CREATIVE TECHNOLOGY LTD

FIRST QUARTER ENDED 30 SEPTEMBER 2013
FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2013

1 CONSOLIDATED INCOME STATEMENT

	GROUP	
	Three months ended 30 September	
	2013	2012
	US$'000	US$'000
Sales, net	30,402	35,736
Cost of goods sold	(21,977)	(27,531)
Gross profit	**8,425**	**8,205**
Expenses:		
Selling, general and administrative	(9,007)	(9,781)
Research and development	(6,384)	(7,587)
Total expenses	**(15,391)**	**(17,368)**
Other income	57	126
Other gains, net	1,398	4,859
Share of losses of associated companies	--	(209)
Loss before income tax	**(5,511)**	**(4,387)**
Income tax expense	(36)	(91)
Net loss	**(5,547)**	**(4,478)**
Attributable to:		
Equity holders of the Company	(5,540)	(4,455)
Non-controlling interests	(7)	(23)
Loss per share for loss attributable to equity holders of the Company		
- Basic (US$ per share)	(0.08)	(0.06)
- Diluted (US$ per share)	(0.08)	(0.06)

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

	GROUP	
	Three months ended 30 September	
	2013 US$'000	2012 US$'000
Write-off/write-down for inventory obsolescence	(938)	(129)
Gain on disposal of property and equipment	-	810
Foreign exchange gain	1,329	4,032

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP	
	Three months ended 30 September	
	2013 US$'000	2012 US$'000
Net loss	(5,547)	(4,478)
Other comprehensive income:		
Fair value gains (losses) of financial assets, available-for-sale:		
Fair value gains (losses)	34	(366)
Reclassification	-	-
Total comprehensive loss for the period	(5,513)	(4,844)
Attributable to:		
Shareholders of the Company	(5,506)	(4,821)
Non-controlling interests	(7)	(23)
Total comprehensive loss for the period	(5,513)	(4,844)

3 BALANCE SHEETS

	Group		Company	
	30 September 2013 US$'000	30 June 2013 US$'000	30 September 2013 US$'000	30 June 2013 US$'000
ASSETS				
Current assets:				
Cash and cash equivalents	152,763	163,574	139,649	150,804
Trade receivables	18,537	14,728	6,781	4,748
Amounts due from subsidiaries	-	-	48,297	42,801
Inventories	30,595	25,353	14,981	11,369
Other current assets	1,929	2,178	489	656
	203,824	**205,833**	**210,197**	**210,378**
Non-current assets:				
Financial assets, available-for-sale	22,375	22,654	-	-
Amounts due from subsidiaries	-	-	146,953	146,659
Investments in subsidiaries	-	-	28,390	28,390
Property and equipment	6,829	6,892	671	705
Other non-current assets	99	1,827	-	1,729
	29,303	**31,373**	**176,014**	**177,483**
Total assets	**233,127**	**237,206**	**386,211**	**387,861**
LIABILITIES				
Current liabilities:				
Trade payables	15,443	13,753	11,434	9,460
Amounts due to subsidiaries	-	-	11,299	10,940
Accrued liabilities and provisions	44,158	44,496	27,195	26,576
Current income tax liabilities	722	706	-	-
	60,323	**58,955**	**49,928**	**46,976**
Non-current liabilities:				
Amounts due to subsidiaries	-	-	21,748	21,173
Deferred income tax liabilities	15,202	15,202	-	-
	15,202	**15,202**	**21,748**	**21,173**
Total liabilities	**75,525**	**74,157**	**71,676**	**68,149**
NET ASSETS	**157,602**	**163,049**	**314,535**	**319,712**
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,527)	(16,606)	(16,527)	(16,606)
Fair value reserve	9,519	9,485	-	-
Other reserves	63,331	63,351	35,867	35,887
Retained earnings	(165,703)	(160,170)	28,442	33,678
	157,373	162,813	314,535	319,712
Non-controlling interests	229	236	-	-
Total equity	**157,602**	**163,049**	**314,535**	**319,712**

