

CREATIVE TECHNOLOGY LTD

THIRD QUARTER ENDED 31 MARCH 2013 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 31 MARCH 2013

1 CONSOLIDATED INCOME STATEMENT

	GROUP		GROUP	
	Three months ended 31 March		Nine months ended 31 March	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Sales, net	33,831	44,886	135,120	154,789
Cost of goods sold	25,252	34,297	87,416	123,176
Gross profit	8,579	10,589	47,704	31,613
Expenses:				
Selling, general and administrative	(9,622)	(10,849)	(29,780)	(36,447)
Research and development	(6,330)	(9,476)	(22,066)	(31,435)
Total expenses	(15,952)	(20,325)	(51,846)	(67,882)
Other income	69	53	328	301
Other (losses) gains, net	(2,882)	8,422	28,274	(26,556)
Share of losses of associated companies	(236)	(184)	(1,088)	(2,153)
Interest expense	--	(11)	--	(32)
(Loss) profit before income tax	(10,422)	(1,456)	23,372	(64,709)
Income tax expense	(11)	(27)	(161)	(205)
Net (loss) profit	(10,433)	(1,483)	23,211	(64,914)
Attributable to:				
Equity holders of the Company	(10,445)	(1,575)	23,212	(65,033)
Non-controlling interests	12	92	(1)	119
(Loss) earnings per share attributable to equity holders of the Company				
- Basic (US\$ per share)	(0.15)	(0.02)	0.33	(0.93)
- Diluted (US\$ per share)	(0.15)	(0.02)	0.33	(0.93)

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

	GROUP			
	Three months ended		Nine months ended	
	31 March		31 March	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
Depreciation and amortization	(363)	(693)	(1,033)	(3,065)
Write-off/write-down for inventory obsolescence	(48)	(2,373)	(532)	(8,863)
Impairment loss on investments	(1)	(75)	(59)	(3,168)
Gain on disposal of investments	-	4,274	26,773	4,274
(Loss) gain on disposal of property and equipment	(96)	(55)	714	(117)
Foreign exchange (loss) gain	(2,786)	4,264	818	(5,921)
Impairment loss on property and equipment and intangible assets	-	-	-	(15,639)
Provisions for commitments and obligations	-	-	-	(6,489)

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			
	Three months ended		Nine months ended	
	31 March		31 March	
	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000
Net (loss) profit	(10,433)	(1,483)	23,211	(64,914)
Other comprehensive income:				
Fair value gains (losses) of financial assets, available-for-sale:				
Fair value gains (losses)	325	2,926	1,990	(2,948)
Reclassification	-	-	(60)	-
Total comprehensive (loss) income for the period	<u>(10,108)</u>	<u>1,443</u>	<u>25,141</u>	<u>(67,862)</u>
Attributable to:				
Shareholders of the Company	(10,120)	1,351	25,142	(67,981)
Non-controlling interests	12	92	(1)	119
Total comprehensive (loss) income for the period	<u>(10,108)</u>	<u>1,443</u>	<u>25,141</u>	<u>(67,862)</u>

3 BALANCE SHEETS

	Group		Company	
	31 March 2013 US\$'000	30 June 2012 US\$'000	31 March 2013 US\$'000	30 June 2012 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	165,654	131,432	144,865	117,457
Trade receivables	16,939	18,841	5,122	6,294
Amounts due from subsidiaries	-	-	50,486	41,803
Inventories	22,871	27,822	10,200	11,052
Property and equipment held for sale	-	4,991	-	-
Other current assets	5,206	12,732	1,142	1,567
	210,670	195,818	211,815	178,173
Non-current assets:				
Financial assets, available-for-sale	28,522	26,651	-	-
Other non-current receivables	-	1,088	-	-
Amounts due from subsidiaries	-	-	158,114	199,321
Investments in subsidiaries	-	-	27,290	27,290
Property and equipment	6,286	7,427	397	483
Other non-current assets	2,128	3,301	1,530	1,193
	36,936	38,467	187,331	228,287
Total assets	247,606	234,285	399,146	406,460
LIABILITIES				
Current liabilities:				
Trade payables	12,697	13,844	7,619	8,586
Amounts due to subsidiaries	-	-	6,526	36,590
Accrued liabilities and provisions	45,573	53,367	23,142	24,692
Current income tax liabilities	692	742	-	48
	58,962	67,953	37,287	69,916
Non-current liabilities:				
Amounts due to subsidiaries	-	-	25,162	21,669
Deferred income tax liabilities	17,902	17,902	-	-
	17,902	17,902	25,162	21,669
Total liabilities	76,864	85,855	62,449	91,585
NET ASSETS	170,742	148,430	336,697	314,875
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(17,650)	(17,676)	(17,650)	(17,676)
Fair value reserve	10,588	8,658	-	-
Other reserves	64,437	64,433	36,973	36,969
Retained earnings	(153,627)	(173,980)	50,621	28,829
	170,501	148,188	336,697	314,875
Non-controlling interests	241	242	-	-
Total equity	170,742	148,430	336,697	314,875

