

CREATIVE TECHNOLOGY LTD

THIRD QUARTER ENDED 31 MARCH 2014 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

TABLE OF CONTENTS

<u>Item No</u>	<u>Description</u>	<u>Page</u>
1	CONSOLIDATED INCOME STATEMENT	2
2	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	3
3	BALANCE SHEETS	4
4	CONSOLIDATED STATEMENTS OF CASH FLOWS	5
5	STATEMENTS OF CHANGES IN EQUITY	6
6	GROUP BORROWINGS	8
7	NET ASSET VALUE	8
8	AUDIT	8
9	AUDITORS' REPORT	8
10	ACCOUNTING POLICIES	8
11	CHANGES IN ACCOUNTING POLICIES	8
12	REVIEW OF GROUP PERFORMANCE	9
13	VARIANCE FROM PROSPECT STATEMENT	10
14	PROSPECTS	10
15	DIVIDEND	10
16	INTERESTED PERSON TRANSACTIONS	10
	CONFIRMATION BY THE BOARD	11

UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 31 MARCH 2014

1 CONSOLIDATED INCOME STATEMENT

	GROUP		GROUP	
	Three months ended 31 March		Nine months ended 31 March	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Sales, net	25,093	33,831	93,284	135,120
Cost of goods sold	19,486	25,252	67,831	87,416
Gross profit	5,607	8,579	25,453	47,704
Expenses:				
Selling, general and administrative	(8,550)	(9,622)	(26,396)	(29,780)
Research and development	(6,443)	(6,330)	(19,090)	(22,066)
Total expenses	(14,993)	(15,952)	(45,486)	(51,846)
Other income	56	69	170	328
Other gains (losses), net	581	(2,882)	1,537	28,274
Share of losses of associated companies	--	(236)	--	(1,088)
(Loss) profit before income tax	(8,749)	(10,422)	(18,326)	23,372
Income tax expense	(9)	(11)	(57)	(161)
Net (loss) profit	(8,758)	(10,433)	(18,383)	23,211
Attributable to:				
Equity holders of the Company	(8,757)	(10,445)	(18,463)	23,212
Non-controlling interests	(1)	12	80	(1)
(Loss) earnings per share attributable to equity holders of the Company				
- Basic (US\$ per share)	(0.12)	(0.15)	(0.26)	0.33
- Diluted (US\$ per share)	(0.12)	(0.15)	(0.26)	0.33

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

	GROUP			
	Three months ended		Nine months ended	
	31 March		31 March	
	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
Write-off/write-down for inventory obsolescence	(1,217)	(48)	(2,951)	(532)
Gain on disposal of investments	-	-	18	26,773
(Loss) gain on disposal of property and equipment	-	(96)	(2)	714
Foreign exchange gain (loss)	531	(2,786)	1,491	818

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			
	Three months ended		Nine months ended	
	31 March		31 March	
	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
Net (loss) profit	(8,758)	(10,433)	(18,383)	23,211
Other comprehensive income:				
Fair value gains (losses) of financial assets, available-for-sale:				
Fair value gains (losses)	90	325	(71)	1,990
Reclassification	(86)	-	(95)	(60)
Total comprehensive (loss) income for the period	<u>(8,754)</u>	<u>(10,108)</u>	<u>(18,549)</u>	<u>25,141</u>
Attributable to:				
Shareholders of the Company	(8,753)	(10,120)	(18,629)	25,142
Non-controlling interests	(1)	12	80	(1)
Total comprehensive (loss) income for the period	<u>(8,754)</u>	<u>(10,108)</u>	<u>(18,549)</u>	<u>25,141</u>

3 BALANCE SHEETS

	Group		Company	
	31 March 2014 US\$'000	30 June 2013 US\$'000	31 March 2014 US\$'000	30 June 2013 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	131,846	163,574	121,952	150,804
Trade receivables	14,307	14,728	5,441	4,748
Amounts due from subsidiaries	-	-	47,693	42,801
Inventories	30,663	25,353	14,118	11,369
Other current assets	2,339	2,178	384	656
	179,155	205,833	189,588	210,378
Non-current assets:				
Financial assets, available-for-sale	22,020	22,654	-	-
Amounts due from subsidiaries	-	-	145,732	146,659
Investments in subsidiaries	-	-	28,390	28,390
Property and equipment	6,529	6,892	601	705
Other non-current assets	97	1,827	-	1,729
	28,646	31,373	174,723	177,483
Total assets	207,801	237,206	364,311	387,861
LIABILITIES				
Current liabilities:				
Trade payables	11,557	13,753	7,692	9,460
Amounts due to subsidiaries	-	-	8,813	10,940
Accrued liabilities and provisions	41,512	44,496	25,256	26,576
Current income tax liabilities	735	706	-	-
	53,804	58,955	41,761	46,976
Non-current liabilities:				
Amounts due to subsidiaries	-	-	21,745	21,173
Deferred income tax liabilities	15,202	15,202	-	-
	15,202	15,202	21,745	21,173
Total liabilities	69,006	74,157	63,506	68,149
NET ASSETS	138,795	163,049	300,805	319,712
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,527)	(16,606)	(16,527)	(16,606)
Fair value reserve	9,319	9,485	-	-
Other reserves	63,242	63,351	35,778	35,887
Retained earnings	(184,308)	(160,170)	14,801	33,678
	138,479	162,813	300,805	319,712
Non-controlling interests	316	236	-	-
Total equity	138,795	163,049	300,805	319,712

