

PALETTE MULTIMEDIA BERHAD

(Company No.: 420056-K)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DEC 2015

	Unaudited As At 31 December 2015 RM'000	Audited As At 31 December 2014 RM'000
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	42	72
Intangible Assets	10,032	11,028
Deferred tax assets	95	95
Total Non-Current Assets	<u>10,169</u>	<u>11,195</u>
Current Assets		
Inventories	466	446
Trade Receivables	2,663	2,607
Other Receivables	421	436
Deposits, cash and bank balances	52	475
Total Current Assets	<u>3,602</u>	<u>3,964</u>
Total Assets	<u>13,771</u>	<u>15,159</u>
EQUITY AND LIABILITIES		
Capital and Reserves		
Share capital	11,621	11,621
Share premium	296	296
Warrants reserve	2,629	2,629
Accumulated loss	(3,459)	(5,644)
Total Equity	<u>11,087</u>	<u>8,902</u>
Non-Current Liabilities		
Trade and other payables	1,717	1,717
Total Non-Current Liabilities	<u>1,717</u>	<u>1,717</u>
Current Liabilities		
Loans and Borrowings	345	-
Trade and other payables	622	4,540
Total Current Liabilities	<u>967</u>	<u>4,540</u>
Total Liabilities	<u>2,684</u>	<u>6,257</u>
Total Equity and Liabilities	<u>13,771</u>	<u>15,159</u>
	-	-
Net Assets Per Share Attributable to owners of the Company (Sen)	3.82	3.06

Note:

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying explanatory notes attached to the interim financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DEC 2015**

	Unaudited 2015 Current Qtr Ended 31-Dec RM'000	Unaudited 2014 Comparative Qtr Ended 31-Dec RM'000	Unaudited 2015 Cumulative YTD 31-Dec RM'000	Audited 2014 Cumulative YTD 31-Dec RM'000
Revenue	1,068	796	2,309	1,117
Cost of sales	(130)	(154)	(740)	(271)
Gross profit	<u>938</u>	<u>642</u>	<u>1,569</u>	<u>846</u>
Other income	16	1,943	3,720	2,156
Selling and distribution	(17)	69	(89)	(414)
Administrative and general expenses	(496)	(6,511)	(1,978)	(7,945)
Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)	<u>441</u>	<u>(3,857)</u>	<u>3,222</u>	<u>(5,357)</u>
Amortisation of Intangible Assets	(124)	(137)	(996)	(548)
Depreciation	(8)	(3)	(33)	(65)
Profit / (Loss) from operations	<u>309</u>	<u>(3,997)</u>	<u>2,193</u>	<u>(5,970)</u>
Finance Cost	(5)	(1,322)	(8)	(1,322)
Profit / (Loss) before tax	<u>304</u>	<u>(5,319)</u>	<u>2,185</u>	<u>(7,292)</u>
Profit / (Loss) before tax is stated after charging/(crediting):-				
Reversal of impairment loss on trade receivables	(2)	(1)	(2)	(168)
Gain on debt waiver	-	(1,985)	(3,680)	(1,985)
Interest income	(1)	-	(5)	(2)
Impairment loss on intangible assets	-	3,959	-	3,959
Impairment loss on trade receivables	53	-	53	-
Inventories written off	-	15	-	15
Loss on disposal of investment in subsidiary	-	1,961	-	1,916
Interest expenses	5	1,322	8	1,322
Depreciation and amortisation	132	140	1,029	613
Foreign exchange loss / (gain)	(12)	-	(32)	62
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income tax expense	-	456	-	456
Profit / (Loss) for the period	<u>304</u>	<u>(4,863)</u>	<u>2,185</u>	<u>(6,836)</u>
Foreign currency translation	-	(25)	-	(45)
Total comprehensive income / (loss)	<u>304</u>	<u>(4,888)</u>	<u>2,185</u>	<u>(6,881)</u>
Attributable to :-				
Owners of the Company	304	(4,863)	2,185	(6,836)
Non-Controlling Interests	-	-	-	-
	<u>304</u>	<u>(4,863)</u>	<u>2,185</u>	<u>(6,836)</u>
Total comprehensive income / (loss) attributable to:-				
Owners of the Company	304	(4,888)	2,185	(6,863)
Non-Controlling Interests	-	-	-	(18)
	<u>304</u>	<u>(4,888)</u>	<u>2,185</u>	<u>(6,881)</u>
Profit / (Loss) per share - Basic (sen)	0.10	(1.67)	0.75	(2.35)
- 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 2014 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 2015**

