

REVOLUTIONIZE YOUR HOME WITH
**THE AUDIO OF
TOMORROW**



SONIC CARRIER™



A Brand New Concept in Hi-Res Audio and Video Delivery
Hosting Dolby Atmos®, EAX 15.2, 1000W RMS,
and Multiple Advanced Technologies



THE AUDIO OF TOMORROW

COMBINING THE BEST OF TWO WORLDS: SUPER HIGH-END AUDIO AND 3D CINEMATIC SOUND

Revolutionize your home with The Audio of Tomorrow

The **X-Fi Sonic Carrier** lets you experience the all-new EAX 15.2™ high-resolution audio and the latest Dolby Atmos® technology deployed in exclusive premium cinemas, right in the comfort of your home. All from a beautiful sleek one-piece system, sans messy cables. Together with an exquisite wireless subwoofer akin to designer furniture, the Sonic Carrier is truly a piece of art.

STATE-OF-THE-ART X-FI SONIC CARRIER

The **X-Fi Sonic Carrier** is a brand new concept in advanced audio and video delivery. This technology powerhouse conveniently hosts, bridges and enhances a multitude of state-of-the-art technologies and entertainment platforms.

Comprising of a main unit and a subwoofer, the X-Fi Sonic Carrier is a 17-driver system in an 11.2.4 speaker configuration. It incorporates Dolby Atmos® surround technology and Creative's proprietary EAX 15.2 Dimensional Audio processing algorithms to bring you powerful 3D audio that flows around and above you.

Powered by 8 processors, the X-Fi Sonic Carrier is not only capable of high-resolution audio playback; it also features an ultra HD video engine that supports 4K 60fps video playback of local and online content.

Featuring 3 distinct wireless technologies, the X-Fi Sonic Carrier offers multi-room audio streaming over Wi-Fi, Bluetooth®, and a zero-latency speaker-to-speaker link to up to 4 subwoofers.

Achieving the unthinkable is its *raison d'être*.



BRING THE CINEMA TO YOUR HOME

Find out more @ soniccarrier.com

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CHAIRMAN'S MESSAGE

Dear Shareholders,

Fiscal 2016 was another challenging year for the Group. While we have continued with the development and introduction of new products in the key product categories, revenue contributions from these products during the year were not significant enough to offset the decline in revenues resulting from the challenging market conditions. The difficult and uncertain market conditions for the Group's products continued to adversely affect product sales and the financial performance of the Group.

Sales for fiscal year 2016 were US\$85 million compared to US\$100 million for fiscal year 2015. Gross profit as a percentage of sales was 27% in fiscal 2016 compared to 29% in fiscal 2015. Net profit for fiscal 2016 was US\$3 million, compared to a net loss of US\$33 million in fiscal 2015. While sales and gross profit margin were lower in fiscal 2016, there was no significant change in operating results for the Group, due mainly to lower operating expenses for the year. In addition, net results for the year was lifted by the contribution from higher other gains, comprising mainly US\$34 million from settlements in a patent lawsuit. Further highlights of the Group's financial performance are detailed in the "Financial Highlights and Review" section of the annual report.

Despite the challenging market conditions, we continued with the development and introduction of new products in key product categories, including new additions to the Roar family of portable Bluetooth wireless speakers, products under the Sound BlasterX Pro-Gaming Series (a new line of high-end gaming audio peripherals for gaming enthusiasts and pro-gamers), and the X-Fi Sonic Carrier, a brand new concept in advanced audio and video delivery.

For the innovative, award-winning Roar family of portable wireless speakers, we followed up on the acclaimed Sound Blaster Roar, Roar 2 and Roar Pro with the launch of the Creative iRoar, the most intelligent Bluetooth speaker available. In addition to great audio quality from the award-winning Sound Blaster Roar design, it has a built-in next generation Sound Blaster multi-core processor, allowing it to be part of an intelligent, customizable platform through software add-ons. The most recent addition to the family is the Creative iRoar Go, an intelligent, splash-proof speaker and the smallest Roar speaker introduced to-date. It comes with significantly enhanced audio performance, improved all-weather portability and a groundbreaking audio technology called "SuperWide" that enables an amazingly wide acoustic soundstage.

