

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014

	Unaudited As At 31 March 2014 RM'000	Audited As At 31 December 2013 RM'000
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	98	122
Intangible Assets	15,398	15,535
Total Non-Current Assets	<u>15,496</u>	<u>15,657</u>
Current Assets		
Inventories	464	460
Trade Receivables	3,521	4,156
Other Receivables	513	405
Deposits, cash and bank balances	736	771
	<u>5,234</u>	<u>5,792</u>
Assets classified as held for sale	7	6
Total Current Assets	<u>5,241</u>	<u>5,798</u>
Total Assets	<u>20,737</u>	<u>21,455</u>
EQUITY AND LIABILITIES		
Capital and Reserves		
Share capital	29,053	29,053
Share premium	4,296	4,296
Warrants reserve	2,629	2,629
Accumulated loss	(20,821)	(20,253)
Other reserves	38	39
Equity attributable to owners of the Company	<u>15,195</u>	<u>15,764</u>
Non-controlling interests	18	18
Total Equity	<u>15,213</u>	<u>15,782</u>
Non-Current Liabilities		
Deferred tax liabilities	361	361
Current Liabilities		
Trade and other payables	5,131	5,282
Loans and Borrowings	-	-
	<u>5,131</u>	<u>5,282</u>
Liabilities classified as held for sale	32	30
	<u>5,163</u>	<u>5,312</u>
Total Liabilities	<u>5,524</u>	<u>5,673</u>
Total Equity and Liabilities	<u>20,737</u>	<u>21,455</u>
	-	-
Net Assets Per Share Attributable to owners of the Company (Sen)	5.23	5.43

Note:

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2013 and the accompanying explanatory notes attached to the interim financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 MARCH 2014**

	Unaudited 2014 Current Qtr Ended 31-Mar RM'000	Unaudited 2013 Comparative Qtr Ended 31-Mar RM'000	Unaudited 2014 Cumulative YTD 31-Mar RM'000	Unaudited 2013 Cumulative YTD 31-Mar RM'000
Revenue	114	905	114	905
Cost of sales	(19)	(255)	(19)	(255)
Gross profit	<u>95</u>	<u>650</u>	<u>95</u>	<u>650</u>
Other income	58	25	58	25
Selling and distribution	(20)	(33)	(20)	(33)
Administrative and general expenses	(701)	(849)	(701)	(849)
Loss from operations	<u>(568)</u>	<u>(207)</u>	<u>(568)</u>	<u>(207)</u>
Finance Cost	-	(1)	-	(1)
Loss before tax	<u>(568)</u>	<u>(208)</u>	<u>(568)</u>	<u>(208)</u>
Loss before tax is stated after charging/(crediting):-				
Reversal of impairment loss on trade receivables	(1)	-	(1)	-
Interest expenses	-	1	-	1
Depreciation and amortisation	164	217	164	217
Foreign exchange (gain) / loss	(57)	1	(57)	1
Income tax expense	-	-	-	-
Loss for the period	<u>(568)</u>	<u>(208)</u>	<u>(568)</u>	<u>(208)</u>
Foreign currency translation	(1)	-	(1)	-
Total comprehensive loss	<u>(569)</u>	<u>(208)</u>	<u>(569)</u>	<u>(208)</u>
Attributable to :-				
Owners of the Company	(568)	(208)	(568)	(208)
Non-Controlling Interests	-	-	-	-
	<u>(568)</u>	<u>(208)</u>	<u>(568)</u>	<u>(208)</u>
Total comprehensive loss attributable to:-				
Owners of the Company	(569)	(208)	(569)	(208)
Non-Controlling Interests	-	-	-	-
	<u>(569)</u>	<u>(208)</u>	<u>(569)</u>	<u>(208)</u>
EPS - Basic (sen)	(0.20)	(0.07)	(0.20)	(0.07)
- 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 2013 and the accompanying explanatory notes attached to the interim financial statements.