	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 Dec 2015									
Balance as at 1 January 2015	11,621	296	2,629	-	-	(5,644)	8,902	-	8,902
Foreign exchange difference	-	-	-	-	-	-	-	-	-
Total Other comprehensive income for the period	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	2,185	2,185	-	2,185
Comprehensive income for the period	-	-	-	-	-	2,185	2,185	-	2,185
Balance as at 31 Dec 2015 (Unaudited)	11,621	296	2,629	-	-	(3,459)	11,087	-	11,087
Quarter ended 31 Dec 2014									
Balance as at 1 January 2014	29,053	4,296	2,629	13	26	(20,253)	15,764	18	15,783
Foreign exchange difference	-	-	-	-	(26)	-	(26)	(18)	(45)
Total Other comprehensive income / (loss) for the period	-	-	-	-	(26)	-	(26)	(18)	(45)
Loss for the period	-	-	-	-	-	(6,836)	(6,836)	-	(6,836)
Comprehensive loss for the period	-	-	-	-	(26)	(6,836)	(6,863)	(18)	(6,881)
Share option lapsed	-	-	-	(13)	-	13	-	-	-
Share premium & par value reduction	(17,432)	(4,000)	-	-	-	21,432	-	-	-
Balance as at 31 Dec 2014 (Audited)	11,621	296	2,629	-	-	(5,644)	8,902	-	8,902

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 2014 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 2015**

	Unaudited 12 Months Ended 31/12/2015 RM'000	Audited 12 Months Ended 31/12/2014 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (Loss) before tax	2,185	(7,292)
Adjustments for:		
Amortisation of intangible assets	996	548
Depreciation of property, plant and equipment	33	65
Impairment loss on intangible assets	-	3,959
Impairment loss on trade receivables	53	-
Interest expense	8	1,322
Inventories written off	-	15
Deposit written off	-	6
Interest income	(5)	(2)
Loss on disposal of investment in subsidiary	-	1,916
Gain on debt waiver	(3,680)	(1,985)
Reversal of impairment loss on trade receivables	(2)	(168)
Operating loss before changes in working capital	<u>(412)</u>	<u>(1,616)</u>
Increase in inventories	(20)	(1)
Increase / (Decrease) in trade and other receivables	(92)	1,681
Decrease in trade and other payables	<u>(238)</u>	<u>(342)</u>
Cash used in operations	(762)	(278)
Interest paid	(8)	-
Interest received	5	2
Tax paid	-	(5)
Net cash used in operating activities	<u>(765)</u>	<u>(281)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant & equipment	(3)	(15)
Net cash inflow arising on liquidation of subsidiary	-	0
Net cash used in investing activities	<u>(3)</u>	<u>(15)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(768)	(296)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	475	771
CASH AND CASH EQUIVALENTS AT 31 DEC	<u>(293)</u>	<u>475</u>

Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

Deposits	41	124
Cash and bank balances	11	351
Bank overdraft	(345)	-
	<u>(293)</u>	<u>475</u>

Note:

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying notes attached to the interim financial statements.

SELECTED EXPLANATORY NOTES

1. Accounting Policies and Methods Of Computation

The 4th quarter financial report ended 31 Dec 2015 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 2014. 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 2014.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2014 except for the adoption of the following Amendments and Annual improvements to Standards:

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

Amendments to MFRS 119 : Defined Benefits Plans - Employee Contribution

Annual Improvements to MFRSs 2010 - 2012 Cycle

Annual Improvements to MFRSs 2011 - 2013 Cycle

The adoption of the above standards, amendments and annual improvement do not have any significant financial impact to the Group's financial statements.

2. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the year ended 31 December 2014 was not qualified.

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.

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.

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 Information 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 RM0.304 million on the back of RM1.068 million revenue representing an improvement performance as compared to a net loss attributable to Owners of the Company of RM5.319 million in the comparative quarter of the preceding year.

16. Material Change In the Profit / (Loss) Before Taxation Compared To The Results of :-

	<u>Immediate Preceding Quarter</u>		<u>Individual Quarter Ended</u>		<u>Individual YTD</u>	
	<u>31-Dec-15</u>	<u>30-Sep-15</u>	<u>31-Dec-15</u>	<u>31-Dec-14</u>	<u>31-Dec-15</u>	<u>31-Dec-14</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
EBITDA	441	64	441	(3,857)	3,222	(5,357)
Less : Amortisation of Intangible Assets	(124)	(598)	(124)	(137)	(996)	(548)
Less : Depreciation	(8)	(8)	(8)	(3)	(33)	(65)
Less : Finance cost	(5)	(3)	(5)	(1,322)	(8)	(1,322)
Profit / (Loss) before tax	<u>304</u>	<u>(545)</u>	<u>304</u>	<u>(5,319)</u>	<u>2,185</u>	<u>(7,292)</u>

The Group recorded profit before tax of RM0.304 million in the current quarter, and loss before tax of RM0.545 million in the immediate preceding quarter respectively.

During the current quarter, the Group's revenue has increased RM0.295 million as compare to immediate preceding quarter, and lead the Group's result became profit before tax RM0.304 million.

17. Commentary Of Prospects

Palette's new range of software defined network products have completed successful testing and is awaiting its full live trial & initial purchase. This will be a breakthrough into an new area of network innovation that will drive a new source of revenue. The iMedic system is in its initial rollout phase and is being refined further in order to ensure successful commercialisation; this is Palette's entry into the new arenas of online health care as well as IOT (Internet of Things). In the IOT arena Palette will be launching an innovative Wifi SDcard product that provides personal cloud storage to supplement the limited storage on smartphones and the revenue impact is expected to be in Q2 2016.

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

Refer to the announcements made on 18 November 2015, 19 November 2015 and 3 February 2016 in relation to the Proposed Private Placement, Bursa Securities has, vide its letter dated 4 February 2016, approved the listing of and quotation for up to 43,578,900 new Palette Shares to be issued pursuant to the Proposed Private Placement subject to the following conditions:

- (i) Palette and TA Securities must fully comply with the relevant provisions under the ACE Market Listing Requirements ("LR") pertaining to the implementation of the Proposed Private Placement;
- (ii) Palette and TA Securities to inform Bursa Securities upon the completion of the Proposed Private Placement; and
- (iii) Palette to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Private Placement is completed.

Palette is required to ensure full compliance of all the requirements as provided under the LR at all times.

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 2015 are as follows:-

	Short Term RM '000	Long Term RM '000	Total RM '000
Secured	345	-	345
Unsecured	-	-	-
Total	345	-	345

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.

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 as at the reporting date, into realised and unrealised losses, pursuant to the directive, is as follows:

	Group 31/12/2015 RM'000	Group 31/12/2014 RM'000
Total accumulated losses of Palette Multimedia Berhad and it's subsidiaries:		
- Realised	(17,303)	(19,488)
- Unrealised - in respect of other items of income and expense	95	95
	(17,208)	(19,393)
Add: Consolidation adjustments	13,749	13,749
Total Group accumulated losses as per consolidated accounts	(3,459)	(5,644)

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 2015.

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>	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Net Profit / (Loss) After Tax & Non-Controlling Int(RM'000)	304	(4,863)	2,185	(6,836)
Weighted average number of ordinary shares in issue ('000)	290,527	290,527	290,527	290,527
Basic profit / (Loss) Per Share (sen)	0.10	(1.67)	0.75	(2.35)

(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.