

# CREATIVE TECHNOLOGY LTD

## FOURTH QUARTER AND FULL YEAR ENDED 30 JUNE 2012 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	4
3	BALANCE SHEETS	5
4	CONSOLIDATED STATEMENTS OF CASH FLOWS	6
5	STATEMENTS OF CHANGES IN EQUITY	7
6	GROUP BORROWINGS	9
7	NET ASSET VALUE	9
8	AUDIT	9
9	AUDITORS' REPORT	9
10	ACCOUNTING POLICIES	9
11	CHANGES IN ACCOUNTING POLICIES	9
12	REVIEW OF GROUP PERFORMANCE	10
13	VARIANCE FROM PROSPECT STATEMENT	12
14	PROSPECTS	12
15	DIVIDEND	13
16	SEGMENTAL REPORTING	14
17	INTERESTED PERSON TRANSACTIONS	15
18	REPORT OF PERSONS OCCUPYING MANAGERIAL POSITIONS WHO ARE RELATED TO A DIRECTOR, CHIEF EXECUTIVE OFFICER OR SUBSTANTIAL SHAREHOLDER	15

**UNAUDITED RESULTS FOR THE FOURTH QUARTER AND FULL YEAR ENDED 30 JUNE 2012**

**1 CONSOLIDATED INCOME STATEMENT**

	GROUP		GROUP	
	Three months ended 30 June		Financial year ended 30 June	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Sales, net	36,994	47,355	191,783	231,025
Cost of goods sold	31,761	43,816	154,937	181,964
<b>Gross profit</b>	<b>5,233</b>	<b>3,539</b>	<b>36,846</b>	<b>49,061</b>
Expenses:				
Selling, general and administrative	(10,077)	(15,188)	(46,524)	(61,523)
Research and development	(8,200)	(17,208)	(39,635)	(66,434)
<b>Total expenses</b>	<b>(18,277)</b>	<b>(32,396)</b>	<b>(86,159)</b>	<b>(127,957)</b>
Other income	618	299	919	734
Other (losses) gains, net	(5,948)	5,051	(32,504)	27,455
Share of losses of associated companies	(490)	(955)	(2,643)	(1,124)
Interest expense	(11)	(11)	(43)	(72)
<b>Loss before income tax</b>	<b>(18,875)</b>	<b>(24,473)</b>	<b>(83,584)</b>	<b>(51,903)</b>
Income tax (expense) credit	(107)	4,772	(312)	4,760
<b>Net loss</b>	<b>(18,982)</b>	<b>(19,701)</b>	<b>(83,896)</b>	<b>(47,143)</b>
<b>Attributable to:</b>				
Equity holders of the Company	(18,931)	(19,738)	(83,964)	(47,233)
Non-controlling interests	(51)	37	68	90
Loss per share for loss attributable to equity holders of the Company				
- Basic (US\$ per share)	(0.27)	(0.28)	(1.20)	(0.68)
- Diluted (US\$ per share)	(0.27)	(0.28)	(1.20)	(0.68)

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

	<b>GROUP</b>			
	<b>Three months ended</b>		<b>Financial year ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Depreciation and amortization	(828)	(1,897)	(3,893)	(7,573)
Write-off/write-down for inventory obsolescence	(1,086)	(4,496)	(9,949)	(5,812)
Impairment loss on investments	(249)	(130)	(3,417)	(728)
Gain on disposal of investments	2,835	216	7,109	2,565
Foreign exchange (loss) gain	(2,199)	5,236	(8,120)	25,259
Impairment loss on property and equipment and intangible assets	(2,500)	-	(18,139)	-
Impairment loss on unutilized building facilities	(3,598)	-	(3,598)	-
Provisions for commitments and obligations	-	-	(6,489)	-

**1(b) Breakdown of sales:**

	<b>GROUP</b>		
	<b>Financial year ended 30 June 2012</b>	<b>Financial year ended 30 June 2011</b>	<b>+ / (-) %</b>
	<b>US\$'000</b>	<b>US\$'000</b>	
<b><u>First Half Year</u></b>			
(a) Sales	109,903	126,516	(13%)
(b) Net loss	(63,431)	(14,466)	(338%)
<b><u>Second Half Year</u></b>			
(c) Sales	81,880	104,509	(22%)
(b) Net loss	(20,465)	(32,677)	37%

