

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DEC 2013

	Unaudited As At 31 December 2013 RM'000	Audited As At 31 December 2012 RM'000
<u>ASSETS</u>		
Non-current assets		
Property, Plant and Equipment	122	244
Intangible Assets	15,535	16,406
Receivables	-	12,932
Total non-current assets	<u>15,657</u>	<u>29,582</u>
Current assets		
Inventories	460	517
Trade Receivables	3,855	3,715
Other Receivables	391	1,720
Cash and bank balances	771	250
	<u>5,477</u>	<u>6,202</u>
Assets classified as held for sale	6	7
Total current assets	<u>5,483</u>	<u>6,209</u>
Total assets	<u>21,140</u>	<u>35,791</u>
<u>EQUITY AND LIABILITIES</u>		
Equity		
Share Capital	29,053	29,053
Share Premium	4,296	4,296
Warrants reserve	2,629	-
Accumulated loss	(19,996)	(14,532)
Other Reserves	38	31
Equity attributable to owners of the Company	<u>16,020</u>	<u>18,848</u>
Non-Controlling Interests	20	18
Total Equity	<u>16,040</u>	<u>18,866</u>
Non-current liabilities		
Trade and other payables	-	13,638
Current Liabilities		
Trade and other payables	5,070	2,576
Loans and Borrowings	-	675
	<u>5,070</u>	<u>3,251</u>
Liabilities classified as held for sale	30	36
	<u>5,100</u>	<u>3,287</u>
Total liabilities	<u>5,100</u>	<u>16,925</u>
Total equity and liabilities	<u>21,140</u>	<u>35,791</u>
	-	-
Net Assets Per Share Attributable to owners of the Company (Sen)	5.51	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 31 DEC 2013**

	Unaudited 2013 Current Qtr Ended 31-Dec RM'000	Unaudited 2012 Comparative Qtr Ended 31-Dec RM'000	Unaudited 2013 Cumulative YTD 31-Dec RM'000	Audited 2012 Cumulative YTD 31-Dec RM'000
Revenue	2,230	1,513	3,629	4,099
Cost of sales	(35)	(1,155)	(596)	(2,447)
Gross profit	<u>2,195</u>	<u>358</u>	<u>3,033</u>	<u>1,652</u>
Other income	329	632	433	1,327
Selling and distribution	(10)	(7)	(106)	(166)
Administrative and general expenses	(1,437)	(1,381)	(4,904)	(3,289)
Results from operating activities	<u>1,077</u>	<u>(398)</u>	<u>(1,544)</u>	<u>(476)</u>
Finance Cost	(12)	(8)	(3,916)	(43)
Profit / (Loss) before tax	<u>1,065</u>	<u>(406)</u>	<u>(5,460)</u>	<u>(519)</u>
Profit / (Loss) before tax is stated after charging/(crediting):-				
Reversal of impairment loss on trade receivables	(6)	(597)	(6)	(945)
Bad debts recovered	-	-	(52)	(172)
Interest income	(3)	-	(19)	-
Impairment loss on intangible assets	132	-	132	-
Impairment loss on trade receivables	491	-	491	-
Inventories written off	-	319	-	319
Interest expenses	12	8	3,916	43
Depreciation and amortisation	230	233	889	953
Foreign exchange loss	6	8	11	21
Income tax expense	-	-	-	-
Profit / (Loss) for the period	<u>1,065</u>	<u>(406)</u>	<u>(5,460)</u>	<u>(519)</u>
Foreign currency translation	1	1	5	3
Total comprehensive income / (loss)	<u>1,066</u>	<u>(405)</u>	<u>(5,455)</u>	<u>(516)</u>
Attributable to :-				
Owners of the Company	1,064	(406)	(5,464)	(520)
Non-Controlling Interests	1	-	4	1
	<u>1,065</u>	<u>(406)</u>	<u>(5,460)</u>	<u>(519)</u>
Total comprehensive income / (loss) attributable to:-				
Owners of the Company	1,066	(406)	(5,457)	(516)
Non-Controlling Interests	-	1	2	-
	<u>1,066</u>	<u>(405)</u>	<u>(5,455)</u>	<u>(516)</u>
EPS - Basic (sen)	0.37	(0.14)	(1.88)	(0.18)
- 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.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DEC 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
Year ended 31 Dec 2013									
At 1 January 2013	29,053	4,296	-	13	18	(14,532)	18,848	18	18,866
Foreign exchange difference	-	-	-	-	7	-	7	(2)	5
Total Other comprehensive income/(loss) for the period	-	-	-	-	7	-	7	(2)	5
Profit/(Loss) for the period	-	-	-	-	-	(5,464)	(5,464)	4	(5,460)
Comprehensive Income / (loss) for the period	-	-	-	-	7	(5,464)	(5,457)	2	(5,455)
Renounceable Rights Issue of Warrants	-	-	2,905	-	-	-	2,905	-	2,905
Expenses relating to Rights Issue of Warrants	-	-	(276)	-	-	-	(276)	-	(276)
At 31 Dec 2013 (Unaudited)	29,053	4,296	2,629	13	25	(19,996)	16,020	20	16,040
Year ended 31 Dec 2012									
At 1 January 2012	29,053	4,296	-	13	14	(14,012)	19,364	18	19,382
Foreign exchange difference	-	-	-	-	4	-	4	(1)	3
Total Other comprehensive income/(loss) for the period	-	-	-	-	4	-	4	(1)	3
Profit/(Loss) for the period	-	-	-	-	-	(520)	(520)	1	(519)
Comprehensive loss for the period	-	-	-	-	4	(520)	(516)	-	(516)
At 31 Dec 2012 (Audited)	29,053	4,296	-	13	18	(14,532)	18,848	18	18,866

