

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPT 2013

	Unaudited As At 30 Sept 2013 RM'000	Audited As At 31 December 2012 RM'000
ASSETS		
Non-current assets		
Property, Plant and Equipment	154	244
Intangible Assets	15,865	16,406
Receivables	-	12,932
Total non-current assets	<u>16,019</u>	<u>29,582</u>
Current assets		
Inventories	528	517
Trade Receivables	3,052	3,715
Other Receivables	1,642	1,720
Cash and bank balances	1,383	250
	<u>6,605</u>	<u>6,202</u>
Assets classified as held for sale	7	7
Total current assets	<u>6,612</u>	<u>6,209</u>
Total assets	<u>22,631</u>	<u>35,791</u>
EQUITY AND LIABILITIES		
Equity		
Share Capital	29,053	29,053
Share Premium	4,296	4,296
Warrants reserve	2,629	-
Accumulated loss	(21,060)	(14,532)
Other Reserves	36	31
Equity attributable to owners of the Company	<u>14,954</u>	<u>18,848</u>
Non-Controlling Interests	20	18
Total Equity	<u>14,974</u>	<u>18,866</u>
Non-current liabilities		
Trade and other payables	5,522	13,638
Current Liabilities		
Trade and other payables	1,756	2,576
Loans and Borrowings	347	675
	<u>2,103</u>	<u>3,251</u>
Liabilities classified as held for sale	32	36
	<u>2,135</u>	<u>3,287</u>
Total liabilities	<u>7,657</u>	<u>16,925</u>
Total equity and liabilities	<u>22,631</u>	<u>35,791</u>
	-	-
Net Assets Per Share Attributable to owners of the Company (Sen)	5.15	6.49

Note:

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2012 and the accompanying explanatory notes attached to the interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPT 2013

	Unaudited 2013 Current Qtr Ended 30-Sep RM'000	Unaudited 2012 Comparative Qtr Ended 30-Sep RM'000	Unaudited 2013 Cumulative YTD 30-Sep RM'000	Unaudited 2012 Cumulative YTD 30-Sep RM'000
Revenue	236	963	1,399	2,586
Cost of sales	(179)	(313)	(561)	(1,292)
Gross profit	<u>57</u>	<u>650</u>	<u>838</u>	<u>1,294</u>
Other income	69	294	104	695
Selling and distribution	(29)	(24)	(96)	(159)
Administrative and general expenses	(1,832)	(650)	(3,467)	(1,908)
Results from operating activities	<u>(1,735)</u>	<u>270</u>	<u>(2,621)</u>	<u>(78)</u>
Finance Cost	(3,896)	(7)	(3,904)	(35)
Profit / (Loss) before tax	<u>(5,631)</u>	<u>263</u>	<u>(6,525)</u>	<u>(113)</u>
Profit / (Loss) before tax is stated after charging/(crediting):-				
Reversal of impairment loss on trade receivables	-	(144)	-	(348)
Bad debts recovered	(52)	-	(52)	(172)
Interest income	(16)	-	(16)	-
Interest expenses	3,896	7	3,904	35
Depreciation and amortisation	221	237	659	720
Foreign exchange loss	3	3	5	13
	<u>3</u>	<u>3</u>	<u>5</u>	<u>13</u>
Income tax expense	-	-	-	-
Profit / (Loss) for the period	<u>(5,631)</u>	<u>263</u>	<u>(6,525)</u>	<u>(113)</u>
Foreign currency translation	5	2	4	2
Total comprehensive income / (loss)	<u>(5,626)</u>	<u>265</u>	<u>(6,521)</u>	<u>(111)</u>
Attributable to :-				
Owners of the Company	(5,634)	262	(6,528)	(114)
Non-Controlling Interests	3	1	3	1
	<u>(5,631)</u>	<u>263</u>	<u>(6,525)</u>	<u>(113)</u>
Total comprehensive income / (loss) attributable to:-				
Owners of the Company	(5,628)	266	(6,523)	(110)
Non-Controlling Interests	2	(1)	2	(1)
	<u>(5,626)</u>	<u>265</u>	<u>(6,521)</u>	<u>(111)</u>
EPS - Basic (sen)	(1.94)	0.09	(2.25)	(0.04)
- 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 2012 and the accompanying explanatory notes attached to the interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPT 2013

