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## CHAIRMAN'S MESSAGE

Dear Shareholders,

In fiscal 2014, we have continued with introducing new products in the key product categories, and saw the successful launch of some new exciting products in the latter part of the fiscal year, which I will cover in greater length below. However, revenue contributions from these products during the year were not significant enough to offset the decline in revenues from existing products resulting from the challenging market conditions. The difficult and uncertain market conditions for the company's products continued to adversely affect product sales and the financial performance of the Group.

Sales for fiscal year 2014 were US\$116 million compared to US\$165 million for fiscal year 2013. Gross profit as a percentage of sales was 26% in fiscal 2014 compared to 33% in fiscal 2013. Net loss for fiscal 2014 was US\$22 million, compared to a net profit of US\$17 million in fiscal 2013. Sales and gross profit for fiscal 2013 included a US\$20 million licensing income received for the licensing of certain technologies relating to high performance GPU technology. Net results for the Group in fiscal 2013 also included a US\$27 million gain on the divestment of a subsidiary. Excluding these one-time items in fiscal 2013, while sales were lower in fiscal 2014, operating and net results for the Group had improved slightly due to higher gross profit margin and a reduction in operating expenses. Further highlights of the Group's financial performance are detailed in the "Financial Highlights and Review" section of the annual report.

During the year, despite the very challenging market conditions, we continued to push forward with ongoing research and development in key product categories that are strategic to our business – placing a strong focus on the core audio technology behind the Sound Blaster brand and the applications of its technology into the Sound Blaster family of products that includes ultra high performance sound cards and other external audio solutions, innovative wireless sound systems and premium gaming headsets.

In particular, I would like to highlight a new innovative product from this development effort, the Sound Blaster Roar, which has enjoyed a very positive reception since its launch and has turned out to be one of our most well received new products in recent years. It has the potential to be the next Sound Blaster.

The Sound Blaster Roar is a new concept, booklet-size, 5-driver high performance portable Bluetooth wireless speaker that delivers astoundingly powerful, spacious and precise audio that blows people away the moment they hear it. Sneak previewed at CES Las Vegas in January, the highly innovative Sound Blaster Roar created tremendous buzz and received positive early reviews from the media and general public alike. It was a roaring success at its launch in Singapore and has achieved an impressive sales record of '1-unit-sold-per-30-seconds' at a recent consumer electronics show here. The sleek and compact speaker garnered an overwhelming number of rave reviews internationally – scoring 5-out-of-5-stars in numerous major product reviews. At its recent launches in the US, Europe, China and Japan, the reception to the Sound Blaster Roar was just as overwhelming. More information on this product is provided in the cover pages of this annual report.

Another key potential game changing product is the recently announced Sound Blaster X7.

Audio content for games, music and movies has changed so incredibly in detail and complexity in this day and age, and consumed on so many platforms – PCs, laptops, smart devices, TVs and game consoles to name a few – and by many different generations of users. In designing the Sound Blaster X7, our goal is to allow all these users of all these platforms to enjoy the best audio in the way it is meant to be heard, and in the way they want to hear it. The Sound Blaster X7 combines the full force of Creative's renowned 24-bit Sound Blaster processing (up to 192kHz), coupled with a high-resolution 127dB digital-to-analog converter (DAC), a 100-watt amplifier with top-notch audiophile-grade components, and wireless, optical, multi-platform connectivity to deliver the clearest, and most powerful high-resolution audio experience. Comprising a whole slew of great features to cover all aspects of usage on different platforms, the Sound Blaster X7 is to-date the most powerful and technologically advanced audio solution that Creative has ever created. It is the ultimate all-encompassing audiophile upgrade for serious gamers.

In addition to the Sound Blaster X7, we launched the new ultra high performance and portable Sound Blaster E-Series, comprising the professional-grade Sound Blaster E5, and the smaller but very powerful Sound Blaster E3 and Sound Blaster E1 audio solutions. The Sound Blaster E5, a 24bit/192kHz high resolution 120dB USB DAC and portable headphone amplifier, is engineered to deliver bit-perfect audio, allowing mobile users of smart phones and tablets, as well as users of PCs and Macs, to experience audio as the artists intended.

Another new interesting product deserving mention is a very small weatherproof and fun portable wireless speaker, the Creative MUVO mini. The Creative MUVO mini is specially designed to be able to withstand rain, sand and dust, so that users can bring them into the great outdoors to enjoy their digital entertainment content anywhere, anytime.

On another front, I mentioned last year that we would be looking into steps to monetize our formidable collection of over 100 patents in the field of 3D graphics and media processing. Earlier this year, a subsidiary, ZiiLabs Inc., Ltd. commenced action for patent infringement in the United States against two major companies. That case is ongoing.

Looking ahead, for the current fiscal year, while the Group expects market conditions to remain uncertain and challenging, the introduction of new and exciting products which I mentioned earlier, particularly the Sound Blaster Roar, is expected to provide good potential revenue growth opportunities for the Group and position us to re-grow our business.

Thank you.

Sim Wong Hoo  
Chairman & Chief Executive Officer

## FINANCIAL HIGHLIGHTS AND REVIEW

For the financial year ended 30 June 2014

### Overview

	US\$million	
	2014	2013
Sales, net	116.3	165.3
Gross profit	30.1	53.7
Gross profit margin	26%	33%
Expenses	59.6	67.1
Net (loss) profit	(21.8)	16.7

Sales for the financial year ended 30 June 2014 (“FY2014”) were US\$116.3 million compared to US\$165.3 million for the financial year ended 30 June 2013 (“FY2013”). Gross profit in FY2014 was US\$30.1 million at a margin of 26% compared to US\$53.7 million at a margin of 33% in FY2013. Net loss in FY2014 was US\$21.8 million compared to net profit of US\$16.7 million in FY2013.

### Sales

The Group’s sales decreased by 30% to US\$116.3 million in FY2014 compared to US\$165.3 million in FY2013. Sales in FY2013 included a one time US\$20.0 million licensing income. Excluding this one time licensing income, sales in FY2014 decreased by 20% compared to FY2013. Sales were lower in FY2014 due to the uncertain and difficult market conditions which affected the sales of the Group’s products and impacted sales across all three geographical regions.

	US\$million	
<u>Sales by Product Category</u>	2014	2013
Audio, speakers and headphones	103.5	122.0
Personal digital entertainment	8.2	13.6
Other products	4.6	29.7
	<u>116.3</u>	<u>165.3</u>

Sales of all product categories in FY2014 have decreased compared to FY2013. Sales of other products in FY2013 included a one time US\$20.0 million licensing income.

	US\$million	
<u>Sales by Region</u>	2014	2013
Asia Pacific	59.3	95.2
The Americas	17.2	22.9
Europe	39.8	47.2
	<u>116.3</u>	<u>165.3</u>

By geographical region, the decrease in sales in FY2014 was across all three regions at 38%, 25% and 16% in Asia Pacific, the Americas and Europe region respectively. As a percentage of total sales, sales in the Asia Pacific region was 51% in FY2014 compared to 58% in FY2013 which included the one time US\$20.0 million licensing income. Sales in the Americas region were 15% of total sales in FY2014 compared to 14% in FY2013 and sales in the Europe region were 34% of total sales in FY2014 compared to 28% in FY2013.

### Gross Profit

Gross profit was US\$30.1 million in FY2014 compared to US\$53.7 million in FY2013. Gross profit for FY2014 included employee severance charge of US\$0.4 million and write-down of inventory obsolescence for certain existing products following the introduction of new product models. Gross profit margin as a percentage of sales was 26% in FY2014 compared to 33% in FY2013. Excluding the one time licensing income, gross profit margin was 23% for FY2013.

**Expenses**

Total expenses decreased from US\$67.1 million in FY2013 to US\$59.6 million in FY2014.

Selling, general and administrative expenses at US\$34.1 million in FY2014 included employee severance charge of US\$0.7 million. Selling, general administrative expenses were US\$38.7 million in FY2013. The decrease in selling, general and administrative expenses was due mainly to lower level of sales.

Research and development expenses at US\$25.5 million in FY2014 included employee severance charge of US\$1.1 million. Research and development expenses were US\$28.3 million in FY2013. The decrease in research and development expenses was due mainly to cost cutting actions taken by management and costs savings arising from the divestment of a subsidiary company, ZiiLABS Limited in FY2013.

**Net (Loss) Profit**

Net loss in FY2014 was US\$21.8 million compared to net profit of US\$16.7 million in FY2013. Net loss in FY2014 included other gains (net) of US\$3.0 million and US\$2.2 million employee severance charges. In view of the lower revenue, the Group undertook a restructuring exercise in the fourth quarter of FY2014 to reduce costs. Net results of FY2013 included one time licensing income of US\$20.0 million and other gains (net) of US\$28.2 million.

Other gains (net) of US\$3.0 million in FY2014 were due mainly to foreign exchange gain of US\$2.2 million and a US\$1.5 million reversal of provisions upon finalisation of all costs and liabilities relating to the divestment of ZiiLABS Limited in the previous year, offset partially by a US\$1.0 million impairment of investments. Other gains (net) of US\$28.2 million in FY2013 comprised mainly a US\$26.7 million gain on divestment of ZiiLABS Limited and gain on disposal of investments of US\$2.8 million, offset partially by a US\$2.3 million impairment of investments.

The Group's income tax credit of US\$4.5 million and US\$2.5 million in FY2014 and FY2013 respectively, was due mainly to write-back of deferred tax liabilities resulting from an adjustment to the Group's provision for transfer pricing and withholding tax exposure of foreign subsidiaries.

**Balance Sheet**

The decrease in cash and cash equivalents was due mainly to net cash used in operating activities and payment of dividends to equity holders of the Company.

The decrease in trade receivables by US\$4.2 million to US\$10.6 million as at 30 June 2014 was due mainly to the lower level of sales.

The increase in inventories by US\$3.6 million to US\$28.9 million as at 30 June 2014 was due mainly to inventories for new products.

Other non-current assets decreased by US\$1.7 million to US\$0.1 million as at 30 June 2014 was due to a reduction in deferred expenses.

Trade payables decreased by US\$4.4 million to US\$9.4 million as at 30 June 2014 was due mainly to the lower level of operating activities.

Accrued liabilities and provisions decreased by US\$6.6 million to US\$37.9 million as at 30 June 2014 was due mainly to lower level of operating activities and reduction in provisions for commitments for other expenditures and obligations due to payments made to vendors.

The decrease in deferred income tax liabilities by US\$4.5 million to US\$10.7 million as at 30 June 2014 was due to an adjustment to the Group's provision for transfer pricing and withholding tax exposure of foreign subsidiaries.

## BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

### DIRECTORS AND EXECUTIVE OFFICERS

Creative's directors and executive officers are as follows:-

Name	Age	Position
Sim Wong Hoo	59	Chairman of the Board and Chief Executive Officer
Lee Kheng Nam	66	Independent Non-Executive Director
Ng Kai Wa	58	Independent Non-Executive Director
Lee Gwong-Yih	59	Independent Non-Executive Director
Ng Keh Long	55	Chief Financial Officer

**SIM WONG HOO** founded Creative in 1981 and has been its Chairman of the Board and Chief Executive Officer since its inception.

**LEE KHENG NAM** has been a Director of Creative since 1991. He is presently a Venture Partner of GGV Capital and also Chairman of Advantec Pte Ltd, an investment holding company. Mr. Lee is also currently Chairman of Vertex Management (II) Pte Ltd and Deputy Chairman of Vertex Venture Holdings Ltd (VVH), both wholly-owned subsidiaries of Temasek Holdings (Private) Limited engaged in the venture capital direct investment and fund management business. Mr. Lee was General Manager (1988 to February 1995) and subsequently President of Vertex Management Pte Ltd (VMPL) and executive Director of VVH from March 1995 to February 2004. Prior to this, he was with NatSteel group of companies as the Manager of the Project Development Department and the Ministry of National Development where he was Deputy Director of Planning. Mr. Lee is a director of another listed company - China Finance Online Co Ltd. He also sits on the boards of several companies, both local and overseas. He formerly served on the boards of Centillium Communications, Inc, Chartered Semiconductor Manufacturing Ltd, GRIC Communications Inc., ActivCard Corp and Gemplus International S.A. Mr. Lee holds a Bachelor of Science degree in Mechanical Engineering (First Class Honours) from Queen's University, Canada and a Master of Science degree in Operations Research and Systems Analysis from the U.S. Naval Postgraduate School.

**NG KAI WA** became a Director of Creative in 2005. He has been the Co-Founder, Chairman and Chief Executive Officer of InnoMedia Pte Ltd since 1995. InnoMedia is a leading supplier of broadband IP Telephony solutions that deliver high quality-voice and video over IP network, targeted to the broadband service providers, enterprises, consumers and OEM customers. Prior to that, he was the Co-Founder, Chief Technology Officer and Vice Chairman of the Board of Creative Technology Ltd. Mr. Ng holds an Executive Master of Business Administration Degree from the National University of Singapore and a Diploma in Electronic and Electrical Engineering from Ngee Ann Polytechnic.

**LEE GWONG-YIH** became a Director of Creative in 2009. He is currently a Senior Managing Director of Translink Capital, a Silicon Valley-based venture capital firm. Prior to joining Translink Capital in 2014, Mr. Lee was Chairman and Chief Executive Officer of the CyberTAN Technology, Inc., a leading networking company listed in Taiwan, since 2006. From September 1999 to January 2004, Mr. Lee served as General Manager and Senior Director at Cisco Systems, Inc. In March 1998, Mr. Lee established TransMedia Communications, a communication equipment company, and served as its President and Chief Executive Officer until September 1999 when TransMedia Communications was acquired by Cisco Systems, Inc. He also acts as an Independent Non-executive Director of AFOP, listed in NASDAQ, Tailyn Technologies, listed in Taiwan, and an Advisor of Foxconn. Mr. Lee holds a Bachelor of Science degree in Control Engineering from National Chiao-Tung University in Taiwan and a Master of Science degree in Electrical Engineering from New York University.

**NG KEH LONG** joined the Company in April 1993 as Financial Controller and held various financial positions until 1998 when he was appointed as Chief Financial Officer. Prior to joining Creative, he was a Senior Manager with Price Waterhouse (now PricewaterhouseCoopers LLP), where he gained more than ten years' experience in finance, accounting and auditing.

**CORPORATE GOVERNANCE**

For the financial year ended 30 June 2014

Creative Technology Ltd (“Creative” or the “Company”, and together with its subsidiaries, the “Group”) is committed to maintaining good corporate governance in accordance with the principles and guidelines set out in the Code of Corporate Governance issued in May 2012 (the “Code”). Creative’s approach on corporate governance takes into consideration the principles and guidelines set out in the Code, substantially complied with the key principles and supporting guidelines set out in the Code except where specifically identified and disclosed in this report.

This report outlines the main corporate governance practices that were in place throughout the financial year, with specific references to each of the principles of the Code.