PALETTE MULTIMEDIA BERHAD

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2014**

	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 31 March 2014									
Balance as at 1 January 2014	29,053	4,296	2,629	13	26	(20,253)	15,764	18	15,782
Foreign exchange difference	-	-	-	-	(1)	-	(1)	-	(1)
Total Other comprehensive income/(loss) for the period	-	-	-	-	(1)	-	(1)	-	(1)
Loss for the period	-	-	-	-	-	(568)	(568)	-	(568)
Comprehensive loss for the period	-	-	-	-	(1)	(568)	(569)	-	(569)
Renounceable Rights Issue of Warrants	-	-	-	-	-	-	-	-	-
Expenses relating to Rights Issue of Warrants	-	-	-	-	-	-	-	-	-
Balance as at 31 March 2014 (Unaudited)	29,053	4,296	2,629	13	25	(20,821)	15,195	18	15,213

Quarter ended 31 March 2013

Balance as at 1 January 2013	29,053	4,296	-	13	18	(14,532)	18,848	18	18,866
Foreign exchange difference	-	-	-	-	(1)	-	(1)	1	-
Total Other comprehensive income/(loss) for the period	-	-	-	-	(1)	-	(1)	1	-
Loss for the period	-	-	-	-	-	(208)	(208)	-	(208)
Comprehensive income / (loss) for the period	-	-	-	-	(1)	(208)	(209)	1	(208)
Renounceable Rights Issue of Warrants	-	-	2,905	-	-	-	2,905	-	2,905
Expenses relating to Rights Issue of Warrants	-	-	(153)	-	-	-	(153)	-	(153)
Balance as at 31 March 2013 (Unaudited)	29,053	4,296	2,752	13	17	(14,740)	21,391	19	21,410

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 2013 and the accompanying notes attached to the interim financial statements.

PALETTE MULTIMEDIA BERHAD

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 MARCH 2014**

	Unaudited 3 Months Ended 31/03/2014 RM'000	Unaudited 3 Months Ended 31/03/2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(568)	(208)
Adjustments for:		
Amortisation of intangible assets	137	180
Depreciation of property, plant and equipment	27	37
Interest expense	-	1
Other income	-	(25)
Reversal of impairment loss on trade receivables	(1)	-
Operating loss before changes in working capital	(405)	(15)
(Increase) / Decrease in inventories	(4)	9
(Increase) / Decrease in trade and other receivables	527	(192)
Increase / (Decrease) in trade and other payables	(151)	45
Cash used in from operations	(33)	(153)
Interest paid	-	(1)
Net cash used in operating activities	(33)	(154)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant & equipment	(3)	(4)
Other income	-	25
Net cash generated from / (used in) investing activities	(3)	21
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in borrowings	-	29
Proceeds from issuance of warrants, net of listing expenses	-	2,752
Net cash generated from financing activities	-	2,781
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(36)	2,648
EFFECT OF EXCHANGE RATE CHANGES	1	-
CASH AND CASH EQUIVALENTS AT 1 JANUARY	771	(34)
CASH AND CASH EQUIVALENTS AT 31 MARCH	736	2,614

Note:

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 December 2013 and the accompanying notes attached to the interim financial statements.

SELECTED EXPLANATORY NOTES

1. Accounting Policies and Methods Of Computation

The 1st quarter financial report ended 31 Mar 2014 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 2013. 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 2013.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2013 except as follows:

Effective for financial periods beginning on or after 1 January 2013:

- MFRS 10 : Consolidated Financial Statements
- MFRS 11 : Joint Arrangements
- MFRS 12 : Disclosure of Interests in Other Entities
- MFRS 13 : Fair Value Measurement
- MFRS 119 : Employee Benefits
- MFRS 127 : Separate Financial Statements
- MFRS 128 : Investments in Associates and Joint Ventures (2011)
- Amendments to MFRS 1 : First-time Adoption of MFRS (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 7 : Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 101 : Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 116 : property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 132 : Financial Instruments : Presentation (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 134 : Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 10 : Consolidated Financial Statements: Transition Guidance
- Amendments to MFRS 11 : Joint Arrangements: Transition Guidance
- Amendments to MFRS 12 : Disclosure of Interests in Other Entities: Transition Guidance

The adoption of the above do not have any significant financial impact on the Group upon their initial application.

