

CREATIVE TECHNOLOGY LTD

FIRST QUARTER ENDED 30 SEPTEMBER 2016 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2016

1 CONSOLIDATED INCOME STATEMENT

	GROUP		
	Three months ended		
	30 September		
	2016	2015	% change
	US\$'000	US\$'000	+ / (-)
Sales, net	17,252	22,511	(23)
Cost of goods sold	(12,419)	(16,749)	(26)
Gross profit	4,833	5,762	(16)
Expenses:			
Selling, general and administrative	(7,793)	(11,964)	(35)
Research and development	(3,430)	(5,925)	(42)
Total expenses	(11,223)	(17,889)	(37)
Other income	96	89	8
Other gains	651	--	n.m.
Other losses	(192)	(1,837)	(90)
Share of loss of associated companies	(326)	--	n.m.
Loss before income tax	(6,161)	(13,875)	(56)
Income tax expense	(40)	(38)	5
Net loss	(6,201)	(13,913)	(55)
Attributable to:			
Equity holders of the Company	(6,211)	(13,927)	(55)
Non-controlling interests	10	14	(29)
Loss per share for loss attributable to equity holders of the Company			
- Basic (US\$ per share)	(0.09)	(0.20)	(55)
- Diluted (US\$ per share)	(0.09)	(0.20)	(55)

n.m. - not meaningful

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

	GROUP		
	Three months ended		
	30 September		
	2016	2015	% change
	US\$'000	US\$'000	+ / (-)
Write-off/write-down for inventory obsolescence	(969)	(189)	n.m.
Gain on disposal of investments	639	-	n.m.
Foreign exchange gain (loss)	1	(1,662)	(100)

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP		
	Three months ended		
	30 September		
	2016	2015	% change
	US\$'000	US\$'000	+ / (-)
Net loss	(6,201)	(13,913)	(55)
Other comprehensive loss:			
Available-for-sale financial assets:			
Fair value losses	(79)	(2,712)	(97)
Reclassification	(639)	-	n.m.
Total comprehensive loss for the period	<u>(6,919)</u>	<u>(16,625)</u>	(58)
Attributable to:			
Shareholders of the Company	(6,929)	(16,639)	(58)
Non-controlling interests	10	14	(29)
Total comprehensive loss for the period	<u>(6,919)</u>	<u>(16,625)</u>	(58)

3 BALANCE SHEETS

	Group		Company	
	30 September 2016 US\$'000	30 June 2016 US\$'000	30 September 2016 US\$'000	30 June 2016 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	86,587	94,738	82,207	88,362
Trade receivables	8,105	7,570	649	245
Amounts due from subsidiaries	-	-	46,566	43,979
Inventories	24,890	25,052	4,783	5,153
Other current assets	1,607	1,797	641	633
	121,189	129,157	134,846	138,372
Non-current assets:				
Available-for-sale financial assets	11,049	11,960	-	-
Amounts due from subsidiaries	-	-	15,388	14,923
Investments in subsidiaries	-	-	25,353	25,353
Property and equipment	841	870	107	131
Other non-current assets	191	190	-	-
	12,081	13,020	40,848	40,407
Total assets	133,270	142,177	175,694	178,779
LIABILITIES				
Current liabilities:				
Trade payables	7,585	9,651	741	1,588
Amounts due to subsidiaries	-	-	8,826	8,325
Accrued liabilities and provisions	23,508	23,377	11,697	11,468
Current income tax liabilities	294	347	-	-
	31,387	33,375	21,264	21,381
Non-current liabilities:				
Amounts due to subsidiaries	-	-	30,806	30,162
Deferred income tax liabilities	10,302	10,302	-	-
	10,302	10,302	30,806	30,162
Total liabilities	41,689	43,677	52,070	51,543
NET ASSETS	91,581	98,500	123,624	127,236
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve	5,856	6,574	-	-
Other reserves	62,364	62,364	34,900	34,900
Accumulated losses	(227,430)	(221,219)	(161,767)	(158,155)
	91,281	98,210	123,624	127,236
Non-controlling interests	300	290	-	-
Total equity	91,581	98,500	123,624	127,236

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Three months ended 30 September	
	2016	2015
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(6,201)	(13,913)
Adjustments for:		
Income tax expense	40	38
Depreciation of property and equipment	50	133
Employee share-based expenses	-	(124)
Share of loss of associated companies	326	-
Impairment loss of available-for-sale financial assets	192	175
Gain on disposal of available-for-sale financial assets	(639)	--
Currency translation loss	46	1,897
Interest income	(96)	(89)
	<u>(6,282)</u>	<u>(11,883)</u>
 Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(535)	(1,738)
Inventories	162	685
Other assets and receivables	191	(753)
Trade payables	(2,066)	(5,017)
Accrued liabilities and provisions	131	94
Cash used in operations	<u>(8,399)</u>	<u>(18,612)</u>
Interest received	94	86
Income tax paid	<u>(97)</u>	<u>(44)</u>
Net cash used in operating activities	<u>(8,402)</u>	<u>(18,570)</u>
 Cash flows from investing activities:		
Purchase of property and equipment	(21)	(13)
Proceeds from sale of available-for-sale financial assets	639	--
Loan to associated company	<u>(326)</u>	<u>--</u>
Net cash provided by (used in) investing activities	<u>292</u>	<u>(13)</u>
 Net decrease in cash and cash equivalents	(8,110)	(18,583)
Cash and cash equivalents at beginning of financial year	94,738	99,668
Effects of currency translation on cash and cash equivalents	<u>(41)</u>	<u>(1,899)</u>
Cash and cash equivalents at end of the period	<u>86,587</u>	<u>79,186</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
FY2017								
Balance at 1 July 2016	266,753	(16,262)	6,574	62,364	(221,219)	98,210	290	98,500
Loss for the period	-	-	-	-	(6,211)	(6,211)	10	(6,201)
Other comprehensive loss for the period	-	-	(718)	-	-	(718)	-	(718)
Total comprehensive loss for the period	-	-	(718)	-	(6,211)	(6,929)	10	(6,919)
Employee share-based expense	-	-	-	-	-	-	-	-
Total transactions with owners, recognised directly in equity	-	-	-	-	-	-	-	-
Balance at 30 September 2016	266,753	(16,262)	5,856	62,364	(227,430)	91,281	300	91,581
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