**PRINCIPLE 1: THE BOARD’S CONDUCT OF ITS AFFAIRS**

The principal functions of the Board of Directors of the Company (the “Board”) are to provide guidance and to decide on certain important matters, including those involving the review and approval of strategic plans, direction and policies, to review the Group’s performance, to review the adequacy and integrity of internal controls, and to approve material acquisitions and disposals of assets.

These functions are either carried out directly by the Board or through committees, namely the Audit Committee, the Nominating Committee and the Remuneration Committee, established by the Board (collectively referred to as “Board Committees”).

Matters which are specifically reserved to the full Board for decision-making include those involving the review and approval of strategic plans, direction and policies, material acquisitions and disposals of assets, corporate or financial restructuring and share issuances, dividends and other returns to shareholders.

The Articles of Association of the Company allow the Company’s Directors to participate in a Board meeting by telephone conference or video conference whereby all persons participating in the meeting are able to communicate as a group, without requiring the Directors’ physical presence at the meeting.

The number of Board and Board Committee meetings held in the financial year ended 30 June 2014 and the attendance of directors during these meetings is as follows:

Name of Director (Number of Meetings Held)	Board (5)	Audit Committee (6)	Remuneration Committee (2)	Nominating Committee (1)
Sim Wong Hoo	5	—	2	1
Lee Kheng Nam	5	6	2	1
Ng Kai Wa	5	6	2	1
Lee Gwong-Yih	5	6	—	—

Upon appointment of each new director, a letter is provided setting out the director’s duties and obligations. The Group also conducts an orientation programme for new directors to familiarize them with the business activities and corporate governance practices.

Directors are updated regularly on the Group’s strategic directions, financial performance, updates on corporate governance practices, relevant new laws, regulations and changing business risks during Board meetings or at specially-convened sessions.

Directors are also encouraged to request for sponsorship from the Company to attend courses to update their knowledge and better equip themselves to discharge their duties as Directors.

**PRINCIPLE 2: BOARD COMPOSITION AND BALANCE**

The Board comprises four members, one of whom is an Executive Director and three of whom are independent non-Executive Directors. The criteria of independence are based on the definition given in the Code. Key information regarding the Directors is disclosed in Board of Directors and Executive Officers. Together the Board has a diverse wealth of experience as well as skills and knowledge and the diversity of experience, skills and competencies of the Directors enhance the effectiveness of the Board in carrying out its responsibilities.

The Executive Director is Mr Sim Wong Hoo, the Chairman and Chief Executive Officer of the Company. He is also a substantial shareholder.

## CORPORATE GOVERNANCE

For the financial year ended 30 June 2014

### PRINCIPLE 2: BOARD COMPOSITION AND BALANCE (cont'd)

The independent non-Executive Directors are Mr Lee Kheng Nam, Mr Ng Kai Wa and Mr Lee Gwong-Yih.

Mr Lee Kheng Nam has served as an independent director on the Board for more than nine years. The Board had conducted a rigorous review on Mr Lee Kheng Nam's status and determined Mr Lee Kheng Nam an independent director of the Company. The Board is of the view that Mr Lee Kheng Nam's more than nine years of service has not affected his objectivity. He has continued to demonstrate ability to exercise strong independent judgement and act in the interests of the Company. Further, having gained in-depth understanding of the business of the Group, Mr Lee Kheng Nam provides the Company with the experience and knowledge of the industry. His contributions will be valuable to the Company.

The Board is of the view that the current Board, with independent non-Executive Directors making up at least half of the Board, provides for a strong and independent element on the Board capable of exercising objective judgement on corporate affairs of the Group. No individual or small group of individuals dominates the Board's decision-making.

### PRINCIPLE 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has the same Chairman and Chief Executive Officer ("CEO"), Mr Sim Wong Hoo. The Company believes that the independent non-Executive Directors have demonstrated high commitment in their role as Directors and have ensured that there is a good balance of power and authority. As such, there is no need for the role of the Chairman and CEO to be separated.

Mr Sim Wong Hoo is a substantial shareholder of the Company with a shareholding of approximately 33.09%. With his substantial shareholding, his interest is aligned with the Company and that of the other shareholders.

Mr Lee Kheng Nam is the Lead Independent Director. As the Lead Independent Director, he leads and encourages dialogue between independent directors and provides feedback to the Chairman and CEO. As the Lead Independent Director, he is also available as the alternate channel for shareholders, should shareholders fail to resolve concerns through the normal channels of the Chairman and CEO, Chief Financial Officer or when such normal channels are inappropriate.

### PRINCIPLE 4: BOARD MEMBERSHIP

The Nominating Committee (the "NC") consists of three members, two of whom are independent non-Executive Directors. The Chairman of the NC, Mr Ng Kai Wa, is an independent non-Executive Director. The other two members are Mr Sim Wong Hoo, an Executive Director, and Mr Lee Kheng Nam, an independent non-Executive Director.

The principal functions of the NC are, among other matters, to recommend all Board and Board Committee appointments, re-appointments or re-elections, to determine the independence of each Director, and to identify new Directors who have the diversity of experience and appropriate knowledge and skills to contribute effectively to the Board.

When a Director has multiple board representations, such director has to ensure that sufficient time and attention is given to the affairs of the Company. On the issue of multiple board representations, the Board is of the view that it should be left to the judgement and discretion of each Director. As such, the NC and the Board have decided not to set any maximum number of listed company board representations that any director may hold. The NC is satisfied that sufficient time and attention are being given by all the Directors to the affairs of the Company.

The Board does not have a practice of appointing alternate directors. There were no alternate directors in this financial year.

The Board has adopted a process for the selection, appointment and re-appointment of directors to the Board. The NC reviews the compositions of the Board periodically. It assesses and shortlists candidates for a position on the Board when a need arises.

New Directors are at present appointed by way of a Board resolution, after the NC approves their appointment. The Company's Articles of Association provides that all Directors except Executive Directors are to retire at least once every three years by rotation, if they are appointed by the Company at a general meeting, and a newly appointed Director must submit himself for re-election at the next Annual General Meeting. The retiring Director is nonetheless eligible for re-election by shareholders at every Annual General Meeting. Accordingly, Mr Lee Gwong-Yih will, on the date of the Annual General Meeting, retire as Director. The NC recommends his re-appointment as Director at the Annual General Meeting to be held on 29 October 2014.

### PRINCIPLE 5: BOARD PERFORMANCE

A review of the performance of the Board as a whole and its board committees and each individual director will be undertaken by the NC. The Company believes that the Board's performance is ultimately reflected in the performance of the Group. The

Company assesses the Board's performance through its ability to steer the Group in the right direction and the support it renders to Management. In evaluating directors' performance, factors including the directors' attendance, participation and level of participation and contributions at the main board and board committee meetings and other Company activities, are also taken into consideration.

The NC uses its best efforts to ensure that the Directors appointed to the Board possess the relevant necessary background, experience, knowledge and skills so as to enable each Director to bring to the Board an independent and objective perspective to contribute to the effectiveness of the Board.

The Company believes that apart from the Directors' fiduciary duties (i.e. acting in good faith, with due diligence and care, and in the best interests of the Company and its shareholders), the Board's key responsibilities are to set strategic directions and to ensure that the long term objective of enhancing shareholders' value is achieved.

#### **PRINCIPLE 6: ACCESS TO INFORMATION**

In order to ensure that the Board is able to fulfill its responsibilities, management provides the Board members with regular updates of the performance and financial position of the Group including quarterly updates. Management staff and the Company's auditors, who can provide insight into the matters for discussion, are also invited from time to time to attend such meetings. The Company Secretary attends all Board meetings and ensures that all Board procedures are followed. The Company Secretary, together with other management staff of the Company, also ensures that the Company complies with the applicable statutory and regulatory rules.

The Directors have separate and independent access to the Company's senior management and the Company Secretary at all times. Should the Directors, whether as a group or individually, need independent professional advice, the Company will appoint a professional advisor selected by the group or individual, and approved by the Chairman and CEO, to render the advice. The cost of such independent professional advice will be borne by the Company.

#### **PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES**

#### **PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION**

#### **PRINCIPLE 9: DISCLOSURE ON REMUNERATION**

The Remuneration Committee (the "RC") consists of three Directors, two of whom are independent non-Executive Directors. The Chairman of the RC is Mr Sim Wong Hoo, an Executive Director. The other two members are Mr Lee Kheng Nam and Mr Ng Kai Wa, both of whom are independent non-Executive Directors.

The principal functions of the RC are, among other matters, to recommend to the Board the structure of the compensation programme for each Board member and the CEO (or executive of equivalent rank) to ensure that the programme is competitive and sufficient to attract, retain and motivate each Board member and CEO of the required quality to run the Company successfully; to review each Board member's and CEO's compensation annually and determine appropriate adjustments where necessary; and to review any other long term incentive schemes which may be set up from time to time. The RC members are also members of the committees administering the Creative Employee Share Option Plans and the Creative Performance Share Plan.

Mr Sim Wong Hoo, the Chairman and CEO of the Company, and the Chairman of the RC, has been receiving a nominal sum of S\$1 as his annual remuneration since the financial year ended 30 June 2008. He has also opted to be excluded from participating in the Creative Performance Share Plan.

Taking into consideration the remuneration package of Mr Sim Wong Hoo, there is minimal risk of any potential conflict of interest, and his ability to perform the role of the Chairman of the RC is similar to that of a non-Executive Director. Accordingly, the Board is of the view that he is suitable to perform the role of the Chairman of the RC.

The Company adopts a remuneration policy for employees comprising a fixed component and a performance based variable component. The fixed component is in the form of a base salary. The variable component is in the form of a variable bonus that is linked to the Company's and the individual employee's performance. Another element of the variable component is the grant of performance shares to employees under the Company's Performance Share Plan. The Company's employees participate in the performance review process that assesses the individual's performance against set performance targets. Performance against these targets is a factor determining remuneration. This seeks to align the interests of the employees with that of the shareholders.

## CORPORATE GOVERNANCE

For the financial year ended 30 June 2014

### PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

### PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION

### PRINCIPLE 9: DISCLOSURE ON REMUNERATION (cont'd)

Each non-Executive Director is paid an annual Director's fee of S\$60,000 (pro-rated where length of service is less than one year) and is subject to shareholders' approval at the Annual General Meeting. The Director's fee proposed to be paid to each of the Directors for the financial year ended 30 June 2014 is as follows:

Name of Director	Director's Fee*
Lee Kheng Nam	S\$60,000
Ng Kai Wa	S\$60,000
Lee Gwong-Yih	S\$60,000

\* Executive Directors are not paid a Director's Fee.

Each non-Executive Director also participates in the Company's stock options and performance share plan. The details of the Directors' stock options and performance share awards are set out in the Directors' Report. Non-Executive Directors are not paid any salary, bonus, or other remuneration.

The number of top five key executives of the Group (who are not Directors or the CEO) in remuneration bands is as follows:

Remuneration Bands	Number of Key Executives
S\$500,000 to S\$749,999	1
S\$250,000 to S\$499,999	2
Less than S\$250,000	2

For confidentiality and competitive reasons, the Company is not disclosing each individual executive's remuneration and their names. The aggregate total remuneration paid to the top five key executives for the financial year ended 30 June 2014 was S\$1,692,000.

None of the employees of the Group whose annual remuneration exceeds S\$50,000 are immediate family members of the CEO or any other Director of the Company.

Details of the Creative Employee Share Option Plans and Creative Performance Share Plan are set out in the Notes to the Financial Statements.

### PRINCIPLE 10: ACCOUNTABILITY

The Company provides shareholders with quarterly and annual financial results of the Group within the regulatory reporting periods, i.e. results for the first 3 quarters are released to shareholders within 45 days of the end of each quarter whilst the annual results are released within 60 days from the financial year end. In presenting the Group's annual and quarterly results, the Board aims to provide shareholders with a balanced and understandable assessment of the Group's performance and financial position with a commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which it operates.

The management provides all Directors with financial updates of the Group's performance, when required. The CEO and the Chief Financial Officer ("CFO") also provide assurance to the Board on the integrity of the financial statements of the Company and its subsidiaries.

### PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is responsible for the overall risk management and internal control framework, but recognises that no cost effective risk management and internal control systems will preclude all errors and irregularities, as such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against the occurrence of material errors, poor judgement in decision-making, human errors, frauds or other irregularities.

The Board reviews the Group's business and operational activities as presented by the management to identify areas of significant risks and recommends as appropriate, the measures to control and mitigate such risks. Annually, the Board reviews the adequacy and effectiveness of the Company's risk management and internal control systems, including financial, operational, compliance and information technology controls.

For the financial year ended 30 June 2014, the Board has received assurance from the CEO and CFO that:

- the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and
- the risk management and internal control systems have been adequate and effective to address the risks which the Group considers relevant and material to its operations.

The Board, with the concurrence of the Audit Committee, is of the opinion that the Group's internal controls (including financial, operational, compliance and information technology controls) and risk management systems have been adequate and effective for the risks which the Group considers relevant and material to its operations for the financial year ended 30 June 2014. This opinion is arrived at based on the framework established and maintained by the Group, the work performed by the internal and external auditors, reviews carried out by Management, as well as assurances received from the CEO and CFO.

#### **PRINCIPLE 12: AUDIT COMMITTEE**

Given the growing emphasis accorded to risk management, the Board has nominated the Audit Committee ("AC") to assist the Board in risk management responsibilities and function.

The AC consists of three Directors, all of whom are independent non-Executive Directors. The Chairman of the AC is Mr Lee Kheng Nam. The other two members are Mr Ng Kai Wa and Mr Lee Gwong-Yih. All members of the AC have the appropriate accounting or relevant financial expertise or experience.

The principal functions of the AC, among other matters, are:

- to review and recommend for approval of the Board the quarterly and full year financial results and related announcement to be released on SGX-ST;
- assist the Board to review and oversee the internal controls and the Group's Enterprise Risk Management Framework;
- provide guidance to management and renders assistance to the Board to determine the nature and extent of significant risks which the Board would be willing to take in achieving the Group's strategic objectives;
- to review the scope and results of the audit and its cost-effectiveness and the independence and objectivity of the external auditors;
- to review the scope of work of the appointed internal auditors and evaluate the effectiveness of the internal auditors;
- to review the findings of the internal and external auditors and the response from the management;
- to make recommendations to the Board on the appointment, re-appointment and/or removal of internal and external auditors, and to approve the remuneration and terms of engagement of the internal and external auditors;
- to review interested person transactions;
- to review whistle-blowing investigations within the Group and ensuring appropriate follow-up in accordance with the Group's whistle-blowing policy; and
- reports any material matters, findings and recommendations to the Board.

The number of meetings convened by the AC is set out in Principle 1: The Board's Conduct of its Affairs.

During the financial year, the AC has reviewed with the CFO and the external auditors on changes to accounting standards and issues which are relevant to the Group and have a direct impact on the group's financial statements.

