

CREATIVE TECHNOLOGY LTD

FIRST QUARTER ENDED 30 SEPTEMBER 2015 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2015

1 CONSOLIDATED INCOME STATEMENT

	GROUP		
	Three months ended		
	30 September		
	2015	2014	% change
	US\$'000	US\$'000	+ / (-)
Sales, net	22,511	24,294	(7)
Cost of goods sold	(16,749)	(17,529)	(4)
Gross profit	5,762	6,765	(15)
Expenses:			
Selling, general and administrative	(11,964)	(7,886)	52
Research and development	(5,925)	(5,206)	14
Total expenses	(17,889)	(13,092)	37
Other income	89	47	n.m.
Other gains	--	16	n.m.
Other losses	(1,837)	(3,579)	n.m.
Loss before income tax	(13,875)	(9,843)	41
Income tax expense	(38)	(25)	52
Net loss	(13,913)	(9,868)	41
Attributable to:			
Equity holders of the Company	(13,927)	(9,833)	42
Non-controlling interests	14	(35)	n.m.
Loss per share for loss attributable to equity holders of the Company			
- Basic (US\$ per share)	(0.20)	(0.14)	43
- Diluted (US\$ per share)	(0.20)	(0.14)	43

n.m. - not meaningful

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

	GROUP		
	Three months ended		
	30 September		
2015	2014	% change	
US\$'000	US\$'000	+ / (-)	
Write-off/write-down for inventory obsolescence	(189)	(308)	(39)
Foreign exchange loss	(1,662)	(3,266)	(49)

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP		
	Three months ended		
	30 September		
2015	2014	% change	
US\$'000	US\$'000	+ / (-)	
Net loss	(13,913)	(9,868)	41
Other comprehensive income:			
Fair value (losses) gains of financial assets, available-for-sale:			
Fair value (losses) gains	(2,712)	4,160	n.m.
Reclassification	-	-	n.m.
Total comprehensive loss for the period	<u>(16,625)</u>	<u>(5,708)</u>	191
Attributable to:			
Shareholders of the Company	(16,639)	(5,673)	193
Non-controlling interests	14	(35)	n.m.
Total comprehensive loss for the period	<u>(16,625)</u>	<u>(5,708)</u>	191

3 BALANCE SHEETS

	Group		Company	
	30 September 2015 US\$'000	30 June 2015 US\$'000	30 September 2015 US\$'000	30 June 2015 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	79,186	99,668	74,364	97,373
Trade receivables	11,520	9,782	138	4,290
Amounts due from subsidiaries	-	-	40,071	31,735
Inventories	28,194	28,879	3,067	15,939
Other current assets	1,981	1,320	706	422
	120,881	139,649	118,346	149,759
Non-current assets:				
Financial assets, available-for-sale	15,352	18,239	-	-
Amounts due from subsidiaries	-	-	149,479	145,344
Investments in subsidiaries	-	-	25,453	25,453
Property and equipment	1,241	1,361	312	369
Other non-current assets	183	88	-	-
	16,776	19,688	175,244	171,166
Total assets	137,657	159,337	293,590	320,925
LIABILITIES				
Current liabilities:				
Trade payables	10,622	15,639	1,153	10,409
Amounts due to subsidiaries	-	-	7,277	12,060
Accrued liabilities and provisions	31,539	31,445	19,038	20,451
Current income tax liabilities	635	643	-	-
	42,796	47,727	27,468	42,920
Non-current liabilities:				
Amounts due to subsidiaries	-	-	27,502	27,507
Deferred income tax liabilities	9,902	9,902	-	-
	9,902	9,902	27,502	27,507
Total liabilities	52,698	57,629	54,970	70,427
NET ASSETS	84,959	101,708	238,620	250,498
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve	9,592	12,304	-	-
Other reserves	62,438	62,562	34,974	35,098
Accumulated losses	(237,774)	(223,847)	(46,845)	(35,091)
	84,747	101,510	238,620	250,498
Non-controlling interests	212	198	-	-
Total equity	84,959	101,708	238,620	250,498