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
FY2017					
Balance at 1 July 2016	266,753	(16,262)	34,900	(158,155)	127,236
Total comprehensive loss for the period	-	-	-	(3,612)	(3,612)
Employee share-based expense	-	-	-	-	-
Balance at 30 September 2016	266,753	(16,262)	34,900	(161,767)	123,624
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

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

Issued and paid up capital

As at 30 September 2016, the Company's issued and paid up capital excluding treasury shares comprises 70,331,649 (30 June 2016: 70,331,649) ordinary shares.

As at 30 September 2016, the Company's issued and paid up share capital was US\$266.8 million (30 June 2016: US\$266.8 million).

Employee share options plan

During the first quarter of FY2017, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q1 FY2016: Nil).

As at 30 September 2016, there were 1,082,000 (30 September 2015: 1,941,500) 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 FY2017, 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 FY2016: Nil).

As at 30 September 2016, there were 231,000 (30 September 2015: 251,250) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 30 September 2016, the Company held 4,668,351 (30 September 2015: 4,668,351) treasury shares against 70,331,649 (30 September 2015: 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	
	2016	2015
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 2016 US\$'000	30 June 2016 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	<hr/>	<hr/>
	-	-

7 NET ASSET VALUE

	GROUP		COMPANY	
	30 September 2016 US\$	30 June 2016 US\$	30 September 2016 US\$	30 June 2016 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.30	1.40	1.76	1.81

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 2016.

11 CHANGES IN ACCOUNTING POLICIES

None.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the first quarter of FY2017 decreased by 23% compared to the same quarter in FY2016. Revenue was lower in the first quarter of FY2017 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 FY2017 compared to 26% in the first quarter of FY2016. 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%.

Net Loss

Net loss for the first quarter of FY2017 was US\$6.2 million compared to net loss of US\$13.9 million in the first quarter of FY2016. Net loss in the first quarter of FY2017 include other gains of US\$0.6 million, other losses of US\$0.2 million and share of loss of associated companies of US\$0.3 million. Net loss in the first quarter of FY2016 include other losses of US\$1.8 million and employee severance charges of US\$4.1 million incurred in a restructuring exercise to streamline business activities and reduce costs. Of the US\$4.1 million employee severance charges, 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. Despite the lower net sales in the first quarter of FY2017, net loss has reduced due to the lower operating expenses.

Selling, general and administrative expenses in the first quarter of FY2017 decreased by 35% compared to the first quarter of FY2016. Excluding the employee severance charges as mentioned above, selling, general and administrative expenses in the first quarter of FY2017 decreased by 27% compared to the first quarter of FY2016. The higher selling, general and administrative expenses in the first quarter of FY2016 was due mainly to higher legal expenses for on-going litigation.

Research and development expenses in the first quarter of FY2017 decreased by 42% compared to the first quarter of FY2016. Excluding the employee severance charges as mentioned above, research and development expenses in the first quarter of FY2017 decreased by 5% compared to the first quarter of FY2016. The decrease in research and development expenses was due mainly to cost cutting actions taken by management.

Other gains of US\$0.6 million in the first quarter of FY2017 was due mainly to gain on disposal of investments of US\$0.6 million. Other losses of US\$1.8 million in the first quarter of FY2016 was due mainly to foreign exchange loss of US\$1.7 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 gain was not material in the first quarter of FY2017. The exchange loss in the first quarter of FY2016 was due mainly to the depreciation of 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). The decrease in trade payables as at September 2016 compared to June 2016 was due mainly to lower level of operating activities.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$8.4 million in the first quarter of FY2017 (Q1 FY2016: US\$18.6 million) was due mainly to the operating loss for the period.

Net cash provided by investing activities in the first quarter of FY2017 of US\$0.3 million was due mainly to US\$0.6 million proceeds from sale of investments, offset partially by loan to an associated company of US\$0.3 million.

There was no cash used/provided by financing activities in the first quarter of FY2017.

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the first quarter of FY2017 as compared to the prospect statement disclosed in the announcement of results for the fourth quarter and full year ended 30 June 2016.

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.

15 DIVIDEND

No dividends have been recommended in the first quarter of FY2017 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.

17 CONFIRMATION OF DIRECTORS AND EXECUTIVE OFFICERS' PURSUANT TO LISTING RULE 720(1)

The Company has procured undertakings from all its directors and executive officers in compliance with Listing Rule 720(1).

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
27 OCTOBER 2016

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 2016 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director