

# CREATIVE TECHNOLOGY LTD

## FIRST QUARTER ENDED 30 SEPTEMBER 2011 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2011

1 CONSOLIDATED INCOME STATEMENT

	<b>GROUP</b>	
	<b>Three months ended 30 September</b>	
	<b>2011</b>	<b>2010</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Sales, net	50,356	57,227
Cost of goods sold	(41,450)	(43,192)
<b>Gross profit</b>	<b>8,906</b>	<b>14,035</b>
Expenses:		
Selling, general and administrative	(13,819)	(14,172)
Research and development	(12,402)	(16,620)
<b>Total expenses</b>	<b>(26,221)</b>	<b>(30,792)</b>
Other income	190	167
Other gains (losses), net	(11,357)	13,112
Share of losses of associated companies	(973)	--
Interest expense	(11)	(20)
<b>Loss before income tax</b>	<b>(29,466)</b>	<b>(3,498)</b>
Income tax expense	(101)	(116)
<b>Net loss</b>	<b>(29,567)</b>	<b>(3,614)</b>
<b>Attributable to:</b>		
Equity holders of the Company	(29,603)	(3,618)
Non-controlling interests	36	4
Loss per share for loss attributable to equity holders of the Company		
- Basic (US\$ per share)	(0.42)	(0.05)
- Diluted (US\$ per share)	(0.42)	(0.05)

**1(a) Net loss is arrived at after accounting for:**

	<b>GROUP</b>	
	<b>Three months ended</b>	
	<b>30 September</b>	
	<b>2011</b>	<b>2010</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Depreciation and amortization	(1,699)	(1,836)
(Write-off/write-down for inventory obsolescence)/Reversal of write-off/write-down for inventory obsolescence	(4,342)	62
Impairment loss of investments	(3,053)	(237)
Foreign exchange (loss) gain	(8,697)	13,211

**2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>GROUP</b>	
	<b>Three months ended</b>	
	<b>30 September</b>	
	<b>2011</b>	<b>2010</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Net loss	(29,567)	(3,614)
Other comprehensive income:		
Net fair value changes of financial assets, available-for-sale	(6,297)	5,163
Total comprehensive income for the period	<u>(35,864)</u>	<u>1,549</u>
Attributable to:		
Shareholders of the Company	(35,900)	1,545
Non-controlling interests	36	4
Total comprehensive income for the period	<u>(35,864)</u>	<u>1,549</u>

### 3 BALANCE SHEETS

	Group		Company	
	30 September 2011 US\$'000	30 June 2011 US\$'000	30 September 2011 US\$'000	30 June 2011 US\$'000
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	146,202	162,958	131,514	148,693
Trade receivables	29,378	27,508	8,773	8,059
Amounts due from subsidiaries	-	-	40,554	37,424
Inventories	38,243	44,089	18,103	23,425
Other current assets	19,341	22,642	4,482	5,966
	<b>233,164</b>	<b>257,197</b>	<b>203,426</b>	<b>223,567</b>
<b>Non-current assets:</b>				
Financial assets, available-for-sale	27,126	36,476	-	-
Other non-current receivables	283	460	-	-
Amounts due from subsidiaries	-	-	196,703	194,391
Investments in associated companies	-	322	-	-
Investments in subsidiaries	-	-	30,790	30,790
Property and equipment	28,215	26,088	805	920
Intangible assets	5,742	5,862	-	-
Other non-current assets	12,399	15,600	1,688	1,422
	<b>73,765</b>	<b>84,808</b>	<b>229,986</b>	<b>227,523</b>
<b>Total assets</b>	<b>306,929</b>	<b>342,005</b>	<b>433,412</b>	<b>451,090</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Trade payables	23,282	20,629	13,216	15,203
Amounts due to subsidiaries	-	-	28,834	29,312
Accrued liabilities and provisions	58,941	60,662	27,566	28,668
Current income tax liabilities	746	790	-	-
	<b>82,969</b>	<b>82,081</b>	<b>69,616</b>	<b>73,183</b>
<b>Non-current liabilities:</b>				
Amounts due to subsidiaries	-	-	21,146	21,149
Deferred income tax liabilities	17,902	17,902	-	-
	<b>17,902</b>	<b>17,902</b>	<b>21,146</b>	<b>21,149</b>
<b>Total liabilities</b>	<b>100,871</b>	<b>99,983</b>	<b>90,762</b>	<b>94,332</b>
<b>NET ASSETS</b>	<b>206,058</b>	<b>242,022</b>	<b>342,650</b>	<b>356,758</b>
<b>EQUITY</b>				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(18,658)	(18,362)	(18,658)	(18,362)
Fair value reserve	9,288	15,585	-	-
Other reserves	64,825	64,629	37,361	37,165
Retained earnings	(116,844)	(87,241)	57,194	71,202
	205,364	241,364	342,650	356,758
Non-controlling interests	694	658	-	-
<b>Total equity</b>	<b>206,058</b>	<b>242,022</b>	<b>342,650</b>	<b>356,758</b>

