

# CREATIVE TECHNOLOGY LTD

## SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2011 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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**UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2011**

**1 CONSOLIDATED INCOME STATEMENT**

|   | GROUP                             |                  | GROUP                          |                  |
|---|-----------------------------------|------------------|--------------------------------|------------------|
|   | Three months ended<br>31 December |                  | Half year ended<br>31 December |                  |
|   | 2011<br>US\$'000                  | 2010<br>US\$'000 | 2011<br>US\$'000               | 2010<br>US\$'000 |
| Sales, net  | 59,547                            | 69,289           | 109,903                        | 126,516          |
| Cost of goods sold  | 47,429                            | 51,529           | 88,879                         | 94,721           |
| <b>Gross profit</b>   | <b>12,118</b>                     | <b>17,760</b>    | <b>21,024</b>                  | <b>31,795</b>    |
| Expenses:   |                                   |                  |                                |                  |
| Selling, general and administrative                                   | (11,779)                          | (15,988)         | (25,598)                       | (30,160)         |
| Research and development  | (9,557)                           | (15,536)         | (21,959)                       | (32,156)         |
| <b>Total expenses</b>   | <b>(21,336)</b>                   | <b>(31,524)</b>  | <b>(47,557)</b>                | <b>(62,316)</b>  |
| Other income  | 58                                | 190              | 248                            | 357              |
| Other (losses) gains, net   | (23,621)                          | 2,625            | (34,978)                       | 15,737           |
| Share of losses of associated companies                               | (996)                             | (233)            | (1,969)                        | (233)            |
| Interest expense  | (10)                              | (21)             | (21)                           | (41)             |
| <b>Loss before income tax</b>   | <b>(33,787)</b>                   | <b>(11,203)</b>  | <b>(63,253)</b>                | <b>(14,701)</b>  |
| Income tax (expense) credit   | (77)                              | 351              | (178)                          | 235              |
| <b>Net loss</b>   | <b>(33,864)</b>                   | <b>(10,852)</b>  | <b>(63,431)</b>                | <b>(14,466)</b>  |
| <b>Attributable to:</b>   |                                   |                  |                                |                  |
| Equity holders of the Company   | (33,855)                          | (10,866)         | (63,458)                       | (14,484)         |
| Non-controlling interests   | (9)                               | 14               | 27                             | 18               |
| Loss per share for loss attributable to equity holders of the Company |                                   |                  |                                |                  |
| - Basic (US\$ per share)  | (0.49)                            | (0.16)           | (0.91)                         | (0.21)           |
| - Diluted (US\$ per share)  | (0.49)                            | (0.16)           | (0.91)                         | (0.21)           |

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

|  | <b>GROUP</b>              |                 |                        |                 |
|--|---------------------------|-----------------|------------------------|-----------------|
|  | <b>Three months ended</b> |                 | <b>Half year ended</b> |                 |
|  | <b>31 December</b>        |                 | <b>31 December</b>     |                 |
|  | <b>2011</b>               | <b>2010</b>     | <b>2011</b>            | <b>2010</b>     |
|  | <b>US\$'000</b>           | <b>US\$'000</b> | <b>US\$'000</b>        | <b>US\$'000</b> |
| Depreciation and amortization  | (673)                     | (1,806)         | (2,372)                | (3,642)         |
| (Write-off/write-down for inventory obsolescence) /<br>Reversal of write-off/write-down for inventory obsolescence | (2,148)                   | 256             | (6,490)                | 318             |
| Impairment loss on investments   | (40)                      | (145)           | (3,093)                | (382)           |
| Foreign exchange (loss) gain   | (1,488)                   | 2,559           | (10,185)               | 15,770          |
| Impairment loss on property and equipment and intangible assets  | (15,639)                  | -               | (15,639)               | -               |
| Provisions for commitments and obligations   | (6,489)                   | -               | (6,489)                | -               |

