

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2014

	Unaudited As At 30 September 2014 RM'000	Audited As At 31 December 2013 RM'000
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	70	122
Intangible Assets	15,124	15,535
Total Non-Current Assets	<u>15,194</u>	<u>15,657</u>
Current Assets		
Inventories	482	460
Trade Receivables	1,982	4,156
Other Receivables	447	405
Deposits, cash and bank balances	763	771
	<u>3,674</u>	<u>5,792</u>
Assets classified as held for sale	-	6
Total Current Assets	<u>3,674</u>	<u>5,798</u>
Total Assets	<u>18,868</u>	<u>21,455</u>
EQUITY AND LIABILITIES		
Capital and Reserves		
Share capital	11,621	29,053
Share premium	151	4,296
Warrants reserve	2,629	2,629
Accumulated loss	(770)	(20,253)
Other reserves	13	39
Equity attributable to owners of the Company	<u>13,644</u>	<u>15,764</u>
Non-controlling interests	-	18
Total Equity	<u>13,644</u>	<u>15,782</u>
Non-Current Liabilities		
Deferred tax liabilities	361	361
Current Liabilities		
Trade and other payables	4,863	5,282
	<u>4,863</u>	<u>5,282</u>
Liabilities classified as held for sale	-	30
Total Current Liabilities	<u>4,863</u>	<u>5,312</u>
Total Liabilities	<u>5,224</u>	<u>5,673</u>
Total Equity and Liabilities	<u>18,868</u>	<u>21,455</u>
	-	-
Net Assets Per Share Attributable to owners of the Company (Sen)	4.70	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 30 SEPTEMBER 2014

	Unaudited 2014 Current Qtr Ended 30-Sep RM'000	Unaudited 2013 Comparative Qtr Ended 30-Sep RM'000	Unaudited 2014 Cumulative YTD 30-Sep RM'000	Unaudited 2013 Cumulative YTD 30-Sep RM'000
Revenue	40	236	321	1,399
Cost of sales	(63)	(179)	(117)	(561)
Gross profit / (loss)	(23)	57	204	838
Other income	108	69	213	104
Selling and distribution	(448)	(29)	(483)	(96)
Administrative and general expenses	(463)	(1,832)	(1,907)	(3,467)
Loss from operations	(826)	(1,735)	(1,973)	(2,621)
Finance Cost	-	(3,896)	-	(3,904)
Loss before tax	(826)	(5,631)	(1,973)	(6,525)
Loss before tax is stated after charging/(crediting):-				
Reversal of impairment loss on trade receivables	(166)	-	(167)	-
Gain on disposal of investment in subsidiary	-	-	(45)	-
Bad debts recovered	-	(52)	-	(52)
Interest income	-	(16)	(2)	(16)
Interest expenses	-	3,896	-	3,904
Depreciation and amortisation	146	221	473	659
Foreign exchange loss	119	3	62	5
Income tax expense	-	-	-	-
Loss for the period	(826)	(5,631)	(1,973)	(6,525)
Foreign currency translation	-	5	(20)	4
Total comprehensive loss	(826)	(5,626)	(1,993)	(6,521)
Attributable to :-				
Owners of the Company	(826)	(5,634)	(1,973)	(6,528)
Non-Controlling Interests	-	3	-	3
	(826)	(5,631)	(1,973)	(6,525)
Total comprehensive loss attributable to:-				
Owners of the Company	(826)	(5,628)	(1,975)	(6,523)
Non-Controlling Interests	-	2	(18)	2
	(826)	(5,626)	(1,993)	(6,521)
Loss Per Share - Basic (sen)	(0.28)	(1.94)	(0.68)	(2.25)
- 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.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 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 30 September 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	-	-	-	-	(26)	24	(2)	(18)	(20)
Total Other comprehensive income/(loss) for the period	-	-	-	-	(26)	24	(2)	(18)	(20)
Loss for the period	-	-	-	-	-	(1,973)	(1,973)	-	(1,973)
Comprehensive loss for the period	-	-	-	-	(26)	(1,949)	(1,975)	(18)	(1,993)
Share premium & par value reduction	(17,432)	(4,000)	-	-	-	21,432	-	-	-
Expenses relating to Share premium & par value reduction	-	(145)	-	-	-	-	(145)	-	(145)
Balance as at 30 September 2014 (Unaudited)	11,621	151	2,629	13	-	(770)	13,644	-	13,644
Quarter ended 30 September 2013									
Balance as 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/(loss) for the period	-	-	-	-	5	-	5	(1)	4
Loss for the period	-	-	-	-	-	(6,528)	(6,528)	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)
Balance as at 30 September 2013 (Unaudited)	29,053	4,296	2,629	13	23	(21,060)	14,954	20	14,974

