

CREATIVE TECHNOLOGY LTD

SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2014 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2014

1 CONSOLIDATED INCOME STATEMENT

	GROUP			GROUP		
	Three months ended			Half year ended		
	31 December			31 December		
	2014	2013	% change	2014	2013	% change
	US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)
Sales, net	31,302	37,789	(17)	55,596	68,191	(18)
Cost of goods sold	22,037	26,368	(16)	39,566	48,345	(18)
Gross profit	9,265	11,421	(19)	16,030	19,846	(19)
Expenses:						
Selling, general and administrative	(8,950)	(8,839)	1	(16,836)	(17,846)	(6)
Research and development	(4,880)	(6,263)	(22)	(10,086)	(12,647)	(20)
Total expenses	(13,830)	(15,102)	(8)	(26,922)	(30,493)	(12)
Other income	41	57	(28)	88	114	(23)
Other (losses) gains, net	(4,631)	(442)	n.m.	(8,194)	956	n.m.
Loss before income tax	(9,155)	(4,066)	125	(18,998)	(9,577)	98
Income tax expense	(23)	(12)	92	(48)	(48)	-
Net loss	(9,178)	(4,078)	125	(19,046)	(9,625)	98
Attributable to:						
Equity holders of the Company	(9,194)	(4,166)	121	(19,027)	(9,706)	96
Non-controlling interests	16	88	(82)	(19)	81	n.m.
Loss per share attributable to equity holders of the Company						
- Basic (US\$ per share)	(0.13)	(0.06)	117	(0.27)	(0.14)	93
- Diluted (US\$ per share)	(0.13)	(0.06)	117	(0.27)	(0.14)	93

n.m. – not meaningful

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

	GROUP			GROUP		
	Three months ended			Half year ended		
	2014	2013	% change	2014	2013	% change
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Write-off/write-down for inventory obsolescence	(82)	(796)	(90)	(390)	(1,734)	(78)
Gain (loss) on disposal of property and equipment	392	(2)	n.m.	392	(2)	n.m.
Impairment loss on investments	(664)	(99)	n.m.	(976)	(100)	n.m.
Foreign exchange (loss) gain	(4,383)	(369)	n.m.	(7,649)	960	n.m.

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			GROUP		
	Three months ended			Half year ended		
	2014	2013	% change	2014	2013	% change
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Net loss	(9,178)	(4,078)	125	(19,046)	(9,625)	98
Other comprehensive income:						
Fair value gains (losses) of financial assets, available-for-sale:						
Fair value gains (losses)	1,288	(195)	n.m.	6,099	(161)	n.m.
Reclassification	-	(9)	n.m.	(651)	(9)	n.m.
Total comprehensive loss for the period	<u>(7,890)</u>	<u>(4,282)</u>	84	<u>(13,598)</u>	<u>(9,795)</u>	39
Attributable to:						
Shareholders of the Company	(7,906)	(4,370)	81	(13,579)	(9,876)	37
Non-controlling interests	16	88	(82)	(19)	81	n.m.
Total comprehensive loss for the period	<u>(7,890)</u>	<u>(4,282)</u>	84	<u>(13,598)</u>	<u>(9,795)</u>	39

3 BALANCE SHEETS

	Group		Company	
	31 December 2014 US\$'000	30 June 2014 US\$'000	31 December 2014 US\$'000	30 June 2014 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	103,332	124,638	91,576	118,974
Trade receivables	13,938	10,559	4,863	4,208
Amounts due from subsidiaries	-	-	47,288	44,515
Inventories	25,219	28,922	12,187	15,002
Other current assets	2,364	1,896	463	187
	144,853	166,015	156,377	182,886
Non-current assets:				
Financial assets, available-for-sale	27,829	21,608	-	-
Amounts due from subsidiaries	-	-	144,390	143,022
Investments in subsidiaries	-	-	23,953	24,706
Property and equipment	1,655	6,465	532	651
Other non-current assets	89	98	-	-
	29,573	28,171	168,875	168,379
Total assets	174,426	194,186	325,252	351,265
LIABILITIES				
Current liabilities:				
Trade payables	8,564	9,383	4,461	5,907
Amounts due to subsidiaries	-	-	6,933	9,139
Accrued liabilities and provisions	35,391	37,899	20,722	24,474
Current income tax liabilities	676	735	-	-
	44,631	48,017	32,116	39,520
Non-current liabilities:				
Amounts due to subsidiaries	-	-	19,717	21,746
Deferred income tax liabilities	10,702	10,702	-	-
	10,702	10,702	19,717	21,746
Total liabilities	55,333	58,719	51,833	61,266
NET ASSETS	119,093	135,467	273,419	289,999
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve	15,344	9,896	-	-
Other reserves	62,562	62,570	35,098	35,106
Retained earnings	(209,474)	(187,695)	(12,170)	4,402
	118,923	135,262	273,419	289,999
Non-controlling interests	170	205	-	-
Total equity	119,093	135,467	273,419	289,999