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Nine months ended 31 March	
	2013	2012
	US\$'000	US\$'000
Cash flows from operating activities:		
Net profit (loss)	23,211	(64,914)
Adjustments for:		
Income tax expense	161	205
Depreciation of property and equipment	1,033	2,811
Amortisation of intangible assets	--	254
Employee share-based expenses	30	1,006
Share of loss of associated companies	1,088	2,153
(Gain) loss on disposal of property and equipment	(714)	117
Impairment loss on property and equipment	--	12,248
Impairment loss on intangible assets	--	3,391
Impairment loss of financial assets, available-for-sale	59	3,168
Gain on disposal of financial assets, available-for-sale	(23)	(460)
Gain on disposal of investments in subsidiary	(26,750)	--
Gain on disposal of investments in associated companies	--	(3,814)
Currency translation (gains) losses	(1,006)	4,437
Dividend income	(147)	(123)
Interest income	(181)	(177)
Interest expense	--	32
	<u>(3,239)</u>	<u>(39,666)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	1,902	5,353
Inventories	4,951	16,982
Other assets and receivables	8,319	9,291
Trade payables	(1,144)	(5,354)
Accrued liabilities and provisions	(8,513)	(4,721)
Cash provided by (used in) operations	<u>2,276</u>	<u>(18,115)</u>
Interest received	179	179
Income tax paid	<u>(226)</u>	<u>(231)</u>
Net cash provided by (used in) operating activities	<u>2,229</u>	<u>(18,167)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(260)	(5,239)
Proceeds from sale of property and equipment	5,916	182
Proceeds from sale of subsidiary (net of cash disposed of)	23,501	--
Proceeds from disposal of investments in associated companies	--	3,814
Proceeds from sale of financial assets, available-for-sale	23	941
Purchase of financial assets, available-for-sale	--	(1,000)
Dividend received	147	123
Net cash provided by (used in) investing activities	<u>29,327</u>	<u>(1,179)</u>
Cash flows from financing activities:		
Purchase of treasury shares	--	(322)
Dividends paid to equity holders of the Company	(2,859)	(2,775)
Net cash used in financing activities	<u>(2,859)</u>	<u>(3,097)</u>
Net increase (decrease) in cash and cash equivalents	28,697	(22,443)
Cash and cash equivalents at beginning of financial year	131,432	162,958
Effects of currency translation on cash and cash equivalents	1,025	(4,487)
Cash and cash equivalents at end of the period	<u>161,154</u>	<u>136,028</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	-	-	-	30	-	30	-	30
Dividends paid	-	-	-	-	(2,859)	(2,859)	-	(2,859)
Total comprehensive income (loss) for the period	-	-	1,930	-	23,212	25,142	(1)	25,141
Balance at 31 March 2013	266,753	(17,650)	10,588	64,437	(153,627)	170,501	241	170,742
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	-	-	-	1,006	-	1,006	-	1,006
Dividends paid	-	-	-	-	(2,775)	(2,775)	-	(2,775)
Total comprehensive income (loss) for the period	-	-	(2,948)	-	(65,033)	(67,981)	119	(67,862)
Balance at 31 March 2012	266,753	(18,658)	12,637	65,607	(155,049)	171,290	777	172,067

