

CREATIVE TECHNOLOGY LTD

FIRST QUARTER ENDED 30 SEPTEMBER 2012 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2012

1 CONSOLIDATED INCOME STATEMENT

	GROUP	
	Three months ended 30 September	
	2012	2011
	US\$'000	US\$'000
Sales, net	35,736	50,356
Cost of goods sold	(27,531)	(41,450)
Gross profit	8,205	8,906
Expenses:		
Selling, general and administrative	(9,781)	(13,819)
Research and development	(7,587)	(12,402)
Total expenses	(17,368)	(26,221)
Other income	126	190
Other gains (losses), net	4,859	(11,357)
Share of losses of associated companies	(209)	(973)
Interest expense	--	(11)
Loss before income tax	(4,387)	(29,466)
Income tax expense	(91)	(101)
Net loss	(4,478)	(29,567)
Attributable to:		
Equity holders of the Company	(4,455)	(29,603)
Non-controlling interests	(23)	36
Loss per share for loss attributable to equity holders of the Company		
- Basic (US\$ per share)	(0.06)	(0.42)
- Diluted (US\$ per share)	(0.06)	(0.42)

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

	GROUP	
	Three months ended	
	30 September	
	2012	2011
	US\$'000	US\$'000
Depreciation and amortization	(294)	(1,699)
Write-off/write-down for inventory obsolescence	(129)	(4,342)
Impairment loss of investments	(8)	(3,053)
Gain (loss) on disposal of property and equipment	810	(4)
Foreign exchange gains (losses)	4,032	(8,697)

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP	
	Three months ended	
	30 September	
	2012	2011
	US\$'000	US\$'000
Net loss	(4,478)	(29,567)
Other comprehensive income:		
Fair value losses of financial assets, available-for-sale	(366)	(6,297)
Total comprehensive income for the period	<u>(4,844)</u>	<u>(35,864)</u>
Attributable to:		
Shareholders of the Company	(4,821)	(35,900)
Non-controlling interests	(23)	36
Total comprehensive income for the period	<u>(4,844)</u>	<u>(35,864)</u>

3 BALANCE SHEETS

	Group		Company	
	30 September 2012 US\$'000	30 June 2012 US\$'000	30 September 2012 US\$'000	30 June 2012 US\$'000
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	129,544	131,432	117,258	117,457
Trade receivables	18,841	18,841	6,985	6,294
Amounts due from subsidiaries	-	-	45,718	41,803
Inventories	31,468	27,822	12,504	11,052
Property and equipment held for sale	-	4,991	-	-
Other current assets	10,033	12,732	1,277	1,567
	189,886	195,818	183,742	178,173
Non-current assets:				
Financial assets, available-for-sale	26,277	26,651	-	-
Other non-current receivables	879	1,088	-	-
Amounts due from subsidiaries	-	-	200,684	199,321
Investments in subsidiaries	-	-	27,290	27,290
Property and equipment	7,093	7,427	427	483
Other non-current assets	2,915	3,301	1,305	1,193
	37,164	38,467	229,706	228,287
Total assets	227,050	234,285	413,448	406,460
<u>LIABILITIES</u>				
Current liabilities:				
Trade payables	14,373	13,844	9,630	8,586
Amounts due to subsidiaries	-	-	40,341	36,590
Accrued liabilities and provisions	50,315	53,367	23,717	24,692
Current income tax liabilities	705	742	-	48
	65,393	67,953	73,688	69,916
Non-current liabilities:				
Amounts due to subsidiaries	-	-	25,165	21,669
Deferred income tax liabilities	17,902	17,902	-	-
	17,902	17,902	25,165	21,669
Total liabilities	83,295	85,855	98,853	91,585
NET ASSETS	143,755	148,430	314,595	314,875
<u>EQUITY</u>				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(17,650)	(17,676)	(17,650)	(17,676)
Fair value reserve	8,292	8,658	-	-
Other reserves	64,568	64,433	37,104	36,969
Retained earnings	(178,427)	(173,980)	28,388	28,829
	143,536	148,188	314,595	314,875
Non-controlling interests	219	242	-	-
Total equity	143,755	148,430	314,595	314,875

