

**PALETTE MULTIMEDIA BERHAD**

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 30 JUNE 2010**

(The figures have not been audited)

	2010 Current Qtr Ended 30 June RM'000	2009 Comparative Qtr Ended 30 June RM'000	2010 Cumulative YTD 30 June RM'000	2009 Cumulative YTD 30 June RM'000
Revenue	311	309	742	888
Cost of sales	(242)	(220)	(445)	(578)
<b>Gross (loss) / profit</b>	<u>69</u>	<u>89</u>	<u>297</u>	<u>310</u>
Other income	-	10	-	20
Selling and distribution	(56)	(55)	(83)	(76)
Administrative and general expenses	(1,036)	(537)	(1,601)	(997)
<b>(Loss) / Profit from operations</b>	<u>(1,023)</u>	<u>(493)</u>	<u>(1,387)</u>	<u>(743)</u>
Finance Cost	(10)	(3)	(12)	(6)
<b>(Loss) / Profit before taxation</b>	<u>(1,033)</u>	<u>(496)</u>	<u>(1,399)</u>	<u>(749)</u>
Taxation	-	-	-	-
<b>Net (loss) / profit for the financial period</b>	<u>(1,033)</u>	<u>(496)</u>	<u>(1,399)</u>	<u>(749)</u>
Foreign currency translation	-	-	2	-
<b>Total comprehensive income</b>	<u>(1,033)</u>	<u>(496)</u>	<u>(1,397)</u>	<u>(749)</u>
Profit or loss attributable to:-				
Minority interest	-	-	-	-
Equity holders of the parent	(1,033)	(496)	(1,399)	(749)
	<u>(1,033)</u>	<u>(496)</u>	<u>(1,399)</u>	<u>(749)</u>
Total comprehensive income attributable to:-				
Minority interest	-	-	-	-
Equity holders of the parent	(1,033)	(496)	(1,397)	(749)
	<u>(1,033)</u>	<u>(496)</u>	<u>(1,397)</u>	<u>(749)</u>
EPS - Basic (sen)	(0.36)	(0.17)	(0.48)	(0.26)
- Diluted (sen)	N/A	N/A	N/A	N/A

Note:

**The Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2009 and the accompanying explanatory notes attached to the interim financial statements.**

**PALETTE MULTIMEDIA BERHAD**

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2010**

(The figures have not been audited)

	As At 30 June 2010 RM'000	As At 31 December 2009 RM'000
Property, Plant and Equipment	562	639
Intangible Assets	18,487	18,477
Cash & Cash Equivalent - Restricted	12,932	12,932
<b>Current Assets</b>		
Inventories	2,205	2,364
Debtors	6,502	8,481
Cash and Cash Equivalents	187	234
	<u>8,894</u>	<u>11,079</u>
<b>Current Liabilities</b>		
Payables	15,840	16,388
Overdrafts and Short Term Borrowings	287	596
Taxation	1	1
	<u>16,128</u>	<u>16,985</u>
<b>Net Current Assets</b>	<u>(7,234)</u>	<u>(5,906)</u>
	<u>24,747</u>	<u>26,142</u>
Share Capital	29,053	29,053
Share Premium	4,296	4,296
Retained Earnings	(8,649)	(7,250)
Other Reserves	27	25
	<u>24,727</u>	<u>26,124</u>
Minority Interest	20	20
<b>Total Equity</b>	<u>24,747</u>	<u>26,144</u>
<b>Long Term Liabilities</b>		
Long Term Borrowings	-	-
	<u>24,747</u>	<u>26,144</u>
	-	-
Net Assets Per Share Attributable to Equity of Parent (Sen)	8.51	8.99

Note:

**The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2009 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 2010  
(The figures have not been audited)

	6 Months Ended 30/06/2010 RM'000	6 Months Ended 30/06/2009 RM'000
Net Cash Flows From Operating Activities	271	(1,190)
Net cash Flows From Investing Activities	(9)	(1)
Net Cash Flows From Financing Activities	(309)	(133)
Net Change in Cash & Cash Equivalents	<u>(47)</u>	<u>(1,324)</u>
Cash & Cash Equivalents at Beginning of Financial Period	13,166	15,591
Cash & Cash Equivalents at End of Financial Period	<u>13,119</u>	<u>14,267</u>

Note:

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 December 2009 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 JUNE 2010**

(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	
<b>Quarter ended 30 June 2010</b>						
At 1 January 2010	29,053	4,296	25	(7,250)	20	26,144
Total comprehensive income	0	0	2	(1,399)	0	(1,397)
At 30 June 2010	29,053	4,296	27	(8,649)	20	24,747
<b>Quarter ended 30 June 2009</b>						
At 1 January 2009	29,053	4,296	25	(6,492)	20	26,902
Total comprehensive income	0	0	0	(749)	0	(749)
At 30 June 2009	29,053	4,296	25	(7,241)	20	26,153

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 2009 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 2nd quarterly financial report ended 30 June 2010 is unaudited and has been prepared in accordance with Financial Reporting Standards ("FRS") 134 "Interim Financial Reporting" and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the ACE Market.

The report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2009. The explanatory notes attached to the quarterly financial report provide an explanation on events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2009.

