broadband access with new alliances with major US based vendors. We foresee the continued investment in high speed broadband ongoing even in the face of an economic downturn as it is imperative for Telco & ISP customers to lay the foundations of their future networks in this area.

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.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES

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

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 September 2008 are as follows:-

	Short Term RM '000	Long Term RM '000	Total RM '000
Secured	568	47	615
Unsecured	-	-	-
Total	568	47	615

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.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES**27. Dividends Payable**

The Board of Directors does not recommend any interim dividends for the current quarter ended 30 September 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>	
	<u>30-Sep-08</u>	<u>30-Sep-07</u>	<u>30-Sep-08</u>	<u>30-Sep-07</u>
Net Profit After Taxation & Minority Interest (RM'000)	(663)	492	(342)	1,220
Weighted average number of ordinary shares in issue ('000)	290,527	290,527	290,527	290,527
Basic Earnings Per Share (sen)	(0.23)	0.17	(0.12)	0.42

(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 24 November 2008.