The Company has in place a whistle-blowing procedure where staff of the Group can raise in confidence concerns on possible improprieties relating to accounting, financial reporting, internal controls and auditing matters. Under these procedures, arrangements are in place for independent investigation of such matters raised and for appropriate follow up action to be taken.

## CORPORATE GOVERNANCE

For the financial year ended 30 June 2014

### PRINCIPLE 13: INTERNAL AUDIT

The Company outsourced its internal audit function to Boardroom Business Solutions Pte. Ltd. The internal audit team performs risk assessment and conducts review to assess the adequacy and effectiveness of the Group's internal controls. The internal auditors have unrestricted access to the AC on internal audit matters. The AC reviews and endorses the internal audit plan and the internal audit reports which include the audit findings and recommendations of the internal auditors and management's responses to such findings. Any material non-compliance or failures in the internal audit function and the recommendations for improvements are reported to the AC. The AC also reviews the progress of any corrective, preventive or improvement measures as required.

For the financial year ended 30 June 2014, the AC is satisfied that the internal audit function is adequate and effective.

### PRINCIPLE 14: SHAREHOLDER RIGHTS

The Group is committed to treat all shareholders fairly and equitably. The Group recognizes, protects and facilitates the exercise of shareholders' rights, and continually reviews and updates such governance arrangements.

The Company ensures that there is adequate, timely and sufficient information pertaining to changes in the Group's business which could be likely to materially affect the share price or value.

The Company ensures that shareholders have the opportunity to participate effectively and vote at the general meetings. Shareholders are also informed of the rules including voting procedures that govern the general meetings.

### PRINCIPLE 15: COMMUNICATION WITH SHAREHOLDERS

The Company announces its quarterly and full year results within the regulatory periods. Material and price-sensitive information is publicly released via SGXNET on a timely basis. All shareholders of the Company receive the annual report of the Company and the notice of the Annual General Meeting, for which a notice is also advertised in the press and released via SGXNET. Shareholders and investors can access information on the Company at its website at [www.creative.com](http://www.creative.com) which provides, inter-alia, corporate announcements, press releases and the latest financial results as disclosed by the Company on SGXNET. From time to time, the Company holds briefings with analysts and the media to coincide with the release of the Group's results. Shareholders may also seek clarification on investor related issues by email provided in the Company's website at [www.creative.com](http://www.creative.com).

The Company pays an annual dividend, taking into consideration the Company's financial performance, present cash position, projected cash flow generated from operations and projected capital requirements. This is provided that the amount of dividend declared does not exceed the Company's retained earnings.

### PRINCIPLE 16: GREATER SHAREHOLDER PARTICIPATION

At general meetings of the Company, shareholders are given the opportunity to communicate their views and ask the Directors and management questions regarding matters affecting the Company. The Board, external auditors and senior management are normally available at the Annual General Meeting to respond to, and to assist the Directors in responding to shareholders' questions.

In accordance with the Articles of Association of the Company, shareholders may appoint not more than two proxies to attend and vote on their behalf. A proxy need not be a member of the Company.

### DEALINGS IN SECURITIES

In line with the recommended practices on dealings in securities set out in the SGX-ST Listing Rules, the Company provides internal guidance with regards to dealing in the Company's securities by its Directors and officers. These guidelines prohibit dealing in the Company's securities on short-term considerations and while in possession of unpublished material price-sensitive information in relation to such securities, and during the period commencing two weeks before the announcement of Group's financial statements for each of the first three quarters of its financial year and one month before the announcement of the Group's full year financial statements.

**DIRECTORS' REPORT**

For the financial year ended 30 June 2014

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 30 June 2014 and the balance sheet of the Company as at 30 June 2014.

**1. DIRECTORS**

The directors of the Company in office at the date of this report are as follows:

Sim Wong Hoo

Lee Kheng Nam

Ng Kai Wa

Lee Gwong-Yih

**2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES**

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed under "Share options" and "Performance shares" on pages 13 to 15 of this report.

**3. DIRECTORS' INTERESTS IN SHARES OR DEBENTURES**

- (a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

Name of director	Holdings registered in name of director or nominee			Holdings in which director is deemed to have an interest		
	At 21.7.2014	At 30.6.2014	At 1.7.2013	At 21.7.2014	At 30.6.2014	At 1.7.2013
<b>Creative Technology Ltd</b> (Number of ordinary shares)						
Sim Wong Hoo	23,270,652	23,270,652	23,270,652	–	–	–
Lee Kheng Nam	45,000	45,000	37,500	10,000	10,000	10,000
Ng Kai Wa	2,348,555	2,348,555	2,341,055	–	–	–
Lee Gwong-Yih	45,000	45,000	15,000	–	–	–

In addition, by virtue of his interest of not less than 20% of the issued capital of Creative Technology Ltd., Mr Sim Wong Hoo is also deemed under the Companies Act to have interests in all of the Company's subsidiaries.

- (b) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interests in options to subscribe for ordinary shares of the Company granted pursuant to the Creative Technology (1999) Share Option Scheme ("1999 Scheme") as set out under "Share options" on pages 13 to 14 of this report.

**4. DIRECTORS' CONTRACTUAL BENEFITS**

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements and in this report.

**5. SHARE OPTIONS****(a) Employee share option plans**

The Creative Technology (1999) Share Option Scheme ("1999 Scheme") was approved by shareholders at an Extraordinary General Meeting on 30 December 1998 which allows options to be granted to full-time employees as well as consultants and non-executive directors. The total number of shares that may be granted under the 1999 Scheme was 7.5 million, provided that such amount shall be automatically increased on the first day (1 July) of each of the five financial years ended 30 June 2001, 2002, 2003, 2004 and 2005 by four percent of the issued share capital of the Company as at the last day of the

## DIRECTORS' REPORT

For the financial year ended 30 June 2014

### 5. SHARE OPTIONS

#### (a) Employee share option plans (cont'd)

immediate preceding financial year. The Option Committee has the discretion to decide the vesting schedule in the letter of offer. If it is not specifically stated in the letter of offer, 1/4 of the total amount of the grant vests on the first anniversary of the grant date and 1/48 of the total amount of the grant vests on the last day of each calendar month thereafter.

The exercise price of the options is determined at the average of the closing prices of the Company's shares as quoted on the Singapore Exchange Securities Trading Limited ("SGX-ST") or the National Association of Securities Dealers Automated Quotations ("NASDAQ") for five market days preceding the date of the grant.

Options expire after the tenth anniversary of the date of grant, except in the case of options granted to participants other than employees, options expire not later than the fifth anniversary of the date of grant. Effective 12 November 2007, amendments were made to the 1999 Scheme to allow the use of treasury shares to satisfy share based exercises. The options under the 1999 Scheme do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.

The 1999 Scheme expired on 29 December 2008. The existing options granted will continue to vest according to the terms and conditions of the 1999 Scheme and the respective grants.

Details of the Directors' share options are set out as follows:

Name of director	Number of unissued ordinary shares of the Company under option				
	Granted in financial year ended 30.6.2014	Aggregate granted since commencement of scheme to 30.6.2014	Aggregate exercised since commencement of scheme to 30.6.2014	Aggregate options lapsed	Aggregate outstanding as at 30.6.2014
Lee Kheng Nam	-	160,000	80,000	80,000	-
Ng Kai Wa	-	80,000	-	80,000	-

There were no options exercised during the financial years ended 30 June 2014 and 2013.

#### (b) Share options outstanding

The number of unissued ordinary shares of the Company under option in relation to the 1999 Scheme outstanding at the end of the financial year was as follows:

Grant date	Number of unissued ordinary shares under option at 30.6.2014	Weighted average exercise price	Expiry date
October 2005	863,000	US\$7.39	18 October 2015
December 2007	1,656,500	US\$4.70	31 December 2017
	2,519,500		

### 6. PERFORMANCE SHARES

The Creative Performance Share Plan (the "Plan") was approved by shareholders at an Extraordinary General Meeting on 29 October 2009 under which awards (the "Award") of fully-paid shares, their equivalent cash value or combinations thereof, will be issued free of charge, to eligible employees and non-executive directors of the Company and its subsidiaries, provided that certain prescribed performance targets are met and/or upon expiry of the prescribed vesting periods.

The aggregate number of shares for which an Award may be granted on any date under the Plan, when added to the number of shares issued and/or issuable in respect of all Awards granted under the Plan and all shares, options or awards granted under any other share option or share scheme of the Company then in force, shall not exceed 15% of the total issued shares

of the Company (excluding treasury shares) on the day preceding that date. Outstanding options under the 1999 Scheme are excluded from the computation of the 15% limit for the Plan. The Plan shall continue in force at the discretion of the Committee, subject to a maximum period of 10 years commencing on 29 October 2009.

On 31 March 2010, 2,793,600 performance shares were granted to non-executive directors and employees under the Plan. Of the total performance shares granted, 716,950 shares were vested immediately on the date of grant. The remaining performance shares will be released over 4 annual performance periods subject to the completion of service and the achievement of prescribed performance targets in each of the performance periods.

There were no awards granted under the Plan during the financial years ended 30 June 2014 and 2013.

Details of the Directors' performance share awards are set out as follows:

Name of director	Granted in financial year ended 30.6.2014	Aggregate granted since commencement of Plan to 30.6.2014	Aggregate released since commencement of Plan to 30.6.2014	Aggregate lapsed since commencement of Plan to 30.6.2014	Aggregate outstanding as at 30.6.2014
Lee Kheng Nam	–	60,000	45,000	15,000	–
Ng Kai Wa	–	60,000	45,000	15,000	–
Lee Gwong-Yih	–	60,000	45,000	15,000	–

No participant was granted 5% or more of the total awards available under the Plan.

No performance shares were awarded to controlling shareholders of the Company or their associates.

## 7. AUDIT COMMITTEE

At the end of the financial year, the Audit Committee comprises the following members, all of whom are independent non-executive directors:

Lee Kheng Nam (Chairman)

Ng Kai Wa

Lee Gwong-Yih

The Audit Committee carried out its functions in accordance with Section 201B of the Singapore Companies Act, Chapter 50. In performing its functions, the Committee reviewed the overall scope of work of both internal and external audits and the assistance given by the Company's officers to the auditors. It met with the auditors to discuss the results of their examination and evaluation of the system of internal accounting control of the Company and its subsidiaries. The Committee also reviewed the requirements for approval and disclosure of interested person transactions.

The Committee reviewed the balance sheet of the Company and the consolidated financial statements of the Group as well as the independent auditor's report thereon and recommended to the Board of Directors the nomination of PricewaterhouseCoopers LLP as independent auditor of the Company at the forthcoming Annual General Meeting.

## 8. INDEPENDENT AUDITOR

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

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Sim Wong Hoo  
Director

24 September 2014

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Lee Kheng Nam  
Director

## STATEMENT BY DIRECTORS

For the financial year ended 30 June 2014

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 18 to 61 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2014 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

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Sim Wong Hoo  
Director

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Lee Kheng Nam  
Director

24 September 2014

**INDEPENDENT AUDITOR'S REPORT**

to the members of Creative Technology Ltd.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Creative Technology Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 18 to 61, which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2014, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

**Report on other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP  
Public Accountants and Chartered Accountants

Singapore

24 September 2014

**CONSOLIDATED INCOME STATEMENT**

For the financial year ended 30 June 2014

	Note	Group	
		2014 US\$'000	2013 US\$'000
Sales, net		<b>116,332</b>	165,342
Cost of goods sold	4	(86,250)	(111,618)
<b>Gross profit</b>		<b>30,082</b>	53,724
Expenses:			
Selling, general and administrative		(34,093)	(38,749)
Research and development		(25,488)	(28,346)
<b>Total expenses</b>	4	<b>(59,581)</b>	(67,095)
Other income	6	<b>225</b>	443
Other gains, net	7	<b>3,029</b>	28,177
Share of losses of associated companies		–	(1,088)
<b>(Loss) profit before income tax</b>		<b>(26,245)</b>	14,161
Income tax credit	8	<b>4,473</b>	2,501
<b>Net (loss) profit</b>		<b>(21,772)</b>	16,662
<b>Attributable to:</b>			
Equity holders of the Company		<b>(21,849)</b>	16,668
Non-controlling interests		<b>77</b>	(6)
(Loss) earnings per share attributable to equity holders of the Company	9		
- Basic (US\$ per share)		<b>(0.31)</b>	0.24
- Diluted (US\$ per share)		<b>(0.31)</b>	0.24

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the financial year ended 30 June 2014

	<b>Group</b>	
	<b>2014</b> US\$'000	<b>2013</b> US\$'000
Net (loss) profit	(21,772)	16,662
Other comprehensive income:		
Fair value gains (losses) of financial assets, available-for-sale:		
Fair value gains	512	3,080
Reclassification	(101)	(2,253)
<b>Total comprehensive (loss) income for the financial year</b>	<b>(21,361)</b>	<b>17,489</b>
<b>Attributable to:</b>		
Equity holders of the Company	(21,438)	17,495
Non-controlling interests	77	(6)
<b>Total comprehensive (loss) income for the financial year</b>	<b>(21,361)</b>	<b>17,489</b>

The accompanying notes form an integral part of these financial statements.