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Nine months ended 31 March	
	2014	2013
	US\$'000	US\$'000
Cash flows from operating activities:		
Net (loss) profit	(18,383)	23,211
Adjustments for:		
Income tax expense	57	161
Depreciation of property and equipment	498	1,033
Employee share-based expenses	(30)	30
Share of loss of associated companies	--	1,088
Loss (Gain) on disposal of property and equipment	2	(714)
Impairment loss of financial assets, available-for-sale	153	59
Gain on disposal of financial assets, available-for-sale	(18)	(23)
Gain on disposal of investments in subsidiary	--	(26,750)
Currency translation gains	(1,048)	(1,006)
Dividend income	--	(147)
Interest income	(170)	(181)
	<u>(18,939)</u>	<u>(3,239)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	421	1,902
Inventories	(3,582)	4,951
Other assets and receivables	(148)	8,319
Trade payables	(2,196)	(1,144)
Accrued liabilities and provisions	(2,984)	(8,513)
Cash (used in) provided by operations	<u>(27,428)</u>	<u>2,276</u>
Interest received	165	179
Income tax paid	<u>(51)</u>	<u>(226)</u>
Net cash (used in) provided by operating activities	<u>(27,314)</u>	<u>2,229</u>
Cash flows from investing activities:		
Purchase of property and equipment	(137)	(260)
Proceeds from sale of property and equipment	--	5,916
Proceeds received from escrow account	1,800	--
Proceeds from sale of subsidiary (net of cash disposed of)	--	23,501
Proceeds from sale of financial assets, available-for-sale	583	23
Purchase of financial assets, available-for-sale	(250)	--
Dividend received	--	147
Net cash provided by investing activities	<u>1,996</u>	<u>29,327</u>
Cash flows from financing activities:		
Dividends paid to equity holders of the Company	<u>(5,675)</u>	<u>(2,859)</u>
Net cash used in financing activities	<u>(5,675)</u>	<u>(2,859)</u>
Net (decrease) increase in cash and cash equivalents	(30,993)	28,697
Cash and cash equivalents at beginning of financial year	159,074	131,432
Effects of currency translation on cash and cash equivalents	<u>1,065</u>	<u>1,025</u>
Cash and cash equivalents at end of the period	<u>129,146</u>	<u>161,154</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
FY2014								
Balance at 1 July 2013	266,753	(16,606)	9,485	63,351	(160,170)	162,813	236	163,049
Purchase of treasury shares	-	-	-	-	-	-	-	-
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	79	-	(79)	-	-	-	-
Employee share-based expense	-	-	-	(30)	-	(30)	-	(30)
Dividends paid	-	-	-	-	(5,675)	(5,675)	-	(5,675)
Total comprehensive income (loss) for the period	-	-	(166)	-	(18,463)	(18,629)	80	(18,549)
Balance at 31 March 2014	266,753	(16,527)	9,319	63,242	(184,308)	138,479	316	138,795
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

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
FY2014					
Balance at 1 July 2013	266,753	(16,606)	35,887	33,678	319,712
Purchase of treasury shares	-	-	-	-	-
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	79	(79)	-	-
Employee share-based expense	-	-	(30)	-	(30)
Dividends paid	-	-	-	(5,675)	(5,675)
Total comprehensive loss for the period	-	-	-	(13,202)	(13,202)
Balance at 31 March 2014	266,753	(16,527)	35,778	14,801	300,805
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

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

Issued and paid up capital

As at 31 March 2014, 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 March 2014, the Company's issued and paid up share capital was US\$266.8 million (31 December 2013: US\$266.8 million).

Employee share options plan

During the third 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 (Q3 FY2013: Nil).

As at 31 March 2014, there were 2,882,500 (31 March 2013: 3,302,950) 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 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 (Q3 FY2013: Nil).