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Three months ended 30 September	
	2012	2011
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(4,478)	(29,567)
Adjustments for:		
Income tax expense	91	101
Depreciation of property and equipment	294	1,579
Amortisation of intangible assets	--	120
Employee share-based expenses	161	224
Share of loss of associated companies	209	973
(Gain) loss on disposal of property and equipment	(810)	4
Impairment loss of financial assets, available-for-sale	8	3,053
Currency translation (gains) losses	(3,894)	7,187
Dividend income	(70)	(123)
Interest income	(56)	(66)
Interest expense	--	10
	<u>(8,545)</u>	<u>(16,505)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	--	(1,870)
Inventories	(3,646)	5,846
Other assets and receivables	3,087	6,046
Trade payables	529	2,653
Accrued liabilities and provisions	(3,052)	(1,731)
Cash used in operations	<u>(11,627)</u>	<u>(5,561)</u>
Interest received	54	70
Income tax paid	<u>(143)</u>	<u>(128)</u>
Net cash used in operating activities	<u>(11,716)</u>	<u>(5,619)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(72)	(3,711)
Proceeds from sale of property and equipment	5,913	1
Dividend received	70	123
Net cash provided by (used in) investing activities	<u>5,911</u>	<u>(3,587)</u>
Cash flows from financing activities:		
Purchase of treasury shares	--	(322)
Return of unclaimed dividends	8	--
Net cash provided by (used in) financing activities	<u>8</u>	<u>(322)</u>
Net decrease in cash and cash equivalents	(5,797)	(9,528)
Cash and cash equivalents at beginning of financial year	131,432	162,958
Effects of currency translation on cash and cash equivalents	3,909	(7,228)
Cash and cash equivalents at end of the period	<u>129,544</u>	<u>146,202</u>

5 STATEMENTS OF CHANGES IN EQUITY

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

	Share Capital US\$'000	Treasury Shares US\$'000	Fair Value Reserve US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
FY2013								
Balance at 1 July 2012	266,753	(17,676)	8,658	64,433	(173,980)	148,188	242	148,430
Purchase of treasury shares	-	-	-	-	-	-	-	-
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	26	-	(26)	-	-	-	-
Employee share-based expense	-	-	-	161	-	161	-	161
Unclaimed dividend	-	-	-	-	8	8	-	8
Total comprehensive income (loss) for the period	-	-	(366)	-	(4,455)	(4,821)	(23)	(4,844)
Balance at 30 September 2012	266,753	(17,650)	8,292	64,568	(178,427)	143,536	219	143,755
FY2012								
Balance at 1 July 2011	266,753	(18,362)	15,585	64,629	(87,241)	241,364	658	242,022
Purchase of treasury shares	-	(322)	-	-	-	(322)	-	(322)
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	26	-	(28)	-	(2)	-	(2)
Employee share-based expense	-	-	-	224	-	224	-	224
Total comprehensive income (loss) for the period	-	-	(6,297)	-	(29,603)	(35,900)	36	(35,864)
Balance at 30 September 2011	266,753	(18,658)	9,288	64,825	(116,844)	205,364	694	206,058

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

	Share Capital US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
FY2013					
Balance at 1 July 2012	266,753	(17,676)	36,969	28,829	314,875
Purchase of treasury shares	-	-	-	-	-
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	26	(26)	-	-
Employee share-based expense	-	-	161	-	161
Unclaimed dividend	-	-	-	8	8
Total comprehensive loss for the period	-	-	-	(449)	(449)
Balance at 30 September 2012	266,753	(17,650)	37,104	28,388	314,595
FY2012					
Balance at 1 July 2011	266,753	(18,362)	37,165	71,202	356,758
Purchase of treasury shares	-	(322)	-	-	(322)
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	26	(28)	-	(2)
Employee share-based expense	-	-	224	-	224
Total comprehensive loss for the period	-	-	-	(14,008)	(14,008)
Balance at 30 September 2011	266,753	(18,658)	37,361	57,194	342,650

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

Issued and paid up capital

As at 30 September 2012, the Company's issued and paid up capital excluding treasury shares comprises 69,933,024 (30 June 2012: 69,925,524) ordinary shares.

As at 30 September 2012, the Company's issued and paid up share capital was US\$266.8 million (30 June 2012: US\$266.8 million).

Employee share options plan

During the first quarter of FY2013, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q1 FY2012: Nil).

As at 30 September 2012, there were 3,740,950 (30 September 2011: 4,805,457) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plan.

Employee performance share plan

During the first quarter of FY2013, the Company issued 7,500 treasury shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q1 FY2012: 7,500).

As at 30 September 2012, there were 1,070,191 (30 September 2011: 1,518,754) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 30 September 2012, the Company held 5,066,976 (30 September 2011: 5,356,285) treasury shares against 69,933,024 (30 September 2011: 69,643,715) issued ordinary shares excluding treasury shares.

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

	Three months ended 30 September	
	2012	2011
Balance at beginning of period	5,074,476	5,209,585
Purchase of treasury shares	-	154,200
Issued for Employee Performance Share Plan	(7,500)	(7,500)
Balance at end of period	<u>5,066,976</u>	<u>5,356,285</u>

There were no shares repurchased in the first quarter of FY2013. Pursuant to the share buy back mandate approved at the extraordinary general meeting held on 28 October 2010, the Company purchased a total of 154,200 ordinary shares in the first quarter of FY2012. The ordinary shares were purchased by way of market acquisitions at prices ranging from S\$2.45 to S\$2.56 per share and the total consideration paid for all of the purchases was S\$389,000.

6 GROUP BORROWINGS

	GROUP	
	30 September 2012 US\$'000	30 June 2012 US\$'000
Amount repayable:		
<u>In one year or less, or on demand</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
<u>After one year</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Total	-	-
	<hr/>	<hr/>

7 NET ASSET VALUE

	GROUP		COMPANY	
	30 September 2012 US\$	30 June 2012 US\$	30 September 2012 US\$	30 June 2012 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	2.06	2.12	4.50	4.50

8 AUDIT

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

9 AUDITORS' REPORT

Not applicable.

