

CREATIVE TECHNOLOGY LTD

THIRD QUARTER ENDED 31 MARCH 2012 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 31 MARCH 2012

1 CONSOLIDATED INCOME STATEMENT

	GROUP		GROUP	
	Three months ended 31 March		Nine months ended 31 March	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
Sales, net	44,886	57,154	154,789	183,670
Cost of goods sold	34,297	43,427	123,176	138,148
Gross profit	10,589	13,727	31,613	45,522
Expenses:				
Selling, general and administrative	(10,849)	(16,175)	(36,447)	(46,335)
Research and development	(9,476)	(17,070)	(31,435)	(49,226)
Total expenses	(20,325)	(33,245)	(67,882)	(95,561)
Other income	53	78	301	435
Other gains (losses), net	8,422	6,667	(26,556)	22,404
Share of (losses) gains of associated companies	(184)	64	(2,153)	(169)
Interest expense	(11)	(20)	(32)	(61)
Loss before income tax	(1,456)	(12,729)	(64,709)	(27,430)
Income tax expense	(27)	(247)	(205)	(12)
Net loss	(1,483)	(12,976)	(64,914)	(27,442)
Attributable to:				
Equity holders of the Company	(1,575)	(13,011)	(65,033)	(27,495)
Non-controlling interests	92	35	119	53
Loss per share for loss attributable to equity holders of the Company				
- Basic (US\$ per share)	(0.02)	(0.19)	(0.93)	(0.39)
- Diluted (US\$ per share)	(0.02)	(0.19)	(0.93)	(0.39)

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

	GROUP			
	Three months ended 31 March		Nine months ended 31 March	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Depreciation and amortization	(693)	(2,034)	(3,065)	(5,676)
Write-off/write-down for inventory obsolescence	(2,373)	(1,634)	(8,863)	(1,316)
Impairment loss on investments	(75)	(216)	(3,168)	(598)
Gain on disposal of investments	4,274	2,159	4,274	2,349
Foreign exchange (loss) gain	4,264	4,252	(5,921)	20,023
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 31 March		Nine months ended 31 March	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Net loss	(1,483)	(12,976)	(64,914)	(27,442)
Other comprehensive income:				
Net fair value changes of financial assets, available- for-sale	2,926	(5,527)	(2,948)	984
Total comprehensive income for the period	<u>1,443</u>	<u>(18,503)</u>	<u>(67,862)</u>	<u>(26,458)</u>
Attributable to:				
Shareholders of the Company	1,351	(18,538)	(67,981)	(26,511)
Non-controlling interests	92	35	119	53
Total comprehensive income for the period	<u>1,443</u>	<u>(18,503)</u>	<u>(67,862)</u>	<u>(26,458)</u>

3 BALANCE SHEETS

	Group		Company	
	31 March 2012 US\$'000	30 June 2011 US\$'000	31 March 2012 US\$'000	30 June 2011 US\$'000
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	136,028	162,958	123,098	148,693
Trade receivables	22,155	27,508	6,146	8,059
Amounts due from subsidiaries	-	-	39,082	37,424
Inventories	27,107	44,089	12,100	23,425
Other current assets	19,210	22,642	2,828	5,966
	204,500	257,197	183,254	223,567
Non-current assets:				
Financial assets, available-for-sale	30,879	36,476	-	-
Other non-current receivables	-	460	-	-
Amounts due from subsidiaries	-	-	207,400	194,391
Investments in associated companies	-	322	-	-
Investments in subsidiaries	-	-	30,790	30,790
Property and equipment	15,969	26,088	606	920
Intangible assets	2,217	5,862	-	-
Other non-current assets	8,390	15,600	1,306	1,422
	57,455	84,808	240,102	227,523
Total assets	261,955	342,005	423,356	451,090
<u>LIABILITIES</u>				
Current liabilities:				
Trade payables	15,275	20,629	9,083	15,203
Amounts due to subsidiaries	-	-	35,705	29,312
Accrued liabilities and provisions	55,973	60,662	22,828	28,668
Current income tax liabilities	738	790	-	-
	71,986	82,081	67,616	73,183
Non-current liabilities:				
Amounts due to subsidiaries	-	-	24,606	21,149
Deferred income tax liabilities	17,902	17,902	-	-
	17,902	17,902	24,606	21,149
Total liabilities	89,888	99,983	92,222	94,332
NET ASSETS	172,067	242,022	331,134	356,758
<u>EQUITY</u>				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(18,658)	(18,362)	(18,658)	(18,362)
Fair value reserve	12,637	15,585	-	-
Other reserves	65,607	64,629	38,143	37,165
Retained earnings	(155,049)	(87,241)	44,896	71,202
	171,290	241,364	331,134	356,758
Non-controlling interests	777	658	-	-
Total equity	172,067	242,022	331,134	356,758

