

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

| | Unaudited 2012 Current Qtr Ended 30-Jun RM'000 | Unaudited 2011 Comparative Qtr Ended 30-Jun RM'000 | Unaudited 2012 Cumulative YTD 30-Jun RM'000 | Unaudited 2011 Cumulative YTD 30-Jun RM'000 |
|-----------------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------|
| Revenue | 951 | 2,754 | 1,623 | 3,879 |
| Cost of sales | (429) | (2,073) | (979) | (2,867) |
| Gross (loss) / profit | 522 | 681 | 644 | 1,012 |
| Other income | 25 | 125 | 401 | 127 |
| Selling and distribution | (73) | (92) | (135) | (129) |
| Administrative and general expenses | (628) | (680) | (1,258) | (1,323) |
| (Loss) / Profit from operations | (154) | 34 | (348) | (313) |
| Finance Cost | (8) | (6) | (28) | (9) |
| (Loss) / Profit before taxation | (162) | 28 | (376) | (322) |
| Profit/(Loss) before tax is stated after charging/(crediting):- | | | | |
| Recovery of doubtful debts | - | - | (376) | - |
| Depreciation and amortisation | 241 | 281 | 483 | 443 |
| Foreign exchange (gain) / loss | 6 | (26) | 9 | (26) |
| Taxation | - | - | - | - |
| Net (loss) / profit for the financial period | (162) | 28 | (376) | (322) |
| Foreign currency translation | - | - | - | - |
| Total comprehensive income | (162) | 28 | (376) | (322) |
| Profit or loss attributable to:- | | | | |
| Minority interest | - | - | - | - |
| Equity holders of the parent | (162) | 28 | (376) | (322) |
| | (162) | 28 | (376) | (322) |
| Total comprehensive loss attributable to:- | | | | |
| Minority interest | - | - | - | - |
| Equity holders of the parent | (162) | 28 | (376) | (322) |
| | (162) | 28 | (376) | (322) |
| EPS - Basic (sen) | (0.06) | 0.01 | (0.13) | (0.11) |
| - 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 2011 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 2012

| | Unaudited As At 30 June 2012 RM'000 | Audited As At 31 December 2011 RM'000 |
|-------------------------------------------------------------|-------------------------------------------------|---------------------------------------------------|
| Property, Plant and Equipment | 330 | 426 |
| Intangible Assets | 16,789 | 17,171 |
| Cash & Cash Equivalent - Restricted | 12,932 | 12,932 |
| Current Assets | | |
| Inventories | 924 | 822 |
| Trade Receivables | 2,420 | 2,081 |
| Other Receivables | 1,604 | 2,467 |
| Cash and Cash Equivalents | 268 | 233 |
| | <u>5,216</u> | <u>5,603</u> |
| Current Liabilities | | |
| Payables | 1,943 | 2,069 |
| Overdrafts and Short Term Borrowings | 794 | 1,157 |
| Taxation | 1 | 1 |
| | <u>2,738</u> | <u>3,227</u> |
| Net Current Assets | <u>2,478</u> | <u>2,376</u> |
| | <u>32,529</u> | <u>32,905</u> |
| Share Capital | 29,053 | 29,053 |
| Share Premium | 4,296 | 4,296 |
| Retained Earnings | (14,388) | (14,012) |
| Other Reserves | 27 | 27 |
| | <u>18,988</u> | <u>19,364</u> |
| Minority Interest | 18 | 18 |
| Total Equity | <u>19,006</u> | <u>19,382</u> |
| Long Term Liabilities | | |
| Payables | 13,523 | 13,523 |
| | <u>32,529</u> | <u>32,905</u> |
| | - | - |
| Net Assets Per Share Attributable to Equity of Parent (Sen) | 6.54 | 6.67 |

Note:

