

# CREATIVE TECHNOLOGY LTD

## SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2013 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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**UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2013**

**1 CONSOLIDATED INCOME STATEMENT**

	GROUP		GROUP	
	Three months ended 31 December		Half year ended 31 December	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Sales, net	37,789	65,553	68,191	101,289
Cost of goods sold	26,368	34,633	48,345	62,164
<b>Gross profit</b>	<b>11,421</b>	<b>30,920</b>	<b>19,846</b>	<b>39,125</b>
Expenses:				
Selling, general and administrative	(8,839)	(10,377)	(17,846)	(20,158)
Research and development	(6,263)	(8,149)	(12,647)	(15,736)
<b>Total expenses</b>	<b>(15,102)</b>	<b>(18,526)</b>	<b>(30,493)</b>	<b>(35,894)</b>
Other income	57	133	114	259
Other (losses) gains, net	(442)	26,297	956	31,156
Share of losses of associated companies	--	(643)	--	(852)
<b>(Loss) profit before income tax</b>	<b>(4,066)</b>	<b>38,181</b>	<b>(9,577)</b>	<b>33,794</b>
Income tax expense	(12)	(59)	(48)	(150)
<b>Net (loss) profit</b>	<b>(4,078)</b>	<b>38,122</b>	<b>(9,625)</b>	<b>33,644</b>
<b>Attributable to:</b>				
Equity holders of the Company	(4,166)	38,112	(9,706)	33,656
Non-controlling interests	88	10	81	(12)
(Loss) earnings per share attributable to equity holders of the Company				
- Basic (US\$ per share)	(0.06)	0.54	(0.14)	0.48
- Diluted (US\$ per share)	(0.06)	0.54	(0.14)	0.48

**1(a) Net (loss) profit 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>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	
Write-off/write-down for inventory obsolescence	(796)	(355)	(1,734)	(484)
Gain on disposal of investments	18	26,773	18	26,773
(Loss) gain on disposal of property and equipment	(2)	-	(2)	810
Foreign exchange (loss) gain	(369)	(428)	960	3,604

**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>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	
Net (loss) profit	(4,078)	38,122	(9,625)	33,644
Other comprehensive income:				
Fair value (losses) gains of financial assets, available-for-sale:				
Fair value (losses) gains	(195)	2,031	(161)	1,665
Reclassification	(9)	(60)	(9)	(60)
Total comprehensive (loss) income for the period	<u>(4,282)</u>	<u>40,093</u>	<u>(9,795)</u>	<u>35,249</u>
Attributable to:				
Shareholders of the Company	(4,370)	40,083	(9,876)	35,261
Non-controlling interests	88	10	81	(12)
Total comprehensive (loss) income for the period	<u>(4,282)</u>	<u>40,093</u>	<u>(9,795)</u>	<u>35,249</u>

### 3 BALANCE SHEETS

	Group		Company	
	31 December 2013 US\$'000	30 June 2013 US\$'000	31 December 2013 US\$'000	30 June 2013 US\$'000
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	142,337	163,574	130,496	150,804
Trade receivables	17,973	14,728	5,070	4,748
Amounts due from subsidiaries	-	-	49,155	42,801
Inventories	28,955	25,353	13,059	11,369
Other current assets	1,939	2,178	414	656
	<b>191,204</b>	<b>205,833</b>	<b>198,194</b>	<b>210,378</b>
<b>Non-current assets:</b>				
Financial assets, available-for-sale	22,069	22,654	-	-
Amounts due from subsidiaries	-	-	145,256	146,659
Investments in subsidiaries	-	-	28,390	28,390
Property and equipment	6,662	6,892	621	705
Other non-current assets	95	1,827	-	1,729
	<b>28,826</b>	<b>31,373</b>	<b>174,267</b>	<b>177,483</b>
<b>Total assets</b>	<b>220,030</b>	<b>237,206</b>	<b>372,461</b>	<b>387,861</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Trade payables	14,853	13,753	11,015	9,460
Amounts due to subsidiaries	-	-	11,413	10,940
Accrued liabilities and provisions	41,635	44,496	25,179	26,576
Current income tax liabilities	733	706	-	-
	<b>57,221</b>	<b>58,955</b>	<b>47,607</b>	<b>46,976</b>
<b>Non-current liabilities:</b>				
Amounts due to subsidiaries	-	-	21,745	21,173
Deferred income tax liabilities	15,202	15,202	-	-
	<b>15,202</b>	<b>15,202</b>	<b>21,745</b>	<b>21,173</b>
<b>Total liabilities</b>	<b>72,423</b>	<b>74,157</b>	<b>69,352</b>	<b>68,149</b>
<b>NET ASSETS</b>	<b>147,607</b>	<b>163,049</b>	<b>303,109</b>	<b>319,712</b>
<b>EQUITY</b>				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,527)	(16,606)	(16,527)	(16,606)
Fair value reserve	9,315	9,485	-	-
Other reserves	63,300	63,351	35,836	35,887
Retained earnings	(175,551)	(160,170)	17,047	33,678
	147,290	162,813	303,109	319,712
Non-controlling interests	317	236	-	-
<b>Total equity</b>	<b>147,607</b>	<b>163,049</b>	<b>303,109</b>	<b>319,712</b>