## 2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>GROUP</b>			
	<b>Three months ended</b>		<b>Financial year ended</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Net loss	(18,982)	(19,701)	(83,896)	(47,143)
Other comprehensive income:				
Net fair value changes of financial assets, available-for-sale	(3,979)	729	(6,927)	1,713
Total comprehensive income for the period	<u>(22,961)</u>	<u>(18,972)</u>	<u>(90,823)</u>	<u>(45,430)</u>
Attributable to:				
Shareholders of the Company	(22,910)	(19,009)	(90,891)	(45,520)
Non-controlling interests	(51)	37	68	90
Total comprehensive income for the period	<u>(22,961)</u>	<u>(18,972)</u>	<u>(90,823)</u>	<u>(45,430)</u>

### 3 BALANCE SHEETS

	Group		Company	
	30 June 2012 US\$'000	30 June 2011 US\$'000	30 June 2012 US\$'000	30 June 2011 US\$'000
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	131,432	162,958	117,457	148,693
Trade receivables	18,841	27,508	6,294	8,059
Amounts due from subsidiaries	-	-	41,803	37,424
Inventories	27,822	44,089	11,052	23,425
Property and equipment held for sale	4,991	-	-	-
Other current assets	12,732	22,642	1,567	5,966
	<b>195,818</b>	<b>257,197</b>	<b>178,173</b>	<b>223,567</b>
<b>Non-current assets:</b>				
Financial assets, available-for-sale	26,651	36,476	-	-
Other non-current receivables	1,088	460	-	-
Amounts due from subsidiaries	-	-	199,321	194,391
Investments in associated companies	-	322	-	-
Investments in subsidiaries	-	-	27,290	30,790
Property and equipment	7,427	26,088	483	920
Intangible assets	-	5,862	-	-
Other non-current assets	3,301	15,600	1,193	1,422
	<b>38,467</b>	<b>84,808</b>	<b>228,287</b>	<b>227,523</b>
<b>Total assets</b>	<b>234,285</b>	<b>342,005</b>	<b>406,460</b>	<b>451,090</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Trade payables	13,844	20,629	8,586	15,203
Amounts due to subsidiaries	-	-	36,590	29,312
Accrued liabilities and provisions	53,367	60,662	24,692	28,668
Current income tax liabilities	742	790	48	-
	<b>67,953</b>	<b>82,081</b>	<b>69,916</b>	<b>73,183</b>
<b>Non-current liabilities:</b>				
Amounts due to subsidiaries	-	-	21,669	21,149
Deferred income tax liabilities	17,902	17,902	-	-
	<b>17,902</b>	<b>17,902</b>	<b>21,669</b>	<b>21,149</b>
<b>Total liabilities</b>	<b>85,855</b>	<b>99,983</b>	<b>91,585</b>	<b>94,332</b>
<b>NET ASSETS</b>	<b>148,430</b>	<b>242,022</b>	<b>314,875</b>	<b>356,758</b>
<b>EQUITY</b>				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(17,676)	(18,362)	(17,676)	(18,362)
Fair value reserve	8,658	15,585	-	-
Other reserves	64,433	64,629	36,969	37,165
Retained earnings	(173,980)	(87,241)	28,829	71,202
	148,188	241,364	314,875	356,758
Non-controlling interests	242	658	-	-
<b>Total equity</b>	<b>148,430</b>	<b>242,022</b>	<b>314,875</b>	<b>356,758</b>