As at 31 March 2014, there were 475,000 (31 March 2013: 900,378) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 31 March 2014, the Company held 4,744,600 (31 March 2013: 5,066,976) treasury shares against 70,255,400 (31 March 2013: 69,933,024) issued ordinary shares excluding treasury shares.

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

	Three months ended	
	31 March	
	2014	2013
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 March 2014 US\$'000	30 June 2013 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	
	31 March 2014 US\$	30 June 2013 US\$	31 March 2014 US\$	30 June 2013 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.98	2.32	4.28	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 third quarter of FY2014 decreased by 26% compared to the same quarter in FY2013, and net sales for the cumulative nine months ended 31 March 2014 decreased by 31% compared to the same period in FY2013. Revenue in the cumulative nine months ended 31 March 2013 included a one time US\$20.0 million licensing income. Excluding the US\$20.0 million licensing income, revenue for the cumulative nine months ended 31 March 2014 decreased by 19% compared to the same period in FY2013. Revenue was lower in the third quarter and cumulative nine months ended 31 March 2014 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 22% in the third quarter of FY2014 compared to 25% in the third quarter of FY2013. For the cumulative nine months period of FY2014, gross profit margin was 27% compared to 35% in the same period in FY2013. Excluding the one time licensing income as mentioned above, gross profit margin was 24% for the cumulative nine months period of FY2013. Gross profit margin for the third quarter of FY2014 was lower compared to the third quarter of FY2013 due mainly to write-down for inventory obsolescence for certain existing products following the introduction of new product models.

Net Profit

Net loss for the third quarter of FY2014 was US\$8.8 million compared to a net loss of US\$10.4 million in the third quarter of FY2013. Net loss for the third quarter of FY2014 included other gains of US\$0.6 million while net loss for the third quarter of FY2013 included other losses of US\$2.9 million.

Net loss for the cumulative nine months period of FY2014 was US\$18.4 million compared to a net profit of US\$23.2 million in the cumulative nine months period of FY2013. Net loss in the cumulative nine months period of FY2014 included other gains of US\$1.5 million. Net profit for the cumulative nine months period of FY2013 was due mainly to the one time licensing income of US\$20.0 million and other gains of US\$28.3 million.

Selling, general and administrative expenses in the third quarter and cumulative nine months period of FY2014 decreased by 11% 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 third quarter of FY2014 remained at about the same level as in the third quarter of FY2013. For the cumulative nine months period of FY2014, research and development expenses decreased by 13% compared to the same period in the corresponding year. The decrease was due mainly to cost savings resulting from the divestment of a subsidiary company, ZiiLABS Limited, in the second quarter of FY2013.

Other gains (net) of US\$0.6 million in the third quarter of FY2014 were due mainly to foreign exchange gain of US\$0.5 million. 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\$1.5 million in the cumulative nine months period of FY2014 was due mainly to foreign exchange gain of US\$1.5 million. Other gains (net) of US\$28.3 million in the cumulative nine months period of FY2013 was due mainly to a US\$26.7 million gain on divestment of a subsidiary company, ZiiLABS Limited, foreign exchange gain of US\$0.8 million and gain on disposal of property and equipment of US\$0.7 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 (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 gain in the third quarter of FY2014 was due mainly to the appreciation of Singapore dollar and Japanese Yen against US dollar. The exchange gain for the cumulative nine months period of FY2014 was due mainly to the appreciation of Singapore dollar, Euro and British Pound against US dollar. 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 during that quarter. 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 during that period.

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 inventories was due mainly to inventories for new products. The decrease in other non-current assets was due to a reduction in deferred expenses. The decrease in trade payables and accrued liabilities and provisions was due mainly to lower level of operating activities.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$27.3 million in the cumulative nine months period of FY2014 (cumulative nine months period of FY2013: US\$2.2 million net cash provided) was due mainly to the net operating loss for the period and increase in inventories and reduction in trade payables and accrued liabilities and provisions.

Net cash provided by investing activities of US\$2.0 million in the cumulative nine months period of FY2014 (cumulative nine months period of FY2013: US\$29.3 million net cash provided) 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 cumulative nine months period of FY2014 (cumulative nine months period 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 third quarter of FY2014 as compared to the prospect statement disclosed in the announcement of results for the second quarter ended 31 December 2013.

14 PROSPECTS

During the year, the Company introduced a number of new products which were very well received. In particular, the reception to the Sound Blaster Roar, a high performance wireless portable speaker, which was launched recently, was very positive. These recently introduced new products provide good potential revenue growth opportunities for the Group and are expected to contribute to revenue growth in the next financial year. However for the current quarter, 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 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
30 APRIL 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 third quarter and cumulative nine months ended 31 March 2014 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director