**BALANCE SHEETS**

As at 30 June 2014

	Note	Group		Company		
		2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000	
<b>ASSETS</b>						
<b>Current assets:</b>						
Cash and cash equivalents	10	<b>124,638</b>	163,574	<b>118,974</b>	150,804	
Trade receivables	11	<b>10,559</b>	14,728	<b>4,208</b>	4,748	
Amounts due from subsidiaries	12	-	-	<b>44,515</b>	42,801	
Inventories	13	<b>28,922</b>	25,353	<b>15,002</b>	11,369	
Other current assets	14	<b>1,896</b>	2,178	<b>187</b>	656	
		<b>166,015</b>	205,833	<b>182,886</b>	210,378	
<b>Non-current assets:</b>						
Financial assets, available-for-sale	15	<b>21,608</b>	22,654	-	-	
Amounts due from subsidiaries	12	-	-	<b>143,022</b>	146,659	
Investments in subsidiaries	16	-	-	<b>24,706</b>	28,390	
Property and equipment	17	<b>6,465</b>	6,892	<b>651</b>	705	
Other non-current assets	19	<b>98</b>	1,827	-	1,729	
		<b>28,171</b>	31,373	<b>168,379</b>	177,483	
<b>Total assets</b>		<b>194,186</b>	237,206	<b>351,265</b>	387,861	
<b>LIABILITIES</b>						
<b>Current liabilities:</b>						
Trade payables	20	<b>9,383</b>	13,753	<b>5,907</b>	9,460	
Amounts due to subsidiaries	12	-	-	<b>9,139</b>	10,940	
Accrued liabilities and provisions	21	<b>37,899</b>	44,496	<b>24,474</b>	26,576	
Current income tax liabilities		<b>735</b>	706	-	-	
		<b>48,017</b>	58,955	<b>39,520</b>	46,976	
<b>Non-current liabilities:</b>						
Amounts due to subsidiaries	12	-	-	<b>21,746</b>	21,173	
Deferred income tax liabilities	22	<b>10,702</b>	15,202	-	-	
		<b>10,702</b>	15,202	<b>21,746</b>	21,173	
<b>Total liabilities</b>		<b>58,719</b>	74,157	<b>61,266</b>	68,149	
<b>NET ASSETS</b>		<b>135,467</b>	163,049	<b>289,999</b>	319,712	
<b>EQUITY</b>						
Share capital	23	<b>266,753</b>	266,753	<b>266,753</b>	266,753	
Treasury shares	23	(16,262)	(16,606)	(16,262)	(16,606)	
Fair value reserve		<b>9,896</b>	9,485	-	-	
Other reserves	24	<b>62,570</b>	63,351	<b>35,106</b>	35,887	
(Accumulated losses) retained earnings	25	(187,695)	(160,170)	<b>4,402</b>	33,678	
		<b>135,262</b>	162,813	<b>289,999</b>	319,712	
Non-controlling interests		<b>205</b>	236	-	-	
<b>Total equity</b>		<b>135,467</b>	163,049	<b>289,999</b>	319,712	

The accompanying notes form an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2014

	Note	Share capital US\$'000	Treasury shares US\$'000	Fair value reserve US\$'000	Other reserves US\$'000	Accumulated losses US\$'000	Total US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
<b>2014</b>									
<b>Beginning of financial year</b>		266,753	(16,606)	9,485	63,351	(160,170)	162,813	236	163,049
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	23, 24	–	344	–	(344)	–	–	–	–
Employee share-based expense	24	–	–	–	(437)	–	(437)	–	(437)
Disposal of subsidiary	16	–	–	–	–	–	–	(108)	(108)
Dividends paid	26	–	–	–	–	(5,676)	(5,676)	–	(5,676)
Total comprehensive income (loss) for the financial year		–	–	411	–	(21,849)	(21,438)	77	(21,361)
<b>End of financial year</b>		<b>266,753</b>	<b>(16,262)</b>	<b>9,896</b>	<b>62,570</b>	<b>(187,695)</b>	<b>135,262</b>	<b>205</b>	<b>135,467</b>
<b>2013</b>									
<b>Beginning of financial year</b>		266,753	(17,676)	8,658	64,433	(173,980)	148,188	242	148,430
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	23, 24	–	1,070	–	(1,070)	–	–	–	–
Employee share-based expense	24	–	–	–	(12)	–	(12)	–	(12)
Dividends paid	26	–	–	–	–	(2,858)	(2,858)	–	(2,858)
Total comprehensive income (loss) for the financial year		–	–	827	–	16,668	17,495	(6)	17,489
<b>End of financial year</b>		<b>266,753</b>	<b>(16,606)</b>	<b>9,485</b>	<b>63,351</b>	<b>(160,170)</b>	<b>162,813</b>	<b>236</b>	<b>163,049</b>

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the financial year ended 30 June 2014

	<b>Note</b>	<b>Group</b>	
		<b>2014 US\$'000</b>	<b>2013 US\$'000</b>
<b>Cash flows from operating activities:</b>			
Net (loss) profit		(21,772)	16,662
Adjustments for:			
Income tax credit		(4,473)	(2,501)
Depreciation of property and equipment		697	1,392
Employee share-based expense		(437)	(12)
Share of loss of associated companies		—	1,088
Loss (gain) on disposal of property and equipment		1	(707)
Impairment loss of financial assets, available-for-sale		972	2,288
Gain on disposal of financial assets, available-for-sale		(18)	(2,835)
Gain on disposal of investments in subsidiaries		—	(26,750)
Currency translation (gain) loss		(1,775)	724
Dividend income		—	(203)
Interest income		(225)	(240)
		(27,030)	(11,094)
Changes in working capital, net of effects from acquisition and disposal of subsidiaries			
Trade receivables		4,169	4,113
Inventories		(1,841)	2,469
Other assets and receivables		291	11,645
Trade payables		(4,370)	(88)
Accrued liabilities and provisions		(6,595)	(9,590)
Cash used in operations		(35,376)	(2,545)
Interest received		223	241
Income tax paid		(26)	(260)
<b>Net cash used in operating activities</b>		<b>(35,179)</b>	<b>(2,564)</b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment		(271)	(1,237)
Proceeds from sale of property and equipment		—	5,921
Proceeds from sale of financial assets, available-for-sale		753	6,371
Proceeds from sale of investments in subsidiaries (net of cash disposed of)	16	(110)	28,001
Proceeds from sale of investment in subsidiary held in escrow account	16	—	(4,500)
Proceeds received from escrow account	10	4,500	—
Purchase of financial assets, available-for-sale		(250)	(1,000)
Dividend received		—	203
<b>Net cash provided by investing activities</b>		<b>4,622</b>	<b>33,759</b>
<b>Cash flows from financing activities:</b>			
Dividends paid to equity holders of the Company		(5,676)	(2,858)
<b>Net cash used in financing activities</b>		<b>(5,676)</b>	<b>(2,858)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of financial year	10	(36,233)	28,337
Effects of currency translation on cash and cash equivalents		159,074	131,432
		1,797	(695)
<b>Cash and cash equivalents at end of financial year</b>	10	<b>124,638</b>	<b>159,074</b>

The accompanying notes form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

### **1. GENERAL INFORMATION**

Creative Technology Ltd. (the “Company”) is listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”) and incorporated and domiciled in Singapore. The address of its registered office is:

31 International Business Park  
#03-01 Creative Resource  
Singapore 609921.

The principal activities of the Company and its subsidiaries consist of the design, manufacture and distribution of digitised sound and video boards, computers and related multimedia and personal digital entertainment products.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **2.1 Basis of preparation**

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The Group and the Company conduct a substantial portion of its business in United States dollars (“US\$” or “\$”). All dollar amounts included in the financial statements and in the notes herein are United States dollars unless designated as Singapore dollars (“S\$”). The Group and the Company operate on a thirteen week calendar closing on the Friday closest to the natural calendar quarter. The Group’s financial year 2014 ended on 27 June 2014, the Friday nearest to 30 June 2014, while the prior financial year ended on 28 June 2013. All financial years are described by their natural calendar dates.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group’s accounting policies. It also requires the use of certain critical accounting estimates and assumptions. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

#### **Interpretations and amendments to published standards effective in 2013**

On 1 July 2013, the Group adopted the new or amended FRS and Interpretations to FRS (“INT FRS”) that are mandatory for application for the financial year. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years.

#### **2.2 Group accounting**

##### **(a) Subsidiaries**

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the dates of exchange,

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.2 Group accounting (cont'd)

##### (a) Subsidiaries (cont'd)

plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition, irrespective of the extent of non-controlling interests. Please refer to the paragraph "Intangible assets – Goodwill on acquisitions" for the accounting policy on goodwill on acquisition of subsidiaries.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated income statement, consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

Please refer to the paragraph "Investments in subsidiaries and associated companies" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

##### (b) Transactions with non-controlling interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Company. Any difference between the change in the carrying amounts of the non-controlling interests and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the equity holders of the Company.

##### (c) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, and generally accompanied by a shareholding giving rise to between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses.

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associated companies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Dilution gains and losses arising from investments in associated companies are recognised in profit or loss.

Please refer to the paragraph “Investments in subsidiaries and associated companies” for the accounting policy on investments in associated companies in the separate financial statements of the Company.

## **2.3 Intangible assets**

### **(a) Goodwill on acquisitions**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries and associated companies at the date of acquisition.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Goodwill on associated companies is included in the carrying amount of the investments.

Gains and losses on the disposal of subsidiaries and associated companies include the carrying amount of goodwill relating to the entity sold.

### **(b) Acquired trademarks and licenses**

Trademarks and licenses acquired are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over the shorter of the contractual rights and estimated useful lives of the assets, ranging from one to ten years.

The amortisation period and amortisation method are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

## **2.4 Impairment of non-financial assets**

### **(a) Goodwill**

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Goodwill included in the carrying amount of an investment in an associated company is tested for impairment as part of the investment, rather than separately.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group’s cash-generating-units (“CGU”) expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU’s fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised in profit or loss and is not reversed in a subsequent period.

### **(b) Intangible assets**

#### **Property and equipment**

#### **Investments in subsidiaries and associated companies**

Intangible assets, property and equipment and investments in subsidiaries and associated companies are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.4 Impairment of non-financial assets (cont'd)

##### (b) Intangible assets

###### Property and equipment

###### Investments in subsidiaries and associated companies (cont'd)

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

#### 2.5 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand and short-term bank deposits with various banks which are subject to an insignificant risk of change in value.

#### 2.6 Financial assets

##### (a) Classification

The Group classifies its financial assets in the following categories: loans and receivables and financial assets, available-for-sale. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### (i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "cash and cash equivalents", "trade receivables", "amounts due from subsidiaries", other receivables and loan within "other current assets" and "other non-current receivables" on the balance sheet.

##### (ii) Financial assets, available-for-sale

Financial assets, available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

##### (b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in the fair value reserve relating to that asset is transferred to profit or loss.

##### (c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs.

**(d) Subsequent measurement**

Financial assets, available-for-sale are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Interest and dividend income on financial assets, available-for-sale are recognised separately in profit or loss. Changes in fair values of available-for-sale equity securities are recognised in the fair value reserve, together with the related currency translation differences.

**(e) Impairment**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

**(i) Loans and receivables**

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

**(ii) Financial assets, available-for-sale**

A significant or prolonged decline in the fair value of an equity security below its cost is considered as an indicator that the available-for-sale financial asset is impaired.

If any evidence of impairment exists, the cumulative loss that was recognised in the fair value reserve is reclassified to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised as an expense. The impairment losses recognised as an expense on equity securities are not reversed through profit or loss.

**2.7 Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost is determined using standard cost, appropriately adjusted at the balance sheet date to approximate actual cost on a weighted average basis. In the case of finished products and work-in-progress, cost includes materials, direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

**2.8 Investments in subsidiaries and associated companies**

Investments in subsidiaries and associated companies are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.9 Property and equipment

##### (a) Measurement

Property and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Cost recognised includes purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

##### (b) Depreciation

No depreciation is provided on freehold land. Depreciation is calculated using the straight-line method to allocate their depreciable amounts over the estimated useful lives as follows:

Leasehold improvements	- Shorter of lease term or useful life
Buildings	- 20 to 30 years
Machinery and equipment	- 1 to 6 years
Furniture, fixtures and office equipment	- 1 to 8 years

The residual values, estimated useful lives and depreciation methods are reviewed and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

##### (c) Subsequent measurement

Subsequent expenditure relating to property and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

##### (d) Disposal

On disposal of an item of property and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss when incurred.

#### 2.10 Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

#### 2.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

##### (a) Warranties

The warranty provision represents management's best estimate of probable liability under its product warranties. Management determines the warranty provision based on known product failures (if any), historical experience, and other currently available evidence.

##### (b) Provision for legal claims and fees

Management records provisions when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

### (c) Other provisions

Other provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in profit or loss.

## 2.12 Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

## 2.13 Revenue recognition

Sales comprise the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Sales are presented net of value-added tax, rebates and discounts, and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue and related cost can be reliably measured, the Group has delivered the products to the customers, the customers have accepted the products, significant risks and rewards of ownership have been transferred and when it is probable that the collectability of the related receivables is reasonably assured. License income is recognised based on the consideration in relation to the assignment of rights for a fixed fee; this revenue is recognised upon completion of the contract.

Allowances are provided for estimated returns and discounts based on historical experience, current economic trends and changes in customer demand and acceptance of its products. Such allowances are adjusted periodically to reflect actual and anticipated experience. When recognising revenue, the Group records estimated reductions to revenue for customer and distributor programs and incentive offerings, including price protection, promotions, other volume-based incentives and rebates.

## 2.14 Research and development costs

As the Group cannot definitively distinguish the research phase from the development phase of its internal projects to create intangible assets, the Group treats the expenditure on its internal projects as if they were incurred in the research phase only. Accordingly, all research and development costs are recognised as an expense when incurred.

## 2.15 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and associated companies, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.15 Income taxes (cont'd)

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss.

#### 2.16 Operating leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease. When a lease is terminated before the lease period expires, any payment made (or received) by the Group as penalty is recognised as an expense (or income) when termination takes place.

#### 2.17 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

##### (a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund or pension on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

##### (b) Share-based compensation

###### Share options

The share options plan is an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of options is recognised as an expense in profit or loss with a corresponding increase in share-based compensation reserves over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to share-based compensation reserves over the remaining vesting period.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in other reserves are credited to share capital account when new ordinary shares are issued, or to the "treasury shares" account when treasury shares are re-issued to the employees.

###### Performance shares

The performance share plan contemplates the award of fully-paid ordinary shares, their equivalent cash value or combinations thereof, free of charge, provided that certain prescribed performance targets are met and/or upon expiry of the prescribed vesting periods.

The fair value of employee services received in exchange for the grant of the awards is recognised as a share-based compensation expense in profit or loss with a corresponding increase in the share-based compensation reserves over the vesting period. The amount is determined by reference to the fair value of the performance shares on the grant date.

If the performance target is a market condition, the probability of the performance target being met is taken into account in estimating the fair value of the ordinary shares granted at the grant date. The compensation expense is charged to profit or loss on a basis that fairly reflects the manner in which the benefits will accrue to the employee under the plan over the prescribed vesting periods from date of grant. No adjustments to the amounts charged to profit or loss are made whether or not the market condition is met.

For performance share grants with non-market conditions, the Company revises its estimates of the number of share grants expected to vest and corresponding adjustments are made to profit or loss and share-based compensation reserves.

## **2.18 Currency translation**

### **(a) Functional and presentation currency**

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The functional currency of the Company is the United States Dollar (“US\$”), which reflects the economic environment in which the activities of the Company are largely exposed to. The financial statements are presented in United States Dollar.

### **(b) Transactions and balances**

Transactions in a currency other than the United States Dollar (“foreign currency”) are translated into the United States Dollar using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates prevailing at the date when the fair values are determined.

### **(c) Translation of Group entities’ financial statements**

The results and financial position of all the Group’s entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency by way of assets and liabilities being translated at the closing exchange rates prevailing at the date of the balance sheet, and income and expenses being translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated using the exchange rates at the dates of the transactions).

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the date of the balance sheet.

## **2.19 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

## **2.20 Share capital and treasury shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

Where the Company’s ordinary shares are repurchased (“treasury shares”), the consideration paid, including any directly attributable incremental cost, is presented as a component within equity attributable to the Company’s equity holders, until they are cancelled, sold or reissued.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.20 Share capital and treasury shares (cont'd)

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share options and performance share plan, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised as a change in equity of the Company.