#### 4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	<b>GROUP</b>	
	<b>Financial year ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Cash flows from operating activities:</b>		
Net loss	(83,896)	(47,143)
Adjustments for:		
Income tax expense (credit)	312	(4,760)
Depreciation of property and equipment	3,624	7,111
Amortisation of intangible assets	269	462
Employee share-based expenses	813	2,999
Share of loss of associated companies	2,643	1,124
Loss on disposal of property and equipment	368	34
Impairment loss on property and equipment and intangible assets	18,139	--
Impairment loss on unutilized building facilities	3,598	--
Impairment loss of financial assets, available-for-sale	3,417	728
Gain on disposal of financial assets, available-for-sale	(471)	(2,232)
Deemed gain on dilution of subsidiaries	--	(218)
Gain on disposal of investments in subsidiary company	(2,824)	(115)
Gain on disposal of investments in associated companies	(3,814)	--
Loan from minority shareholder forgiven	--	(76)
Currency translation losses (gains)	6,370	(20,957)
Dividend income	(693)	(367)
Interest income	(227)	(367)
Interest expense	43	72
	<u>(52,329)</u>	<u>(63,705)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	8,667	(1,091)
Inventories	16,267	1,824
Other assets and receivables	16,637	5,066
Trade payables	(6,750)	(2,093)
Accrued liabilities and provisions	(5,223)	(3,263)
Cash used in operations	(22,731)	(63,262)
Interest received	230	366
Income tax paid	(304)	(3)
<b>Net cash used in operating activities</b>	<u><b>(22,805)</b></u>	<u><b>(62,899)</b></u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(5,285)	(10,038)
Proceeds from sale of property and equipment	213	11
Proceeds from disposal of investments in associated companies	3,814	--
Proceeds from sale of financial assets, available-for-sale	952	2,753
Proceeds from disposal of subsidiaries, net of cash disposed of	3,312	6,683
Purchase of financial assets, available-for-sale	(1,000)	(2,117)
Purchase of investments in associated companies	(1,874)	(1,542)
Dividend received	693	367
<b>Net cash provided by (used in) investing activities</b>	<u><b>825</b></u>	<u><b>(3,883)</b></u>
<b>Cash flows from financing activities:</b>		
Purchase of treasury shares	(322)	--
Proceeds from exercise of ordinary share options	--	186
Performance share plan cash settlement	--	(52)
Dividends paid to equity holders of the Company	(2,775)	(5,354)
<b>Net cash used in financing activities</b>	<u><b>(3,097)</b></u>	<u><b>(5,220)</b></u>
<b>Net decrease in cash and cash equivalents</b>	<u><b>(25,077)</b></u>	<u><b>(72,002)</b></u>
Cash and cash equivalents at beginning of financial year	162,958	214,025
Effects of currency translation on cash and cash equivalents	(6,449)	20,935
<b>Cash and cash equivalents at end of the period</b>	<u><b>131,432</b></u>	<u><b>162,958</b></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
<b>FY2012</b>								
<b>Balance at 1 July 2011</b>	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	-	1,008	-	(1,009)	-	(1)	-	(1)
Employee share-based expense	-	-	-	813	-	813	-	813
Disposal of subsidiary	-	-	-	-	-	-	(484)	(484)
Dividends paid	-	-	-	-	(2,775)	(2,775)	-	(2,775)
Total comprehensive income (loss) for the period	-	-	(6,927)	-	(83,964)	(90,891)	68	(90,823)
<b>Balance at 30 June 2012</b>	<b>266,753</b>	<b>(17,676)</b>	<b>8,658</b>	<b>64,433</b>	<b>(173,980)</b>	<b>148,188</b>	<b>242</b>	<b>148,430</b>
<b>FY2011</b>								
<b>Balance at 1 July 2010</b>	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	-	760	-	(603)	-	157	-	157
Cash settlement for employee performance share plan	-	-	-	(52)	-	(52)	-	(52)
Employee share-based expense	-	-	-	2,999	-	2,999	-	2,999
Dividends paid	-	-	-	-	(5,354)	(5,354)	-	(5,354)
Currency translation difference	-	-	-	-	-	-	2	2
Loan from minority shareholder forgiven	-	-	-	-	-	-	(76)	(76)
Total comprehensive income (loss) for the period	-	-	1,713	-	(47,233)	(45,520)	90	(45,430)
<b>Balance at 30 June 2011</b>	<b>266,753</b>	<b>(18,362)</b>	<b>15,585</b>	<b>64,629</b>	<b>(87,241)</b>	<b>241,364</b>	<b>658</b>	<b>242,022</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>FY2012</b>					
<b>Balance at 1 July 2011</b>	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	-	1,008	(1,009)	-	(1)
Employee share-based expense	-	-	813	-	813
Dividends paid	-	-	-	(2,775)	(2,775)
Total comprehensive loss for the period	-	-	-	(39,598)	(39,598)
<b>Balance at 30 June 2012</b>	<b>266,753</b>	<b>(17,676)</b>	<b>36,969</b>	<b>28,829</b>	<b>314,875</b>
<b>FY2011</b>					
<b>Balance at 1 July 2010</b>	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	-	760	(603)	-	157
Cash settlement for employee performance share plan	-	-	(52)	-	(52)
Employee share-based expense	-	-	2,999	-	2,999
Dividends paid	-	-	-	(5,354)	(5,354)
Total comprehensive loss for the period	-	-	-	(38,674)	(38,674)
<b>Balance at 30 June 2011</b>	<b>266,753</b>	<b>(18,362)</b>	<b>37,165</b>	<b>71,202</b>	<b>356,758</b>