	Share Capital RM'000	Share Premium RM'000	Warrants Reserve RM'000	Other Reserves - ESOS Reserve RM'000	Other Reserves - Foreign Exchange Reserve RM'000	Accumulated loss RM'000	Equity Attributable to the Owners of the Company RM'000	Non-Controlling Interests RM'000	Total Equity RM'000
Quarter ended 30 Sept 2013									
At 1 January 2013	29,053	4,296	-	13	18	(14,532)	18,848	18	18,866
Foreign exchange difference	-	-	-	-	5	-	5	(1)	4
Total Other comprehensive income for the period	-	-	-	-	5	(6,528)	(6,528)	(1)	(6,525)
Loss for the period	-	-	-	-	-	-	-	3	(6,525)
Comprehensive Income / (loss) for the period	-	-	-	-	5	(6,528)	(6,523)	2	(6,521)
Renounceable Rights Issue of Warrants	-	-	2,905	-	-	-	2,905	-	2,905
Expenses relating to Rights Issue of Warrants	-	-	(276)	-	-	-	(276)	-	(276)
At 30 Sept 2013 (Unaudited)	29,053	4,296	2,629	13	23	(21,060)	14,954	20	14,974
Quarter ended 30 Sept 2012									
At 1 January 2012	29,053	4,296	-	13	14	(14,012)	19,364	18	19,382
Foreign exchange difference	-	-	-	-	4	-	4	(2)	2
Total Other comprehensive income for the period	-	-	-	-	4	(114)	(114)	(2)	(113)
Loss for the period	-	-	-	-	-	-	-	1	(113)
Comprehensive loss for the period	-	-	-	-	4	(114)	(110)	(1)	(111)
At 30 Sept 2012 (Unaudited)	29,053	4,296	-	13	18	(14,126)	19,254	17	19,271

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 2012 and the accompanying notes attached to the interim financial statements.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 SEPT 2013**

	Unaudited 9 Months Ended 30/9/2013 RM'000	Unaudited 9 Months Ended 30/9/2012 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(6,525)	(113)
Adjustments for:		
Amortisation of intangible assets	541	573
Depreciation of property, plant and equipment	118	147
Interest expense	3,904	35
Interest income	(16)	-
Operating (loss) / profit before changes in working capital	<u>(1,978)</u>	<u>642</u>
(Increase) in inventories	(11)	(5)
Decrease / (Increase) in trade and other receivables	13,679	(7)
(Decrease) in trade and other payables	<u>(12,819)</u>	<u>(329)</u>
Cash (used in) / generated from operations	(1,129)	301
Interest paid	(21)	(35)
Interest received	10	-
Net cash (used in) / generated from operating activities	<u>(1,140)</u>	<u>266</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant & equipment	(28)	(5)
Net cash generated (used in) investing activities	<u>(28)</u>	<u>(5)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) in borrowings	(44)	(703)
Proceeds from Rights Issue of Warrants, net of expenses	2,629	-
Net cash generated from / (used in) financing activities	<u>2,585</u>	<u>(703)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	1,417	(442)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	(34)	(113)
CASH AND CASH EQUIVALENTS AT 30 SEPT	<u>1,383</u>	<u>(555)</u>

Note:

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 December 2012 and the accompanying notes attached to the interim financial statements.

SELECTED EXPLANATORY NOTES

1. Accounting Policies and Methods Of Computation

The 3rd quarterly financial report ended 30 Sept 2013 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 2012. 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 2012.

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 2012, except for the adoption of new/revised MFRSs that are effective 1 January 2013. These new/revised MFRSs 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 2012 was not subject to any other qualification.

3. Segmental Reporting

Geographical segments

	Malaysia RM'000	Indonesia RM'000	Elimination RM'000	Consolidated RM'000
Current Quarter ended 30 Sept 2013				
Segment Revenue				
Revenue	236	-	-	236
Inter-Segment Sales	-	-	-	-
Total Revenue	236	-	-	236
Segment PBT / (LBT)				
Segment Results				(1,751)
Unallotted Corporate Exp.				-
Operating Loss				(1,751)
Interest Expense				(3,896)
Interest Income				16
Loss Before Taxation				(5,631)
Depreciation	40	-	-	40
Non cash expenses other than depreciation	181	-	-	181
Cumulative YTD ended 30 Sept 2013				
Segment Revenue				
Revenue	1,399	-	-	1,399
Inter-Segment Sales	-	-	-	-
Total Revenue	1,399	-	-	1,399
Segment PBT / (LBT)				
Segment Results				(2,637)
Unallotted Corporate Exp.				-
Operating Loss				(2,637)
Interest Expense				(3,904)
Interest Income				16
Loss Before Taxation				(6,525)
Depreciation	118	-	-	118
Non cash expenses other than depreciation	541	-	-	541
Segment assets	23,515	1,872	(2,756)	22,631
Segment liabilities	24,226	39	(16,608)	7,657
Capital expenditure	28	-	-	28

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.