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Three months ended 30 September	
	2013	2012
	US$'000	US$'000
Cash flows from operating activities:		
Net loss	(5,547)	(4,478)
Adjustments for:		
Income tax expense	36	91
Depreciation of property and equipment	120	294
Employee share-based expenses	59	161
Share of loss of associated companies	--	209
Gain on disposal of property and equipment	--	(810)
Impairment loss of financial assets, available-for-sale	1	8
Currency translation gain	(1,177)	(3,894)
Dividend income	--	(70)
Interest income	(57)	(56)
	(6,565)	(8,545)
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(3,809)	--
Inventories	(3,514)	(3,646)
Other assets and receivables	259	3,087
Trade payables	1,690	529
Accrued liabilities and provisions	(338)	(3,052)
Cash used in operations	(12,277)	(11,627)
Interest received	47	54
Income tax paid	(39)	(143)
Net cash used in operating activities	**(12,269)**	**(11,716)**
Cash flows from investing activities:		
Purchase of property and equipment	(57)	(72)
Proceeds from sale of property and equipment	--	5,913
Proceeds from sale of financial assets, available-for-sale	562	--
Purchase of financial assets, available-for-sale	(250)	--
Dividend received	--	70
Net cash provided by investing activities	**255**	**5,911**
Cash flows from financing activities:		
Return of unclaimed dividends	7	8
Net cash provided by financing activities	**7**	**8**
Net decrease in cash and cash equivalents	**(12,007)**	**(5,797)**
Cash and cash equivalents at beginning of financial year	159,074	131,432
Effects of currency translation on cash and cash equivalents	1,196	3,909
Cash and cash equivalents at end of the period	**148,263**	**129,544**

5 STATEMENTS OF CHANGES IN EQUITY

5(a) Statements of Changes in Equity for the Group

	Share Capital US$'000	Treasury Shares US$'000	Fair Value Reserve US$'000	Other Reserves US$'000	Retained Earnings US$'000	Total US$'000	Non-controlling Interests US$'000	Total Equity US$'000
FY2014								
Balance at 1 July 2013	266,753	(16,606)	9,485	63,351	(160,170)	162,813	236	163,049
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	79	-	(79)	-	-	-	-
Employee share-based expense	-	-	-	59	-	59	-	59
Unclaimed dividend	-	-	-	-	7	7		7
Total comprehensive income (loss) for the period	-	-	34	-	(5,540)	(5,506)	(7)	(5,513)
Balance at 30 September 2013	**266,753**	**(16,527)**	**9,519**	**63,331**	**(165,703)**	**157,373**	**229**	**157,602**
FY2013								
Balance at 1 July 2012	266,753	(17,676)	8,658	64,433	(173,980)	148,188	242	148,430
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	26	-	(26)	-	-	-	-
Employee share-based expense	-	-	-	161	-	161	-	161
Unclaimed dividend	-	-	-	-	8	8		8
Total comprehensive income (loss) for the period	-	-	(366)	-	(4,455)	(4,821)	(23)	(4,844)
Balance at 30 September 2012	**266,753**	**(17,650)**	**8,292**	**64,568**	**(178,427)**	**143,536**	**219**	**143,755**

5(b) Statements of Changes in Equity of the Company

	Share Capital US$'000	Treasury Shares US$'000	Other Reserves US$'000	Retained Earnings US$'000	Total Equity US$'000
FY2014					
Balance at 1 July 2013	266,753	(16,606)	35,887	33,678	319,712
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	79	(79)	-	-
Employee share-based expense	-	-	59	-	59
Unclaimed dividend	-	-	-	7	7
Total comprehensive loss for the period	-	-	-	(5,243)	(5,243)
Balance at 30 September 2013	**266,753**	**(16,527)**	**35,867**	**28,442**	**314,535**
FY2013					
Balance at 1 July 2012	266,753	(17,676)	36,969	28,829	314,875
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	26	(26)	-	-
Employee share-based expense	-	-	161	-	161
Unclaimed dividend	-	-	-	8	8
Total comprehensive loss for the period	-	-	-	(449)	(449)
Balance at 30 September 2012	**266,753**	**(17,650)**	**37,104**	**28,388**	**314,595**

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

Issued and paid up capital

As at 30 September 2013, the Company's issued and paid up capital excluding treasury shares comprises 70,255,400 (30 June 2013: 70,232,900) ordinary shares.

As at 30 September 2013, the Company's issued and paid up share capital was US$266.8 million (30 June 2013: US$266.8 million).

Employee share options plan

During the first quarter of FY2014, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q1 FY2013: Nil).

As at 30 September 2013, there were 3,142,500 (30 September 2012: 3,740,950) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plan.

Employee performance share plan

During the first quarter of FY2014, the Company issued 22,500 treasury shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q1 FY2013: 7,500).

As at 30 September 2013, there were 536,000 (30 September 2012: 1,070,191) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 30 September 2013, the Company held 4,744,600 (30 September 2012: 5,066,976) treasury shares against 70,255,400 (30 September 2012: 69,933,024) issued ordinary shares excluding treasury shares.