#### 2.21 Dividends to Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

### 3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### (a) Revenue recognition

Allowances are provided for estimated returns and discounts. Management analyses historical returns, current economic trends and changes in customer demand and acceptance of its products when evaluating the adequacy of the sales returns allowance. Such allowances are adjusted periodically to reflect actual and anticipated experience. When recognising revenue, the Group records estimated reductions to revenue for customer and distributor programs and incentive offerings, including price protection, promotions, other volume-based incentives and rebates. Significant management judgement and estimates must be used in connection with establishing these allowances in any accounting period. The Group may take action when necessary in response to market conditions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered. The Group's net revenue for the financial year ended 30 June 2014 was US\$116,332,000 (2013: US\$165,342,000).

#### (b) Impairment of loans and receivables

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

#### (c) Valuation of inventories

The Group states inventories at the lower of cost and net realisable value. The Group records a write-down for inventories of components and products which have become obsolete or are in excess of anticipated demand or net realisable value. Management performs a detailed assessment of inventory at each balance sheet date to establish provisions for excess and obsolete inventories. Management's evaluation includes a review of, among other factors, historical sales, current economic trends, forecasted sales, demand requirements, product life cycle and product development plans, quality issues, and current inventory levels. The markets for PC peripherals and personal digital entertainment products are subject to a rapid and unpredictable pace of product and component obsolescence and demand changes. If future demand or market conditions for the Group's products are less favourable than forecasted or if unforeseen technological changes negatively impact the utility of component inventory, the Group may be required to record write-downs which would negatively affect gross margins in the period when the write-downs are recorded and its operating results and financial position could be adversely affected. The carrying amount of the Group's inventories at 30 June 2014 was US\$28,922,000 (2013: US\$25,353,000).

**(d) Assessment of the probability of the outcome of current litigation**

The Group is subject to certain legal proceedings, lawsuits and other claims. Assessments are made by management on a case-by-case basis to make a determination as to the impact, if any, on the business, liquidity, results of operations, financial condition or cashflows. Management believes that the ultimate outcome of the legal proceedings, lawsuits and other claims, individually and in aggregate will not have a material adverse impact to the Group.

**(e) Income taxes**

In preparing its financial statements, the Group estimates its income taxes for each of the jurisdictions in which it operates. This involves estimating the actual current tax exposure, assessing temporary differences resulting from differing treatment of items, such as reserves and provisions for tax and accounting purposes, and accounting for uncertainty in income taxes. These differences result in current and deferred income tax liabilities, which are included within the Group's consolidated balance sheet. The Group recognises deferred income tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised. The Group's income tax liabilities were US\$735,000 (2013: US\$706,000) and deferred income tax liabilities were US\$10,702,000 (2013: US\$15,202,000) at 30 June 2014.

**4. EXPENSES BY NATURE**

Included in the cost of goods sold, selling, general and administrative and research and development expenses are the following:

	Group	
	2014 US\$'000	2013 US\$'000
Depreciation of property and equipment (Note 17)	697	1,392
Employee compensation (Note 5)	42,500	49,983
Advertising expenses	4,119	4,658
Rental expenses on operating leases	5,094	10,619
Research and development related expenses	2,305	3,461
Travel, entertainment and transportation expenses	1,436	1,684
Inventory write-off	4,075	684
Freight charges	5,885	7,404
Legal fees	2,510	1,319

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2014

**5. EMPLOYEE COMPENSATION**

	Group	
	2014 US\$'000	2013 US\$'000
Wages and salaries	37,442	46,481
Employer's contribution to defined contribution plans including Central Provident Fund	3,327	3,514
Termination benefits	2,168	–
Employee share-based expense (Note 24)	<u>(437)</u>	<u>(12)</u>
	42,500	49,983

**6. OTHER INCOME**

	Group	
	2014 US\$'000	2013 US\$'000
Interest income	225	240
Dividend income	–	203
	225	443

**7. OTHER GAINS, NET**

	Group	
	2014 US\$'000	2013 US\$'000
Gain on disposal of financial assets, available-for-sale	18	2,835
Gain on disposal of investments in subsidiaries	–	26,750
(Loss) gain on disposal of property and equipment	(1)	707
Impairment loss of financial assets, available-for-sale (Note 15)	(972)	(2,288)
Currency translation gain (loss)	2,221	(629)
Write-back of provisions for obligations upon finalisation with vendors	1,503	770
Other gains	260	32
	3,029	28,177

Gain on disposal of investments in subsidiaries of US\$26,750,000 as at 30 June 2013 relates to the divestment of ZiiLABS Limited, a wholly-owned subsidiary in the United Kingdom, for a cash consideration of US\$31,241,000.

## 8. INCOME TAXES

Tax (credit) expense attributable to profit (loss) is made up of:

Current income tax:

- Tax expense for current financial year
- Withholding tax

Group	2014 US\$'000	2013 US\$'000
-	-	-
62	197	197
<b>62</b>	<b>197</b>	<b>197</b>

Under (over) provision in respect of previous years :

- Current income tax	(35)	2
- Deferred income tax (Note 22)	(4,500)	(2,700)
	<b>(4,473)</b>	<b>(2,501)</b>

The tax expense on results differs from the amount that would arise using the Singapore standard rate of income tax as explained below:

Group	2014 US\$'000	2013 US\$'000
(Loss) profit before income tax	(26,245)	14,161
Tax calculated at tax rate of 17% (2013: 17%)	(4,462)	2,407
Effects of		
- tax exempt (income) loss	(1)	(7,137)
- income not subject to tax	(398)	(431)
- expenses not deductible for tax purposes	154	372
- different tax rates in other countries	(549)	354
- deferred tax assets not recognised	5,930	5,865
- utilisation of tax losses and other reserves	(674)	(1,430)
- withholding tax	62	197
Tax expense	<b>62</b>	<b>197</b>

A deferred tax liability of US\$4,500,000 (2013: US\$2,700,000) was written back in the financial year ended 30 June 2014. The deferred tax liability write-back relates to an adjustment to the Group's provision for the tax exposure of foreign subsidiaries

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2014

**9. (LOSS) EARNINGS PER SHARE**

	Group			
	2014		2013	
	Basic US\$'000	Diluted US\$'000	Basic US\$'000	Diluted US\$'000
Net (loss) profit attributable to equity holders of the Company	(21,849)	(21,849)	16,668	16,668
Weighted average number of ordinary shares outstanding	70,260	70,260	69,954	69,954
Adjustments for dilutive effects of				
– share options	–	–	–	–
– performance shares	–	–	–	561
Weighted average number of ordinary shares used to compute (loss) earnings per share	70,260	70,260	69,954	70,515
(Loss) earnings per share (US\$)	(0.31)	(0.31)	0.24	0.24

Basic (loss) earnings per share is calculated by dividing the net (loss) profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

For the purpose of calculating diluted earnings per share, profit attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The two categories of dilutive potential ordinary shares of the Company are share options and performance shares.

For share options, the weighted average number of shares in issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration.

For performance shares, the weighted average number of shares in issue is adjusted as if all outstanding performance shares are released.

Share options and performance shares had been excluded from the calculation of diluted loss per share for the financial year ended 30 June 2014 as their effects would be anti-dilutive (ie. loss per share would have been reduced in the event that share options and performance shares were exercised or vested). Thus, the diluted loss per share was the same as the basic loss per share for the financial year ended 30 June 2014.

**10. CASH AND CASH EQUIVALENTS**

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Cash at bank and on hand	<b>37,224</b>	40,757	<b>32,812</b>	29,659
Short-term bank deposits	<b>87,414</b>	122,817	<b>86,162</b>	121,145
	<b>124,638</b>	163,574	<b>118,974</b>	150,804

For the purpose of presenting the statement of cash flows, cash and cash equivalents as at 30 June 2013 exclude cash held in escrow account of US\$4,500,000 relating to the divestment of ZiiLABS Limited, which was released to the Group in the financial year ended 30 June 2014.

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Cash and cash equivalents (as above)	<b>124,638</b>	163,574		
Less: Cash held in escrow account (Note 16)	–	(4,500)		
Cash and cash equivalents per consolidated statement of cash flows	<b>124,638</b>	159,074		

**11. TRADE RECEIVABLES**

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Trade receivables				
- Associated companies	<b>588</b>	531	<b>421</b>	350
- Non-related parties	<b>14,640</b>	20,239	<b>6,421</b>	7,014
	<b>15,228</b>	20,770	<b>6,842</b>	7,364
Less: Allowance for sales returns and impairment of receivables	<b>(4,669)</b>	(6,042)	<b>(2,634)</b>	(2,616)
Trade receivables - net	<b>10,559</b>	14,728	<b>4,208</b>	4,748

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 12. AMOUNTS DUE FROM (TO) SUBSIDIARIES

	Company	
	2014 US\$'000	2013 US\$'000
Amounts due from subsidiaries - current		
- Trade	<b>35,463</b>	35,710
- Non-trade	<b>25,909</b>	25,948
	<b>61,372</b>	61,658
Less: Allowance for impairment	<b>(16,857)</b>	(18,857)
	<b>44,515</b>	42,801
Amounts due from subsidiaries - non-current		
- Trade	<b>22,603</b>	22,603
- Non-trade	<b>170,834</b>	174,471
	<b>193,437</b>	197,074
Less: Allowance for impairment	<b>(50,415)</b>	(50,415)
	<b>143,022</b>	146,659
Amounts due to subsidiaries - current		
- Trade	<b>(3,711)</b>	(4,010)
- Non-trade	<b>(5,428)</b>	(6,930)
	<b>(9,139)</b>	(10,940)
Amounts due to subsidiaries - non-current		
- Trade	<b>(20,367)</b>	(20,367)
- Non-trade	<b>(1,379)</b>	(806)
	<b>(21,746)</b>	(21,173)

The non-trade amounts due from and due to subsidiaries are interest-free and unsecured.

The current portions of non-trade amounts due from and due to subsidiaries are repayable on demand. There is no fixed repayment terms for the non-current portions of non-trade amounts due from and due to subsidiaries.

Management has assessed the fair values of the non-current amounts due from and due to subsidiaries and concluded that the fair values at balance sheet date approximate carrying values.

### 13. INVENTORIES

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Raw materials	<b>3,005</b>	2,465	<b>2,996</b>	2,355
Finished products	<b>25,917</b>	22,888	<b>12,006</b>	9,014
	<b>28,922</b>	25,353	<b>15,002</b>	11,369

The cost of inventories recognised in "cost of goods sold" amounts to US\$84,327,000 (2013: US\$88,094,000).

**14. OTHER CURRENT ASSETS**

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Prepaid expenses and security deposits	<b>709</b>	833	<b>127</b>	360
Prepaid non-income taxes	<b>701</b>	789	—	90
Other receivables from associated companies	<b>24</b>	35	<b>24</b>	35
Other receivables from non-related parties	<b>462</b>	521	<b>36</b>	171
Loan to non-related party	<b>12,762</b>	12,762	<b>12,762</b>	12,762
	<b>14,658</b>	14,940	<b>12,949</b>	13,418
Less: Allowance for impairment of loan to non-related party	<b>(12,762)</b>	(12,762)	<b>(12,762)</b>	(12,762)
	<b>1,896</b>	2,178	<b>187</b>	656

In July 2007, the Company divested 80.1% of its interest in its then wholly owned manufacturing subsidiary in Malaysia ("ex-subsidiary"). Prior to divestment date, the Company had made loans to the ex-subsidiary for the purchase of properties, construction of factory and working capital purposes amounting to approximately US\$36,900,000 (Malaysia Ringgit ("RM") 130 million). Under the terms of the divestment agreement, this amount would be repaid in various instalments up to 1 June 2011, of which US\$24,100,000 (RM85 million) had been repaid to date. The balance amount remained outstanding as at 30 June 2014. Subsequent to the financial year ended 30 June 2009, the Company was informed that the ex-subsidiary had decided to end all manufacturing business with the Company in view of the ex-subsidiary's unfavourable business and financial situation. The ex-subsidiary is currently in the process of liquidation.

In view of the above, the total outstanding balance of US\$12,762,000 (RM45 million) may not be recoverable and the Company has provided for this amount since the financial year ended 30 June 2009.

The other receivables from associated companies and non-related parties are unsecured, interest-free and repayable on demand.

**15. FINANCIAL ASSETS, AVAILABLE-FOR-SALE**

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Beginning of financial year	<b>22,654</b>	26,651	—	—
Fair value gains (losses) recognised in other comprehensive income	<b>411</b>	827	—	—
Additions	<b>250</b>	1,000	—	—
Disposals	<b>(735)</b>	(3,536)	—	—
Impairment losses (Note 7)	<b>(972)</b>	(2,288)	—	—
End of financial year	<b>21,608</b>	22,654	—	—

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 15. FINANCIAL ASSETS, AVAILABLE-FOR-SALE (cont'd)

Available-for-sale financial assets are analysed as follows:

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Listed equity securities	13,666	14,059	—	—
Unlisted equity securities	7,942	8,595	—	—
	<b>21,608</b>	<b>22,654</b>	<b>—</b>	<b>—</b>

The Group has recognised impairment losses of US\$972,000 (2013: US\$2,288,000) against securities whose fair values were below cost during the financial year.

### 16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014 US\$'000	2013 US\$'000
<i>Equity investments at cost</i>		
Beginning of financial year	227,990	227,990
Liquidations / disposals	(384)	—
End of financial year	<b>227,606</b>	<b>227,990</b>
<i>Accumulated impairment</i>		
Beginning of financial year	(199,600)	(200,700)
Additions	(3,300)	—
Write-back / write-off	—	1,100
End of financial year	<b>(202,900)</b>	<b>(199,600)</b>
Net carrying value at end of financial year	<b>24,706</b>	<b>28,390</b>

In the financial year ended 30 June 2014, the Company has disposed its entire 60% equity interest in a subsidiary, MLK Industry Limited, for a cash consideration of US\$163,000.

The impairment loss of US\$3,300,000 in the financial year ended 30 June 2014 reflects the write-down of the carrying amount of the Company's investment in a wholly-owned subsidiary, Creative Technology Centre Pte Ltd, following the cessation of the property rental business.

In the financial year ended 30 June 2013, the Group has disposed its equity interest in a wholly-owned indirect subsidiary, ZiiLABS Limited, for a cash consideration of US\$31,241,000.