During the year, we launched the Sound BlasterX Pro-Gaming Series, a new line of high-end gaming audio peripherals for gaming enthusiasts and pro-gamers. The series includes the Sound BlasterX H7 and H5 circumaural (over-the-ear) gaming headsets, the Sound BlasterX P5 in-ear gaming headset, and the Sound BlasterX G5, an external USB 7.1 HD audio portable sound card with built-in headphone amplifier. The latest additions to the Sound BlasterX Pro-Gaming series are the recently announced Sound BlasterX speakers, including the Sound BlasterX Katana, an all-in-one 24-bit Under-Monitor Audio System which utilizes Creative's most powerful multi-core audio DSP and can also operate as a Sound Blaster sound card.

In a new category to target the high-end home entertainment market, we have introduced the X-Fi Sonic Carrier, a brand new concept in Hi-Res audio and video delivery, and packed with multiple advanced technologies. It comprises a beautifully machine-finished main unit and a "designer furniture"-like subwoofer. The system includes a 17-driver system housed in a 11.2.4 speaker configuration. It incorporates Dolby Atmos surround processing to bring you powerful 3D audio that flows around and above you, as well as Creative EAX 15.2 Dimensional Audio to enhance sound from legacy material. The extremely powerful and versatile X-Fi Sonic Carrier is powered by 8 processors and supports both local and streaming video content of up to 4K 60fps, as well as 15.2 channels of high resolution audio playback.

Looking ahead, for the current fiscal year, the Group expects no significant change in the uncertain and challenging market conditions. The continuing development and introduction of new products will provide potential revenue growth opportunities and help the Group work towards an improvement in financial performance for the year. However, the extent of improvement is dependent on market conditions during the year.

Thank you

Sim Wong Hoo
Chairman & Chief Executive Officer

FINANCIAL HIGHLIGHTS AND REVIEW

For the financial year ended 30 June 2016

Overview

	US\$million	
	2016	2015
Sales, net	84.6	99.5
Gross profit	23.0	28.5
Gross profit margin	27%	29%
Expenses	52.1	55.8
Net profit (loss)	2.7	(33.4)

Sales for the financial year ended 30 June 2016 (“FY2016”) were US\$84.6 million compared to US\$99.5 million for the financial year ended 30 June 2015 (“FY2015”). Gross profit in FY2016 was US\$23.0 million at a margin of 27% compared to US\$28.5 million at a margin of 29% in FY2015. Net profit in FY2016 was US\$2.7 million compared to net loss of US\$33.4 million in FY2015.

Sales

The Group’s sales decreased by 15% to US\$84.6 million in FY2016 compared to US\$99.5 million in FY2015. Sales were lower in FY2016 due to the uncertain and difficult market conditions which continued to affect the sales of the Group’s products and sales across all geographical regions.

	US\$million	
<u>Sales by Product Category</u>	2016	2015
Audio, speakers and headphones	77.8	90.2
Personal digital entertainment	2.8	5.1
Other products	4.0	4.2
	84.6	99.5

Sales of all product categories in FY2016 have decreased compared to FY2015.

	US\$million	
<u>Sales by Region</u>	2016	2015
Asia Pacific	42.5	51.7
The Americas	14.6	16.7
Europe	27.5	31.1
	84.6	99.5

By geographical region, sales in FY2016 decreased across all three regions by 18%, 12% and 12% in the Asia Pacific, the Americas and the Europe region respectively. As a percentage of total sales, the Asia Pacific region sales contributed 50% of total sales in FY2016 compared to 52% in FY2015. Sales in the Americas region was 17% of total sales in FY2016 which is the same as FY2015 and the sales in the Europe region was 33% of total sales in FY2016 against 31% in FY2015.

Gross Profit

Gross profit was US\$23.0 million in FY2016 compared to US\$28.5 million in FY2015. Gross profit margin as a percentage of sales was 27% in FY2016 compared to 29% in FY2015. Gross profit for FY2016 was in line with the sales mix.