**2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

|  | <b>GROUP</b>              |                 |                        |                 |
|--|---------------------------|-----------------|------------------------|-----------------|
|  | <b>Three months ended</b> |                 | <b>Half year ended</b> |                 |
|  | <b>31 December</b>        |                 | <b>31 December</b>     |                 |
|  | <b>2011</b>               | <b>2010</b>     | <b>2011</b>            | <b>2010</b>     |
|  | <b>US\$'000</b>           | <b>US\$'000</b> | <b>US\$'000</b>        | <b>US\$'000</b> |
| Net loss   | (33,864)                  | (10,852)        | (63,431)               | (14,466)        |
| Other comprehensive income:                                    |                           |                 |                        |                 |
| Net fair value changes of financial assets, available-for-sale | 423                       | 1,348           | (5,874)                | 6,511           |
| Total comprehensive income for the period                      | <u>(33,441)</u>           | <u>(9,504)</u>  | <u>(69,305)</u>        | <u>(7,955)</u>  |
| Attributable to:   |                           |                 |                        |                 |
| Shareholders of the Company                                    | (33,432)                  | (9,518)         | (69,332)               | (7,973)         |
| Non-controlling interests                                      | (9)                       | 14              | 27                     | 18              |
| Total comprehensive income for the period                      | <u>(33,441)</u>           | <u>(9,504)</u>  | <u>(69,305)</u>        | <u>(7,955)</u>  |

### 3 BALANCE SHEETS

|                                      | Group                           |                             | Company                         |                             |
|--------------------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
|                                      | 31 December<br>2011<br>US\$'000 | 30 June<br>2011<br>US\$'000 | 31 December<br>2011<br>US\$'000 | 30 June<br>2011<br>US\$'000 |
| <b>ASSETS</b>                        |                                 |                             |                                 |                             |
| <b>Current assets:</b>               |                                 |                             |                                 |                             |
| Cash and cash equivalents            | 135,879                         | 162,958                     | 118,645                         | 148,693                     |
| Trade receivables                    | 30,643                          | 27,508                      | 8,988                           | 8,059                       |
| Amounts due from subsidiaries        | -                               | -                           | 46,020                          | 37,424                      |
| Inventories                          | 32,230                          | 44,089                      | 16,456                          | 23,425                      |
| Other current assets                 | 18,511                          | 22,642                      | 4,179                           | 5,966                       |
|                                      | <b>217,263</b>                  | <b>257,197</b>              | <b>194,288</b>                  | <b>223,567</b>              |
| <b>Non-current assets:</b>           |                                 |                             |                                 |                             |
| Financial assets, available-for-sale | 28,028                          | 36,476                      | -                               | -                           |
| Other non-current receivables        | 148                             | 460                         | -                               | -                           |
| Amounts due from subsidiaries        | -                               | -                           | 202,737                         | 194,391                     |
| Investments in associated companies  | -                               | 322                         | -                               | -                           |
| Investments in subsidiaries          | -                               | -                           | 30,790                          | 30,790                      |
| Property and equipment               | 16,813                          | 26,088                      | 695                             | 920                         |
| Intangible assets                    | 2,232                           | 5,862                       | -                               | -                           |
| Other non-current assets             | 11,269                          | 15,600                      | 1,443                           | 1,422                       |
|                                      | <b>58,490</b>                   | <b>84,808</b>               | <b>235,665</b>                  | <b>227,523</b>              |
| <b>Total assets</b>                  | <b>275,753</b>                  | <b>342,005</b>              | <b>429,953</b>                  | <b>451,090</b>              |
| <b>LIABILITIES</b>                   |                                 |                             |                                 |                             |
| <b>Current liabilities:</b>          |                                 |                             |                                 |                             |
| Trade payables                       | 23,449                          | 20,629                      | 16,741                          | 15,203                      |
| Amounts due to subsidiaries          | -                               | -                           | 32,856                          | 29,312                      |
| Accrued liabilities and provisions   | 63,436                          | 60,662                      | 25,944                          | 28,668                      |
| Current income tax liabilities       | 722                             | 790                         | -                               | -                           |
|                                      | <b>87,607</b>                   | <b>82,081</b>               | <b>75,541</b>                   | <b>73,183</b>               |
| <b>Non-current liabilities:</b>      |                                 |                             |                                 |                             |
| Amounts due to subsidiaries          | -                               | -                           | 21,146                          | 21,149                      |
| Deferred income tax liabilities      | 17,902                          | 17,902                      | -                               | -                           |
|                                      | <b>17,902</b>                   | <b>17,902</b>               | <b>21,146</b>                   | <b>21,149</b>               |
| <b>Total liabilities</b>             | <b>105,509</b>                  | <b>99,983</b>               | <b>96,687</b>                   | <b>94,332</b>               |
| <b>NET ASSETS</b>                    | <b>170,244</b>                  | <b>242,022</b>              | <b>333,266</b>                  | <b>356,758</b>              |
| <b>EQUITY</b>                        |                                 |                             |                                 |                             |
| Share capital                        | 266,753                         | 266,753                     | 266,753                         | 266,753                     |
| Treasury shares                      | (18,658)                        | (18,362)                    | (18,658)                        | (18,362)                    |
| Fair value reserve                   | 9,711                           | 15,585                      | -                               | -                           |
| Other reserves                       | 65,227                          | 64,629                      | 37,763                          | 37,165                      |
| Retained earnings                    | (153,474)                       | (87,241)                    | 47,408                          | 71,202                      |
|                                      | 169,559                         | 241,364                     | 333,266                         | 356,758                     |
| Non-controlling interests            | 685                             | 658                         | -                               | -                           |
| <b>Total equity</b>                  | <b>170,244</b>                  | <b>242,022</b>              | <b>333,266</b>                  | <b>356,758</b>              |