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 2013 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 Mar 2014				
Segment Revenue				
Revenue	114	-	-	114
Inter-Segment Sales	-	-	-	-
Total Revenue	114	-	-	114
Segment PBT / (LBT)				
Segment Results				(568)
Unallotted Corporate Exp.				-
Operating Profit				(568)
Interest Expense				-
Interest Income				-
Loss Before Taxation				(568)
Depreciation	27	-	-	27
Non cash expenses other than depreciation	137	-	-	137
	Malaysia RM'000	Indonesia RM'000	Elimination RM'000	Consolidated RM'000
Cumulative YTD ended 31 Mar 2014				
Segment Revenue				
Revenue	114	-	-	114
Inter-Segment Sales	-	-	-	-
Total Revenue	114	-	-	114

PALETTE MULTIMEDIA BERHAD

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SELECTED EXPLANATORY NOTES

Segment PBT / (LBT)				
Segment Results				(568)
Unallotted Corporate Exp.				-
Operating Loss				(568)
Interest Expense				-
Interest Income				-
Loss Before Taxation				(568)
Depreciation	27	-	-	27
Non cash expenses other than depreciation	137	-	-	137
Segment assets	20,766	1,878	(1,907)	20,737
Segment liabilities	20,799	39	(15,675)	5,163
Capital expenditure	3	-	-	3

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.

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"].

Reference is made to the announcement dated 15 October 2012. The Board of Palette Multimedia Berhad ("Palette" or "the Company") wishes to inform that the approval for the transfer of shares has been obtained from the authority in Indonesia on 7 May 2014.

In connection with the above, the Proposed Disposal has been completed on 7 May 2014 and PT Palette has ceased to be a subsidiary of Palette with effect therefrom.

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.

PALETTE MULTIMEDIA BERHAD

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SELECTED EXPLANATORY NOTES

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 RM0.568 million on the back of RM0.114 million revenue representing an adverse performance as compared to a net loss attributable to Owners of the Company of RM0.208 million in the comparative quarter of the preceding year.

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

The Group recorded a loss before tax of RM0.568 million in the current quarter as compared to a net profit before tax of RM1 million in the immediate preceding quarter. This was mainly due to decrease in revenue in this current quarter.

17. Commentary Of Prospects

Palette's AMG gateway saw its first deployment with a major Telco in an innovative deployment that promises integration of a number of new network services which we believe is the first for such a product. This trial deployment will run on and upon successful deployment the product is expected to become a mainstream item for such networks. The product will continue development in parallel with the first version and variants that allow for very large networks to be managed will be launched in 2nd quarter of year 2014.

In addition to the above Palette has entered bids into multiple large projects which are expected to come to fruition within the second half of year 2014. A major area of development is specialist mobile applications for the China, Russia and Indonesia markets and again these are expected to impact revenue positively in the second half of year 2014.

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

On 9 May 2014, the Company has announced that the Company proposes to undertake the following:

(i) proposed reduction of RM4,000,000 from the share premium account of the Company pursuant to Sections 60(2) and 64(1) of the Companies Act, 1965 ("Act") ("Proposed Share Premium Reduction");

(ii) proposed reduction of the issued and paid-up share capital of the Company pursuant to Section 64(1) of the Act involving the cancellation of RM0.06 par value of all existing ordinary shares of RM0.10 each to RM0.04 each ("Palette Shares") in the Company ("Proposed Par Value Reduction"); and

(iii) proposed amendments to the Memorandum and Articles of Association of the Company to facilitate the Proposed Par Value Reduction ("Proposed Amendments").

PALETTE MULTIMEDIA BERHAD

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SELECTED EXPLANATORY NOTES**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.

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 31/03/2014 RM'000	Group 31/12/2013 RM'000
Total accumulated losses of Palette Multimedia Berhad and it's subsidiaries:		
- Realised	(20,580)	(19,402)
- Unre: - in respect of other items of income and expense	(361)	(361)
	<u>(20,941)</u>	<u>(19,763)</u>
Add: Consolidation adjustments	120	(490)
Total Group accumulated losses as per consolidated accounts	<u>(20,821)</u>	<u>(20,253)</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 Mar 2014.

28. 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-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
Net Loss After Tax & Non-Controlling Int(RM'000)	(568)	(208)	(568)	(208)
Weighted average number of ordinary shares in issue ('000)	290,527	290,527	290,527	290,527
Basic Loss Per Share (sen)	<u>(0.20)</u>	<u>(0.07)</u>	<u>(0.20)</u>	<u>(0.07)</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.