# **CREATIVE TECHNOLOGY LTD**

### FIRST QUARTER ENDED 30 SEPTEMBER 2010 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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# UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2010

## 1 CONSOLIDATED INCOME STATEMENT

	GROUP			
	Three months ended 30 September			
	2010 US\$'000	2009 US\$'000		
Sales, net	57,227	72,059		
Cost of goods sold	43,192	54,230		
Gross profit	14,035	17,829		
Expenses:				
Selling, general and administrative	(14,172)	(14,803)		
Research and development	(16,620)	(14,653)		
Total expenses	(30,792)	(29,456)		
Other income	167	219		
Other gains (losses), net	13,112	10,522		
Share of profit of associated companies		38		
Interest expense	(20)	(29)		
Loss before income tax	(3,498)	(877)		
Income tax expense	(116)	(166)		
Net loss	(3,614)	(1,043)		
Attributable to: Equity holders of the Company Non-controlling interests	(3,618) 4	(1,043)		
Loss per share for loss attributable to equity holders of the Company - Basic (US\$ per share) - Diluted (US\$ per share)	(0.05) (0.05)	(0.02) (0.02)		

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

	GROUP Three months ended 30 September		
	2010 US\$'000	2009 US\$'000	
Depreciation and amortization	(1,836)	(1,851)	
Reversal of write-off/write-down for inventory obsolescence	62	2,649	
Foreign exchange gain	13,211	5,771	
Gain on disposal of investment in associated company	-	4,874	

### 2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP Three months ended 30 September		
	2010 2009 US\$'000 US\$'000		
Net loss	(3,614)	(1,043)	
Other comprehensive income: Net fair value changes of financial assets, available-for-sale	5,163	3,932	
Total comprehensive income for the period	1,549	2,889	
Attributable to: Shareholders of the Company Non-controlling interests	1,545 4	2,889	
Total comprehensive income for the period	1,549	2,889	

## **3 BALANCE SHEETS**

	Group	Group		Company		
	30 September 2010	30 June 2010	30 September 2010	30 June 2010		
ASSETS	US\$'000	US\$'000	US\$'000	US\$'000		
ASSE 15 Current assets:						
Cash and cash equivalents	200,965	214,025	178,537	197,803		
Trade receivables	32,286	28,999	3,579	4,355		
Amounts due from subsidiaries		20,777	43,100	28,880		
Inventories	45,650	46,120	24,506	25,502		
Other current assets	25,207	20,990	4,649	4,306		
	304,108	310,134	254,371	260,846		
Non-current assets:						
Financial assets, available-for-sale	39,174	33,895	-	-		
Other non-current receivables	582	582	-	-		
Amounts due from subsidiaries	-	-	186,162	184,282		
Investments in subsidiaries	-	-	45,390	45,390		
Property and equipment	27,994	29,411	1,233	1,394		
Intangible assets	6,214	6,324	-			
Other non-current assets	20,618	22,205	953	998		
	94,582	92,417	233,738	232,064		
Total assets	398,690	402,551	488,109	492,910		
LIABILITIES						
Current liabilities:						
Trade payables	19,815	24,089	13,525	18,218		
Amounts due to subsidiaries	-	-	25,587	23,238		
Accrued liabilities and provisions	63,208	65,249	29,765	30,777		
Current income tax liabilities	2,233	2,235	1,951	1,951		
	85,256	91,573	70,828	74,184		
Non-current liabilities:						
Amounts due to subsidiaries	-	-	21,047	21,044		
Deferred income tax liabilities	21,202	21,202		-		
	21,202	21,202	21,047	21,044		
Total liabilities	106,458	112,775	91,875	95,228		
NET ASSETS	292,232	289,776	396,234	397,682		
EQUITY						
Share capital	266,753	266,753	266,753	266,753		
Treasury shares	(19,122)	(19,122)	(19,122)	(19,122)		
Fair value reserve	19,035	13,872	(1),122)	(1),122)		
Other reserves	63,191	62,285	35,727	34,821		
Retained earnings	(38,272)	(34,654)	112,876	115,230		
teraned earnings	291,585	289,134	396,234	397,682		
Non-controlling interests	647	642	-	-		
Total equity	292,232	289,776	396,234	397,682		
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### 4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP		
	Three months ended 30 September		
	2010	2009	
	US\$'000	US\$'000	
Cash flows from operating activities:	(2 (1 1)	(1.0.10)	
Net loss	(3,614)	(1,043)	
Adjustments for:	116	1.00	
Income tax expense	116	166	
Depreciation of property and equipment	1,726	1,760	
Amortisation of intangible assets	110	91 237	
Employee share-based expenses	906		
Share of loss of associated companies Loss on disposal of property and equipment		(38)	
Impairment loss of financial assets, available-for-sale	237	45 76	
		78 80	
Net impairment loss of investments in associated companies Gain on disposal of financial assets, available-for-sale		80	
Gain on disposal of investments in associated companies	(8)	(4,874)	
Foreign exchange gain	(10,870)	( )	
Dividend income	(10,870) (68)	(4,893)	
Interest income	(08)	(65) (154)	
Interest expense	(99)	(134)	
interest expense	(11,532)	(8,583)	
Changes in working capital, net of effects from acquisition and			
disposal of subsidiaries			
Trade receivables	(3,287)	2,118	
Inventories	470	(3,102)	
Other assets and receivables	(2,630)	2,585	
Trade payables	(4,274)	2,339	
Accrued liabilities and provisions	(2,061)	(2,854)	
Cash used in operations	(23,314)	(7,497)	
Interest received	96	154	
Interest paid		(1)	
Income tax paid	(120)	(50)	
Net cash used in operating activities	(23,338)	(7,394)	
Cash flows from investing activities:			
Purchase of property and equipment	(326)	(1,204)	
Proceeds from sale of property and equipment	5	2	
Proceeds from disposal of investments in associated companies		6,189	
Proceeds from sale of financial assets, available-for-sale	8		
Purchase of financial assets, available-for-sale	(353)		
Dividend received	68	65	
Net cash (used in) provided by investing activities	(598)	5,052	
Cash flows from financing activities:			
Repayments of capital leases		(1)	
Net cash used in financing activities		(1)	
Net decrease in cash and cash equivalents	(23,936)	(2,343)	
Cash and cash equivalents at beginning of financial year	214,025	250,551	
Effects of currency translation on cash and cash equivalents	10,876	4,858	
Cash and cash equivalents at end of the period	200,965	253,066	

