

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Unaudited 2012 Current Qtr Ended 31-Dec RM'000	Unaudited 2011 Comparative Qtr Ended 31-Dec RM'000	Unaudited 2012 Cumulative YTD 31-Dec RM'000	Audited 2011 Cumulative YTD 31-Dec RM'000
Revenue	1,513	1,202	4,099	6,289
Cost of sales	(1,155)	(879)	(2,447)	(4,666)
Gross (loss) / profit	358	323	1,652	1,623
Other income	631	-	1,327	138
Selling and distribution	(23)	(39)	(182)	(171)
Administrative and general expenses	(1,361)	(3,219)	(3,269)	(5,346)
Results from operating activities	(395)	(2,935)	(472)	(3,756)
Finance Cost	(9)	(31)	(45)	(49)
Loss before tax	(404)	(2,966)	(517)	(3,805)
Profit/(Loss) before tax is stated after charging/(crediting):-				
Reversal of impairment loss on trade receivables	(597)	-	(945)	-
Bad debts recovered	-	-	(172)	-
Other income	(35)	-	(210)	(138)
Impairment loss on trade receivables	-	1,622	-	1,622
Inventories written off	319	951	319	951
Interest expenses	9	-	45	-
Depreciation and amortisation	233	252	953	926
Foreign exchange (gain) / loss	8	-	21	-
Income tax expense	-	-	-	-
Loss for the period	(404)	(2,966)	(517)	(3,805)
Foreign currency translation	1	-	3	-
Total comprehensive loss	(403)	(2,966)	(514)	(3,805)
Attributable to :-				
Owners of the Company	(405)	(2,966)	(518)	(3,805)
Non-Controlling Interests	1	-	1	-
	(404)	(2,966)	(517)	(3,805)
Total comprehensive loss attributable to:-				
Owners of the Company	(403)	(2,966)	(514)	(3,805)
Non-Controlling Interests	-	-	-	-
	(403)	(2,966)	(514)	(3,805)
EPS - Basic (sen)	(0.14)	(1.02)	(0.18)	(1.31)
- 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 31 DECEMBER 2012

	Unaudited As At 31 December 2012 RM'000	Audited As At 31 December 2011 RM'000
Property, Plant and Equipment	243	426
Intangible Assets	16,406	17,171
Receivables	12,932	12,932
Current Assets		
Inventories	517	822
Trade Receivables	3,715	2,081
Other Receivables	1,720	2,467
Cash and bank balances	250	233
	<u>6,202</u>	<u>5,603</u>
Non-current assets held for sale	7	-
Total Current Assets	<u>6,209</u>	<u>5,603</u>
Current Liabilities		
Payables	2,094	2,069
Loans and Borrowings	675	1,157
Tax payable	-	1
	<u>2,769</u>	<u>3,227</u>
Liabilities related to NCA held for sale	36	-
Total Current Liabilities	<u>2,805</u>	<u>3,227</u>
Net Current Assets	3,404	2,376
	<u>32,985</u>	<u>32,905</u>
Share Capital	29,053	29,053
Share Premium	4,296	4,296
Retained Profit / (loss)	(14,219)	(14,012)
Other Reserves	491	27
	<u>19,621</u>	<u>19,364</u>
Amt recognised directly in equity related to NCA HFS	(772)	-
	<u>18,849</u>	<u>19,364</u>
Non-Controlling Interests	18	18
Total Equity	<u>18,867</u>	<u>19,382</u>
Long Term Liabilities		
Payables	14,118	13,523
	<u>32,985</u>	<u>32,905</u>
	-	-
Net Assets Per Share Attributable to owners of the Company (Sen)	6.49	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 31 DECEMBER 2012**

	Unaudited 12 Months Ended 31/12/2012 RM'000	Audited 12 Months Ended 31/12/2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(517)	(3,805)
Adjustment for:		
Amortisation of intangible assets	765	743
Depreciation of property, plant and equipment	188	185
Impairment loss on trade receivables	-	1,622
Interest expense	45	49
Inventories written off	319	951
Other income	(210)	-
Unrealised loss on foreign exchange translation	-	-
Operating profit / (loss) before changes in working capital	<u>590</u>	<u>(255)</u>
Decrease / (Increase) in inventories	(15)	147
Decrease / (Increase) in trade and other receivables	(894)	(1,177)
(Decrease) / Increase in trade and other payables	<u>656</u>	<u>173</u>
Cash (used in) / generated from operations	337	(1,112)
Interest paid	(45)	(49)
Development cost paid	-	(2)
Tax paid	-	-
Net cash (used in) / generated from operating activities	<u>292</u>	<u>(1,163)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant & equipment	(5)	(111)
Proceeds from disposal of fixed assets	-	-
Other income	<u>210</u>	<u>-</u>
Net cash (used in) / generated from investing activities	<u>205</u>	<u>(111)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) / Increase in borrowings	(419)	717
Net drawdown / (repayment) of term loans	-	-
Net cash (used in) / generated from financing activities	<u>(419)</u>	<u>717</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	78	(557)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	(112)	445
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>(34)</u>	<u>(112)</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.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to owners of the Company					Total Equity RM'000
	Share Capital RM'000	Share Premium RM'000	Foreign Currency Translation Reserve RM'000	Held for Sale financial assets RM'000	Distributable Retained Profit / (loss) RM'000	
Year ended 31 December 2012						
At 1 January 2012	29,053	4,296	27	-	(14,012)	18
Foreign exchange difference	-	-	4	-	-	(1)
Total Other comprehensive income for the period	-	-	4	-	-	(1)
Profit / (Loss) for the period	-	-	-	-	(518)	1
Comprehensive Income / (loss) for the period	-	-	4	-	(518)	(0)
Transfer to HFS FA for Forex translation reserve	-	-	460	(460)	-	-
Transfer to HFS FA for Retained earnings	-	-	-	(311)	311	-
At 31 December 2012 (Unaudited)	29,053	4,296	491	(772)	(14,219)	18
Year ended 31 December 2011						
At 1 January 2011	29,053	4,296	27	-	(10,207)	18
Total comprehensive income / (loss)	-	-	-	-	(3,805)	-
At 31 December 2011 (Audited)	29,053	4,296	27	-	(14,012)	18