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	-	-	30	-	30
Dividends paid	-	-	-	(2,859)	(2,859)
Total comprehensive loss for the period	-	-	-	24,651	24,651
Balance at 31 March 2013	266,753	(17,650)	36,973	50,621	336,697
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	-	-	1,006	-	1,006
Dividends paid	-	-	-	(2,775)	(2,775)
Total comprehensive loss for the period	-	-	-	(23,531)	(23,531)
Balance at 31 March 2012	266,753	(18,658)	38,143	44,896	331,134

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

Issued and paid up capital

As at 31 March 2013, 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 31 March 2013, the Company's issued and paid up share capital was US\$266.8 million (30 December 2012: US\$266.8 million).

Employee share options plan

During the third 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 (Q3 FY2012: Nil).

As at 31 March 2013, there were 3,302,950 (31 March 2012: 3,762,450) 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 third quarter of FY2013, 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 (Q3 FY2012: Nil).

As at 31 March 2013, there were 900,378 (31 March 2012: 1,491,566) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 31 March 2013, the Company held 5,066,976 (31 March 2012: 5,356,285) treasury shares against 69,933,024 (31 March 2012: 69,643,715) issued ordinary shares excluding treasury shares.

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

	Three months ended	
	31 March	
	2013	2012
Balance at beginning of period	5,066,976	5,356,285
Issue for Employee Performance Share Plan	-	-
Balance at end of period	<u>5,066,976</u>	<u>5,356,285</u>

6 GROUP BORROWINGS

	GROUP	
	31 March 2013 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	-	-

7 NET ASSET VALUE

	GROUP		COMPANY	
	31 March 2013 US\$	30 June 2012 US\$	31 March 2013 US\$	30 June 2012 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	2.44	2.12	4.81	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 third quarter of FY2013 decreased by 25% compared to the same quarter in FY2012, and net sales for the cumulative nine months ended 31 March 2013 decreased by 13% compared to the same period in FY2012. Revenue was lower in the third quarter and cumulative nine months ended 31 March 2013 due to the uncertain global economic conditions which continued to affect the sales of the Group's products.

Gross Profit

Gross profit margin was 25% in the third quarter of FY2013 compared to 24% in the third quarter of FY2012. For the cumulative nine months period of FY2013, gross profit margin was 35% compared to 20% in the same period in FY2012. Excluding a one time licensing income reported in the second quarter of FY2013, gross profit margin was 24% for the cumulative nine months period of FY2013. Gross profit margin in the cumulative nine months period of FY2012 was lower due to write-down of inventories mainly for the personal digital entertainment product category including tablet devices.

Net Profit

The Group recorded a net loss of US\$10.4 million in the third quarter of FY2013 compared to a net loss of US\$1.5 million in the third quarter of FY2012. Despite the decrease in sales, there was an improvement in the operating results in the third quarter of FY2013 compared to the third quarter of FY2012 due mainly to the reduction in operating expenses. However, the Group reported a higher net loss in the third quarter of FY2013 compared to the same corresponding period due mainly to the other losses (net) of US\$2.9 million included in the third quarter of FY2013 compared to other gains (net) of US\$8.4 million included in the third quarter of FY2012.

Net profit for the cumulative nine months period of FY2013 was US\$23.2 million compared to a net loss of US\$64.9 million in the cumulative nine months period of FY2012. Improvement in net results for the cumulative nine months period of FY2013 was due mainly to the one time licensing income of US\$20.0 million reported in the second quarter of FY2013 and other gains (net) of US\$28.3 million included in the net profit, as well as a decrease in operating expenses by US\$16.0 million. Net loss in the cumulative nine months period of FY2012 included other losses (net) of US\$26.6 million.

Selling, general and administrative expenses in the third quarter and cumulative nine months period of FY2013 decreased by 11% and 18%, 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 and cost cutting actions taken by management.

Research and development expenses in the third quarter and cumulative nine months period of FY2013 decreased by 33% and 30%, respectively, compared to the same periods in the corresponding year. The decrease in research and development expenses was due mainly to cost cutting actions taken by management and costs savings resulting from the divestment of a subsidiary company, ZiiLABS Limited, in the second quarter of FY2013. 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\$0.4 million and US\$1.0 million in the third quarter and cumulative nine months period of FY2013, respectively, compared to US\$0.7 million and US\$3.1 million in the same periods in the prior year. Depreciation and amortization was lower in the third quarter and cumulative nine months period of FY2013 due mainly to assets being fully depreciated.