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 31 DEC 2013**

	Unaudited 12 Months Ended 31/12/2013 RM'000	Audited 12 Months Ended 31/12/2012 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(5,460)	(519)
Adjustments for:		
Amortisation of intangible assets	739	765
Depreciation of property, plant and equipment	150	188
Impairment loss on intangible assets	132	-
Impairment loss on trade receivables	491	-
Interest expense	3,916	43
Inventories written off	-	319
Deposits written off	64	-
Payables written back	(223)	-
Interest income	(19)	-
Reversal of impairment loss on trade receivables	(6)	(945)
Unrealised loss on foreign exchange translation	-	3
Operating loss before changes in working capital	<u>(216)</u>	<u>(146)</u>
Decrease / (Increase) in inventories	57	(14)
Decrease in trade and other receivables	12,725	50
(Decrease) / Increase in trade and other payables	<u>(10,074)</u>	<u>657</u>
Cash generated from operations	2,492	547
Interest paid	(3,916)	(43)
Interest received	19	-
Net cash (used in) / generated from operating activities	<u>(1,405)</u>	<u>504</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant & equipment	<u>(28)</u>	<u>(5)</u>
Net cash used in investing activities	<u>(28)</u>	<u>(5)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) in borrowings	(391)	(420)
Proceeds from Rights Issue of Warrants, net of expenses	<u>2,629</u>	<u>-</u>
Net cash generated from / (used in) financing activities	<u>2,238</u>	<u>(420)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	805	79
CASH AND CASH EQUIVALENTS AT 1 JANUARY	(34)	(113)
CASH AND CASH EQUIVALENTS AT 31 DEC	<u>771</u>	<u>(34)</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.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

SELECTED EXPLANATORY NOTES**1. Accounting Policies and Methods Of Computation**

The 4th quarterly financial report ended 31 Dec 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 31 Dec 2013				
Segment Revenue				
Revenue	2,230	-	-	2,230
Inter-Segment Sales	-	-	-	-
Total Revenue	2,230	-	-	2,230
Segment PBT / (LBT)				
Segment Results				1,074
Unallotted Corporate Exp.				-
Operating Profit				1,074
Interest Expense				(12)
Interest Income				3
Profit Before Taxation				1,065
Depreciation	32	-	-	32
Non cash expenses other than depreciation	198	-	-	198
Cumulative YTD ended 31 Dec 2013				
Segment Revenue				
Revenue	3,629	-	-	3,629
Inter-Segment Sales	-	-	-	-
Total Revenue	3,629	-	-	3,629
Segment PBT / (LBT)				
Segment Results				(1,563)
Unallotted Corporate Exp.				-
Operating Loss				(1,563)
Interest Expense				(3,916)
Interest Income				19
Loss Before Taxation				(5,460)
Depreciation	150	-	-	150
Non cash expenses other than depreciation	739	-	-	739
Segment assets	22,669	1,875	(3,404)	21,140
Segment liabilities	22,316	37	(17,253)	5,100
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.

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

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 profit attributable to Owners of the Company of RM1.06 mil on the back of RM2.23 million revenue representing an increase performance as compared to a net loss attributable to Owners of the Company of RM0.406 million in the comparative quarter of the preceding year. This was resulted from better gross profit generated during this current quarter.

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

The Group recorded a profit before tax of RM1.06 mil in the current quarter as compared to a net loss before tax of RM5.6 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 the preceding quarter.

PALETTE MULTIMEDIA BERHAD

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SELECTED EXPLANATORY NOTES

17. Commentary Of Prospects

Palette has commenced marketing its new secure gateway product to Telcos & ISPs within Malaysia as well as looking for overseas markets. This innovative product is priced very aggressively with a rich set of features and initial customer feedback is positive. Palette will look to engage OEM manufacturers to embed this security product into their devices and this will be a key thrust for 2014. In addition, development has started on a new range of products targeting markets such as China and Russia. For the ongoing business, Palette is will be bidding for a few major software projects within Q1 2014, with the expected revenue stream occurring later in the year.

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 on the 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

There were no borrowings and debts securities for the financial quarter under review.

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.

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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 31/12/2013 RM'000	Group 30/09/2013 RM'000
Total accumulated losses of Palette Multimedia Berhad and it's subsidiaries:		
- Realised	(19,996)	(21,060)
- Unrealised - in respect of other items of income and expense	-	-
Total Group accumulated losses as per consolidated accounts	<u>(19,996)</u>	<u>(21,060)</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 Dec 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	2,355	2,355
Payment of trade line facility	150	150
Defray expenses in relation to the Rights Issue of Warrants	400	400
Total	<u>2,905</u>	<u>2,905</u>

29. Basic Earnings Per Share**(a) Basic**

The basic earnings per share for the quarter and cumulative year to date are computed as follow:

	Individual Quarter Ended		Cumulative YTD	
	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
Net Profit/(Loss) After Tax & Non-Controlling Int(RM'000)	<u>1,064</u>	<u>(406)</u>	<u>(5,464)</u>	<u>(520)</u>
Weighted average number of ordinary shares in issue ('000)	<u>290,527</u>	<u>290,527</u>	<u>290,527</u>	<u>290,527</u>
Basic Profit/ (Loss) Per Share (sen)	<u>0.37</u>	<u>(0.14)</u>	<u>(1.88)</u>	<u>(0.18)</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.