

CREATIVE TECHNOLOGY LTD

SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2012 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2012

1 CONSOLIDATED INCOME STATEMENT

	GROUP		GROUP	
	Three months ended 31 December		Half year ended 31 December	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
Sales, net	65,553	59,547	101,289	109,903
Cost of goods sold	34,633	47,429	62,164	88,879
Gross profit	30,920	12,118	39,125	21,024
Expenses:				
Selling, general and administrative	(10,377)	(11,779)	(20,158)	(25,598)
Research and development	(8,149)	(9,557)	(15,736)	(21,959)
Total expenses	(18,526)	(21,336)	(35,894)	(47,557)
Other income	133	58	259	248
Other gains (losses), net	26,297	(23,621)	31,156	(34,978)
Share of losses of associated companies	(643)	(996)	(852)	(1,969)
Interest expense	--	(10)	--	(21)
Profit (loss) before income tax	38,181	(33,787)	33,794	(63,253)
Income tax expense	(59)	(77)	(150)	(178)
Net profit (loss)	38,122	(33,864)	33,644	(63,431)
Attributable to:				
Equity holders of the Company	38,112	(33,855)	33,656	(63,458)
Non-controlling interests	10	(9)	(12)	27
Earnings (loss) per share attributable to equity holders of the Company				
- Basic (US\$ per share)	0.54	(0.49)	0.48	(0.91)
- Diluted (US\$ per share)	0.54	(0.49)	0.48	(0.91)

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

	GROUP			
	Three months ended		Half year ended	
	31 December		31 December	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
Depreciation and amortization	(376)	(673)	(670)	(2,372)
Write-off/write-down for inventory obsolescence	(355)	(2,148)	(484)	(6,490)
Impairment loss on investments	(50)	(40)	(58)	(3,093)
Gain on disposal of investments	26,773	-	26,773	-
(Loss) gain on disposal of property and equipment	-	(58)	810	(62)
Foreign exchange (loss) gain	(428)	(1,488)	3,604	(10,185)
Impairment loss on property and equipment and intangible assets	-	(15,639)	-	(15,639)
Provisions for commitments and obligations	-	(6,489)	-	(6,489)

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			
	Three months ended		Half year ended	
	31 December		31 December	
	2012	2011	2012	2011
	US\$'000	US\$'000	US\$'000	US\$'000
Net profit (loss)	38,122	(33,864)	33,644	(63,431)
Other comprehensive income:				
Fair value gains (losses) of financial assets, available-for-sale:				
Fair value gains (losses)	2,031	423	1,665	(5,874)
Reclassification	(60)	-	(60)	-
Total comprehensive income (loss) for the period	<u>40,093</u>	<u>(33,441)</u>	<u>35,249</u>	<u>(69,305)</u>
Attributable to:				
Shareholders of the Company	40,083	(33,432)	35,261	(69,332)
Non-controlling interests	10	(9)	(12)	27
Total comprehensive income (loss) for the period	<u>40,093</u>	<u>(33,441)</u>	<u>35,249</u>	<u>(69,305)</u>

3 BALANCE SHEETS

	Group		Company	
	31 December 2012 US\$'000	30 June 2012 US\$'000	31 December 2012 US\$'000	30 June 2012 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	170,308	131,432	149,458	117,457
Trade receivables	22,661	18,841	5,842	6,294
Amounts due from subsidiaries	-	-	53,363	41,803
Inventories	24,722	27,822	10,396	11,052
Property and equipment held for sale	-	4,991	-	-
Other current assets	7,281	12,732	1,389	1,567
	224,972	195,818	220,448	178,173
Non-current assets:				
Financial assets, available-for-sale	28,198	26,651	-	-
Other non-current receivables	236	1,088	-	-
Amounts due from subsidiaries	-	-	157,771	199,321
Investments in subsidiaries	-	-	27,290	27,290
Property and equipment	6,582	7,427	383	483
Other non-current assets	2,473	3,301	1,370	1,193
	37,489	38,467	186,814	228,287
Total assets	262,461	234,285	407,262	406,460
LIABILITIES				
Current liabilities:				
Trade payables	13,167	13,844	8,376	8,586
Amounts due to subsidiaries	-	-	44,014	36,590
Accrued liabilities and provisions	49,992	53,367	24,503	24,692
Current income tax liabilities	715	742	-	48
	63,874	67,953	76,893	69,916
Non-current liabilities:				
Amounts due to subsidiaries	-	-	25,163	21,669
Deferred income tax liabilities	17,902	17,902	-	-
	17,902	17,902	25,163	21,669
Total liabilities	81,776	85,855	102,056	91,585
NET ASSETS	180,685	148,430	305,206	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	10,263	8,658	-	-
Other reserves	64,272	64,433	36,808	36,969
Retained earnings	(143,183)	(173,980)	19,295	28,829
	180,455	148,188	305,206	314,875
Non-controlling interests	230	242	-	-
Total equity	180,685	148,430	305,206	314,875