# 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
<u>FY2011</u>								
Balance at 1 July 2010	266,753	(19,122)	13,872	62,285	(34,654)	289,134	642	289,776
Employee share-based expense	-	-	-	906	-	906	-	906
Currency translation difference	-	-	-	-	-	-	1	1
Total comprehensive income (loss) for the								
period	-	-	5,163	-	(3,618)	1,545	4	1,549
		(10.100)	10.025		(20.454)			
Balance at 30 September 2010	266,753	(19,122)	19,035	63,191	(38,272)	291,585	647	292,232
FY2010								
Balance at 1 July 2009	266,753	(21,475)	7,151	60,512	9,072	322,013	376	322,389
Employee share-based expense	-	-	-	237	-	237	-	237
Total comprehensive income (loss) for the								
period	-	-	3,932	-	(1,043)	2,889	-	2,889
Balance at 30 September 2009	266,753	(21,475)	11,083	60,749	8,029	325,139	376	325,515

### 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
<u>FY2011</u>					
Balance at 1 July 2010	266,753	(19,122)	34,821	115,230	397,682
Employee share-based expense	-	-	906	-	906
Total comprehensive loss for the period	-	-	-	(2,354)	(2,354)
Balance at 30 September 2010	266,753	(19,122)	35,727	112,876	396,234
<u>FY2010</u>					
Balance at 1 July 2009	266,753	(21,475)	33,049	146,222	424,549
Employee share-based expense	-	-	237	-	237
Total comprehensive loss for the period	-	-	-	(1,354)	(1,354)
Balance at 30 September 2009	266,753	(21,475)	33,286	144,868	423,432

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

#### Issued and paid up capital

As at 30 September 2010, the Company's issued and paid up capital excluding treasury shares comprises 69,574,655 (30 June 2010: 69,574,655) ordinary shares.

#### Employee share options plan

During the first quarter of FY2011, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q1 FY2010: Nil).

As at 30 September 2010, there were 6,550,240 (30 September 2009: 6,986,895) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plan.