#### 4 CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | <b>GROUP</b>   |                          |
|--|--|--------------------------|
|  | <b>Half year ended 31 December<br/>2011<br/>US\$'000</b> | <b>2010<br/>US\$'000</b> |
| <b>Cash flows from operating activities:</b>   |  |                          |
| Net loss   | (63,431)   | (14,466)                 |
| Adjustments for:   |  |                          |
| Income tax expense   | 178  | (235)                    |
| Depreciation of property and equipment   | 2,133  | 3,418                    |
| Amortisation of intangible assets  | 239  | 224                      |
| Employee share-based expenses  | 626  | 1,946                    |
| Share of loss of associated companies  | 1,969  | 233                      |
| Loss on disposal of property and equipment   | 62   | 15                       |
| Impairment loss on property and equipment and intangible assets                          | 15,639   | --                       |
| Impairment loss of financial assets, available-for-sale                                  | 3,093  | 382                      |
| Gain on disposal of financial assets, available-for-sale                                 | --   | (9)                      |
| Deemed gain on dilution of subsidiaries  | --   | (181)                    |
| Currency translation losses (gains)  | 8,292  | (13,388)                 |
| Dividend income  | (123)  | (139)                    |
| Interest income  | (125)  | (218)                    |
| Interest expense   | 21   | 41                       |
|  | <u>(31,427)</u>  | <u>(22,377)</u>          |
| Changes in working capital, net of effects from acquisition and disposal of subsidiaries |  |                          |
| Trade receivables  | (3,135)  | (2,416)                  |
| Inventories  | 11,859   | (1,755)                  |
| Other assets and receivables   | 7,147  | 532                      |
| Trade payables   | 2,820  | (835)                    |
| Accrued liabilities and provisions   | 2,753  | (1,373)                  |
| Cash used in operations  | <u>(9,983)</u>   | <u>(28,224)</u>          |
| Interest received  | 127  | 219                      |
| Income tax (paid) refunded   | (204)  | 222                      |
| <b>Net cash used in operating activities</b>   | <b><u>(10,060)</u></b>                                   | <b><u>(27,783)</u></b>   |
| <b>Cash flows from investing activities:</b>   |  |                          |
| Purchase of property and equipment   | (5,194)  | (3,776)                  |
| Proceeds from sale of property and equipment   | 26   | 6                        |
| Proceeds from investments  | 481  | 9                        |
| Purchase of financial assets, available-for-sale   | (1,000)  | (354)                    |
| Purchase of investments in associated companies  | --   | (761)                    |
| Dividend received  | 123  | 139                      |
| <b>Net cash used in investing activities</b>   | <b><u>(5,564)</u></b>                                    | <b><u>(4,737)</u></b>    |
| <b>Cash flows from financing activities:</b>   |  |                          |
| Purchase of treasury shares  | (322)  | --                       |
| Proceeds from exercise of ordinary share options   | --   | 170                      |
| Dividends paid to equity holders of the Company  | (2,775)  | (5,354)                  |
| <b>Net cash used in financing activities</b>   | <b><u>(3,097)</u></b>                                    | <b><u>(5,184)</u></b>    |
| <b>Net decrease in cash and cash equivalents</b>   | <b>(18,721)</b>  | <b>(37,704)</b>          |
| Cash and cash equivalents at beginning of financial year                                 | 162,958  | 214,025                  |
| Effects of currency translation on cash and cash equivalents                             | (8,358)  | 13,398                   |
| <b>Cash and cash equivalents at end of the period</b>                                    | <b><u>135,879</u></b>                                    | <b><u>189,719</u></b>    |