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Half year ended 31 December 2012 US\$'000	2011 US\$'000
Cash flows from operating activities:		
Net profit (loss)	33,644	(63,431)
Adjustments for:		
Income tax expense	150	178
Depreciation of property and equipment	670	2,133
Amortisation of intangible assets	--	239
Employee share-based expenses	(135)	626
Share of loss of associated companies	852	1,969
(Gain) loss on disposal of property and equipment	(810)	62
Impairment loss on property and equipment	--	12,248
Impairment loss on intangible assets	--	3,391
Impairment loss of financial assets, available-for-sale	58	3,093
Gain on disposal of financial assets, available-for-sale	(23)	--
Gain on disposal of investments in subsidiary	(26,750)	--
Currency translation (gains) losses	(3,505)	8,292
Dividend income	(147)	(123)
Interest income	(112)	(125)
Interest expense	--	21
	<u>3,892</u>	<u>(31,427)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(3,820)	(3,135)
Inventories	3,100	11,859
Other assets and receivables	5,894	7,147
Trade payables	(674)	2,820
Accrued liabilities and provisions	(4,094)	2,753
Cash provided by (used in) operations	<u>4,298</u>	<u>(9,983)</u>
Interest received	107	127
Income tax paid	(202)	(204)
Net cash provided by (used in) operating activities	<u>4,203</u>	<u>(10,060)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(94)	(5,194)
Proceeds from sale of property and equipment	5,913	26
Proceeds from sale of subsidiary (net of cash disposed of)	23,501	--
Proceeds from sale of financial assets, available-for-sale	23	481
Purchase of financial assets, available-for-sale	--	(1,000)
Dividend received	147	123
Net cash provided by (used in) investing activities	<u>29,490</u>	<u>(5,564)</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	30,834	(18,721)
Cash and cash equivalents at beginning of financial year	131,432	162,958
Effects of currency translation on cash and cash equivalents	3,542	(8,358)
Cash and cash equivalents at end of the period	<u>165,808</u>	<u>135,879</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	-	-	-	(135)	-	(135)	-	(135)
Dividends paid	-	-	-	-	(2,859)	(2,859)	-	(2,859)
Total comprehensive income (loss) for the period	-	-	1,605	-	33,656	35,261	(12)	35,249
Balance at 31 December 2012	266,753	(17,650)	10,263	64,272	(143,183)	180,455	230	180,685
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	-	-	-	626	-	626	-	626
Dividends paid	-	-	-	-	(2,775)	(2,775)	-	(2,775)
Total comprehensive income (loss) for the period	-	-	(5,874)	-	(63,458)	(69,332)	27	(69,305)
Balance at 31 December 2011	266,753	(18,658)	9,711	65,227	(153,474)	169,559	685	170,244

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	-	-	(135)	-	(135)
Dividends paid	-	-	-	(2,859)	(2,859)
Total comprehensive loss for the period	-	-	-	(6,675)	(6,675)
Balance at 31 December 2012	266,753	(17,650)	36,808	19,295	305,206
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	-	-	626	-	626
Dividends paid	-	-	-	(2,775)	(2,775)
Total comprehensive loss for the period	-	-	-	(21,019)	(21,019)
Balance at 31 December 2011	266,753	(18,658)	37,763	47,408	333,266

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

Issued and paid up capital

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

Employee share options plan

During the second 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 (Q2 FY2012: Nil).

As at 31 December 2012, there were 3,681,972 (31 December 2011: 4,065,517) 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 second 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 (Q2 FY2012: Nil).

As at 31 December 2012, there were 905,878 (31 December 2011: 1,504,691) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 31 December 2012, the Company held 5,066,976 (31 December 2011: 5,356,285) treasury shares against 69,933,024 (31 December 2011: 69,643,715) issued ordinary shares excluding treasury shares.

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

	Three months ended	
	31 December	
	2012	2011
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 December 2012 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 December 2012 US\$	30 June 2012 US\$	31 December 2012 US\$	30 June 2012 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	2.58	2.12	4.36	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 second quarter of FY2013 increased by 10% compared to the same quarter in FY2012, and net sales for the first half year of FY2013 decreased by 8% compared to the same period in FY2012. Revenue was higher in the second quarter of FY2013 due to a US\$20.0 million licensing income received in relation to a license agreement between a wholly owned subsidiary, ZiiLABS Inc., Ltd (“ZiiLABS”) and Intel Corporation (“Intel”) for the licensing of certain technologies relating to high performance workstation graphic chips. Excluding the US\$20.0 million licensing income from Intel, revenue for the second quarter was US\$45.6 million and first half year of FY2013 was US\$81.3 million. Comparing to the same corresponding periods in FY2012, revenue for the second quarter and first half year of FY2013 was lower by 24% and 26%, respectively, due to the uncertain global economic conditions which continued to affect the sales of the Group’s products.