SELECTED EXPLANATORY NOTES

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.

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 RM5.6 million on the back of RM0.24 million revenue representing an adverse performance as compared to a net profit attributable to Owners of the Company of RM0.26 million in the comparative quarter of the preceding year. This was due from the full impact of litigation the company lose to ASUSTek as awarded by the Court of Appeal for ASUSTek's cross-appeal amounted approximately RM4,841,282 was taken in this 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 RM5.6 million in the current quarter as compared to a net loss before tax of RM0.68 million in the immediate preceding quarter. This was resulted from the full impact of litigation the company lose to ASUSTek as awarded by the Court of Appeal for ASUSTek's cross-appeal amounted approximately RM4,841,282 was taken in this current quarter.

SELECTED EXPLANATORY NOTES

17. Commentary Of Prospects

Palette continues development of a new range of products to be expected to be launched at end of Q4 2013. In addition, the company is in the process of being evaluated for several large bids based on Palette's Access Management Gateway product. The new range of products is expected to make an impact in the SME and smaller corporate market and is a strong adjunct to the upcoming deployment of both wired and wireless high speed networks.

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 during the current quarter and year-to-date.

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

There were no Corporate Proposal that has been announced but not yet completed during the quarter under review.

23. Group Borrowings and Debt Securities

Group Borrowings denominated in Ringgit Malaysia as at 30 September 2013 are as follows:-

	Short Term RM '000	Long Term RM '000	Total RM '000
Unsecured	347	-	347
Total	347	-	347

24. Off Balance Sheet Financial Instruments

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

25. Material Litigation

Reference is made to our announcements dated 4 June 2010, 8 June 2010, 1 July 2010, 4 December 2012, 7 January 2013, 4 February 2013, 9 April 2013, 23 August 2013, 3 September 2013 and 5 September 2013, on the litigation between the Company and ASUSTek Computer Inc and Bumiputra Commerce Bank Berhad registered under Court of Appeal No.: W-02-1931-2010.

As of 29th November 2013, the Company has reach an understanding with ASUSTek through their solicitor's letter dated 28th and 29th November 2013 that upon the clearance of both cheques of the sum of RM958,000 given as costs in lieu of taxation and ASUSTek will not be interested to proceed with the terms of the Letter Of Demand dated 29 August 2013 and not otherwise.

SELECTED EXPLANATORY NOTES

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 30/09/2013 RM'000	Group 30/06/2013 RM'000
Total accumulated losses of Palette Multimedia Berhad and it's subsidiaries:		
- Realised	(21,060)	(15,426)
- Unrealised - in respect of other items of income and expense	-	-
Total Group accumulated losses as per consolidated accounts	<u>(21,060)</u>	<u>(15,426)</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 Sept 2013.

28. Status of utilisation of proceeds

A Renounceable Rights Issue of 145,263,250 Warrants on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.10 was completed on 28 March 2013.

The proceeds from the Rights Issue have been utilised as follows:

	Amount Utilised (RM'000)	As per Prospectus dated 27 Feb 2013 (RM'000)
Working capital for our Group	1,361	2,355
Payment of trade line facility	150	150
Defray expenses in relation to the Rights Issue of Warrants	400	400
Total	1,911	2,905

29. 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-Sep-13	30-Sep-12	30-Sep-13	30-Sep-12
Net Profit/(Loss) After Tax & Non-Controlling Int(RM'000)	(5,634)	262	(6,528)	(114)
Weighted average number of ordinary shares in issue ('000)	290,527	290,527	290,527	290,527
Basic Profit / (Loss) Per Share (sen)	<u>(1.94)</u>	<u>0.09</u>	<u>(2.25)</u>	<u>(0.04)</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.

30. 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 29th November 2013.