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Half year ended 31 December	
	2014	2013
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(19,046)	(9,625)
Adjustments for:		
Income tax expense	48	48
Depreciation of property and equipment	378	309
Employee share-based expenses	(8)	28
(Gain) loss on disposal of property and equipment	(392)	2
Impairment loss of financial assets, available-for-sale	976	100
Gain on disposal of financial assets, available-for-sale	--	(18)
Currency translation loss (gain)	7,152	(604)
Interest income	(88)	(114)
	<u>(10,980)</u>	<u>(9,874)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(3,379)	(3,245)
Inventories	3,703	(1,874)
Other assets and receivables	(459)	254
Trade payables	(835)	1,100
Accrued liabilities and provisions	(2,508)	(2,861)
Cash used in operations	<u>(14,458)</u>	<u>(16,500)</u>
Interest received	88	103
Income tax paid	<u>(50)</u>	<u>(51)</u>
Net cash used in operating activities	<u>(14,420)</u>	<u>(16,448)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(60)	(81)
Proceeds from sale of property and equipment	4,884	--
Proceeds from financial assets, available-for-sale	1	583
Purchase of financial assets, available-for-sale	(1,750)	(250)
Proceeds received from escrow account	--	1,800
Net cash provided by investing activities	<u>3,075</u>	<u>2,052</u>
Cash flows from financing activities:		
Dividends paid to equity holders of the Company	<u>(2,752)</u>	<u>(5,675)</u>
Net cash used in financing activities	<u>(2,752)</u>	<u>(5,675)</u>
Net decrease in cash and cash equivalents	(14,097)	(20,071)
Cash and cash equivalents at beginning of financial year	124,638	159,074
Effects of currency translation on cash and cash equivalents	<u>(7,209)</u>	634
Cash and cash equivalents at end of the period	<u>103,332</u>	<u>139,637</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
FY2015								
Balance at 1 July 2014	266,753	(16,262)	9,896	62,570	(187,695)	135,262	205	135,467
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	-	-	-	-	-	-	-
Employee share-based expense	-	-	-	(8)	-	(8)	-	(8)
Liquidation of subsidiary	-	-	-	-	-	-	(16)	(16)
Dividends paid	-	-	-	-	(2,752)	(2,752)	-	(2,752)
Total comprehensive income (loss) for the period	-	-	5,448	-	(19,027)	(13,579)	(19)	(13,598)
Balance at 31 December 2014	266,753	(16,262)	15,344	62,562	(209,474)	118,923	170	119,093
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	-	-	-	28	-	28	-	28
Dividends paid	-	-	-	-	(5,675)	(5,675)	-	(5,675)
Total comprehensive (loss) income for the period	-	-	(170)	-	(9,706)	(9,876)	81	(9,795)
Balance at 31 December 2013	266,753	(16,527)	9,315	63,300	(175,551)	147,290	317	147,607

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
FY2015					
Balance at 1 July 2014	266,753	(16,262)	35,106	4,402	289,999
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	-	-	-	-
Employee share-based expense	-	-	(8)	-	(8)
Dividends paid	-	-	-	(2,752)	(2,752)
Total comprehensive loss for the period	-	-	-	(13,820)	(13,820)
Balance at 31 December 2014	266,753	(16,262)	35,098	(12,170)	273,419
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	-	-	28	-	28
Dividends paid	-	-	-	(5,675)	(5,675)
Total comprehensive loss for the period	-	-	-	(10,956)	(10,956)
Balance at 31 December 2013	266,753	(16,527)	35,836	17,047	303,109

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

Issued and paid up capital

As at 31 December 2014, the Company's issued and paid up capital excluding treasury shares comprises 70,331,649 (30 June 2014: 70,331,649) ordinary shares.

As at 31 December 2014, the Company's issued and paid up share capital was US\$266.8 million (30 September 2014: US\$266.8 million).

Employee share options plan

During the second quarter of FY2015, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q2 FY2014: Nil).

As at 31 December 2014, there were 2,125,500 (31 December 2013: 2,883,500) 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 second quarter of FY2015, 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 FY2014: Nil).

As at 31 December 2014, there were 285,000 (31 December 2013: 508,000) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 31 December 2014, the Company held 4,668,351 (31 December 2013: 4,744,600) treasury shares against 70,331,649 (31 December 2013: 70,255,400) issued ordinary shares excluding treasury shares.

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

	Three months ended 31 December	
	2014	2013
Balance at beginning of period	4,668,351	4,744,600
Issue for Employee Performance Share Plan	-	-
Balance at end of period	<u>4,668,351</u>	<u>4,744,600</u>

6 GROUP BORROWINGS

	GROUP	
	31 December 2014 US\$'000	30 June 2014 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 2014 US\$	30 June 2014 US\$	31 December 2014 US\$	30 June 2014 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.69	1.93	3.89	4.12

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 2014.