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 4th quarterly financial report ended 31 December 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 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 31 December 2012				
Segment Revenue				
Revenue	1,513	-	-	1,513
Inter-Segment Sales	-	-	-	-
Total Revenue	1,513	-	-	1,513
Segment PBT / (LBT)				
Segment Results				(395)
Unallotted Corporate Exp.				-
Operating Loss				(395)
Interest Expense				(9)
Interest Income				-
Loss Before Taxation				(404)
Depreciation	42	-	-	42
Non cash expenses other than depreciation	191	-	-	191
Cumulative YTD ended 31 December 2012				
Segment Revenue				
Revenue	4,099	-	-	4,099
Inter-Segment Sales	-	-	-	-
Total Revenue	4,099	-	-	4,099
Segment PBT / (LBT)				
Segment Results				(472)
Unallotted Corporate Exp.				-
Operating Loss				(472)
Interest Expense				(45)
Interest Income				-
Loss Before Taxation				(517)
Depreciation	188	-	-	188
Non cash expenses other than depreciation	765	-	-	765
Segment assets	36,429	1,783	(2,422)	35,790
Segment liabilities	33,244	44	(16,365)	16,923
Capital expenditure	5	-	-	5

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES

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

Pursuant to Rule 9.19(25) of the Bursa Malaysia Securities Berhad ACE Market Listing Requirements, the Board of Directors of Palette Multimedia Berhad ("Palette" or "the Company") has announced that the Company had on 15 October 2012 entered into a Sale and Purchase of Shares Agreement ("SPA") with Jaliah Binti Jalal and Ismail bin Mohamadeen (collectively known as "the Purchasers") for the disposal of 649,999 ordinary shares of USD1 each in PT Palette, representing 99.99% shareholding in PT Palette ["the Sale Shares"] for a total cash consideration of RM1 ["Disposal Consideration"].

Upon completion of the Proposed Disposal, PT Palette shall ceased to be a subsidiary of the Company.

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 ACE Market Listing Requirement

15. Review Of Performance

During the current quarter under review, the Group recorded a net loss attributable to Owners of the Company of RM0.4 million on the back of RM1.5 million revenue representing an increase in performance as compared to a net loss attributable to Owners of the Company of RM3 million in the comparative quarter of the preceding year.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES

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

The Group recorded a loss before tax of RM0.40 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 in profit of approximately 254%. The decrease in profit is mainly due to Provision for interest expense and written off PSSB's inventories are recorded in the current quarter.

17. Commentary Of Prospects

Palette has started the first major implementation of its in house developed Access Management Gateway product with one of the leading Telcos in the region & is commencing trials with another 2 Telcos. In addition Palette will be focusing on the upcoming wave of LTE deployment from the licensees in Malaysia. The Access Management Gateway product is particularly oriented at this market & early feedback is very positive. Palette will continue its current deployment projects under existing contracts.

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 and 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

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.

Further extension of time of 6 months from 4 October 2012 until 3 April 2013 to complete the implementation of the rights issue has been approved by Bursa Securities on 20 September 2012.

On 15 February 2013, the Company has made a Notice of Rights entitlement for renounceable Rights Issue of up to 153,588,250 warrants ("Warrants") at an issue price of RM0.02 per warrant on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.10 each in Palette held at 5.00 P.M. on 27 February 2013.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES**23. Group Borrowings and Debt Securities**

Group Borrowings denominated in Ringgit Malaysia as at 31 December 2012 are as follows:-

	Short Term RM '000	Long Term RM '000	Total RM '000
Secured	284	-	284
Unsecured	391	-	391
Total	<u>675</u>	<u>-</u>	<u>675</u>

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.

Company had on 29 June 2010 filed a notice of appeal against the above decision by the Court and were notified that the Court of Appeal of Malaysia had on 2 January 2013 dismissed our appeal against the decision of the court. Our Board considers that it has a reasonable chance of success if the matter is appealed and Company has applied for leave to appeal to the Federal Court of Malaysia. As such, the full impact on our net profits and shareholders funds could not be reliably quantified at this juncture until the proportion of liability is ascertained by the parties or otherwise.

26. Realised and Unrealised Profits/Losses

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 31/12/2012 RM'000	Group 30/09/2012 RM'000
Total accumulated losses of Palette Multimedia Berhad and it's subsidiaries:		
- Realised (PMB and PSSB)	(14,219)	(13,799)
- Realised (PTPM)	(311)	(327)
- Unrealised - in respect of other items of income and expense		
Total Group accumulated losses as per consolidated accounts	<u>(14,530)</u>	<u>(14,126)</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 31 December 2012.

SELECTED EXPLANATORY NOTES

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>31-Dec-12</u>	<u>31-Dec-11</u>	<u>31-Dec-12</u>	<u>31-Dec-11</u>
Net Profit/(Loss) After Tax & Non-Controlling Int(RM'000)	(405)	(2,966)	(518)	(3,805)
Weighted average number of ordinary shares in issue ('000)	290,527	290,527	290,527	290,527
Basic Profit / (Loss) Per Share (sen)	(0.14)	(1.02)	(0.18)	(1.31)

(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 22nd February 2013.