The aggregate effects of the disposal of subsidiaries on the cashflows of the Group in the financial years ended 30 June 2014 and 2013 are as follows:

	<b>Group Disposal</b>	
	<b>Carrying amount</b>	
	<b>2014</b> US\$'000	<b>2013</b> US\$'000
<b><i>Identifiable assets and liabilities</i></b>		
Cash and cash equivalents	(273)	(3,240)
Other current assets	–	(85)
Property and equipment (Note 17)	–	(157)
Total assets	<b>(273)</b>	<b>(3,482)</b>
Trade payables	–	3
Accrued liabilities and provisions	<b>2</b>	<b>2,207</b>
Total liabilities	<b>2</b>	<b>2,210</b>
Identifiable net assets	<b>(271)</b>	<b>(1,272)</b>
Non-controlling interests	<b>108</b>	<b>–</b>
Identifiable net assets disposed	<b>(163)</b>	<b>(1,272)</b>

The aggregate cash inflows arising from the disposal of subsidiaries in the financial years ended 30 June 2014 and 2013 are as follows:

	<b>Group</b>	
	<b>2014</b> US\$'000	<b>2013</b> US\$'000
Identifiable net assets disposed (as above)	<b>163</b>	<b>1,272</b>
Gain on disposal	–	26,750
Incidental costs on disposal of subsidiary	–	3,231
Currency translation differences	–	(12)
Less: Cash and cash equivalents in subsidiary disposed	<b>163</b>	<b>31,241</b>
Less: Proceeds held in escrow account (Note 10)	<b>(273)</b>	<b>(3,240)</b>
Net cash (outflow) inflow on disposal	<b>(110)</b>	<b>28,001</b>
	–	(4,500)
	<b>(110)</b>	<b>23,501</b>

Details of significant subsidiaries are included in Note 34.

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2014

**17. PROPERTY AND EQUIPMENT**

<u>Group</u>	<u>Leasehold improvements US\$'000</u>	<u>Land and buildings US\$'000</u>	<u>Machinery and equipment US\$'000</u>	<u>Furniture, fixtures and office equipment US\$'000</u>	<u>Total US\$'000</u>
<b>2014</b>					
<i>Cost</i>					
Beginning of financial year	2,728	15,999	3,066	14,899	36,692
Additions	—	—	52	219	271
Disposals	(275)	—	(75)	(1,636)	(1,986)
Reclassification	(5)	—	105	(100)	—
End of financial year	<u>2,448</u>	<u>15,999</u>	<u>3,148</u>	<u>13,382</u>	<u>34,977</u>
<i>Accumulated depreciation</i>					
Beginning of financial year	2,486	10,357	2,417	14,540	29,800
Depreciation charge (Note 4)	86	250	255	106	697
Disposals	(275)	—	(74)	(1,636)	(1,985)
Reclassification	—	—	6	(6)	—
End of financial year	<u>2,297</u>	<u>10,607</u>	<u>2,604</u>	<u>13,004</u>	<u>28,512</u>
<i>Net book value</i>					
End of financial year	<u>151</u>	<u>5,392</u>	<u>544</u>	<u>378</u>	<u>6,465</u>
<b>2013</b>					
<i>Cost</i>					
Beginning of financial year	9,229	15,999	30,164	35,322	90,714
Additions	289	—	726	222	1,237
Disposal of subsidiary (Note 16)	(66)	—	—	(1,571)	(1,637)
Disposals	(6,724)	—	(25,993)	(20,905)	(53,622)
Reclassification	—	—	(1,831)	1,831	—
End of financial year	<u>2,728</u>	<u>15,999</u>	<u>3,066</u>	<u>14,899</u>	<u>36,692</u>
<i>Accumulated depreciation</i>					
Beginning of financial year	8,776	10,111	29,476	34,924	83,287
Depreciation charge (Note 4)	412	246	561	173	1,392
Disposals of subsidiary (Note 16)	(16)	—	—	(1,464)	(1,480)
Disposals	(6,686)	—	(25,883)	(20,830)	(53,399)
Reclassification	—	—	(1,737)	1,737	—
End of financial year	<u>2,486</u>	<u>10,357</u>	<u>2,417</u>	<u>14,540</u>	<u>29,800</u>
<i>Net book value</i>					
End of financial year	<u>242</u>	<u>5,642</u>	<u>649</u>	<u>359</u>	<u>6,892</u>

	Leasehold improvements US\$'000	Machinery and equipment US\$'000	Furniture, fixtures and office equipment US\$'000	Total US\$'000
<b><u>Company</u></b>				
<b>2014</b>				
<i>Cost</i>				
Beginning of financial year	1,757	3,035	10,100	14,892
Additions	–	50	217	267
Disposals	(13)	(40)	(562)	(615)
Reclassification	(5)	5	–	–
End of financial year	1,739	3,050	9,755	14,544
<i>Accumulated depreciation</i>				
Beginning of financial year	1,521	2,901	9,765	14,187
Depreciation charge	84	49	186	319
Disposals	(13)	(39)	(561)	(613)
Reclassification	–	–	–	–
End of financial year	1,592	2,911	9,390	13,893
<i>Net book value</i>				
End of financial year	<b>147</b>	<b>139</b>	<b>365</b>	<b>651</b>
<b><u>Company</u></b>				
<b>2013</b>				
<i>Cost</i>				
Beginning of financial year	5,431	13,510	14,462	33,403
Additions	238	118	209	565
Disposals	(3,912)	(10,593)	(4,571)	(19,076)
End of financial year	1,757	3,035	10,100	14,892
<i>Accumulated depreciation</i>				
Beginning of financial year	5,426	13,330	14,164	32,920
Depreciation charge	4	67	169	240
Disposals	(3,909)	(10,496)	(4,568)	(18,973)
End of financial year	1,521	2,901	9,765	14,187
<i>Net book value</i>				
End of financial year	<b>236</b>	<b>134</b>	<b>335</b>	<b>705</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2014

**18. INTANGIBLE ASSETS**

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Goodwill arising on consolidation (Note (a))	—	—	—	—
Trademarks and licences (Note (b))	—	—	—	—
	—	—	—	—

**(a) Goodwill arising on consolidation**

	Group	
	2014 US\$'000	2013 US\$'000
<i>Cost</i>		
Beginning and end of financial year	<b>2,262</b>	2,262
<i>Accumulated amortisation</i>		
Beginning and end of financial year	<b>2,262</b>	2,262
Net book value	—	—

**(b) Trademarks and licences**

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
<i>Cost</i>				
Beginning of financial year	<b>35,139</b>	35,139	<b>16,533</b>	16,533
Write-off	(18,565)	—	(16,533)	—
End of financial year	<b>16,574</b>	35,139	—	16,533
<i>Accumulated amortisation</i>				
Beginning of financial year	<b>35,139</b>	35,139	<b>16,533</b>	16,533
Write-off	(18,565)	—	(16,533)	—
End of financial year	<b>16,574</b>	35,139	—	16,533
Net book value	—	—	—	—

**19. OTHER NON-CURRENT ASSETS**

	<b>Group</b>		<b>Company</b>	
	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Security deposits	<b>98</b>	98	—	—
Others	—	1,729	—	1,729
	<b>98</b>	<b>1,827</b>	<b>—</b>	<b>1,729</b>

**20. TRADE PAYABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Trade payables				
- Non-related parties	<b>9,339</b>	13,729	<b>5,863</b>	9,436
- Associated companies	<b>44</b>	24	<b>44</b>	24
	<b>9,383</b>	<b>13,753</b>	<b>5,907</b>	<b>9,460</b>

**21. ACCRUED LIABILITIES AND PROVISIONS**

	<b>Group</b>		<b>Company</b>	
	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Marketing accruals	<b>5,469</b>	5,398	<b>967</b>	864
Payroll accruals	<b>6,789</b>	7,989	<b>5,820</b>	6,651
Warranty (Note (a))	<b>976</b>	1,253	<b>975</b>	1,252
Restructuring (Note (b))	<b>1,343</b>	1,474	<b>281</b>	281
Royalty accruals	<b>2,114</b>	2,267	<b>261</b>	405
Legal claims and fees (Note (c))	<b>7,124</b>	6,148	<b>5,900</b>	5,900
Deposits and other creditors	<b>2,585</b>	3,840	<b>1,959</b>	1,975
Subcontract accruals	<b>5,200</b>	5,200	<b>5,200</b>	5,200
Freight and duty accruals	<b>738</b>	1,320	<b>255</b>	235
Professional fees accruals	<b>953</b>	1,291	<b>741</b>	937
Other accruals	<b>4,608</b>	8,316	<b>2,115</b>	2,876
	<b>37,899</b>	<b>44,496</b>	<b>24,474</b>	<b>26,576</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 21. ACCRUED LIABILITIES AND PROVISIONS (cont'd)

#### (a) Warranty

The warranty period for the bulk of the products typically ranges between 1 to 2 years. The product warranty provision reflects management's best estimate of probable liability under its product warranties. Management determines the warranty provision based on known product failures (if any), historical experience, and other currently available evidence.

Movements in provision for warranty are as follows:

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Beginning of financial year	1,253	974	1,252	972
Provision (written back) made	(62)	295	(62)	296
Provision utilised	(215)	(16)	(215)	(16)
End of financial year	<u>976</u>	<u>1,253</u>	<u>975</u>	<u>1,252</u>

#### (b) Restructuring

Movements in provision for restructuring are as follows:

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Beginning of financial year	1,474	1,490	281	281
Provision made	—	38	—	—
Provision utilised	(125)	(5)	—	—
Provision written back	(6)	(49)	—	—
End of financial year	<u>1,343</u>	<u>1,474</u>	<u>281</u>	<u>281</u>

**(c) Legal claims and fees**

The provision for legal claims is in respect of certain legal claims brought against the Group. In the opinion of management, after taking appropriate legal advice, the outcomes of these legal claims are not expected to give rise to any significant loss beyond the amounts provided at 30 June 2014. Management considers that disclosure of further details of these claims will seriously prejudice the Group's negotiating position and accordingly, further information on the nature of the obligation has not been provided.

**22. DEFERRED INCOME TAX LIABILITIES**

Movements in deferred income tax account are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b> US\$'000	<b>2013</b> US\$'000	<b>2014</b> US\$'000	<b>2013</b> US\$'000
Beginning of financial year	<b>15,202</b>	17,902	–	–
Over provision in prior financial years (Note 8)	(4,500)	(2,700)	–	–
End of financial year	<b>10,702</b>	<b>15,202</b>	–	–

Deferred income tax liabilities (assets) consist of the following:

	<b>Unremitted offshore interest income US\$'000</b>	<b>Undistributed profits of foreign subsidiaries US\$'000</b>	<b>Transfer pricing and withholding tax US\$'000</b>	<b>Others US\$'000</b>	<b>Total deferred tax liabilities US\$'000</b>	<b>Deferred tax assets- tax losses US\$'000</b>	<b>Net deferred tax liabilities US\$'000</b>
<b>Group</b>							
<b>2014</b>							
Beginning of financial year	5,388	6,412	11,200	4,002	27,002	(11,800)	15,202
Over provision in prior financial years	–	–	(4,500)	–	(4,500)	–	(4,500)
End of financial year	<b>5,388</b>	<b>6,412</b>	<b>6,700</b>	<b>4,002</b>	<b>22,502</b>	<b>(11,800)</b>	<b>10,702</b>
<b>2013</b>							
Beginning of financial year	5,388	6,412	13,900	4,002	29,702	(11,800)	17,902
Over provision in prior financial years	–	–	(2,700)	–	(2,700)	–	(2,700)
End of financial year	<b>5,388</b>	<b>6,412</b>	<b>11,200</b>	<b>4,002</b>	<b>27,002</b>	<b>(11,800)</b>	<b>15,202</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2014

**22. DEFERRED INCOME TAX LIABILITIES (cont'd)**

<u>Company</u>	<u>Unremitted offshore interest income US\$'000</u>	<u>Undistributed profits of foreign subsidiaries US\$'000</u>	<u>Total deferred tax liabilities US\$'000</u>	<u>Deferred tax assets -tax losses US\$'000</u>	<u>Net deferred tax liabilities US\$'000</u>
<b>2014</b>					
Beginning and end of financial year					
	<u>5,388</u>	<u>6,412</u>	<u>11,800</u>	<u>(11,800)</u>	<u>—</u>
<b>2013</b>					
Beginning and end of financial year					
	<u>5,388</u>	<u>6,412</u>	<u>11,800</u>	<u>(11,800)</u>	<u>—</u>

The deferred income tax liabilities/assets are expected to be settled/recovered after one year.

Deferred income tax assets are recognised for tax losses and other reserves carried forward to the extent that realisation of the related tax benefits through future taxable profit is probable. The deferred tax asset of US\$11,800,000 as at the financial years ended 30 June 2014 and 2013 pertains to losses brought forward from the previous financial years which can be used to offset certain future tax liabilities.

Respectively, the Group and the Company have unrecognised tax losses of approximately US\$560,000,000 and US\$291,000,000 (2013: US\$538,000,000 and US\$251,000,000) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses in their respective countries of incorporation. Approximately US\$199,000,000 of the Group's tax losses expire between 2015 and 2034. The Group also has United States tax deductions not included in unrecognised tax losses of approximately US\$60,000,000 (2013: US\$60,000,000) as a result of the exercise of employee share options of which the tax benefit has not been realised. The tax benefit of the deductions, when realised will be accounted for as a credit to other reserves rather than a reduction of the income tax expense.

### 23. SHARE CAPITAL AND TREASURY SHARES

<u>Group and Company</u>	Number of ordinary shares		Amount	
	Issued share capital '000	Treasury shares '000	Share capital US\$'000	Treasury shares US\$'000
<b>2014</b>				
Beginning of financial year	75,000	(4,767)	266,753	(16,606)
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	—	99	—	344
End of financial year	<u>75,000</u>	<u>(4,668)</u>	<u>266,753</u>	<u>(16,262)</u>
<b>2013</b>				
Beginning of financial year	75,000	(5,074)	266,753	(17,676)
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	—	307	—	1,070
End of financial year	<u>75,000</u>	<u>(4,767)</u>	<u>266,753</u>	<u>(16,606)</u>

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

#### (a) Treasury shares

No shares were acquired in the financial year ended 30 June 2014 and 2013.

The Company did not issue any treasury shares pursuant to the Creative Technology (1999) Share Option Scheme (“1999 Scheme”) in the financial years ended 30 June 2014 and 30 June 2013.

For the financial year ended 30 June 2014, the Company issued 99,000 (2013: 307,000) treasury shares pursuant to the Creative Performance Share Plan.

#### (b) Share options

The Creative Technology (1999) Share Option Scheme (“1999 Scheme”) was approved by shareholders at an Extraordinary General Meeting on 30 December 1998 which allows options to be granted to full-time employees as well as consultants and non-executive directors. The total number of shares that may be granted under the 1999 Scheme was 7.5 million, provided that such amount shall be automatically increased on the first day (1 July) of each of the five financial years ended 30 June 2001, 2002, 2003, 2004 and 2005 by four percent of the issued share capital of the Company as at the last day of the immediate preceding financial year. The Option Committee has the discretion to decide the vesting schedule in the letter of offer. If it is not specifically stated in the letter of offer, 1/4 of the total amount of the grant vests on the first anniversary of the grant date and 1/48 of the total amount of the grant vests on the last day of each calendar month thereafter.