11 CHANGES IN ACCOUNTING POLICIES

None.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the second quarter of FY2015 decreased by 17% compared to the same quarter in FY2014, and net sales for the first half year of FY2015 decreased by 18% compared to the same period in FY2014. Revenue in the second quarter and first half year of FY2015 was lower 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 30% in the second quarter of FY2015, similar to the second quarter of FY2014, and 29% in the first half year of FY2015 and FY2014. Gross profit margin in the second quarter and first half year of FY2015 was in line with the sales mix. The write-down for inventory obsolescence in the second quarter and first half year of FY2014 was for certain existing products following the introduction of new product models.

Net Profit

Net loss for the second quarter of FY2015 was US\$9.2 million compared to a net loss of US\$4.1 million in the second quarter of FY2014. The higher net loss in the second quarter of FY2015 was due mainly to other losses (net) of US\$4.6 million in the second quarter of FY2015 compared to other losses (net) of US\$0.4 million in the second quarter of FY2014.

Net loss for the first half year of FY2015 was US\$19.0 million compared to a net loss of US\$9.6 million in the first half year of FY2014. The higher net loss in the first half year of FY2015 was due mainly to other losses (net) of US\$8.2 million in the first half year of FY2015 compared to other gains (net) of US\$1.0 million in the first half year of FY2014.

There was no significant variance in selling, general and administrative expenses in the second quarter of FY2015 compared to the second quarter of FY2014. While sales were lower in the second quarter of FY2015, there was no reduction in selling, general and administrative expenses due to an increase in marketing expenses for new products including Sound Blaster Roar and Sound Blaster X7. For the first half year of FY2015, selling, general and administrative expenses was 6% lower compared to the same period in the prior year due mainly to lower sales, offset by an increase in marketing expenses for new products.

Research and development expenses in the second quarter and first half year of FY2015 decreased by 22% and 20%, 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 in FY2014.

Other losses (net) of US\$4.6 million in the second quarter of FY2015 were due mainly to foreign exchange loss of US\$4.4 million and impairment loss on investments of US\$0.7 million, offset partially by a US\$0.4 million gain on disposal of a property owned by a subsidiary in Ireland. Other losses (net) of US\$0.4 million in the second quarter of FY2014 were due mainly to foreign exchange loss of US\$0.4 million.

Other losses (net) of US\$8.2 million in the first half year of FY2015 were due mainly to foreign exchange loss of US\$7.6 million and impairment loss on investments of US\$1.0 million, offset partially by a US\$0.4 million gain on disposal of a property owned by a subsidiary in Ireland. Other gains (net) of US\$1.0 million in the first half year of FY2014 were due mainly to foreign exchange gain of US\$1.0 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 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 and first half year of FY2015 was due mainly to depreciation of these currencies against the US dollar. The exchange loss in the second quarter of FY2014 was due mainly to the depreciation of Japanese Yen and Singapore dollar against the US dollar. The exchange gain in the first half year of FY2014 was due mainly to the appreciation of Euro and British Pound against the US dollar.

BALANCE SHEETS

The decrease in cash and cash equivalents was due mainly to net cash used in operating activities (see below). The increase in trade receivables was due mainly to higher sales in the holiday season and the decrease in inventories was in line with the expected lower level of sales after the holiday season. The increase in financial assets available-for sale was due mainly to fair value gain in revaluation of investments and new investments in the first half year of FY2015. The decrease in property and equipment was due mainly to the disposal of a property owned by a subsidiary in Ireland for net sales proceeds of US\$4.9 million. There was no material change in trade payables, accrued liabilities and provisions.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$14.4 million in the first half year of FY2015 (first half year of FY2014: US\$16.4 million) was due mainly to the net operating loss for the period, an increase in trade receivables and a decrease in accrued liabilities and provisions, offset partially by a decrease in inventories.

Net cash provided by investing activities of US\$3.1 million in the first half year of FY2015 (first half year of FY2014: US\$2.0 million) was due mainly to US\$4.9 million cash received from the disposal of a property by a subsidiary in Ireland, offset partially by new investments amounting to US\$1.8 million.

Net cash used in financing activities of US\$2.8 million in the first half year of FY2015 (first half year of FY2014: US\$5.7 million) was due to dividends paid to equity holders of the Company.

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the second quarter of FY2015 as compared to the prospect statement disclosed in the announcement of results for the first quarter ended 30 September 2014.

14 PROSPECTS

The overall market for the Group's products remains challenging and for this quarter the Group expects no major improvement in the difficult and uncertain market conditions. Revenue is expected to be lower in this quarter compared to the current level and the Group expects to report an operating loss.

15 DIVIDEND

No dividends have been recommended in the second quarter of FY2015 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 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 second quarter and half year ended 31 December 2014 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director