#### 4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	<b>GROUP</b>	
	<b>Three months ended 30 September</b>	
	<b>2011</b>	<b>2010</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Cash flows from operating activities:</b>		
Net loss	(29,567)	(3,614)
Adjustments for:		
Income tax expense	101	116
Depreciation of property and equipment	1,579	1,726
Amortisation of intangible assets	120	110
Employee share-based expenses	224	906
Share of loss of associated companies	973	--
Loss on disposal of property and equipment	4	12
Impairment loss of financial assets, available-for-sale	3,053	237
Gain on disposal of financial assets, available-for-sale	--	(8)
Currency translation (gains) losses	7,187	(10,870)
Dividend income	(123)	(68)
Interest income	(66)	(99)
Interest expense	10	20
	<u>(16,505)</u>	<u>(11,532)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(1,870)	(3,287)
Inventories	5,846	470
Other assets and receivables	6,046	(2,630)
Trade payables	2,653	(4,274)
Accrued liabilities and provisions	(1,731)	(2,061)
Cash used in operations	<u>(5,561)</u>	<u>(23,314)</u>
Interest received	70	96
Income tax (paid) refunded	(128)	(120)
<b>Net cash used in operating activities</b>	<b><u>(5,619)</u></b>	<b><u>(23,338)</u></b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(3,711)	(326)
Proceeds from sale of property and equipment	1	5
Proceeds from sale of financial assets, available-for-sale	--	8
Purchase of financial assets, available-for-sale	--	(353)
Dividend received	123	68
<b>Net cash (used in) provided by investing activities</b>	<b><u>(3,587)</u></b>	<b><u>(598)</u></b>
<b>Cash flows from financing activities:</b>		
Purchase of treasury shares	(322)	--
<b>Net cash used in financing activities</b>	<b><u>(322)</u></b>	<b><u>--</u></b>
<b>Net decrease in cash and cash equivalents</b>	<b>(9,528)</b>	<b>(23,936)</b>
Cash and cash equivalents at beginning of financial year	162,958	214,025
Effects of currency translation on cash and cash equivalents	(7,228)	10,876
<b>Cash and cash equivalents at end of the period</b>	<b><u>146,202</u></b>	<b><u>200,965</u></b>

## 5 STATEMENTS OF CHANGES IN EQUITY

### 5(a) Statements of Changes in Equity for the Group

	Share Capital US\$'000	Treasury Shares US\$'000	Fair Value Reserve US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
<b>FY2012</b>								
<b>Balance at 1 July 2011</b>	266,753	(18,362)	15,585	64,629	(87,241)	241,364	658	242,022
Purchase of treasury shares	-	(322)	-	-	-	(322)	-	(322)
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	26	-	(28)	-	(2)	-	(2)
Employee share-based expense	-	-	-	224	-	224	-	224
Total comprehensive income (loss) for the period	-	-	(6,297)	-	(29,603)	(35,900)	36	(35,864)
<b>Balance at 30 September 2011</b>	<b>266,753</b>	<b>(18,658)</b>	<b>9,288</b>	<b>64,825</b>	<b>(116,844)</b>	<b>205,364</b>	<b>694</b>	<b>206,058</b>
<b>FY2011</b>								
<b>Balance at 1 July 2010</b>	266,753	(19,122)	13,872	62,285	(34,654)	289,134	642	289,776
Employee share-based expense	-	-	-	906	-	906	-	906
Currency translation difference	-	-	-	-	-	-	1	1
Total comprehensive income (loss) for the period	-	-	5,163	-	(3,618)	1,545	4	1,549
<b>Balance at 30 September 2010</b>	<b>266,753</b>	<b>(19,122)</b>	<b>19,035</b>	<b>63,191</b>	<b>(38,272)</b>	<b>291,585</b>	<b>647</b>	<b>292,232</b>