#### 4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	<b>GROUP</b>	
	<b>Half year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Cash flows from operating activities:</b>		
Net (loss) profit	(9,625)	33,644
Adjustments for:		
Income tax expense	48	150
Depreciation of property and equipment	309	670
Employee share-based expenses	28	(135)
Share of loss of associated companies	--	852
Loss (gain) on disposal of property and equipment	2	(810)
Impairment loss of financial assets, available-for-sale	100	58
Gain on disposal of financial assets, available-for-sale	(18)	(23)
Gain on disposal of investments in subsidiary	--	(26,750)
Currency translation gains	(604)	(3,505)
Dividend income	--	(147)
Interest income	(114)	(112)
	<u>(9,874)</u>	<u>3,892</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(3,245)	(3,820)
Inventories	(1,874)	3,100
Other assets and receivables	254	5,894
Trade payables	1,100	(674)
Accrued liabilities and provisions	(2,861)	(4,094)
Cash (used in) provided by operations	(16,500)	4,298
Interest received	103	107
Income tax paid	(51)	(202)
<b>Net cash (used in) provided by operating activities</b>	<b><u>(16,448)</u></b>	<b><u>4,203</u></b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(81)	(94)
Proceeds from sale of property and equipment	--	5,913
Proceeds from sale of subsidiary (net of cash disposed of)	--	23,501
Proceeds received from escrow account	1,800	--
Proceeds from financial assets, available-for-sale	583	23
Purchase of financial assets, available-for-sale	(250)	--
Dividend received	--	147
<b>Net cash provided by investing activities</b>	<b><u>2,052</u></b>	<b><u>29,490</u></b>
<b>Cash flows from financing activities:</b>		
Dividends paid to equity holders of the Company	(5,675)	(2,859)
<b>Net cash used in financing activities</b>	<b><u>(5,675)</u></b>	<b><u>(2,859)</u></b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(20,071)</b>	<b>30,834</b>
Cash and cash equivalents at beginning of financial year	159,074	131,432
Effects of currency translation on cash and cash equivalents	634	3,542
<b>Cash and cash equivalents at end of the period</b>	<b><u>139,637</u></b>	<b><u>165,808</u></b>

## 5 STATEMENTS OF CHANGES IN EQUITY

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

	Share Capital US\$'000	Treasury Shares US\$'000	Fair Value Reserve US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
<b>FY2014</b>								
<b>Balance at 1 July 2013</b>	266,753	(16,606)	9,485	63,351	(160,170)	162,813	236	163,049
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	79	-	(79)	-	-	-	-
Employee share-based expense	-	-	-	28	-	28	-	28
Dividends paid	-	-	-	-	(5,675)	(5,675)	-	(5,675)
Total comprehensive (loss) income for the period	-	-	(170)	-	(9,706)	(9,876)	81	(9,795)
<b>Balance at 31 December 2013</b>	<b>266,753</b>	<b>(16,527)</b>	<b>9,315</b>	<b>63,300</b>	<b>(175,551)</b>	<b>147,290</b>	<b>317</b>	<b>147,607</b>
<b>FY2013</b>								
<b>Balance at 1 July 2012</b>	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	-	-	-	(135)	-	(135)	-	(135)
Dividends paid	-	-	-	-	(2,859)	(2,859)	-	(2,859)
Total comprehensive income (loss) for the period	-	-	1,605	-	33,656	35,261	(12)	35,249
<b>Balance at 31 December 2012</b>	<b>266,753</b>	<b>(17,650)</b>	<b>10,263</b>	<b>64,272</b>	<b>(143,183)</b>	<b>180,455</b>	<b>230</b>	<b>180,685</b>