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

	Three months ended 30 September	
	2013	**2012**
Balance at beginning of period	4,767,100	5,074,476
Issued for Employee Performance Share Plan	(22,500)	(7,500)
Balance at end of period	4,744,600	5,066,976

6 GROUP BORROWINGS

	GROUP	
	30 September 2013 US$'000	**30 June 2013 US$'000**
Amount repayable:		
In one year or less, or on demand		
Secured	-	-
Unsecured	-	-
	-	-
After one year		
Secured	-	-
Unsecured	-	-
	-	-
Total	-	-

7 NET ASSET VALUE

	GROUP		COMPANY	
	30 September 2013 US$	**30 June 2013 US$**	**30 September 2013 US$**	**30 June 2013 US$**
Net asset value per ordinary share based on issued capital at the end of the period / financial year	2.24	2.32	4.48	4.55

8 AUDIT

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

9 AUDITORS' REPORT

Not applicable.

10 ACCOUNTING POLICIES

Except as disclosed in Item 11 below, the Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 30 June 2013.

11 CHANGES IN ACCOUNTING POLICIES

None.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the first quarter of FY2014 decreased by 15% compared to the same quarter in FY2013. Revenue was lower in the first quarter of FY2014 due to the uncertain and difficult market conditions which continued to affect the sales of the Group's products

Gross Profit

Gross profit margin was 28% in the first quarter of FY2014 compared to 23% in the first quarter of FY2013. The higher gross profit margin in the first quarter of FY2014 was in line with the sales mix. The write-down for inventory obsolescence in the first quarter of FY2014 was for certain existing products following the introduction of new product models.

Net Loss

Net loss for the first quarter of FY2014 was US$5.5 million compared to net loss of US$4.5 million in the first quarter of FY2013. Despite the decrease in sales, there was an improvement in the operating results in the first quarter of FY2014 compared to the first quarter of FY2013 due mainly to the higher gross margin and reduction in operating expenses. Net loss in the first quarter of FY2014 included other gains (net) of US$1.4 million, compared to other gains (net) of US$4.9 million in the first quarter of FY2013.

Selling, general and administrative expenses in the first quarter of FY2014 decreased by 8% compared to the first quarter of FY2013. The decrease in selling, general and administrative expenses was due mainly to lower level of sales.

Research and development expenses in the first quarter of FY2014 decreased by 16% compared to the first quarter of FY2013. The decrease in research and development expenses was due mainly to costs savings resulting from the divestment of a subsidiary company, ZiiLABS Limited, in the second quarter of FY2013.

Other gains (net) of US$1.4 million in the first quarter of FY2014 were due mainly to foreign exchange gain of US$1.3 million. Other gains (net) of US$4.9 million in the first quarter of FY2013 were due mainly to foreign exchange gain of US$4.0 million and gain on disposal of property and equipment of US$0.8 million pertaining mainly to the disposal of a property owned by a subsidiary in the United States.

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 gain in the first quarter of FY2014 was due mainly to the appreciation of these currencies against the US dollar and the exchange gain in the first quarter of FY2013 was due mainly to the significant appreciation of the Singapore dollar against the US dollar.

BALANCE SHEETS

The decrease in cash and cash equivalents was due to net cash used in operating activities (see below). Included in cash and cash equivalents was US$4.5 million cash in an escrow account arising from the divestment of a subsidiary in FY2013 that will be released to the Group between 12 to 18 months after the completion of the divestment in November 2012. The increase in trade receivables was due mainly to seasonal variations. Higher level of inventories as at 30 September 2013 was in anticipation of higher sales in the holiday season. The decrease in other non-current assets was due to a reduction in deferred expenses.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US$12.3 million in the first quarter of FY2014 (Q1 FY2013: US$11.7 million) was due mainly to the operating loss for the period and increase in trade receivables and inventories, offset partially by decrease in trade payables.

Net cash provided by investing activities and financing activities in the first quarter of FY2014 were not material.

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the first quarter of FY2014 as compared to the prospect statement disclosed in the announcement of results for the fourth quarter and full year ended 30 June 2013.

14 PROSPECTS

The Group expects no major improvement in the difficult and uncertain market conditions, and the overall market for the Group's products remains challenging. However, revenue is expected to be higher for the holiday season in this quarter compared to the current level and the Group expects an improvement in operating results for the quarter from the current level.

15 DIVIDEND

No dividends have been recommended in the first quarter of FY2014 and no dividends were recommended or declared for the same period last year.

16 INTERESTED PERSON TRANSACTIONS

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

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
30 OCTOBER 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 first quarter ended 30 September 2013 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director