## 5 STATEMENTS OF CHANGES IN EQUITY

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

|  | Share<br>Capital<br>US\$'000 | Treasury<br>Shares<br>US\$'000 | Fair Value<br>Reserve<br>US\$'000 | Other<br>Reserves<br>US\$'000 | Retained<br>Earnings<br>US\$'000 | Total<br>US\$'000 | Non-<br>controlling<br>Interests<br>US\$'000 | Total<br>Equity<br>US\$'000 |
|--|------------------------------|--------------------------------|-----------------------------------|-------------------------------|----------------------------------|-------------------|--|-----------------------------|
| <b>FY2012</b>  |                              |                                |                                   |                               |                                  |                   |  |                             |
| <b>Balance at 1 July 2011</b>  | 266,753                      | (18,362)                       | 15,585                            | 64,629                        | (87,241)                         | 241,364           | 658  | 242,022                     |
| Purchase of treasury shares  | -                            | (322)                          | -                                 | -                             | -                                | (322)             | -  | (322)                       |
| Utilization of treasury shares for shares issued<br>under employee options plans and performance<br>share plan | -                            | 26                             | -                                 | (28)                          | -                                | (2)               | -  | (2)                         |
| Employee share-based expense   | -                            | -                              | -                                 | 626                           | -                                | 626               | -  | 626                         |
| Dividends paid   | -                            | -                              | -                                 | -                             | (2,775)                          | (2,775)           | -  | (2,775)                     |
| Total comprehensive income (loss) for the<br>period  | -                            | -                              | (5,874)                           | -                             | (63,458)                         | (69,332)          | 27   | (69,305)                    |
| <b>Balance at 31 December 2011</b>   | <b>266,753</b>               | <b>(18,658)</b>                | <b>9,711</b>                      | <b>65,227</b>                 | <b>(153,474)</b>                 | <b>169,559</b>    | <b>685</b>                                   | <b>170,244</b>              |
| <b>FY2011</b>  |                              |                                |                                   |                               |                                  |                   |  |                             |
| <b>Balance at 1 July 2010</b>  | 266,753                      | (19,122)                       | 13,872                            | 62,285                        | (34,654)                         | 289,134           | 642  | 289,776                     |
| Utilization of treasury shares for shares issued<br>under employee options plans and performance<br>share plan | -                            | 225                            | -                                 | (55)                          | -                                | 170               | -  | 170                         |
| Employee share-based expense   | -                            | -                              | -                                 | 1,946                         | -                                | 1,946             | -  | 1,946                       |
| Dividends paid   | -                            | -                              | -                                 | -                             | (5,354)                          | (5,354)           | -  | (5,354)                     |
| Currency translation difference  | -                            | -                              | -                                 | -                             | -                                | -                 | 2  | 2                           |
| Total comprehensive income (loss) for the<br>period  | -                            | -                              | 6,511                             | -                             | (14,484)                         | (7,973)           | 18   | (7,955)                     |
| <b>Balance at 31 December 2010</b>   | <b>266,753</b>               | <b>(18,897)</b>                | <b>20,383</b>                     | <b>64,176</b>                 | <b>(54,492)</b>                  | <b>277,923</b>    | <b>662</b>                                   | <b>278,585</b>              |