The accounting policies and methods of computation adopted by the Group in the quarterly financial report are consistent with those adopted in the audited financial statements of the Group for the financial year ended 31 December 2009, except for in the current period ended 30 June 2010, the Group adopted the following new and revised FRSs, IC Interpretations and Amendments to FRSs and IC Interpretations which are applicable to its financial statements:

FRS 1 and FRS 127	Amendments to FRS 1, First-time Adoption of Financial Reporting Standards and FRS 127, Consolidated and Separate Financial Statements: Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate
FRS 2	Amendments to FRS 2, Share-based Payment: Vesting Conditions and Cancellations
FRS 4	Insurance Contracts
FRS 5	Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations
FRS 7	Financial Instruments: Disclosures Amendments to FRS 7, Financial Instruments: Disclosures
FRS 8	Amendments to FRS 8, Operating Segments
FRS 101	Presentation of Financial Statements (revised 2009)
FRS 107	Amendments to FRS 107, Cash Flow Statements
FRS 108	Amendments to FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Amendments to FRS 110, Events after the Reporting Period
FRS 116	Amendments to FRS 116, Property, Plant and Equipment
FRS 117	Amendments to FRS 117, Leases
FRS 118	Amendments to FRS 118, Revenue
FRS 119	Amendments to FRS 119, Employee Benefits
FRS 120	Amendments to FRS 120, Accounting for Government Grants and Disclosure of Government Assistance
FRS 123	Amendments to FRS 123, Borrowing Costs
FRS 128	Amendments to FRS 128, Investment in Associates
FRS 129	Amendments to FRS 129, Financial Reporting in Hyperinflationary Economies
FRS 131	Amendments to FRS 131, Interests in Joint Ventures
FRS 132	Amendments to FRS 132, Financial Instruments: Presentation - Puttable Financial Instruments and Obligations Arising on Liquidation
FRS 134	Amendments to FRS 134, Interim Financial Reporting
FRS 136	Amendments to FRS 136, Impairment of Assets
FRS 138	Amendments to FRS 138, Intangible Assets
FRS 139	Financial Instruments: Recognition and Measurement Amendments to FRS 139, Financial Instruments: Recognition and Measurement
FRS 140	Amendments to FRS 140, Investment Property
IC Interpretation 9	Reassessment of Embedded Derivatives Amendment to IC Interpretation 9, Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2 - Group and Treasury Share Transactions
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 14	FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above FRSs, amendments and interpretations are not expected to have any significant impact on the financial statements of the Group.

#### 2. Audit Report

**PALETTE MULTIMEDIA BERHAD**

(Company No.: 420056-K)

**SELECTED EXPLANATORY NOTES**

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 2009 was not subject to any other qualification.

**3. Segmental Reporting**

<u>Geographical segments</u>	Malaysia RM'000	Indonesia RM'000	Elimination RM'000	Consolidated RM'000
<b>REVENUE</b>				
Revenue	742	-	-	742
Inter-Segment Sales	-	-	-	-
<b>Total Revenue</b>	<b>742</b>	<b>-</b>	<b>-</b>	<b>742</b>
<b>RESULTS</b>				
Segment Results		-	-	(1,387)
Unallotted Corporate Exp.				-
Operating Loss				(1,387)
Interest Expense				(12)
Interest Income				-
<b>Profit Before Taxation</b>				<b>(1,399)</b>

**4. Unusual Items**

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

**5. 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.

**6. Seasonality or Cyclicity**

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

**7. Dividends Paid Or Proposed**

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

**8. Valuation of Property, Plant and Equipment**

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

**9. Debts and Equity Securities**

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

**10. Change In The Composition of The Group**

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

## PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

### SELECTED EXPLANATORY NOTES

#### 11. Discontinued Operation

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

#### 12. 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.

#### 13. Changes In Contingent Liabilities & Assets

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

#### 14. 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

#### 15. Review Of Performance

During the current quarter under review, the Group recorded a net loss attributable to equity holders of parent of RM1.03 million on the back of RM0.31 million revenue representing a decrease as compared to a net loss attributable to equity holders of parent of RM0.50 million in the comparative quarter of the preceding year, which is mainly due to the impairment on receivables as required by FRS 139.

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

The Group recorded a loss before tax of RM1.03 million in the current quarter as compared to a net loss before tax of RM0.37 million in the immediate preceding quarter. This representing an increase in losses of approximately 178.38% mainly due to lower revenue recorded in the current quarter and impairment on receivables as required by FRS 139.

#### 17. 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.

#### 18. 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.

#### 19. Taxation

The company currently has MSC Status and the extension of Pioneer Status for the Company has been approved by authorities concerned for another five year period from the date of the expiry of the first five year period (30 September 2005) in accordance to the Bill of Guarantees provided to all MSC Malaysia Status Companies, 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****20. Unquoted Investments / Properties**

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

**21. Purchase or Disposal of Quoted Securities**

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

**22. 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.

**23. Group Borrowings and Debt Securities**

Group Borrowings denominated in Ringgit Malaysia as at 30 June 2010 are as follows:-

	Short Term RM '000	Long Term RM '000	Total RM '000
Secured	-	-	-
Unsecured	287	-	287
<b>Total</b>	<b>287</b>	<b>-</b>	<b>287</b>

**24. Off Balance Sheet Financial Instruments**

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

**25. 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 Company had on 1 July 2010 been notified by its legal representative that a Notice of Appeal, against the decision of the Kuala Lumpur High Court dated 4 June 2010, has been filed into Court on 29 June 2010. 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.

**26. Dividends Payable**

The Board of Directors does not recommend any interim dividends for the current quarter ended 30 June 2010.



**PALETTE MULTIMEDIA BERHAD**

(Company No.: 420056-K)

**SELECTED EXPLANATORY NOTES**

**27. 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-Jun-10</u>	<u>30-Jun-09</u>	<u>30-Jun-10</u>	<u>30-Jun-09</u>
Net Profit After Taxation & Minority Interest (RM'000)	(1,033)	(496)	(1,399)	(749)
Weighted average number of ordinary shares in issue ('000)	290,527	290,527	290,527	290,527
Basic Earnings Per Share (sen)	(0.36)	(0.17)	(0.48)	(0.26)

(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.

**28. 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 25 August 2010.