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Nine months ended 31 March	
	2012	2011
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(64,914)	(27,442)
Adjustments for:		
Income tax expense	205	12
Depreciation of property and equipment	2,811	5,335
Amortisation of intangible assets	254	341
Employee share-based expenses	1,006	2,942
Share of loss of associated companies	2,153	169
Loss on disposal of property and equipment	117	24
Impairment loss on property and equipment and intangible assets	15,639	--
Impairment loss of financial assets, available-for-sale	3,168	598
Gain on disposal of financial assets, available-for-sale	(460)	(2,131)
Deemed gain on dilution of subsidiaries	--	(218)
Gain on disposal of investments in associated companies	(3,814)	--
Currency translation losses (gains)	4,437	(16,673)
Write-off non-controlling interests upon liquidation of subsidiary	--	(380)
Dividend income	(123)	(139)
Interest income	(177)	(296)
Interest expense	32	61
	<u>(39,666)</u>	<u>(37,797)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	5,353	(1,457)
Inventories	16,982	(2,004)
Other assets and receivables	9,291	4,953
Trade payables	(5,354)	(2,174)
Accrued liabilities and provisions	<u>(4,721)</u>	<u>(4,166)</u>
Cash used in operations	(18,115)	(42,645)
Interest received	179	291
Income tax paid	<u>(231)</u>	<u>(27)</u>
Net cash used in operating activities	<u>(18,167)</u>	<u>(42,381)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(5,239)	(4,964)
Proceeds from sale of property and equipment	182	10
Proceeds from disposal of investments in associated companies	3,814	--
Proceeds from investments	941	2,652
Purchase of financial assets, available-for-sale	(1,000)	(2,117)
Purchase of investments in associated companies	--	(1,541)
Dividend received	<u>123</u>	<u>139</u>
Net cash used in investing activities	<u>(1,179)</u>	<u>(5,821)</u>
Cash flows from financing activities:		
Purchase of treasury shares	(322)	--
Proceeds from exercise of ordinary share options	--	170
Dividends paid to equity holders of the Company	<u>(2,775)</u>	<u>(5,354)</u>
Net cash used in financing activities	<u>(3,097)</u>	<u>(5,184)</u>
Net decrease in cash and cash equivalents	(22,443)	(53,386)
Cash and cash equivalents at beginning of financial year	162,958	214,025
Effects of currency translation on cash and cash equivalents	<u>(4,487)</u>	<u>16,683</u>
Cash and cash equivalents at end of the period	<u>136,028</u>	<u>177,322</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
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
FY2011								
Balance at 1 July 2010	266,753	(19,122)	13,872	62,285	(34,654)	289,134	642	289,776
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	225	-	(55)	-	170	-	170
Employee share-based expense	-	-	-	2,942	-	2,942	-	2,942
Dividends paid	-	-	-	-	(5,354)	(5,354)	-	(5,354)
Currency translation difference	-	-	-	-	-	-	2	2
Write-off non-controlling interests upon liquidation of subsidiary	-	-	-	-	-	-	(380)	(380)
Total comprehensive income (loss) for the period	-	-	984	-	(27,495)	(26,511)	53	(26,458)
Balance at 31 March 2011	266,753	(18,897)	14,856	65,172	(67,503)	260,381	317	260,698

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
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
FY2011					
Balance at 1 July 2010	266,753	(19,122)	34,821	115,230	397,682
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	225	(55)	-	170
Employee share-based expense	-	-	2,942	-	2,942
Dividends paid	-	-	-	(5,354)	(5,354)
Total comprehensive loss for the period	-	-	-	(25,703)	(25,703)
Balance at 31 March 2011	266,753	(18,897)	37,708	84,173	369,737

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

Issued and paid up capital

As at 31 March 2012, the Company's issued and paid up capital excluding treasury shares comprises 69,643,715 (30 June 2011: 69,790,415) ordinary shares.

As at 31 March 2012, the Company's issued and paid up share capital was US\$266.8 million (31 December 2011: US\$266.8 million).

Employee share options plan

During the third 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 (Q3 FY2011: Nil).

As at 31 March 2012, there were 3,762,450 (31 March 2011: 6,075,836) 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 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 (Q3 FY2011: Nil).

As at 31 March 2012, there were 1,491,566 (31 March 2011: 2,042,000) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 31 March 2012, the Company held 5,356,285 (31 March 2011: 5,359,895) treasury shares against 69,643,715 (31 March 2011: 69,640,105) issued ordinary shares excluding treasury shares.