### 5(b) Statements of Changes in Equity of the Company

	Share Capital US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
<b>FY2012</b>					
<b>Balance at 1 July 2011</b>	266,753	(18,362)	37,165	71,202	356,758
Purchase of treasury shares	-	(322)	-	-	(322)
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	26	(28)	-	(2)
Employee share-based expense	-	-	224	-	224
Total comprehensive loss for the period	-	-	-	(14,008)	(14,008)
<b>Balance at 30 September 2011</b>	<b>266,753</b>	<b>(18,658)</b>	<b>37,361</b>	<b>57,194</b>	<b>342,650</b>
<b>FY2011</b>					
<b>Balance at 1 July 2010</b>	266,753	(19,122)	34,821	115,230	397,682
Employee share-based expense	-	-	906	-	906
Total comprehensive loss for the period	-	-	-	(2,354)	(2,354)
<b>Balance at 30 September 2010</b>	<b>266,753</b>	<b>(19,122)</b>	<b>35,727</b>	<b>112,876</b>	<b>396,234</b>

## 5(c) CHANGES IN THE COMPANY'S SHARE CAPITAL

### Issued and paid up capital

As at 30 September 2011, the Company's issued and paid up capital excluding treasury shares comprises 69,643,715 (30 June 2011: 69,790,415) ordinary shares.

### Employee share options plan

During the first quarter of FY2012, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q1 FY2011: Nil).

As at 30 September 2011, there were 4,805,457 (30 September 2010: 6,550,240) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plan.

### Employee performance share plan

During the first quarter of FY2012, the Company issued 7,500 treasury shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q1 FY2011: Nil).

As at 30 September 2011, there were 1,518,754 (30 September 2010: 2,088,000) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

### Treasury shares

The movement of treasury shares for the period is as follows:

	Three months ended	
	30 September	
	2011	2010
Balance at beginning of period	5,209,585	5,425,345
Purchase of treasury shares	154,200	-
Issued for Employee Performance Share Plan	(7,500)	-
Balance at end of period	<u>5,356,285</u>	<u>5,425,345</u>

Pursuant to the share buy back mandate approved at the extraordinary general meeting held on 28 October 2010, the Company purchased a total of 154,200 ordinary shares in the first quarter of FY2012. The ordinary shares were purchased by way of market acquisitions at prices ranging from S\$2.45 to S\$2.56 per share and the total consideration paid for all of the purchases was S\$389,000.

## 6 GROUP BORROWINGS

	GROUP	
	30 September 2011 US\$'000	30 June 2011 US\$'000
<b>Amount repayable:</b>		
<u>In one year or less, or on demand</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
<u>After one year</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Total	-	-
	<hr/>	<hr/>

## 7 NET ASSET VALUE

	GROUP		COMPANY	
	30 September 2011 US\$	30 June 2011 US\$	30 September 2011 US\$	30 June 2011 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	2.96	3.47	4.92	5.11

## 8 AUDIT

The figures have not been audited or reviewed by our auditors.

## 9 AUDITORS' REPORT

Not applicable.

## 10 ACCOUNTING POLICIES

Except as disclosed in Item 9 below, the Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 30 June 2011.

## 11 CHANGES IN ACCOUNTING POLICIES

None.



## **12 REVIEW OF GROUP PERFORMANCE**

### **CONSOLIDATED INCOME STATEMENT**

#### **Net Sales**

Net sales for the first quarter of FY2012 decreased by 12% compared to the same quarter in FY2011. Revenue was lower in the first quarter of FY2011 as the Group continues to be affected by the difficult market for its products, particularly for the personal digital entertainment products.

#### **Gross Profit**

Gross profit margin was 18% in the first quarter of FY2012 compared to 25% in the first quarter of FY2011. Gross profit margin was lower in the first quarter of FY2012 due primarily to a US\$4.3 million write-down of inventories mainly for personal digital entertainment product category including tablet devices which operates in a highly competitive market characterized by rapidly changing technologies.