Other losses (net) of US\$2.9 million in the third quarter of FY2013 were due mainly to foreign exchange loss of US\$2.8 million. Other gains (net) of US\$8.4 million in the third quarter of FY2012 were due mainly to foreign exchange gain of US\$4.3 million and net gain on disposal of investments of US\$4.3 million.

Other gains (net) of US\$28.3 million in the cumulative nine months period of FY2013 comprised mainly a US\$26.7 million gain on divestment of ZiiLABS Limited, foreign exchange gains of US\$0.8 million and gain on disposal of property and equipment of US\$0.7 million. Other losses (net) of US\$26.6 million in the cumulative nine months

period of FY2012 were due mainly to 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”) (see below), US\$5.9 million foreign exchange losses and a US\$3.2 million impairment loss on investments due to adverse business conditions in certain investee companies, offset partially by a US\$4.3 million net gain on disposal of investments.

QMax’s wireless broadband project was suspended in the second quarter of FY2012. 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. Legal proceedings were initiated against the vendor to recover damages and all losses suffered in relation to the project. Pending the outcome of the legal proceedings, 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.

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 (loss) profit. 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 third quarter of FY2013 was due mainly to the depreciation of Singapore dollar, Euro and Japanese Yen against the US dollar. The exchange gain in the cumulative nine months period of FY2013 was due mainly to the appreciation of Singapore dollar and Euro against the US dollar in the first half year of FY2013, offset partially by the exchange loss in the third quarter of FY2013 resulting from the depreciation of Japanese Yen, Singapore dollar and Euro against the US dollar. The exchange gain in the third quarter of FY2012 was due mainly to the appreciation of Singapore dollar and Euro against the US dollar. The exchange loss in the cumulative nine months period of FY2012 was due mainly to the depreciation of Singapore dollar and Euro against the US dollar in the first half year of FY2012, offset partially by the exchange gain in the third quarter of FY2012 resulting from the appreciation of these currencies against the US dollar.

BALANCE SHEETS

The increase in cash and cash equivalents was due mainly to proceeds of US\$31.2 million from the divestment of a subsidiary company, ZiiLABS Limited. Included in cash and cash equivalents was US\$4.5 million cash in an escrow account relating to the divestment of ZiiLABS Limited that will be released to the Group between 12 to 18 months after the completion of the divestment. The decrease in trade receivables, inventories and trade payables were in line with the lower level of sales. 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 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. The decrease in accrued liabilities and provisions was due mainly to lower level of operating activities and reduction in provisions for commitments for other expenditures and obligations pertaining to the QMax wireless broadband project due to payments made to vendors.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash provided by operating activities of US\$2.2 million in the cumulative nine months period of FY2013 (cumulative nine months period of FY2012: US\$18.2 million net cash used) was due mainly to the net operating profit for the period and reductions in inventories and other current assets, offset partially by a decrease in accrued liabilities and provisions.

Net cash provided by investing activities of US\$29.3 million in the cumulative nine months period of FY2013 (cumulative nine months period of FY2012: US\$1.2 million net cash used) was due mainly to US\$5.9 million proceeds from the sale of property and US\$23.5 million net available proceeds from the sale of a subsidiary, ZiiLABS Limited. Net available proceeds from the sale of ZiiLABS Limited comprised proceeds of US\$31.2 million net of US\$3.2 million cash disposed and US\$4.5 million cash paid into an escrow account.

Net cash used in financing activities of US\$2.9 million in the cumulative nine months period of FY2013 (cumulative nine months period of FY2012: US\$3.1 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 third quarter of FY2013 as compared to the prospect statement disclosed in the announcement of results for the second quarter ended 31 December 2012.

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. The Group expects no significant variations in revenue from the current levels and to report an operating loss.

15 DIVIDEND

No dividends have been recommended in the third 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
25 APRIL 2013

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 third quarter and cumulative nine months ended 31 March 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