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

### Issued and paid up capital

As at 30 June 2012, the Company's issued and paid up capital excluding treasury shares comprises 69,925,524 (30 June 2011: 69,790,415) ordinary shares.

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

### Employee share options plan

During the fourth 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 (Q4 FY2011: Nil).

As at 30 June 2012, there were 3,746,950 (30 June 2011: 5,226,804) 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 fourth quarter of FY2012, the Company issued 281,809 treasury shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q4 FY2011: 150,310).

As at 30 June 2012, there were 1,098,316 (30 June 2011: 1,643,442) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan. There were 111,441 shares that lapsed under the Employee Performance Share Plan in Q4 FY2012.

### Treasury shares

As at 30 June 2012, the Company held 5,074,476 (30 June 2011: 5,209,585) treasury shares against 69,925,524 (30 June 2011: 69,790,415) issued ordinary shares excluding treasury shares.

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

	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	<b>2011</b>
Balance at beginning of period	5,356,285	5,359,895
Issue for Employee Performance Share Plan	(281,809)	(150,310)
Balance at end of period	<u>5,074,476</u>	<u>5,209,585</u>

## 6 GROUP BORROWINGS

	GROUP	
	30 June 2012 US\$'000	30 June 2011 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	
	30 June 2012 US\$	30 June 2011 US\$	30 June 2012 US\$	30 June 2011 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	2.12	3.47	4.50	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 fourth quarter of FY2012 decreased by 22% compared to the same quarter in FY2011, and net sales for FY2012 decreased by 17% compared to FY2011. Revenue was lower in the fourth quarter and FY2012 due to the difficult and uncertain market conditions for the Group's products, in the midst of global economic uncertainties, particularly the ongoing Eurozone debt crisis, which impacted sales across all three geographical regions. The decrease in sales in FY2012 across the three geographical regions were 13%, 26% and 18% in Asia Pacific, the Americas and Europe regions, respectively.

#### **Gross Profit**

Gross profit margin was 14% in the fourth quarter of FY2012 compared to 7% in the fourth quarter of FY2011. Gross profit margin in the fourth quarter of FY2012 continued to be affected by the difficult market conditions, particularly for the personal digital entertainment products. Gross profit margin was lower in the fourth quarter of FY2011 due primarily to restructuring charges of US\$4.2 million included in cost of goods sold as a result of the Group's restructuring exercise undertaken during the quarter (see below). The restructuring charges comprised mainly employee severance costs, inventory write-downs and other charges relating to discontinuance of certain businesses.

Gross profit margin was 19% in FY2012 compared to 21% FY2011. Gross profit margin for FY2012 was lower due primarily to higher write-down of inventories.

#### **Net Loss**

Net loss for the fourth quarter of FY2012 was US\$19.0 million compared to net loss of US\$19.7 million in the fourth quarter of FY2011. Despite the decrease in sales, operating results in the fourth quarter of FY2012 have improved due to reduction in operating expenses by US\$14.1 million compared to the fourth quarter of FY2011 as a result of the cost cutting actions taken in FY2011. Net loss in the fourth quarter of FY2012 was also partly due to other losses (net) of US\$5.9 million (as explained below), compared to other gains (net) of US\$5.1 million in the fourth quarter of FY2011.