#### **Net Loss**

Net loss for the first quarter of FY2012 was US\$29.6 million compared to net loss of US\$3.6 million in the first quarter of FY2011. The Group's result in the first quarter of FY2012 was negatively impacted by the lower gross profit (as explained above), other losses of US\$11.4 million which comprised mainly foreign exchange losses and impairment loss of investments and restructuring charges of US\$2.0 million as the Group continued to take steps to streamline its businesses. Of the US\$2.0 million restructuring charges, US\$0.7 million were included in selling, general and administrative expenses and US\$1.3 million in research and development expenses. The restructuring charges comprised mainly employee severance costs and other exit costs pertaining to lease cancellations and accelerated depreciation of fixed assets.

Research and development expenses in the first quarter of FY2012 decreased by 25% compared to the first quarter of FY2011. Excluding the effect of the restructuring charges, research and development expenses would have decreased by 33%. The decrease in research and development expenses was mainly a result of cost cutting actions taken in FY2011. The Group will continue to invest in product research and development in areas that are strategic to the Group, cutting back research and development spending only in product areas that are not strategic to the Group.

Other losses of US\$11.4 million in the first quarter of FY2012 were due mainly to foreign exchange losses of US\$8.7 million, compared to foreign exchange gains of US\$13.2 million in the first quarter of FY2011, and a US\$3.1 million impairment loss of investments due to adverse business conditions in certain investee companies. Other gains of US\$13.1 million in the first quarter of FY2011 were due mainly to US\$13.2 million foreign exchange gains.

The functional currency of the Company and its subsidiaries is predominantly the US dollar and accordingly, gains and losses resulting from the translation of monetary assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net income (loss). The exchange differences were due mainly to the cash and cash equivalent balances held by the Group. Cash and cash equivalents were held mainly in Singapore dollar, with the balance mainly in US dollar, Euro, British Pound and Japanese Yen. The exchange loss in the first quarter of FY2012 was due mainly to the significant depreciation of Singapore dollar and Euro against the US dollar. The exchange gain in the first quarter of FY2011 was due mainly to the significant appreciation of these currencies against the US dollar during the quarter.

### **BALANCE SHEETS**

The decrease in financial assets, available-for-sale as at 30 September 2011 was due mainly to a US\$6.3 million fair value loss on revaluation of investments as a result of the decline in global stock markets and a US\$3.1 million impairment loss of investments. The decrease in other non-current assets was due mainly to the utilization of security deposit for the payment of the Group's headquarters office building rental. The decrease in inventories was in line with the lower sales. The decrease in other current assets was due mainly to a US\$1.2 million decrease in balances due from associated companies and US\$1.2 million decrease in security deposits and prepayments.

## **CONSOLIDATED STATEMENTS OF CASH FLOWS**

Net cash used in operating activities of US\$5.6 million in the first quarter of FY2012 (first quarter of FY2011: US\$23.3 million) was due mainly to the net loss for the period.

Net cash used in investing activities of US\$3.6 million in the first quarter of FY2012 (first quarter of FY2011: US\$0.6 million) was due mainly to purchase of equipment by a subsidiary company pertaining to the installation of a wireless broadband network in Singapore.

Net cash used in financing activities in the first quarter of FY2012 was not material.

### **13 VARIANCE FROM PROSPECT STATEMENT**

There has been no significant variance in the operating performance of the Group in the first quarter of FY2012 as compared to the prospect statement disclosed in the announcement of results for the fourth quarter and full year ended 30 June 2011.

### **14 PROSPECTS**

The global economic environment is still highly uncertain, particularly in Europe and US, and the overall market for the Group's products remains challenging. The difficult and uncertain market conditions are expected to continue to negatively impact the Group's revenue and gross margins. Operating expenses are expected to be lower in this current quarter and the Group expects to report a lower operating loss.

### **15 DIVIDEND**

No dividends have been recommended in the first quarter of FY2012 and no dividends were recommended or declared for the same period last year.

BY ORDER OF THE BOARD

NG KEH LONG  
COMPANY SECRETARY  
27 OCTOBER 2011

**CONFIRMATION BY THE BOARD**

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the interim financial information for the first quarter ended 30 September 2011 to be false or misleading.

On behalf of the Board of Directors

**Sim Wong Hoo**  
Chairman

**Lee Kheng Nam**  
Director