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

	Share Capital US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
<b>FY2014</b>					
<b>Balance at 1 July 2013</b>	266,753	(16,606)	35,887	33,678	319,712
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	79	(79)	-	-
Employee share-based expense	-	-	28	-	28
Dividends paid	-	-	-	(5,675)	(5,675)
Total comprehensive loss for the period	-	-	-	(10,956)	(10,956)
<b>Balance at 31 December 2013</b>	<b>266,753</b>	<b>(16,527)</b>	<b>35,836</b>	<b>17,047</b>	<b>303,109</b>
<b>FY2013</b>					
<b>Balance at 1 July 2012</b>	266,753	(17,676)	36,969	28,829	314,875
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	26	(26)	-	-
Employee share-based expense	-	-	(135)	-	(135)
Dividends paid	-	-	-	(2,859)	(2,859)
Total comprehensive loss for the period	-	-	-	(6,675)	(6,675)
<b>Balance at 31 December 2012</b>	<b>266,753</b>	<b>(17,650)</b>	<b>36,808</b>	<b>19,295</b>	<b>305,206</b>

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

### Issued and paid up capital

As at 31 December 2013, the Company's issued and paid up capital excluding treasury shares comprises 70,255,400 (30 June 2013: 70,232,900) ordinary shares.

As at 31 December 2013, the Company's issued and paid up share capital was US\$266.8 million (30 September 2013: US\$266.8 million).

### Employee share options plan

During the second quarter of FY2014, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q2 FY2013: Nil).

As at 31 December 2013, there were 2,883,500 (31 December 2012: 3,681,972) 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 FY2014, the Company did not issue any ordinary shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q2 FY2013: Nil).

As at 31 December 2013, there were 508,000 (31 December 2012: 905,878) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

### Treasury shares

As at 31 December 2013, the Company held 4,744,600 (31 December 2012: 5,066,976) treasury shares against 70,255,400 (31 December 2012: 69,933,024) issued ordinary shares excluding treasury shares.

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

	Three months ended 31 December	
	2013	2012
Balance at beginning of period	4,744,600	5,066,976
Issue for Employee Performance Share Plan	-	-
Balance at end of period	<u>4,744,600</u>	<u>5,066,976</u>

## 6 GROUP BORROWINGS

	GROUP	
	31 December 2013 US\$'000	30 June 2013 US\$'000
<b>Amount repayable:</b>		
<u>In one year or less, or on demand</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
<u>After one year</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Total	-	-

## 7 NET ASSET VALUE

	GROUP		COMPANY	
	31 December 2013 US\$	30 June 2013 US\$	31 December 2013 US\$	30 June 2013 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	2.10	2.32	4.31	4.55

## 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 2013.

## 11 CHANGES IN ACCOUNTING POLICIES

None.



## 12 REVIEW OF GROUP PERFORMANCE

### CONSOLIDATED INCOME STATEMENT

#### Net Sales

Net sales for the second quarter of FY2014 decreased by 42% compared to the same quarter in FY2013, and net sales for the first half year of FY2014 decreased by 33% compared to the same period in FY2013. Revenue in the second quarter of FY2013 included a one time US\$20.0 million licensing income. Excluding the US\$20.0 million licensing income, revenue was US\$45.6 million and US\$81.3 million for the second quarter and first half year of FY2013, and comparing to the same periods in FY2014, revenue in the second quarter and first half year of FY2014 was lower by 17% and 16%, respectively, due to the uncertain and difficult market conditions which continued to affect the sales of the Group's products.

#### Gross Profit

Gross profit margin was 30% in the second quarter of FY2014 compared to 47% in the second quarter of FY2013, and 29% in the first half year of FY2014 compared to 39% in the same corresponding period in FY2013. Excluding the one time licensing income as mentioned above, gross profit margin was 24% in the second quarter and first half year of FY2013. The higher gross profit margin in the second quarter and first half year of FY2014 was in line with the sales mix. The write-down for inventory obsolescence in the second quarter and first half year of FY2014 was for certain existing products following the introduction of new product models.