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

|  | Share<br>Capital<br>US\$'000 | Treasury<br>Shares<br>US\$'000 | Other<br>Reserves<br>US\$'000 | Retained<br>Earnings<br>US\$'000 | Total<br>Equity<br>US\$'000 |
|--|------------------------------|--------------------------------|-------------------------------|----------------------------------|-----------------------------|
| <b>FY2012</b>  |                              |                                |                               |                                  |                             |
| <b>Balance at 1 July 2011</b>  | 266,753                      | (18,362)                       | 37,165                        | 71,202                           | 356,758                     |
| Purchase of treasury shares  | -                            | (322)                          | -                             | -                                | (322)                       |
| Utilisation of treasury shares for shares issued<br>under employee options plans and performance<br>share plan | -                            | 26                             | (28)                          | -                                | (2)                         |
| Employee share-based expense   | -                            | -                              | 626                           | -                                | 626                         |
| Dividends paid   | -                            | -                              | -                             | (2,775)                          | (2,775)                     |
| Total comprehensive loss for the period  | -                            | -                              | -                             | (21,019)                         | (21,019)                    |
| <b>Balance at 31 December 2011</b>   | <b>266,753</b>               | <b>(18,658)</b>                | <b>37,763</b>                 | <b>47,408</b>                    | <b>333,266</b>              |
| <b>FY2011</b>  |                              |                                |                               |                                  |                             |
| <b>Balance at 1 July 2010</b>  | 266,753                      | (19,122)                       | 34,821                        | 115,230                          | 397,682                     |
| Utilisation of treasury shares for shares issued<br>under employee options plans and performance<br>share plan | -                            | 225                            | (55)                          | -                                | 170                         |
| Employee share-based expense   | -                            | -                              | 1,946                         | -                                | 1,946                       |
| Dividends paid   | -                            | -                              | -                             | (5,354)                          | (5,354)                     |
| Total comprehensive loss for the period  | -                            | -                              | -                             | (11,097)                         | (11,097)                    |
| <b>Balance at 31 December 2010</b>   | <b>266,753</b>               | <b>(18,897)</b>                | <b>36,712</b>                 | <b>98,779</b>                    | <b>383,347</b>              |

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

### Issued and paid up capital

As at 31 December 2011, the Company's issued and paid up capital excluding treasury shares comprises 69,643,715 (30 June 2011: 69,790,415) ordinary shares.

### Employee share options plan

During the second quarter of FY2012, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q2 FY2011: 65,450).

As at 31 December 2011, there were 4,065,517 (31 December 2010: 6,128,647) 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 second quarter of FY2012, the Company did not issue any treasury shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q2 FY2011: Nil).

As at 31 December 2011, there were 1,504,691 (31 December 2010: 2,064,000) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

### Treasury shares

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

|                                       | Three months ended |                  |
|---------------------------------------|--------------------|------------------|
|                                       | 31 December        |                  |
|                                       | 2011               | 2010             |
| Balance at beginning of period        | 5,356,285          | 5,425,345        |
| Issue for Employee Stock Options Plan | -                  | (65,450)         |
| Balance at end of period              | <u>5,356,285</u>   | <u>5,359,895</u> |