10 ACCOUNTING POLICIES

Except as disclosed in Item 11 below, the Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 30 June 2012.

11 CHANGES IN ACCOUNTING POLICIES

None.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the first quarter of FY2013 decreased by 29% compared to the same quarter in FY2012. Revenue was lower in the first quarter of FY2013 due to the global economic uncertainties, particularly the ongoing Eurozone debt crisis, which impacted the market conditions for the Group's products.

Gross Profit

Gross profit margin was 23% in the first quarter of FY2013 compared to 18% in the first quarter of FY2012. Gross profit margin was lower in the first quarter of FY2012 due primarily to a US\$4.3 million write-down of inventories mainly for personal digital entertainment product category including tablet devices which operates in a highly competitive market characterized by rapidly changing technologies.

Net Loss

Net loss for the first quarter of FY2013 was US\$4.5 million compared to net loss of US\$29.6 million in the first quarter of FY2012. Despite the decrease in sales, operating results in the first quarter of FY2013 have improved due to reduction in operating expenses by US\$8.9 million compared to the first quarter of FY2012. Net loss in the first quarter of FY2013 included other gains of US\$4.9 million compared to other losses of US\$11.4 million in the first quarter of FY2012.

Selling, general and administrative expenses in the first quarter of FY2013 decreased by 29% compared to the first quarter of FY2012. The decrease in selling, general and administrative expenses was due mainly to a reduction in sales and cost cutting actions taken by the management.

Research and development expenses in the first quarter of FY2013 decreased by 39% compared to the first quarter of FY2012. The decrease in research and development expenses was mainly a result of cost cutting actions taken by the management. The Group will continue to invest in product research and development in areas that are strategic to the Group, cutting back research and development spending only in product areas that are not strategic to the Group.

Depreciation and amortization was US\$0.3 million in the first quarter of FY2013 compared to US\$1.7 million in first quarter of FY2012. Depreciation and amortization was lower in the first quarter of FY2013 due mainly to assets being fully depreciated.

Other gains of US\$4.9 million in the first quarter of FY2013 were due mainly to foreign exchange gains of US\$4.0 million and gain on disposal of property and equipment of US\$0.8 million pertaining mainly to the disposal of a property owned by a subsidiary in the United States. Other losses of US\$11.4 million in the first quarter of FY2012 were due mainly to foreign exchange losses of US\$8.7 million and a US\$3.1 million impairment loss of investments due to adverse business conditions in certain investee companies.

The functional currency of the Company and its subsidiaries is predominantly the US dollar and accordingly, gains and losses resulting from the translation of monetary assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net income (loss). The exchange differences were due mainly to the cash and cash equivalent balances held by the Group. Cash and cash equivalents were held mainly in Singapore dollar, with the balance mainly in US dollar, Euro, British Pound and Japanese Yen. The exchange gain in the first quarter of FY2013 was due mainly to the appreciation of Euro and Singapore dollar against the US dollar. The exchange loss in the first quarter of FY2012 was due mainly to the significant depreciation of Singapore dollar and Euro against the US dollar.

BALANCE SHEETS

Higher level of inventories as at 30 September 2012 was in anticipation of higher sales in the holiday season. Property and equipment held for sale of US\$5.0 million as at 30 June 2012 relates to a property owned by a subsidiary in the United States which was sold in the first quarter of FY2013. The decrease in other current assets was due mainly to the utilization of security deposit for the payment of the Group's headquarters office building rental.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$11.7 million in the first quarter of FY2013 (Q1 FY2012: US\$5.6 million) was due mainly to the net loss for the period and adjustment for foreign currency translation gains of US\$3.9 million.

Net cash provided by investing activities of US\$5.9 million in the first quarter of FY2013 (Q1 FY2012: US\$3.6 million net cash used in investing activities) was due mainly to the proceeds from the sale of property as explained above.

Net cash provided by financing activities in the first quarter of FY2013 was not material.

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the first quarter of FY2013 as compared to the prospect statement disclosed in the announcement of results for the fourth quarter and full year ended 30 June 2012.

14 PROSPECTS

The global economic environment remains highly uncertain, particularly with the ongoing Eurozone debt crisis, and the overall market for the Group's products remains challenging.

For the current quarter, the Group expects no major improvement in the difficult and uncertain market conditions. However, revenue is expected to be higher in the holiday season for this quarter compared to the current level and the Group expects to report a lower operating loss.

15 DIVIDEND

No dividends have been recommended in the first quarter of FY2013 and no dividends were recommended or declared for the same period last year.

16 INTERESTED PERSON TRANSACTIONS

The Group has not obtained a general mandate from shareholders for Interested Person Transactions.

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
30 OCTOBER 2012

CONFIRMATION BY THE BOARD

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the interim financial information for the first quarter ended 30 September 2012 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director