#### Net Profit

Net loss for the second quarter of FY2014 was US\$4.1 million compared to a net profit of US\$38.1 million in the second quarter of FY2013. Net loss for the second quarter of FY2014 included other losses (net) of US\$0.4 million. Net profit for the second quarter of FY2013 was due mainly to the US\$20.0 million licensing income and other gains (net) of US\$26.3 million. Excluding the US\$20.0 million licensing income, net operating results in the second quarter of FY2014 improved by US\$3.9 million compared to the second quarter of FY2013. Despite the decrease in sales, there was an improvement in the net operating results due mainly to the higher gross margin and reduction in operating expenses in the second quarter of FY2014.

Net loss for the first half year of FY2014 was US\$9.6 million compared to a net profit of US\$33.6 million in the first half year of FY2013. Net loss in the first half year of FY2014 included other gains (net) of US\$1.0 million. Net profit for the first half year of FY2013 was due mainly to the US\$20.0 million licensing income and other gains (net) of US\$31.2 million.

Selling, general and administrative expenses in the second quarter and first half year of FY2014 decreased by 15% and 11%, respectively, compared to the same periods in the prior year. The decrease in selling, general and administrative expenses was due mainly to lower level of sales.

Research and development expenses in the second quarter and first half year of FY2014 decreased by 23% and 20%, respectively, compared to the same periods in the corresponding year. The decrease in research and development expenses was due mainly to costs savings resulting from the divestment of a subsidiary company, ZiiLABS Limited, in the second quarter of FY2013.

Other losses (net) of US\$0.4 million in the second quarter of FY2014 were due mainly to foreign exchange loss of US\$0.4 million. Other gains (net) of US\$26.3 million in the second quarter of FY2013 comprised mainly a US\$26.7 million gain on divestment of ZiiLABS Limited and foreign exchange loss of US\$0.4 million.

Other gains (net) of US\$1.0 million in the first half year of FY2014 were due mainly to foreign exchange gain of US\$1.0 million. Other gains (net) of US\$31.2 million in the first half year of FY2013 comprised mainly a US\$26.7 million gain on divestment of ZiiLABS Limited, foreign exchange gains of US\$3.6 million and gain on disposal of property and equipment of US\$0.8 million pertaining to the disposal of a property owned by a subsidiary in the United States.

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 profit (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 second quarter of FY2014 was due mainly to depreciation of Japanese Yen and Singapore dollar against the US dollar. The exchange gain in the first half year of FY2014 was due mainly to the appreciation of Euro dollar and British Pound against the US dollar in the first quarter of FY2014. The exchange loss in the second quarter of FY2013 was due mainly to the depreciation of Japanese Yen against the US dollar. The exchange gain in the first half year of FY2013 was due mainly to the appreciation of Singapore dollar against the US dollar in the first quarter of FY2013.

### **BALANCE SHEETS**

The decrease in cash and cash equivalents was due mainly to net cash used in operating activities (see below) and payment of dividends to equity holders of the Company. Included in cash and cash equivalents was US\$2.7 million cash in an escrow account relating to the divestment of ZiiLABS Limited that will be released to the Group 18 months after the completion of the divestment in November 2012. The increase in trade receivables and inventories was due mainly to seasonal variations. The decrease in other non-current assets was due to a reduction in deferred expenses.

### **CONSOLIDATED STATEMENTS OF CASH FLOWS**

Net cash used in operating activities of US\$16.4 million in the first half year of FY2014 (first half year of FY2013: US\$4.2 million net cash provided) was due mainly to the net operating loss for the period, an increase in trade receivables and inventories and a decrease in accrued liabilities and provisions, offset partially by an increase in trade payables.

Net cash provided by investing activities of US\$2.0 million in the first half year of FY2014 (first half year of FY2013: US\$29.5 million) was due mainly to US\$1.8 million cash received from the escrow account relating to the divestment of ZiiLABS Limited.

Net cash used in financing activities of US\$5.7 million in the first half year of FY2014 (first half year of FY2013: US\$2.9 million) was due 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 FY2014 as compared to the prospect statement disclosed in the announcement of results for the first quarter ended 30 September 2013.

## **14 PROSPECTS**

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. 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 FY2014 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  
28 JANUARY 2014

**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 2013 to be false or misleading in any material aspect.

On behalf of the Board of Directors

**Sim Wong Hoo**  
Chairman

**Lee Kheng Nam**  
Director