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

(Company No.: 420056-K)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 2014**

	Unaudited 9 Months Ended 30/09/2014 RM'000	Unaudited 9 Months Ended 30/09/2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(1,973)	(6,525)
Adjustments for:		
Amortisation of intangible assets	411	541
Depreciation of property, plant and equipment	62	118
Interest expense	-	3,904
Interest income	(2)	(16)
Gain on disposal of investment in subsidiary	(45)	-
Reversal of impairment loss on trade receivables	(167)	-
Operating loss before changes in working capital	<u>(1,714)</u>	<u>(1,978)</u>
Increase in inventories	(22)	(11)
Decrease in trade and other receivables	2,305	13,679
Decrease in trade and other payables	(450)	(12,819)
Cash generated from / (used in) operations	<u>119</u>	<u>(1,129)</u>
Interest paid	-	(21)
Interest received	2	10
Net cash generated from / (used in) operating activities	<u>121</u>	<u>(1,140)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant & equipment	(10)	(28)
Net cash used in investing activities	<u>(10)</u>	<u>(28)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in borrowings	-	(44)
Proceeds from issuance of warrants, net of listing expenses	-	2,629
Expenses relating to Share premium & par value reduction	(145)	-
Net cash (used in) / generated from financing activities	<u>(145)</u>	<u>2,585</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(34)	1,417
EFFECT OF EXCHANGE RATE CHANGES	26	-
CASH AND CASH EQUIVALENTS AT 1 JANUARY	771	(34)
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	<u>763</u>	<u>1,383</u>

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 3rd quarter financial report ended 30 September 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 with the adoption of the following MFRS:

Effective for financial periods beginning on or after 1 January 2014:

- Amendments to MFRS 10 : Consolidated Financial Statements - Investment Entities
- Amendments to MFRS 12 : Disclosure of Interests in Other Entities - Investment Entities
- Amendments to MFRS 127 : Separate Financial Statements - Investment Entities
- Amendments to MFRS 132 : Financial Instruments : Presentation - Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 136 : Impairment of Asset - Recoverable Amount Disclosures For Non-Financial Assets
- Amendments to MFRS 139 : Financial Instruments : Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting
- IC Interpretation 21 : Levies

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

Geographical segment

The business of the Group is managed principally in Malaysia and its products are distributed mainly in Malaysia.

Business segment

The Group is principally engaged in the business of design, development and marketing of information technology related product and services. Business segmental information has therefore not been prepared as the Group's revenue, operating profit, asset employed, liabilities, capital expenditure, depreciation and non-cash expenses are mainly confirmed to one business segment.

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

There has been no change in the composition of the Group during the interim period under review.

SELECTED EXPLANATORY NOTES

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 RM0.826 million on the back of RM0.040 million revenue representing an improvement in performance as compared to a net loss attributable to Owners of the Company of RM5.631 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 RM0.826 million in the current quarter as compared to a net loss before tax of RM0.579 million in the immediate preceding quarter.

17. Commentary Of Prospects

Q4 has seen the launch of the iMedic cloud based medical tracking system. The initial interest is very high and this product will be developed further to mature into a full blown cloud based medical system.

Palette has also commenced work on an innovative upgrade of a major consumer service within Malaysia with the aim of building a series of mobile apps and software as a service offering that are cloud based. This is expected to impact revenue positively within Q4 and has good long term prospects; this service is built on the expertise gained building Palette's own AMS network product.

Palette continues to build very strong software and network integration capabilities around cloud technologies.

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 during the current interim period 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

There were no Material Litigation for the financial quarter under review.

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 30/09/2014 RM'000	Group 31/12/2013 RM'000
Total accumulated losses of Palette Multimedia Berhad and it's subsidiaries:		
- Realised	1,531	(19,402)
- Unrealised - in respect of other items of income and expense	(361)	(361)
	<u>1,170</u>	<u>(19,763)</u>
Add: Consolidation adjustments	(1,940)	(490)
Total Group accumulated losses as per consolidated accounts	<u>(770)</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 30 Sept 2014.

28. Basic Loss Per Share

(a) Basic

The basic loss 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-14	30-Sep-13	30-Sep-14	30-Sep-13
Net Loss After Tax & Non-Controlling Int(RM'000)	(826)	(5,634)	(1,973)	(6,528)
Weighted average number of ordinary shares in issue ('000)	290,527	290,527	290,527	290,527
Basic Loss Per Share (sen)	<u>(0.28)</u>	<u>(1.94)</u>	<u>(0.68)</u>	<u>(2.25)</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.