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Three months ended 30 September	
	2015	2014
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(13,913)	(9,868)
Adjustments for:		
Income tax expense	38	25
Depreciation of property and equipment	133	206
Employee share-based expenses	(124)	-
Impairment loss of financial assets, available-for-sale	175	312
Currency translation loss	1,897	3,052
Interest income	(89)	(47)
	<u>(11,883)</u>	<u>(6,320)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(1,738)	(1,189)
Inventories	685	456
Other assets and receivables	(753)	(291)
Trade payables	(5,017)	231
Accrued liabilities and provisions	94	(454)
Cash used in operations	<u>(18,612)</u>	<u>(7,567)</u>
Interest received	86	46
Income tax paid	(44)	(27)
Net cash used in operating activities	<u>(18,570)</u>	<u>(7,548)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(13)	(35)
Proceeds from sale of financial assets, available-for-sale	--	1
Purchase of financial assets, available-for-sale	--	(1,250)
Net cash used in investing activities	<u>(13)</u>	<u>(1,284)</u>
Cash flows from financing activities:		
Return of unclaimed dividends	--	5
Net cash provided by financing activities	<u>-</u>	<u>5</u>
Net decrease in cash and cash equivalents	(18,583)	(8,827)
Cash and cash equivalents at beginning of financial year	99,668	124,638
Effects of currency translation on cash and cash equivalents	(1,899)	(3,087)
Cash and cash equivalents at end of the period	<u>79,186</u>	<u>112,724</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	Accumulated Losses US\$'000	Total US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
FY2016								
Balance at 1 July 2015	266,753	(16,262)	12,304	62,562	(223,847)	101,510	198	101,708
Loss for the period	-	-	-	-	(13,927)	(13,927)	14	(13,913)
Other comprehensive loss for the period	-	-	(2,712)	-	-	(2,712)	-	(2,712)
Total comprehensive loss for the period	-	-	(2,712)	-	(13,927)	(16,639)	14	(16,625)
Employee share-based expense	-	-	-	(124)	-	(124)	-	(124)
Total transactions with owners, recognised directly in equity	-	-	-	(124)	-	(124)	-	(124)
Balance at 30 September 2015	266,753	(16,262)	9,592	62,438	(237,774)	84,747	212	84,959
FY2015								
Balance at 1 July 2014	266,753	(16,262)	9,896	62,570	(187,695)	135,262	205	135,467
Loss for the period	-	-	-	-	(9,833)	(9,833)	(35)	(9,868)
Other comprehensive income for the period	-	-	4,160	-	-	4,160	-	4,160
Total comprehensive income (loss) for the period	-	-	4,160	-	(9,833)	(5,673)	(35)	(5,708)
Liquidation of subsidiary	-	-	-	-	-	-	(16)	(16)
Unclaimed dividend	-	-	-	-	5	5	-	5
Total transactions with owners, recognised directly in equity	-	-	-	-	5	5	(16)	(11)
Balance at 30 September 2014	266,753	(16,262)	14,056	62,570	(197,523)	129,594	154	129,748

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
FY2016					
Balance at 1 July 2015	266,753	(16,262)	35,098	(35,091)	250,498
Total comprehensive loss for the period	-	-	-	(11,754)	(11,754)
Employee share-based expense	-	-	(124)	-	(124)
Balance at 30 September 2015	266,753	(16,262)	34,974	(46,845)	238,620
FY2015					
Balance at 1 July 2014	266,753	(16,262)	35,106	4,402	289,999
Total comprehensive loss for the period	-	-	-	(1,416)	(1,416)
Unclaimed dividend	-	-	-	5	5
Balance at 30 September 2014	266,753	(16,262)	35,106	2,991	288,588

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

Issued and paid up capital

As at 30 September 2015, the Company's issued and paid up capital excluding treasury shares comprises 70,331,649 (30 June 2015: 70,331,649) ordinary shares.

As at 30 September 2015, the Company's issued and paid up share capital was US\$266.8 million (30 June 2015: US\$266.8 million).

Employee share options plan

During the first quarter of FY2016, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q1 FY2015: Nil).

As at 30 September 2015, there were 1,941,500 (30 September 2014: 2,130,500) 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 FY2016, the Company did not issue any treasury shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q1 FY2015: Nil).

As at 30 September 2015, there were 251,250 (30 September 2014: 287,250) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 30 September 2015, the Company held 4,668,351 (30 September 2014: 4,668,351) treasury shares against 70,331,649 (30 September 2014: 70,331,649) issued ordinary shares excluding treasury shares.