The exercise price of the options is determined at the average of the closing prices of the Company’s shares as quoted on the SGX-ST or the National Association of Securities Dealers Automated Quotations (“NASDAQ”) for five market days preceding the date of the grant.

Options expire after the tenth anniversary of the date of grant, except in the case of options granted to participants other than employees, options expire not later than the fifth anniversary of the date of grant. Effective 12 November 2007, amendments were made to the 1999 Scheme to allow the use of treasury shares to satisfy share based exercises. The options under the

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 23. SHARE CAPITAL AND TREASURY SHARES (cont'd)

#### (b) Share options (cont'd)

1999 Scheme do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.

The 1999 Scheme expired on 29 December 2008. The existing options granted will continue to vest according to the terms and conditions of the 1999 Scheme and the respective grants.

Movements in the number of unissued ordinary shares under option and their exercise prices were as follows:

	Number of options ('000)	Weighted average exercise price (US\$)
<b>Outstanding at 30 June 2012</b>	<b>3,747</b>	<b>5.66</b>
Exercised	—	—
Cancelled/Forfeited/Expired	(559)	4.82
<b>Outstanding at 30 June 2013</b>	<b>3,188</b>	<b>5.81</b>
Exercised	—	—
Cancelled/Forfeited/Expired	(668)	6.51
<b>Outstanding at 30 June 2014</b>	<b>2,520</b>	<b>5.62</b>
<b>Exercisable at 30 June 2014</b>	<b>2,520</b>	<b>5.62</b>

There were no options exercised during the financial years ended 30 June 2014 and 2013.

The options outstanding as at 30 June 2014 and 30 June 2013 were in the following exercise price ranges:

Range of Exercise Prices	2014		2013	
	Number of shares outstanding ('000)	Weighted average remaining contractual term (in years)	Number of shares outstanding ('000)	Weighted average remaining contractual term (in years)
US\$3.00 to US\$4.99	1,657	3.51	1,888	4.51
US\$5.00 to US\$10.99	863	1.31	1,300	2.29
	<b>2,520</b>	<b>2.76</b>	<b>3,188</b>	<b>3.61</b>

#### (c) Performance shares

The Creative Performance Share Plan (the "Plan") was approved by shareholders at an Extraordinary General Meeting on 29 October 2009 under which awards (the "Award") of fully-paid shares, their equivalent cash value or combinations thereof, will be issued free of charge, to eligible employees and non-executive directors of the Company and its subsidiaries, provided that certain prescribed performance targets are met and/or upon expiry of the prescribed vesting periods.

On 31 March 2010, 2,793,600 performance shares were granted subject to the terms and conditions of the Plan. Of the total performance shares granted, 716,950 shares were vested immediately on the date of grant.

There were no awards granted under the Plan during the financial years ended 30 June 2014 and 2013.

The fair value of the performance shares is determined at the grant date using the Monte Carlo simulation model which involves projecting future outcomes based on statistical distributions of key random variables including share price and volatility of returns.

The fair values and assumption inputs used in the model are as follows:

Grant date	Vesting date	Number of shares ('000)	Fair value per share US\$	Expected volatility %	Dividend yield %	Risk-free interest rate %	Share price at grant date US\$
31.3.2010	31.3.2011	514.5	3.49	56.07	1.99	0.45	3.57
31.3.2010	31.3.2012	514.5	3.40	56.07	1.99	0.62	3.57
31.3.2010	31.3.2013	514.5	3.33	56.07	1.99	0.72	3.57
31.3.2010	31.3.2014	514.5	3.29	56.07	1.99	1.08	3.57

Movements in the number of performance shares are as follows:

Grant date	Outstanding at 1 July 2013 ('000)		Granted ('000)	Vested and released ('000)	Cancelled ('000)	Outstanding at 30 June 2014 ('000)	
	Outstanding at 1 July 2012 ('000)	Granted ('000)				Outstanding at 30 June 2013 ('000)	Outstanding at 30 June 2014 ('000)
31 March 2010	561	–	–	(99)	(175)	287	287
31 March 2010	1,098	–	–	(307)	(230)	561	561

The 99,000 shares and 307,000 shares released during the financial years ended 30 June 2014 and 2013 respectively were satisfied using treasury shares.

## 24. OTHER RESERVES

(a) <u>Composition:</u>		Group		Company	
		2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Capital reserves		19,932	19,932	6,951	6,951
Share-based compensation reserves (Note (b))		42,638	43,419	28,155	28,936
		<b>62,570</b>	<b>63,351</b>	<b>35,106</b>	<b>35,887</b>

Capital reserves arose from changes of interests in the group companies in prior financial years. Share-based compensation reserves comprised mainly of compensation expense for share options, tax benefits relating to exercise of non qualified share options by US employees, performance share plans and Chairman's gift of shares to employees.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 24. OTHER RESERVES (cont'd)

	Group		Company	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
<b>(b) Movements:</b>				
<i>Share-based compensation reserves</i>				
Beginning of financial year	<b>43,419</b>	44,501	<b>28,936</b>	30,018
Amortisation of deferred share compensation (Note 5)	(437)	(12)	(437)	(12)
Utilisation of shares issued under employee options plans and performance share plan	(344)	(1,070)	(344)	(1,070)
End of financial year	<b>42,638</b>	<b>43,419</b>	<b>28,155</b>	<b>28,936</b>

### 25. RETAINED EARNINGS

Movements in retained earnings for the Company are as follows:

	Company	
	2014 US\$'000	2013 US\$'000
Beginning of financial year	<b>33,678</b>	28,829
Net (loss) profit	(23,600)	7,707
Dividends paid (Note 26)	(5,676)	(2,858)
End of financial year	<b>4,402</b>	<b>33,678</b>

### 26. DIVIDENDS

	Group and Company	
	2014 US\$'000	2013 US\$'000
<b>Ordinary dividends paid</b>		
Final exempt dividend paid in respect of the previous financial year of S\$0.10 (2013: S\$0.05) per share (Note 25)	<b>5,676</b>	2,858

At the Annual General Meeting to be held on 29 October 2014, a final exempt dividend of S\$0.05 per share amounting to a total of US\$2,815,000 will be recommended. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 30 June 2015.

### 27. CONTINGENCIES

The Company has issued banker's guarantee of US\$1,295,000 (2013: US\$1,281,000) to its landlord as security deposit for its office building in Singapore.

## 28. COMMITMENTS

### (a) Capital and other commitments

Capital and other expenditures contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Property and equipment	9	328	9	328
Other purchase obligations	2,695	8,144	2,674	8,123
	<b>2,704</b>	<b>8,472</b>	<b>2,683</b>	<b>8,451</b>

### (b) Operating lease commitments – where the Group is a lessee

The Group leases office space from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	<b>Group</b>	
	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Not later than one year	4,131	3,936
Between one and five years	11,442	15,082
	<b>15,573</b>	<b>19,018</b>

## 29. FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The Group's principal financial instruments, other than foreign exchange contracts, comprise bank loans, investments, cash at bank and short-term bank deposits. All financial transactions with the banks are governed by banking facilities duly accepted with Board of Directors' resolutions, with banking mandates, which define the permitted financial instruments and facility limits, approved by the Board of Directors. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is the Group's policy not to engage in foreign exchange and/or derivatives speculation or trading or enter into any complex foreign exchange or derivatives transactions. From time to time, the Group enters into forward exchange contracts to reduce its exposure to currency translation gains and losses.

The main financial risks arising from the Group's operations and the use of financial instruments are market risk (including price risk, interest rate risk and currency risk), credit risk and liquidity risk. Management does not view the Company on a standalone basis and therefore all risks relevant to the Group are considered and managed at the Group level. The policies for managing each of these risks at the Group level are summarised below.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 29. FINANCIAL RISK MANAGEMENT (cont'd)

#### (a) Market risk

##### (i) Price risk

As part of its long-term business strategy, from time to time, the Group makes strategic equity investments in companies that can provide the Group with technologies or products that management believes will give the Group a competitive advantage in the markets in which the Group competes. The Group has strategic investments in quoted equity shares. The Group manages the risk of unfavourable changes by cautious review of the investments before investing and continuous monitoring of the performance of investments held and assessing market risk relevant to which the investments operate. The market value of these investments will fluctuate with market conditions. The table below summarises the impact to the Group's fair value reserve in equity arising as a result of a 10% increase/decrease in prices of quoted equity securities. This analysis assumes that all other variables remain constant.

	<b>Equity</b>	
	<b>10% increase US\$'000</b>	<b>10% decrease US\$'000</b>
<b>Group</b>		
<b>2014</b>		
Quoted equity securities	<b>1,367</b>	<b>(1,367)</b>
<b>2013</b>		
Quoted equity securities	<b>1,406</b>	<b>(1,406)</b>

##### (ii) Interest rate risk

The Group has balances placed with reputable banks and financial institutions. The Group manages its interest rate risks on its interest income by placing the cash balances in varying maturities and interest rate terms with due consideration to operating cash flow requirements and optimising yield.

##### (iii) Currency risk

The functional currency of the Company is predominantly the US dollar and accordingly, gains and losses resulting from the translation of financial assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net profit (loss). From time to time, the Group enters into forward exchange contracts to reduce its exposure to currency translation gains and losses. Forward exchange contracts are marked to market each period and the resulting gains and losses are included in the determination of net profit (loss). No forward exchange contracts were outstanding as at 30 June 2014 and 30 June 2013.

The Group's currency exposure is as follows:

	<b>USD US\$'000</b>	<b>SGD US\$'000</b>	<b>EUR US\$'000</b>	<b>GBP US\$'000</b>	<b>Others US\$'000</b>	<b>Total US\$'000</b>
<b>Group</b>						
<b>2014</b>						
<b>Financial assets</b>						
Cash and cash equivalents	28,510	65,017	20,208	4,433	6,470	124,638
Financial assets, available-for-sale	13,495	8,113	–	–	–	21,608
Trade receivables	6,407	657	2,434	254	807	10,559
Other receivables	274	97	2	1	112	486
Other financial assets-deposits	87	232	66	28	67	480
	<b>48,773</b>	<b>74,116</b>	<b>22,710</b>	<b>4,716</b>	<b>7,456</b>	<b>157,771</b>
<b>Financial liabilities</b>						
Financial liabilities	(31,761)	(8,624)	(6,091)	(117)	(689)	(47,282)
Net financial assets	<b>17,012</b>	<b>65,492</b>	<b>16,619</b>	<b>4,599</b>	<b>6,767</b>	<b>110,489</b>

	USD US\$'000	SGD US\$'000	EUR US\$'000	GBP US\$'000	Others US\$'000	Total US\$'000
<b>Group</b>						
<b>2013</b>						
<u>Financial assets</u>						
Cash and cash equivalents	58,259	82,586	12,344	4,747	5,638	163,574
Financial assets, available-for-sale	13,462	9,192	–	–	–	22,654
Trade receivables	8,761	1,076	2,912	988	991	14,728
Other receivables	274	187	–	–	95	556
Other financial assets-deposits	62	320	28	25	81	516
	80,818	93,361	15,284	5,760	6,805	202,028
<u>Financial liabilities</u>						
Financial liabilities	(37,905)	(12,461)	(7,075)	(289)	(519)	(58,249)
Net financial assets	<u>42,913</u>	<u>80,900</u>	<u>8,209</u>	<u>5,471</u>	<u>6,286</u>	<u>143,779</u>

A change of 10% in foreign currency exchange rates relative to US\$ at the reporting date would increase/decrease profit (loss) by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit and Loss	
	10% strengthened US\$'000	10% weakened US\$'000
<b>Group</b>		
<b>2014</b>		
SGD against USD	6,549	(6,549)
EUR against USD	1,662	(1,662)
GBP against USD	460	(460)
Others against USD	<u>677</u>	<u>(677)</u>
<b>2013</b>		
SGD against USD	8,090	(8,090)
EUR against USD	821	(821)
GBP against USD	547	(547)
Others against USD	<u>629</u>	<u>(629)</u>

#### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The Group deals only with financial institutions with high credit ratings and limits the amount of credit exposure to any one financial institution. The Group sells its products to original equipment manufacturers, distributors and key retailers. The Group believes that the concentration of credit risk in its trade receivables is substantially mitigated due to performance of ongoing credit evaluations of its customers' financial condition, use of short collection terms, use of letters of credit in certain circumstances, procurement of credit insurance coverage and the geographical dispersion of sales. The Group establishes allowances for doubtful accounts, returns and discounts for specifically identified doubtful accounts, returns and discounts based on credit profiles of its customers, current economic trends, contractual terms and conditions and historical payment, returns and discount experience.

The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 29. FINANCIAL RISK MANAGEMENT (cont'd)

#### (b) Credit risk (cont'd)

As at 30 June 2014, there were no significant concentrations of credit risk and no customer (2013: 1) individually accounted for 10% or more of net accounts receivable.

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	<b>Group</b>	
	<b>2014</b> US\$'000	<b>2013</b> US\$'000
Past due 1 to 60 days	1,086	1,724
Past due 61 to 120 days	333	106
Past due over 120 days	747	894
	<b>2,166</b>	<b>2,724</b>

The carrying amount of trade receivables individually determined to be impaired and the movements in the related allowance for impairment are as follows:

	<b>Group</b>	
	<b>2014</b> US\$'000	<b>2013</b> US\$'000
Past due 1 to 60 days	5	178
Past due 61 to 120 days	10	1
Past due over 120 days	3,471	4,212
	<b>3,486</b>	<b>4,391</b>
Less: Allowance for impairment	<b>(3,486)</b>	<b>(4,391)</b>
	<b>–</b>	<b>–</b>
Beginning of financial year	<b>4,391</b>	<b>4,914</b>
Currency translation differences	–	6
Allowance write-back	(28)	(220)
Allowance utilised	(877)	(309)
End of financial year	<b>3,486</b>	<b>4,391</b>

The impaired trade receivables arose mainly from sales to customers who significantly delayed their payments.

#### (c) Liquidity risk

To manage liquidity risk, the Group monitors its net operating cash flows and maintains an adequate level of cash and cash equivalents and secured committed funding facilities from financial institutions. In assessing the adequacy of these funding facilities, management reviews its working capital requirements regularly.

As at 30 June 2014 and 30 June 2013, the Group's financial liabilities mature in less than 1 year's time.

#### (d) Capital risk

The Group's objectives when managing capital, which the Group defines as total equity, are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares or obtain new borrowings.

As at 30 June 2014, the Group does not have any outstanding bank borrowings and the Group is not subject to any externally imposed capital requirements.