Net loss for the fourth quarter of FY2011 was US\$19.7 million. The Group undertook a restructuring exercise in the fourth quarter of FY2011 including worldwide headcount reductions as well as streamlining of certain businesses and product categories. The total restructuring charges were US\$10.4 million, of which US\$4.2 million was charged to cost of goods sold, US\$2.2 million to selling, general and administrative expenses and US\$4.0 million to research and development expense.

Net loss for FY2012 was US\$83.9 million compared to US\$47.1 million in FY2011. Sales in FY2012 have decreased and gross profit was lower by US\$12.2 million compared to FY2011, but operating results for the Group in FY2012 have improved due to a decrease in operating expenses by US\$41.8 million compared to FY2011 as a result of the cost cutting actions taken in FY2011. Despite the improvement in operating results, the Group's results in FY2012 were negatively impacted by other losses (net) of US\$32.5 million (as explained below), compared to other gains (net) of US\$27.5 million in FY2011.

Selling, general and administrative expenses in the fourth quarter and full year of FY2012 decreased by 34% and 24%, respectively, compared to the same periods in the prior year. The decrease in selling, general and administrative expenses was due mainly to a reduction in sales and a result of the cost cutting actions taken in FY2011.

Research and development expenses in the fourth quarter and full year of FY2012 decreased by 52% and 40%, respectively, compared to the same periods in the prior 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\$0.8 million and US\$3.9 million in the fourth quarter and full year of FY2012, respectively, compared to US\$1.9 million and US\$7.6 million in the same periods in the prior year. Depreciation and amortization was lower in the fourth quarter and full year of FY2012 due mainly to disposal of a wholly-owned

manufacturing subsidiary in China, Creative Technology (Qingdao) Ltd, in the fourth quarter of FY2011 and assets being fully depreciated.

Other losses (net) of US\$5.9 million in the fourth quarter of FY2012 were due mainly to foreign exchange losses of US\$2.2 million, impairment loss on property and equipment of US\$2.5 million and impairment loss on unutilized building facilities of US\$3.6 million, offset partially by gain on disposal of investments of US\$2.8 million. The impairment loss on property and equipment of US\$2.5 million was a charge to write down the book value of a building owned by a subsidiary in Ireland to its estimated net realizable value. The impairment loss on unutilized building facilities of US\$3.6 million was a charge taken for the committed rental and related costs of the unutilized space in the Group's headquarters building in Singapore arising from the restructuring exercise and headcount reduction in FY2011. Gain on disposal of investments of US\$2.8 million was due to the Group's divestment of its 51% interest in a subsidiary, Grandeye Limited. Other gains (net) of US\$5.1 million in the fourth quarter of FY2011 were due mainly to foreign exchange gains of US\$5.2 million.

Other losses (net) of US\$32.5 million in FY2012 were due mainly to impairment loss on property and equipment and intangible assets of US\$18.1 million, which included US\$15.6 million of impairment charges by a subsidiary, QMax Communications Pte Ltd ("QMax"), for its wireless broadband network in Singapore (see below) and a US\$2.5 million impairment charge on a building owned by a subsidiary in Ireland, provisions of US\$6.5 million for commitments for other expenditures and obligations of the wireless broadband project by QMax (see below), US\$8.1 million foreign exchange loss, US\$3.6 million impairment loss on unutilized building facilities and US\$3.4 million impairment loss on investments due to adverse business conditions in certain investee companies, offset partially by a US\$7.1 million net gain on disposal of investments of which US\$3.8 million was pertaining to a gain on disposal of an associated company and a US\$2.8 million gain on the disposal of a subsidiary company.

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 gave 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 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\$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\$27.5 million in FY2011 were due mainly to exchange gains of US\$25.3 million and gains on disposal of investments of US\$2.6 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 fourth quarter and the full year of FY2012 was due mainly to the depreciation of the Singapore dollar and Euro against the US dollar. The exchange gains in the fourth quarter and full year of FY2011 were due mainly to the appreciation of the Singapore dollar and Euro against the US dollar.