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

	Three months ended	
	30 September	
	2015	2014
Balance at beginning of period	4,668,351	4,668,351
Issued for Employee Performance Share Plan	-	-
Balance at end of period	<u>4,668,351</u>	<u>4,668,351</u>

6 GROUP BORROWINGS

	GROUP	
	30 September 2015 US\$'000	30 June 2015 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	
	30 September 2015 US\$	30 June 2015 US\$	30 September 2015 US\$	30 June 2015 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.21	1.45	3.39	3.56

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 2015.

11 CHANGES IN ACCOUNTING POLICIES

None.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the first quarter of FY2016 decreased by 7% compared to the same quarter in FY2015. Revenue was lower in the first quarter of FY2016 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 26% in the first quarter of FY2016 compared to 28% in the first quarter of FY2015. Gross profit margin in the first quarter of FY2016 included employee severance charges of US\$0.5 million (see below). Excluding the employee severance charges, gross profit margin was 28%, in line with the sales mix.

Net Loss

Net loss for the first quarter of FY2016 was US\$13.9 million compared to net loss of US\$9.9 million in the first quarter of FY2015. The Group undertook a restructuring exercise in the first quarter of FY2016 to streamline business activities and reduce costs. The restructuring exercise include a reduction in worldwide headcount, incurring total employee severance charges of US\$4.1 million of which US\$0.5 million was charged to cost of goods sold, US\$1.3 million to selling, general and administrative expenses and US\$2.3 million to research and development expenses. Excluding the effect of employee severance charges, net loss for the first quarter of FY2016 was US\$9.8 million. Net loss in the first quarter of FY2016 include other losses of US\$1.8 million in the first quarter of FY2016 compared to US\$3.6 million in the first quarter of FY2015.

Selling, general and administrative expenses in the first quarter of FY2016 increased by 52% compared to the first quarter of FY2015. Excluding the employee severance charges as mentioned above, selling, general and administrative expenses in the first quarter of FY2016 increased by 35% compared to the first quarter of FY2015. The increase in selling, general and administrative expenses was due mainly to an increase in legal expenses for on-going litigation.

Research and development expenses in the first quarter of FY2016 increased by 14% compared to the first quarter of FY2015. Excluding the employee severance charges as mentioned above, research and development expenses in the first quarter of FY2016 decreased by 30% compared to the first quarter of FY2015. The decrease in research and development expenses was due mainly to cost cutting actions taken by management.

Other losses of US\$1.8 million in the first quarter of FY2016 were due mainly to foreign exchange loss of US\$1.7 million. Other losses of US\$3.6 million in the first quarter of FY2015 were due mainly to foreign exchange loss of US\$3.3 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 US dollar and Singapore dollar, with the balance mainly in Euro, British Pound and Japanese Yen. The exchange loss in the first quarter of FY2016 was due mainly to the depreciation of Singapore dollar against the US dollar and the exchange loss in the first quarter of FY2015 was due mainly to the depreciation of Singapore dollar, Euro, Japanese Yen and British Pound against the US dollar.

BALANCE SHEETS

During the restructuring exercise in the first quarter of FY2016 (see above), the Company has transferred certain business activities to a wholly-owned subsidiary company in Singapore, thereby reducing the Company's trade receivables, inventories and trade payables balance as at 30 September 2015 compared to 30 June 2015.

At Group level, the decrease in cash and cash equivalents was due to net cash used in operating activities (see below). The increase in trade receivables was due mainly to seasonal variations. The decrease in financial assets available-for sale was due mainly to fair value loss in revaluation of investments. The trade payables as at September 2015 was lower compared to June 2015. The higher trade payables as at June 2015 was due mainly to a payment cycle crossing over year end closing on 26 June 2015.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$18.6 million in the first quarter of FY2016 (Q1 FY2015: US\$7.5 million) was due mainly to the operating loss for the period and payment of FY2015 trade payables crossed over year end closing on 26 June 2015.

Net cash used in investing activities in the first quarter of FY2016 was not material (Q1 FY2015: US\$1.3 million).

There was no cash used/provided by financing activities in the first quarter of FY2016.

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the first quarter of FY2016 as compared to the prospect statement disclosed in the announcement of results for the fourth quarter and full year ended 30 June 2015.

14 PROSPECTS

The Group expects no significant change in the market conditions and 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.

In addition, the recent settlement of a patent infringement lawsuit by a wholly-owned subsidiary, ZiiLabs Inc., Ltd, is expected to contribute approximately US\$0.23 of earnings per share for the quarter.

15 DIVIDEND

No dividends have been recommended in the first quarter of FY2016 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 2015

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 2015 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director