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

	Three months ended	
	31 March	
	2012	2011
Balance at beginning of period	5,356,285	5,359,895
Issue for Employee Stock Options Plan	-	-
Balance at end of period	<u>5,356,285</u>	<u>5,359,895</u>

6 GROUP BORROWINGS

	GROUP	
	31 March 2012 US\$'000	30 June 2011 US\$'000
Amount repayable:		
<u>In one year or less, or on demand</u>		
Secured	-	-
Unsecured	-	-
	-	-
<u>After one year</u>		
Secured	-	-
Unsecured	-	-
	-	-
Total	-	-

7 NET ASSET VALUE

	GROUP		COMPANY	
	31 March 2012 US\$	30 June 2011 US\$	31 March 2012 US\$	30 June 2011 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	2.47	3.47	4.75	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 third quarter of FY2012 decreased by 21% compared to the same quarter in FY2011, and net sales for the cumulative nine months ended 31 March 2012 decreased by 16% compared to the same period in FY2011. Revenue was lower in the third quarter and cumulative nine months ended 31 March 2012 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 24% in the third quarter of FY2012 and FY2011. For the cumulative nine months period of FY2012, gross profit margin was 20% compared to 25% in the cumulative nine months period of FY2011. Gross profit margin in the cumulative nine months period of FY2012 was lower due to higher write-down of inventories.

Net Loss

Net loss for the third quarter of FY2012 was US\$1.5 million compared to net loss of US\$13.0 million in the third quarter of FY2011. Despite the decrease in sales, there was an improvement in operating results for the third quarter of FY2012 compared to the same period in the prior year. While gross profit was lower by US\$3.1 million, operating expenses comprising selling, general and administrative expenses and research and development expenses decreased by US\$12.9 million in the third quarter of FY2012 compared to the third quarter of FY2011. The lower net loss in the third quarter of FY2012 was also partly due to other gains (net) of US\$8.4 million (as explained below), compared to US\$6.7 million in the third quarter of FY2011.

Net loss for the cumulative nine months ended 31 March 2012 was US\$64.9 million compared to US\$27.4 million of the same period in FY2011. Sales have decreased and gross profit was lower by US\$13.9 million for the cumulative nine months period 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\$27.7 million. The Group's results in the cumulative nine months period of FY2012 was negatively impacted by other losses (net) of US\$26.6 million as explained below.

Selling, general and administrative expenses in the third quarter and cumulative nine months period of FY2012 decreased by 33% and 21%, 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 third quarter and cumulative nine months period of FY2012 decreased by 44% and 36%, 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\$3.1 million in the third quarter and cumulative nine months period of FY2012, respectively, compared to US\$2.0 million and US\$5.7 million in the same periods in the prior year. Depreciation and amortization was lower in the third quarter and cumulative nine months period 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 gains (net) of US\$8.4 million in the third quarter of FY2012 were due mainly to foreign exchange gains of US\$4.3 million and net gain on disposal of investments of US\$4.3 million of which \$3.8 million was pertaining to net gain on disposal of an associated company. Other gains (net) of US\$6.7 million in the third quarter of FY2011 were due mainly to foreign exchange gains of US\$4.3 million and gains on disposal of investments of US\$2.2 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, 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"), 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.

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 also 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.

In the third quarter of FY2012, a Statement of Claim was filed in the High Court of Singapore in which the Company and Qmax provided particulars of claims for more than US\$19 million from the vendor. The vendor filed a defence and counterclaim. In the counterclaim, the vendor had claimed more than US\$8 million (subsequently amended to more than US\$9 million) from the Company and QMax. The Company and QMax hold the view that the defence and counterclaim are without merit, and have filed a response. Accordingly, no provision has been made in the accounts for the counterclaim.

Other gains (net) of US\$22.4 million in the cumulative nine months period of FY2011 were due mainly to foreign exchange gains of US\$20.0 million and gains on disposal of investments of US\$2.3 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 and second quarter of FY2012 was due mainly to the depreciation of Singapore dollar and Euro against the US dollar, but in the third quarter of FY2012, these currencies appreciated against the US dollar resulting in an exchange gain. In the third quarter and the cumulative nine months period of FY2011, the exchange gains were due mainly to the appreciation of Singapore dollar and Euro against US dollar.

BALANCE SHEETS

The decrease in financial assets, available-for-sale as at 31 March 2012 was due mainly to a US\$2.9 million fair value loss on revaluation of investments 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 trade receivables, inventories and trade payables were 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\$1.1 million decrease in security deposits and prepayments.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$18.2 million in the cumulative nine months period of FY2012 (cumulative nine months period of FY2011: US\$42.4 million) was due mainly to the net loss for the period.

Net cash used in investing activities of US\$1.2 million in the cumulative nine months period of FY2012 (cumulative nine months of FY2011: US\$5.8 million) was due mainly to purchase of equipment offset partially by proceeds from disposal of investments in an associated company.

Net cash used in financing activities of US\$3.1 million in the cumulative nine months period of FY2012 (cumulative nine months period 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 third quarter of FY2012 as compared to the prospect statement disclosed in the announcement of results for the second quarter ended 31 December 2011.

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 FY2012 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
3 MAY 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 third quarter and cumulative nine months ended 31 March 2012 to be false or misleading.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director