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2011 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 2012**

| | Unaudited 6 Months Ended 30/06/2012 RM'000 | Unaudited 6 Months Ended 30/06/2011 RM'000 |
|-------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Profit/(loss) before taxation | (376) | (322) |
| Adjustment for: | | |
| Amortisation of intangible assets | 382 | 352 |
| Depreciation of property, plant and equipment | 101 | 91 |
| Impairment of intangible assets | - | |
| Interest income | | (127) |
| Interest expense | 28 | 9 |
| Provision for and written off of inventories | - | |
| Provision for and written off of receivables | - | |
| Unrealised loss on foreign exchange translation | - | |
| Impairment on trade receivables | - | |
| Operating profit before working capital changes | <u>135</u> | <u>3</u> |
| Decrease / (Increase) in inventories | (102) | 185 |
| Decrease / (Increase) in trade and other receivables | 524 | (2,580) |
| (Decrease) / Increase in trade and other payables | <u>(126)</u> | <u>1,079</u> |
| Income generated from / (used in) operations | 431 | (1,313) |
| Interest paid | (28) | (9) |
| Development cost paid | - | |
| Tax paid | - | |
| Net cash flow generated from/(used in) operating activities | <u>403</u> | <u>(1,322)</u> |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant & equipment | (5) | (33) |
| Proceeds from disposal of fixed assets | - | - |
| Interest income | - | 127 |
| | <u>(5)</u> | <u>94</u> |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| (Decrease) / Increase in borrowings | (363) | 1,027 |
| Repayment of term loan | - | - |
| | <u>(363)</u> | <u>1,027</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 35 | (201) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD | 13,165 | 13,694 |
| CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD | <u>13,200</u> | <u>13,493</u> |

Note:

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 December 2011 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 2012

| | 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 | | |
| <u>Quarter ended 30 June 2012</u> | | | | | | | |
| At 1 January 2012 | 29,053 | 4,296 | 27 | (14,012) | 18 | 19,382 | |
| Total comprehensive loss | 0 | 0 | 0 | (376) | 0 | (376) | |
| At 30 June 2012 (Unaudited) | 29,053 | 4,296 | 27 | (14,388) | 18 | 19,006 | |
| <u>Quarter ended 30 June 2011</u> | | | | | | | |
| At 1 January 2011 | 29,053 | 4,296 | 28 | (10,208) | 18 | 23,187 | |
| Total comprehensive loss | 0 | 0 | 0 | (322) | 0 | (322) | |
| At 30 June 2011 (Unaudited) | 29,053 | 4,296 | 28 | (10,530) | 18 | 22,865 | |

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 2011 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 1st quarterly financial report ended 30 June 2012 is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 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 2011. 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 2011.

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 2011, except for the adoption of new/revised FRSS that are effective 1 January 2012. These new/revised FRSS are not expected to have significant impact on the financial position or results.

2. 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 2011 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 |
|-------------------------------------------|--------------------|---------------------|-----------------------|------------------------|
| Current Quarter ended 30 June 2012 | | | | |
| Segment Revenue | | | | |
| Revenue | 951 | - | - | 951 |
| Inter-Segment Sales | - | - | - | - |
| Total Revenue | 951 | - | - | 951 |
| Segment PBT / (LBT) | | | | |
| Segment Results | | - | - | (154) |
| Unallotted Corporate Exp. | | | | - |
| Operating Loss | | | | (154) |
| Interest Expense | | | | (8) |
| Interest Income | | | | - |
| Loss Before Taxation | | | | (162) |
| Depreciation | 50 | - | - | 50 |
| Non cash expenses other than depreciation | 191 | - | - | 191 |
| | Malaysia RM'000 | Indonesia RM'000 | Elimination RM'000 | Consolidated RM'000 |
| Cumulative YTD ended 30 June 2012 | | | | |
| Segment Revenue | | | | |
| Revenue | 1,623 | - | - | 1,623 |
| Inter-Segment Sales | - | - | - | - |
| Total Revenue | 1,623 | - | - | 1,623 |
| Segment PBT / (LBT) | | | | |
| Segment Results | | - | - | (348) |
| Unallotted Corporate Exp. | | | | - |
| Operating Loss | | | | (348) |
| Interest Expense | | | | (28) |

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES

| | | | | |
|-------------------------------------------|--------|-------|----------|--------------|
| Interest Income | | | | - |
| Loss Before Taxation | | | | (376) |
| Depreciation | 101 | - | - | 101 |
| Non cash expenses other than depreciation | 382 | - | - | 382 |
| Segment assets | 38,072 | 1,857 | (4,662) | 35,267 |
| Segment liabilities | 32,285 | 48 | (16,072) | 16,261 |
| Capital expenditure | 5 | - | - | 5 |

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.