Income tax expense was US\$0.3 million in FY2012. Income tax credit of US\$4.8 million in FY2011 was due mainly to a US\$3.3 million write back of deferred tax liability and a US\$2.0 million write back of tax provision. Deferred tax liability of US\$3.0 million was previously provided for the tax exposure of a subsidiary company. The amount was written back in the fourth quarter of FY2011 as the Group had disposed of the subsidiary company in FY2011 and is no longer liable to its tax exposure. Tax provision of US\$2.0 million pertaining to open years of assessment were finalized and written back by the Company in the fourth quarter of FY2011.

## **BALANCE SHEETS**

The decrease in trade receivables, inventories and trade payables were due mainly to the lower level of sales. Property and equipment held for sale of US\$5.0 million relates to a property owned by a subsidiary in the United States, which was sold subsequent to the financial year ended 30 June 2012 for net proceeds of approximately US\$6.0 million. The decrease in other current assets was due mainly to a decrease in security deposits and prepayments and a US\$3.6 million impairment charge for the committed rental and related costs of the unutilized building facilities of the Group's headquarters office in Singapore. The decrease in financial assets, available-for-sale as at 30 June 2012 was due mainly to a US\$6.9 million fair value change on revaluation of investments as a result of the decline in global stock markets in the first quarter of FY2012 and a US\$3.4 million impairment loss on investments. Increase in other non-current receivables was due to loan to associated company. The decrease in property and equipment was due mainly to a US\$12.2 million impairment charge on equipment for the QMax wireless broadband project (as explained above), a US\$2.5 million charge to write down the book value of a building owned by a subsidiary in Ireland to its estimated net realizable value and a US\$5.0 million reclassification from property and equipment to property and equipment held for sales. The decrease in intangible assets was due mainly to the impairment of goodwill and licenses of US\$3.4 million relating to the QMax wireless broadband project and a US\$2.0 million reduction in goodwill due to the disposal of a subsidiary company (Grandeye Limited). The decrease in other non-current assets was due mainly to the utilization of security deposits for the payment of the Group's headquarters office building rental. The decrease in accrued liabilities and provisions was due mainly to the lower level of operating activities offset partially by provisions for commitments for other expenditures and obligations pertaining to the QMax wireless broadband project.

## **CONSOLIDATED STATEMENTS OF CASH FLOWS**

Net cash used in operating activities of US\$22.8 million in FY2012 (FY2011: US\$62.9 million) was due mainly to net loss for the period offset partially by reductions in trade receivables, inventories and other assets and receivables, as explained above.

Net cash provided by investing activities of US\$0.8 million in FY2012 (FY2011: US\$3.9 million net cash used in investing activities) was due mainly to purchase of equipment and additional investment costs, offset partially by proceeds from disposal of investments in an associated company and subsidiary.

Net cash used in financing activities of US\$3.1 million in FY2012 (FY2011: US\$5.2 million) was due mainly to dividends paid to equity holders of the Company.

## **13 VARIANCE FROM PROSPECT STATEMENT**

In the prospect statement disclosed in the Group's announcement of results for the third quarter of FY2012, the Group has stated that it "expects no significant variations in revenue from the current levels". The Group has announced on 29 June 2012 in its financial update for the fourth quarter of FY2012 that revenue for the fourth quarter of FY2012 came in below target, due primarily to lower than expected demand in Europe resulting from the ongoing Eurozone debt crisis.

## **14 PROSPECTS**

For the current financial year, the global economic environment remains highly uncertain, particularly with the ongoing Eurozone debt crisis, and 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

(a) Current Financial Year Reported On

The Directors are pleased to recommend a tax exempt one-tier final dividend of S\$0.05 per share (2011: S\$0.05) in respect of the financial year ended 30 June 2012 for approval by shareholders at the next Annual General Meeting to be convened.

Name of Dividend	Final
Dividend type	Cash
Dividend per share	S\$0.05
Tax rate	Tax exempt

(b) Corresponding Period of the Immediately Preceding Financial Year

A tax exempt one-tier final dividend of S\$0.05 per share was paid in the second quarter of FY2012.