#### Employee performance share plan

During the first quarter of FY2011, 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 (Q1 FY2010: Nil).

As at 30 September 2010, there were 2,088,000 (30 September 2009: Nil) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

#### **Treasury shares**

There were no movement of treasury shares during the first quarter of FY2011 and FY2010.

						Three months ended 30 September		
						2010	2009	
Balance period	at	beginning	and	end	of	5,425,345	6,108,532	

#### 6 AUDIT

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

#### 7 AUDITORS' REPORT

Not applicable.

#### 8 ACCOUNTING POLICIES

Except as disclosed in Item 9 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 2010.

#### 9 CHANGES IN ACCOUNTING POLICIES

None.

#### 10 NET ASSET VALUE

	GROU	J <b>P</b>	COMPANY		
	30 September 2010 US\$	30 June 2010 US\$	30 September 2010 US\$	30 June 2010 US\$	
Net asset value per ordinary share based on issued capital at the end of the period / financial year	4.20	4.16	5.69	5.72	

#### 11 REVIEW OF GROUP PERFORMANCE

#### CONSOLIDATED INCOME STATEMENT

#### Net Sales

Net sales for the first quarter of FY2011 decreased by 21% compared to the same quarter in FY2010. Revenue was lower in the first quarter of FY2011 as the Group continue to be affected by the difficult market for its products, particularly for the personal digital entertainment products.

#### **Gross Profit**

Gross profit margin was 25% in the first quarter of FY2011 and FY2010. Gross profit margin at 25% was consistent with the mix of products sold.

#### Net Loss

Net loss for the first quarter of FY2011 was US\$3.6 million compared to US\$1.0 million in the first quarter of FY2010.

Research and development expenses in the first quarter of FY2011 increased by 13% compared to the first quarter of FY2010. There was an increase in research and development expenses as the Group needs to 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.

Other gains of US\$13.1 million in the first quarter of FY2011 were mainly due to a US\$13.2 million of foreign exchange gains. Other gains of US\$10.5 million in FY2010 comprised mainly of a US\$4.9 million gain on disposal of investment in an associated company and foreign exchange gains of US\$5.8 million. In the first quarter of FY2010, the Group has disposed its entire interest in an associated company, Qala Singapore Pte Ltd, an internet service provider, for a cash consideration of US\$6.2 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 mainly due to the cash and cash equivalent balances held by the Group. Besides US dollar, cash and cash equivalents were held mainly in Singapore dollar, Euro, British Pound and Japanese Yen. The exchange gain in the first quarter of FY2011 was mainly due to the significant appreciation of these currencies against the US dollar during the quarter. In the first quarter of FY2010, these currencies had also appreciated against the US dollar, but the appreciation was not as significant compared to the first quarter of FY2011.

#### BALANCE SHEETS

The increase in financial assets, available-for-sale as at 30 September 2010 was due to the fair value gain on revaluation of the investments. The increase in other current assets were mainly due to a US\$2.3 million deposit paid to a vendor by a subsidiary, QMax Communications Pte Ltd, pertaining to its investments in a WiMax Wireless Broadband network in Singapore.

#### CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$23.3 million in the first quarter of FY2011 (first quarter of FY2010: US\$7.4 million) was mainly due to the net operating loss for the period.

Net cash used in or provided by investing and financing activities in the first quarter of FY2011 were not material.

#### 12 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group as compared to the prospect statement disclosed in the announcement of results for the fourth quarter and full year ended 30 June 2010.

#### **13 PROSPECTS**

The Group will continue to invest in product research and development, particularly for the Zii Platform. To support the marketing and sales of the new products and services, operating expenses may increase in the coming quarters, in line with the introduction of the new products and services. For the current quarter, the overall market for the Group's current products remain difficult and the Group expects to report an operating loss.

#### 14 DIVIDEND

No dividends have been recommended in the first quarter of FY2011 and no dividends were recommended or declared for the same period last year.

BY ORDER OF THE BOARD

NG KEH LONG COMPANY SECRETARY 27 OCTOBER 2010

#### **CONFIRMATION BY THE BOARD**

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the interim financial information for the first quarter ended 30 September 2010 to be false or misleading.

On behalf of the Board of Directors

Sim Wong Hoo Chairman Lee Kheng Nam Director