## 6 GROUP BORROWINGS

|  | GROUP                           |                             |
|--|---------------------------------|-----------------------------|
|  | 31 December<br>2011<br>US\$'000 | 30 June<br>2011<br>US\$'000 |
| <b>Amount repayable:</b>                 |                                 |                             |
| <u>In one year or less, or on demand</u> |                                 |                             |
| Secured                                  | -                               | -                           |
| Unsecured                                | -                               | -                           |
|  | <u>-</u>                        | <u>-</u>                    |
| <u>After one year</u>                    |                                 |                             |
| Secured                                  | -                               | -                           |
| Unsecured                                | -                               | -                           |
|  | <u>-</u>                        | <u>-</u>                    |
| Total                                    | <u>-</u>                        | <u>-</u>                    |

## 7 NET ASSET VALUE

|  | GROUP                       |                         | COMPANY                     |                         |
|--|-----------------------------|-------------------------|-----------------------------|-------------------------|
|  | 31 December<br>2011<br>US\$ | 30 June<br>2011<br>US\$ | 31 December<br>2011<br>US\$ | 30 June<br>2011<br>US\$ |
| Net asset value per ordinary share based on issued capital at the end of the period / financial year | 2.44                        | 3.47                    | 4.79                        | 5.11                    |

## 8 AUDIT

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

## 9 AUDITORS' REPORT

Not applicable.

## 10 ACCOUNTING POLICIES

Except as disclosed in Item 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 2011.

## 11 CHANGES IN ACCOUNTING POLICIES

None.

## 12 REVIEW OF GROUP PERFORMANCE

### CONSOLIDATED INCOME STATEMENT

#### Net Sales

Net sales for the second quarter of FY2012 decreased by 14% compared to the same quarter in FY2011, and net sales for the first half year of FY2012 decreased by 13% compared to the same period in FY2011. Revenue was lower in the second quarter and first half year of FY2012 as the Group continues to be affected by the difficult market for its products, particularly for the personal digital entertainment products.

#### Gross Profit

Gross profit margin was 20% in the second quarter of FY2012 and 19% in the first half year of FY2012 compared to 26% in the second quarter of FY2011 and 25% in the first half year of FY2011. Gross profit margin in the second quarter and first half year of FY2012 was lower due to write-down of inventories.

#### Net Loss

Net loss for the second quarter of FY2012 was US\$33.9 million compared to net loss of US\$10.9 million in the second quarter of FY2011. Despite the decrease in sales, there was an improvement in operating results for the second quarter of FY2012 compared to the same period in the prior year. While gross profit was lower by US\$5.6 million, operating expenses comprising selling, general and administrative expenses and research and development expenses decreased by US\$10.2 million in the second quarter of FY2012 compared to the second quarter of FY2011. However the Group's results in the second quarter of FY2012 was negatively impacted by other losses (net) of US\$23.6 million as explained below.



Net loss for the first half year of FY2012 was US\$63.4 million compared to US\$14.5 million in the first half year of FY2011. Sales have decreased and gross profit was lower by US\$10.8 million for the first half year of FY2012 compared to the same period in the prior year, but operating results for the Group has improved due to a decrease in operating expenses by US\$14.8 million. The Group's results in the first half year of FY2012 was negatively impacted by other losses (net) of US\$35.0 million as explained below.

Selling, general and administrative expenses in the second quarter and first half year of FY2012 decreased by 26% and 15%, respectively, compared to the same period in the prior year. The decrease in selling, general and administrative expenses was mainly a result of the cost cutting actions taken in FY2011.

Research and development expenses in the second quarter and first half year of FY2012 decreased by 38% and 32%, respectively, compared to the same period in the corresponding year. The decrease in research and development expenses was mainly a result of cost cutting actions taken in FY2011. The Group will continue to invest in product research and development in areas that are strategic to the Group, cutting back research and development spending only in product areas that are not strategic to the Group.

Depreciation and amortization was US\$0.7 million and US\$2.4 million in the second quarter and first half year of FY2012, respectively, compared to US\$1.8 million and US\$3.6 million in the same periods in the prior year. Depreciation and amortization was lower in the second quarter and first half year of FY2012 due mainly to disposal of a wholly-owned manufacturing subsidiary in China in the fourth quarter of FY2011 and assets being fully depreciated.