(c) Date Payable

The payment date for the proposed final dividend will be announced after the Annual General Meeting.

(d) Books Closure Date

Book closure will be announced at a later date for the preparation of dividend payment.

(e) Total Annual Dividend

	FY2012 US\$'000	FY2011 US\$'000
Ordinary final dividend	2,789	2,775
Total	2,789	2,775

## 16 SEGMENTAL REPORTING

	ASIA PACIFIC US\$'000	THE AMERICAS US\$'000	EUROPE US\$'000	TOTAL US\$'000
<b>GROUP</b>				
<b>2012</b>				
<b>Sales</b>	95,979	32,360	63,444	191,783
<b>(Loss) gain after total expenses</b>	(52,705)	1,805	1,587	(49,313)
Other income	907	2	10	919
Other (losses) gains, net	(25,545)	92	(7,051)	(32,504)
Share of loss of associated companies	(2,643)	-	-	(2,643)
Interest expense	-	-	(43)	(43)
(Loss) profit before income tax	(79,986)	1,899	(5,497)	(83,584)
Income tax (expense) credit	(318)	14	(8)	(312)
<b>Net (loss) profit</b>	(80,304)	1,913	(5,505)	(83,896)
<b>Other segment items</b>				
Additions to				
- property and equipment	5,220	30	35	5,285
Depreciation	2,817	338	469	3,624
Amortization	210	-	59	269
Impairment of financial assets, available-for sale	(3,417)	-	-	(3,417)
Impairment loss on property and equipment and intangible assets	(15,639)	-	(2,500)	(18,139)
Impairment loss on unutilized building facilities	(3,598)	-	-	(3,598)
Provisions for commitments and obligations	(6,489)	-	-	(6,489)
<b>Segment assets</b>	187,984	17,646	28,655	234,285
<b>Segment liabilities</b>	59,051	15,931	10,873	85,855
<b>GROUP</b>				
<b>2011</b>				
<b>Sales</b>	110,088	43,543	77,394	231,025
<b>Loss after total expenses</b>	(77,169)	(1,372)	(355)	(78,896)
Other income	727	3	4	734
Other gains (losses), net	25,053	(10)	2,412	27,455
Share of loss of associated companies	(1,124)	-	-	(1,124)
Interest expense	-	-	(72)	(72)
(Loss) profit before income tax	(52,513)	(1,379)	1,989	(51,903)
Income tax credit (expense)	5,233	122	(595)	4,760
<b>Net (loss) profit</b>	(47,280)	(1,257)	1,394	(47,143)
<b>Other segment items</b>				
Additions to				
- property and equipment	9,916	8	114	10,038
Depreciation	6,182	421	508	7,111
Amortization	403	-	59	462
Impairment of financial assets, available-for sale	(728)	-	-	(728)
<b>Segment assets</b>	277,513	23,112	41,380	342,005
<b>Segment liabilities</b>	66,077	18,218	15,688	99,983

Summary of net sales by product category:

	<b>GROUP</b>	
	<b>30 June 2012 US\$'000</b>	<b>30 June 2011 US\$'000</b>
Personal Digital Entertainment	30,322	55,842
Audio	38,835	43,861
Speakers and Headphones	105,063	98,420
All Other Products	17,563	32,902
	<u>191,783</u>	<u>231,025</u>

## 17 INTERESTED PERSON TRANSACTIONS

The Group has not obtained a general mandate from shareholders for Interested Person Transactions.

## 18 REPORT OF PERSONS OCCUPYING MANAGERIAL POSITIONS WHO ARE RELATED TO A DIRECTOR, CHIEF EXECUTIVE OFFICER OR SUBSTANTIAL SHAREHOLDER

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year the position was held	Details of changes in duties and position held, if any, during the year
Low Ting Pong	64	Brother-in-law of Mr. Sim Wong Hoo, Chairman, Chief Executive Officer and substantial shareholder.	Senior Vice President, HQ Services since 1999. Responsible for overseeing the facility and related services.	Nil.

BY ORDER OF THE BOARD

NG KEH LONG  
COMPANY SECRETARY  
8 August 2012