**(e) Fair value measurements**

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	US\$'000			
	Level 1	Level 2	Level 3	Total
<b><u>Group</u></b>				
<b><u>2014</u></b>				
Financial assets, available-for-sale				
– Listed equity securities	13,666	–	–	13,666
– Unlisted equity securities	–	–	7,942	7,942
	<b><u>13,666</u></b>	<b><u>–</u></b>	<b><u>7,942</u></b>	<b><u>21,608</u></b>
<b><u>2013</u></b>				
Financial assets, available-for-sale				
– Listed equity securities	14,059	–	–	14,059
– Unlisted equity securities	–	–	8,595	8,595
	<b><u>14,059</u></b>	<b><u>–</u></b>	<b><u>8,595</u></b>	<b><u>22,654</u></b>

Fair values for listed equity securities are determined using quoted market prices at the balance sheet date. These instruments are included in Level 1.

Fair values for unlisted equity securities are determined by using valuation techniques. The Group uses a variety of methods, such as asset values, and makes assumptions that are based on market conditions existing at each balance sheet date. These instruments are included in Level 3.

The changes in Level 3 instruments are as follows:

	Group	
	2014 US\$'000	2013 US\$'000
<b><u>Group</u></b>		
Beginning of financial year	8,595	10,154
Purchase of level 3 securities	250	1,000
Disposals	(733)	(1,576)
Fair value gain recognised in		
– other comprehensive income	690	1,217
Impairment losses	(860)	(2,200)
End of financial year	<b><u>7,942</u></b>	<b><u>8,595</u></b>

**(f) Financial instruments by category**

The carrying amount of the different categories of financial instruments is as disclosed on the face of the balance sheet and in Note 10, Note 11, Note 14, Note 15, Note 19, Note 20 and Note 21 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 30. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

#### (a) Sales and purchases of goods and services

	Group	
	2014 US\$'000	2013 US\$'000
Sales of goods and/or services to associated companies	<u>1,588</u>	<u>1,497</u>
Purchases of goods and/or services from associated companies	<u>35</u>	<u>149</u>

Outstanding balances arising from sale/purchase of goods and services, are set out in Notes 11 and 20 respectively.

#### (b) Key management personnel compensation

Key management personnel compensation is as follows:

	Group	
	2014 US\$'000	2013 US\$'000
Short-term employees benefits	<u>1,492</u>	<u>1,949</u>
Employer's contribution to defined contribution plans including Central Provident Fund	<u>57</u>	<u>76</u>
Termination benefits	<u>279</u>	<u>—</u>
Employee share-based expense	<u>(107)</u>	<u>191</u>
	<u><b>1,721</b></u>	<u><b>2,216</b></u>

Included in the above is total compensation to the Chairman and Chief Executive Officer of the Company amounting to S\$1 (2013: S\$1).

### 31. SEGMENT INFORMATION

Management determines the operating segments based on the reports reviewed and used by the chief operating decision-maker ("CODM") to make strategic decisions.

The CODM considers the business from a geographic segment perspective. Geographically, management considers the performance of the business of the sale of advanced multimedia solutions for personal computers and personal digital entertainment products in Asia Pacific, Europe and The Americas.

The reportable operating segments derive their revenue primarily from the sale of advanced multimedia solutions for personal computers and personal digital entertainment products. In addition, services within Asia Pacific include investment holding and this is included within the reportable operating segment as it is included in the reports provided to the CODM.

The segment information provided to the CODM for the reportable segments is as follows:

	Asia Pacific US\$'000	The Americas US\$'000	Europe US\$'000	Total US\$'000
<b>Group</b>				
<b>2014</b>				
<b>Sales</b>	<u>59,275</u>	<u>17,228</u>	<u>39,829</u>	<u>116,332</u>
<b>(Loss) profit after total expenses</b>	(30,543)	(221)	1,265	(29,499)
Other income	223	2	—	225
Other gains, net	2,542	—	487	3,029
(Loss) profit before income tax	(27,778)	(219)	1,752	(26,245)
Income tax credit (expense)	1,795	2,687	(9)	4,473
<b>Net (loss) profit</b>	<u>(25,983)</u>	<u>2,468</u>	<u>1,743</u>	<u>(21,772)</u>
<b>Other segment items</b>				
Additions to				
- property and equipment	267	1	3	271
Depreciation	431	72	194	697
Impairment of financial assets, available-for sale	(972)	—	—	(972)
<b>Segment assets</b>	<u>163,016</u>	<u>9,686</u>	<u>21,484</u>	<u>194,186</u>
<b>Segment liabilities</b>	<u>43,440</u>	<u>5,020</u>	<u>10,259</u>	<u>58,719</u>
<b>Group</b>				
<b>2013</b>				
<b>Sales</b>	<u>95,203</u>	<u>22,927</u>	<u>47,212</u>	<u>165,342</u>
<b>(Loss) profit after total expenses</b>	(16,414)	1,474	1,569	(13,371)
Other income	439	2	2	443
Other gains, net	27,141	913	123	28,177
Share of loss of associated companies	(1,088)	—	—	(1,088)
Profit before income tax	10,078	2,389	1,694	14,161
Income tax credit (expense)	2,509	(17)	9	2,501
<b>Net profit</b>	<u>12,587</u>	<u>2,372</u>	<u>1,703</u>	<u>16,662</u>
<b>Other segment items</b>				
Additions to				
- property and equipment	1,174	1	62	1,237
Depreciation	1,087	81	224	1,392
Impairment of financial assets, available-for sale	(2,288)	—	—	(2,288)
<b>Segment assets</b>	<u>203,753</u>	<u>10,367</u>	<u>23,086</u>	<u>237,206</u>
<b>Segment liabilities</b>	<u>53,660</u>	<u>9,535</u>	<u>10,962</u>	<u>74,157</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2014

### 31. SEGMENT INFORMATION (cont'd)

The revenue reported to the CODM excludes sales between segments. The revenue from external parties reported to the CODM is measured in a manner consistent with that in profit or loss. Geographic revenue information for the financial years ended 30 June 2014 and 30 June 2013 is based on the location of the selling entity.

The CODM assesses the performance of the operating segments based on net profit or loss. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

The amounts provided to the CODM with respect to total assets are measured in a manner consistent with that of the financial statements. For the purposes of monitoring segment performance and allocating resources between segments, the CODM monitors the total assets attributable to each segment. All assets are allocated to reportable segments.

The amounts provided to the CODM with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. All liabilities are allocated to reportable segments.

Summary of net sales by country:

	<b>Group</b>	
	<b>2014</b> US\$'000	<b>2013</b> US\$'000
Singapore	<b>51,751</b>	65,657
United States of America	<b>17,228</b>	22,927
Ireland	<b>39,829</b>	47,212
Other countries	<b>7,524</b>	29,546
	<b>116,332</b>	<b>165,342</b>

Summary of net sales by product category:

	<b>Group</b>	
	<b>2014</b> US\$'000	<b>2013</b> US\$'000
Audio, speakers and headphones	<b>103,565</b>	121,999
Personal digital entertainment	<b>8,171</b>	13,652
Other products	<b>4,596</b>	29,691
	<b>116,332</b>	<b>165,342</b>

Included in sales of all other products in the financial year ended 30 June 2013 is a one time US\$20.0 million licensing income.

There was no customer who accounted for 10% or more of net revenues for the current and prior financial years.

Summary of non-current assets by country:

	<b>Group</b>	
	<b>2014</b> US\$'000	<b>2013</b> US\$'000
Singapore	<b>1,051</b>	2,945
United States of America	<b>848</b>	918
Ireland	<b>4,562</b>	4,753
Other countries	<b>4</b>	<b>4</b>
	<b>6,465</b>	<b>8,620</b>

### **32. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS**

There are no mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 July 2014 or later periods and which the Group has not early adopted.

### **33. AUTHORISATION OF FINANCIAL STATEMENTS**

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of CREATIVE TECHNOLOGY LTD. on 24 September 2014.

### **34. LISTING OF SIGNIFICANT COMPANIES IN THE GROUP**

<b>Name of companies</b>	<b>Principal activities</b>	<b>Country of business/ incorporation</b>	<b>Equity holding</b>	
			<b>2014 %</b>	<b>2013 %</b>
<b><u>Significant subsidiaries held by the Group</u></b>				
Creative Labs, Inc. (a)	Distribution of digitised sound and video boards, computers, related multimedia and personal digital entertainment products	United States of America	<b>100</b>	100
Creative Labs (Ireland) Ltd (c)	Distribution of digitised sound and video boards, computers, related multimedia and personal digital entertainment products	Republic of Ireland	<b>100</b>	100
QMax Pte Ltd and subsidiary companies (b)	Provision of data communications, telecommunications, wireless broadband and related services	Singapore	<b>100</b>	100
CTI Limited (a)	Investment holding	Bermuda	<b>100</b>	100
CTI II Limited (a)	Investment holding	Bermuda	<b>100</b>	100

(a) Not required to be audited under the laws of the country of incorporation

(b) Audited by PricewaterhouseCoopers LLP, Singapore

(c) Audited by PricewaterhouseCoopers, Dublin

All the Singapore-incorporated subsidiaries were audited by the Company's auditor, PricewaterhouseCoopers LLP, Singapore.

For subsidiaries which appointed different auditors, the Audit Committee and Board of Directors are satisfied that the appointment would not compromise the standard and effectiveness of the audit.

There are no significant associated companies held by the Group.

## SGX-ST LISTING MANUAL REQUIREMENTS

For the financial year ended 30 June 2014

### Additional Requirements of SGX-ST Listing Manual

#### DIRECTORS' REMUNERATION

The following information relates to remuneration of directors of the Company during the financial year:

	2014	2013
Number of directors of the Company in remuneration bands:		
- above S\$500,000	—	—
- S\$250,000 to below S\$500,000	—	—
- below S\$250,000	<b>4</b>	4
Total	<b>4</b>	4

The Company proposed to pay Director's fees of S\$180,000 in the current financial year (2013: paid S\$180,000) to its non-executive directors on its Board of Directors.

The Company paid a total remuneration of S\$1 (2013: S\$1) to its Chairman and Chief Executive Officer.

#### AUDITOR'S REMUNERATION

The following information relates to other fees of the auditors during the financial year:

	2014 US\$'000	2013 US\$'000
Audit fees paid/payable to:		
- Auditor of the Company	<b>255</b>	264
- Other auditors *	<b>32</b>	35
Other fees paid/payable to:		
- Auditor of the Company	<b>50</b>	55
- Other auditors *	<b>15</b>	14

\* *Include PricewaterhouseCoopers member firms outside Singapore*

The Group has complied with Rules 712 and 715 or 716 of the Listing Manual issued by SGX-ST in relation to its auditors.

The Audit Committee has reviewed all non-audit services provided by the auditor of the Company and in the Audit Committee's opinion, the non-audit services provided, will not affect the independence of the auditors.

#### PROPERTIES OF THE GROUP

The net book values of properties held by the Group are as follows:

	2014 US\$'000	2013 US\$'000
Freehold land and buildings	<b>5,392</b>	5,642

Freehold land and buildings of US\$5,392,000 as at 30 June 2014 (2013: US\$5,642,000) was net of a US\$2,500,000 impairment charge to write down the book value of a building owned by a wholly-owned subsidiary in Ireland to its estimated net realizable value based on a valuation done on 12 June 2012. In the financial years ended 30 June 2014 and 2013, a valuation was conducted and it was assessed that there was no further impairment necessary.

#### MATERIAL CONTRACTS

There is no material contract entered into by the Company or any of its subsidiaries involving the interest of the chief executive officer, any director or controlling shareholder, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

**STATISTICS OF SHAREHOLDING AS AT 12 SEPTEMBER 2014**

Number of Issued Shares	:	75,000,000
Number of Issued Shares (excluding Treasury Shares)	:	70,331,649
Number / Percentage of Treasury Shares	:	4,668,351 (6.64%)
Class of Shares	:	Ordinary shares
Voting Rights (excluding Treasury Shares)	:	1 vote per share

Based on the information available to the Company as at 12 September 2014, 63.43% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual issued by SGX-ST is complied with.

Size of shareholdings	Number of shareholders	Percentage of shareholders (%)	Number of shares	Percentage of shares (%)
1 - 999	5,702	46.42	1,582,977	2.25
1,000 - 10,000	6,113	49.77	15,540,304	22.10
10,001 - 1,000,000	464	3.78	20,435,040	29.05
1,000,001 and above	4	0.03	32,773,328	46.60
<b>Total</b>	<b>12,283</b>	<b>100.00</b>	<b>70,331,649</b>	<b>100.00</b>

**TWENTY LARGEST SHAREHOLDERS**

Name of shareholder	Number of shares	Percentage (%)
1 Sim Wong Hoo	23,270,652	33.09
2 DBS Nominees (Private) Limited	4,714,695	6.70
3 Citibank Nominees Singapore Pte Ltd	3,523,488	5.01
4 United Overseas Bank Nominees (Private) Limited	1,264,493	1.80
5 OCBC Nominees Singapore Private Limited	874,700	1.24
6 Pornchada Vanich	856,000	1.22
7 Ng Keh Long	845,000	1.20
8 Sim Guan Huat	657,675	0.94
9 UOB Kay Hian Private Limited	640,800	0.91
10 BNP Paribas Nominees Singapore Pte Ltd	639,450	0.91
11 Maybank Kim Eng Securities Pte. Ltd.	629,133	0.89
12 DB Nominees (Singapore) Pte Ltd	520,867	0.74
13 BNP Paribas Securities Services Singapore Branch	447,164	0.64
14 Hong Leong Finance Nominees Pte Ltd	363,150	0.52
15 OCBC Securities Private Limited	320,600	0.46
16 Phillip Securities Pte Ltd	302,900	0.43
17 Merrill Lynch (Singapore) Pte Ltd	272,580	0.39
18 Choo Ah Seng	270,650	0.38
19 Chan Siew Kim Alice	259,400	0.37
20 Low Ting Pong	243,160	0.35
<b>Total</b>	<b>40,916,557</b>	<b>58.19</b>

Substantial shareholder	Number of ordinary shares	
	Direct interest	Deemed interest
Sim Wong Hoo	23,270,652	-

## CORPORATE INFORMATION

### **Board of Directors**

Sim Wong Hoo, Chairman of the Board and Chief Executive Officer  
Lee Kheng Nam, Independent Non-Executive Director  
Ng Kai Wa, Independent Non-Executive Director  
Lee Gwong-Yih, Independent Non-Executive Director

### **Company Secretary**

Ng Keh Long

### **Registered Office**

31 International Business Park  
#03-01 Creative Resource  
Singapore 609921  
Tel: 65-6895-4000  
Email: press\_contact@ctl.creative.com

### **Share Registrar**

Boardroom Corporate & Advisory Services Pte. Ltd.  
50 Raffles Place  
#32-01 Singapore Land Tower  
Singapore 048623

### **Corporate Counsel**

Duane Morris & Selvam LLP  
16 Collyer Quay  
#17-00  
Singapore 049318

### **Independent Auditor**

PricewaterhouseCoopers LLP  
8 Cross Street  
#17-00 PWC Building  
Singapore 048424  
Audit Partner: Deborah Ong  
Year of appointment: 2013  
Number of years of appointment: 2 year