Other losses (net) of US\$23.6 million in the second quarter of FY2012 comprised mainly impairment charges of US\$15.6 million for equipment and intangible assets and provisions of US\$6.5 million for commitments for other expenditures and obligations, pertaining to the installation and operation of a wireless broadband network in Singapore by a subsidiary QMax Communications Pte Ltd ("QMax").

At the end of the second quarter of FY2012, QMax suspended the wireless broadband project as the vendor for the equipment has failed to deliver on the key network performance requirements set out in the relevant supply contract. The Company and QMax have given notice to the vendor to terminate or rescind the supply contract on the grounds of material breach of the contract and/or misrepresentations by the vendor. The Company and QMax have also recently initiated legal proceedings against the vendor to recover damages and all losses suffered in relation to the wireless broadband project, after discussions with the vendor failed to reach a satisfactory conclusion. Pending the outcome of the legal proceedings, for the Group's results in the second quarter of FY2012, full provisions have been made for the impairment of equipment and related intangible assets for the project, as well as commitments for other expenditures and obligations to third parties relating to the project. No recognition has been made in the accounts for any recovery of compensation for losses suffered and damages that the Group is seeking from the vendor.

Other gains (net) of US\$2.6 million in the second quarter of FY2011 were due mainly to foreign exchange gains of US\$2.6 million compared to a foreign exchange loss of US\$1.5 million in the second quarter of FY2012.

Other losses (net) of US\$35.0 million in the first half year of FY2012 included impairment charges of US\$15.6 million for equipment and intangible assets, provisions of US\$6.5 million for commitments for other expenditures and obligations as explained above, US\$10.2 million foreign exchange losses and a US\$3.1 million impairment loss on investments due to adverse business conditions in certain investee companies. Other gains (net) of US\$15.7 million in the first half year of FY2011 were due mainly to foreign exchange gains of US\$15.8 million.

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

## **BALANCE SHEETS**

The decrease in financial assets, available-for-sale as at 31 December 2011 was due mainly to a US\$5.9 million fair value loss on revaluation of investments as a result of the decline in global stock markets and a US\$3.1 million impairment loss on investments charged in the first quarter of FY2012. The decrease in property and equipment and intangible assets was due mainly to the impairment charges pertaining to the wireless broadband project (as explained above). The decrease in other non-current assets was due mainly to the utilization of security deposit for the payment of the Group's headquarters office building rental. The decrease in inventories was in line with the lower level of sales. The decrease in other current assets was due mainly to a US\$2.2 million decrease in balances due from associated companies and US\$0.8 million decrease in security deposits and prepayments.

## **CONSOLIDATED STATEMENTS OF CASH FLOWS**

Net cash used in operating activities of US\$10.1 million in the first half year of FY2012 (first half year of FY2011: US\$27.8 million) was due mainly to the net loss for the period.

Net cash used in investing activities of US\$5.5 million in the first half year of FY2012 (first half year of FY2011: US\$4.7 million) was due mainly to purchase of equipment.

Net cash used in financing activities of US\$3.1 million in the first half year of FY2012 (first half year of FY2011: US\$5.2 million) was due mainly to dividends paid to equity holders of the Company.

## **13 VARIANCE FROM PROSPECT STATEMENT**

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

## **14 PROSPECTS**

The overall market for the Group's products remains challenging. For the current quarter, the difficult and uncertain market conditions are expected to continue to negatively impact the Group's revenue and gross margins. Revenue is expected to be lower in this current quarter and the Group expects to report an operating loss.

## **15 DIVIDEND**

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

BY ORDER OF THE BOARD

NG KEH LONG  
COMPANY SECRETARY  
31 JANUARY 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 second quarter and half year ended 31 December 2011 to be false or misleading.

On behalf of the Board of Directors

**Sim Wong Hoo**  
Chairman

**Lee Kheng Nam**  
Director