Gross Profit

Gross profit margin including the US\$20.0 million licensing income was 47% in the second quarter of FY2013 and 39% in the first half year of FY2013. Excluding this licensing income, gross profit margin was 24% in the second quarter and first half year of FY2013 compared to 20% in the second quarter of FY2012 and 19% in the first half year of FY2012. Gross profit margin in the second quarter and first half year 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 profit of US\$38.1 million in the second quarter of FY2013 compared to a net loss of US\$33.9 million in the second quarter of FY2012. The improvement in net results was due mainly to the US\$20.0 million licensing income and other gains (net) of US\$26.3 million included in the net profit for the second quarter of FY2013. Net loss for the second quarter of FY2012 included other losses (net) of US\$23.6 million.

Net profit for the first half year of FY2013 was US\$33.6 million compared to a net loss of US\$63.4 million in the first half year of FY2012. Improvement in net results for the first half year of FY2013 was due mainly to the US\$20.0 million licensing income and other gains (net) of US\$31.2 million included in the net profit, as well as a decrease in operating expenses by US\$11.7 million. Net loss in the first half year of FY2012 included other losses (net) of US\$35.0 million.

Selling, general and administrative expenses in the second quarter and first half year of FY2013 decreased by 12% and 21%, 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 second quarter and first half year of FY2013 decreased by 15% and 28%, 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. 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\$0.7 million in the second quarter and first half year of FY2013, respectively, compared to US\$0.7 million and US\$2.4 million in the same periods in the prior year. Depreciation and amortization was lower in the second quarter and first half year of FY2013 due mainly to assets being fully depreciated.

Other gains (net) of US\$26.3 million in the second quarter of FY2013 comprised mainly a US\$26.7 million gain on divestment of ZiiLABS Limited, a wholly-owned subsidiary in the United Kingdom. In the second quarter of FY2013, ZiiLABS divested its equity interest in ZiiLABS Limited for a cash consideration of US\$31.2 million.

Other losses (net) of US\$23.6 million in the second quarter of FY2012 comprised mainly 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”). The wireless broadband project was suspended and 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.

Other gains (net) of US\$31.2 million in the first half year of FY2013 comprised mainly a US\$26.7 million gain on divestment of ZiiLABS Limited, foreign exchange gains of US\$3.6 million and gain on disposal of property and equipment of US\$0.8 million pertaining to the disposal of a property owned by a subsidiary in the United States. Other losses (net) of US\$35.0 million in the first half year of FY2012 included 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 as explained above, US\$10.2 million foreign exchange losses and a US\$3.1 million impairment loss on investments due to adverse business conditions in certain investee companies.

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 profit (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 second quarter of FY2013 was due mainly to the depreciation of Japanese Yen against the US dollar. The exchange gain in the first half year of FY2013 was due mainly to the appreciation of Singapore dollar against the US dollar in the first quarter of FY2013. The exchange loss in the second quarter of FY2012 was due mainly to the depreciation of Euro against the US dollar. The exchange loss for the first half year of FY2012 was due mainly to the depreciation of Euro against the US dollar during that period, as well as the depreciation of Singapore dollar against the US dollar in the first quarter of FY2012.

BALANCE SHEETS

The increase in cash and cash equivalents was due mainly to proceeds of US\$31.2 million from the divestment of 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 increase in trade receivables was due mainly to higher sales in the holiday season in the second quarter of FY2013. The decrease in inventories was in line with the expected lower level of sales after the holiday season. 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 the 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\$4.2 million in the first half year of FY2013 (first half year of FY2012: US\$10.1 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 an increase in trade receivables and a decrease in accrued liabilities and provisions.

Net cash provided by investing activities of US\$29.5 million in the first half year of FY2013 (first half year of FY2012: US\$5.6 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 first half year of FY2013 (first half year of FY2012: US\$3.1 million) was due 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 first quarter of FY2013, the Group has stated that its "revenue is expected to be higher in the holiday season for this quarter compared to the current level and the Group expects to report a lower operating loss". The Group has announced on 19 November 2012 in its financial update for the second quarter of FY2013 that the Group expects to recognize an additional licensing income of US\$20 million in the second quarter of FY2013 relating to a licensing agreement entered into with Intel and with this licensing income, the Group expects to report an operating profit in the second quarter of FY2013.

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. Revenue is expected to be lower in this current quarter and the Group expects to report an operating loss.

15 DIVIDEND

No dividends have been recommended in the second 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
29 JANUARY 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 second quarter and half year ended 31 December 2012 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director