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.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES

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 ACE 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 RM0.16 million on the back of RM0.95 million revenue representing a decrease in profit as compared to a net profit attributable to equity holders of parent of RM0.03 million in the comparative quarter of the preceding year. The decrease in profit is mainly due to lower revenue recorded in current quarter.

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

The Group recorded a loss before tax of RM0.16 million in the current quarter as compared to a net loss before tax of RM0.21 million in the immediate preceding quarter. This representing a decrease in losses of approximately 23.81%. The decrease in losses is mainly due to higher revenue recorded in the current quarter.

17. Commentary Of Prospects

Palette has completed the development of its Mobilette product targetted specifically at mobile devices such as tablets and smart phones and has commenced trials with three major telecommunications companies. The product has some unique features based on in-house development and our ability to further customize the product to enhance telecommms companies services makes this a strong base for our future business.

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.

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

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES

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.

(2) Renounceable rights issue warrant ("Proposal")

On 7 September 2011, the Company has announced to undertake the proposed renounceable rights issue of up to 154,513,250 warrants ("Warrants") at an indicative issue price of RM0.03 for each Warrant on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.10 each in the Company ("Proposed Rights Issue of Warrants").

Bursa Securities on 4 April 2012 approved the listing application pursuant to the Proposed Rights Issue of Warrants. The approval of Bursa Securities is subject to compliance with certain conditions imposed by Bursa Securities.

The Proposed Rights Issue of Warrants has been approved by the shareholders of the Company at the Extraordinary General Meeting held on 15 June 2012.

23. Group Borrowings and Debt Securities

Group Borrowings denominated in Ringgit Malaysia as at 30 June 2012 are as follows:-

| | Short Term RM '000 | Long Term RM '000 | Total RM '000 |
|--------------|------------------------------|-----------------------------|-------------------------|
| Secured | 650 | - | 650 |
| Unsecured | 144 | - | 144 |
| Total | 794 | - | 794 |

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 long term liabilities. The disputed amount reflected in the payables owing to Asustek Computer Inc is RM11.09 million.

26. Realised and Unrealised Profits/Losses

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES

On 25 March 2010, Bursa Securities issued a directive to all listed issuers pursuant to Rules 2.07 and 2.23 of Bursa Securities ACE Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits and losses.

On 20 December 2010, Bursa Securities further issued guidance on the disclose and the format period.

The breakdown of accumulated losses of the Group and the Company as at the reporting date, into realised and unrealised losses, pursuant to the directive, is as follows:

| | Group 30/06/2012 RM'000 | Group 31/03/2012 RM'000 |
|------------------------------------------------------------------------------|-------------------------------|-------------------------------|
| Total accumulated losses of Palette Multimedia Berhad and it's subsidiaries: | | |
| - Realised | (14,388) | (14,226) |
| - Unrealised - in respect of other items of income and expense | | |
| Total Group accumulated losses as per consolidated accounts | <u>(14,388)</u> | <u>(14,226)</u> |

The determination of realised and unrealised losses is based on the Guidedance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

27. Dividends Payable

The Board of Directors does not recommend any interim dividends for the current quarter ended 30 June 2012.

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-12 | 30-Jun-11 | 30-Jun-12 | 30-Jun-11 |
| Net Loss After Taxation & Minority Interest (RM'000) | (162) | 28 | (376) | (322) |
| Weighted average number of ordinary shares in issue ('000) | 290,527 | 290,527 | 290,527 | 290,527 |
| Basic Loss Per Share (sen) | <u>(0.06)</u> | <u>0.01</u> | <u>(0.13)</u> | <u>(0.11)</u> |

(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 14 August 2012.