FINANCIAL HIGHLIGHTS AND REVIEW

For the financial year ended 30 June 2016

Expenses

Total expenses decreased from US\$55.8 million in FY2015 to US\$52.1 million in FY2016.

Selling, general and administrative expenses were US\$36.8 million in FY2016 compared to US\$36.1 million in FY2015. The reduction in selling general and administrative expenses in FY2016 resulting from the lower level of sales was offset by an increase in legal expenses for on-going litigation.

Research and development expenses were US\$15.3 million in FY2016 compared to US\$19.7 million in FY2015. The decrease in research and development expenses was due mainly to cost cutting actions taken by management.

Net Loss

Net profit in FY2016 was US\$2.7 million compared to net loss of US\$33.4 million in FY2015. Net profit in FY2016 included employee severance charges of US\$4.1 million in the first quarter of FY2016, other gains of US\$41.5 million, other losses of US\$1.4 million, share of loss of associated companies of US\$0.7 million and income tax expense of US\$8.0 million. Net loss in FY2015 included other gains of US\$9.6 million, other losses of US\$16.8 million and tax credit of US\$0.7 million.

Other gains of US\$41.5 million in FY2016 were mainly due to US\$33.5 million proceeds from settlements in patent lawsuit, US\$2.7 million gain on disposal of investments and US\$5.2 million from write-back of subcontract accruals made in prior years. Other gains of US\$9.6 million in FY2015 were mainly due to a US\$9.2 million gain on disposal of investments and a US\$0.4 million gain on disposal of a property owned by a subsidiary in Ireland.

Other losses of US\$1.4 million in FY2016 relates to foreign exchange loss of US\$0.4 million and impairment loss on investments of US\$0.9 million. Other losses of US\$16.8 million in FY2015 relates to foreign exchange loss of US\$12.1 million and impairment loss on investments of US\$4.7 million.

Income tax expense of US\$8.0 million in FY2016 was due mainly to US\$7.8 million withholding tax payments relating to the proceeds from the patent lawsuit settlements, and US\$0.4 million adjustment for potential transfer pricing and withholding tax exposure of foreign subsidiaries. Income tax credit of US\$0.7 million in FY2015 was due mainly to write-back of deferred tax liabilities resulting from an adjustment to the Group's provision for transfer pricing and withholding tax exposure of foreign subsidiaries.

Balance Sheet

The decrease in cash and cash equivalents was due mainly to net cash used in operating activities. Despite a net profit in FY2016, net cash used in operating activities was US\$5.7 million due to significant reduction in trade payables and accrued liabilities and provisions.

The decrease in trade receivables by US\$2.2 million to US\$7.6 million and inventories by US\$3.8 million to US\$25.1 million were in line with the lower level of sales.

The decrease in available-for-sale financial assets by US\$6.3 million to US\$12.0 million was due mainly to disposal of investments and fair value loss in revaluation of investments.

Trade payables decreased by US\$6.0 million to US\$9.7 million as at 30 June 2016. The higher trade payables as at June 2015 was due mainly to a payment cycle crossing over year end closing on 26 June 2015. The Group and the Company operate on a thirteen week calendar closing on the Friday nearest to the natural calendar quarter.

Accrued liabilities and provisions decreased by US\$8.1 million to US\$23.4 million as at 30 June 2016 were due mainly to write-back of subcontract accruals and lower level of operating activities.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS AND EXECUTIVE OFFICERS

Creative's directors and executive officers are as follows:-

Name	Age	Position
Sim Wong Hoo	61	Chairman of the Board and Chief Executive Officer
Lee Kheng Nam	68	Independent Non-Executive Director
Ng Kai Wa	60	Independent Non-Executive Director
Lee Gwong-Yih	61	Independent Non-Executive Director
Ng Keh Long	57	Chief Financial Officer

SIM WONG HOO founded Creative in 1981 and has been its Chairman of the Board and Chief Executive Officer since its inception.

LEE KHENG NAM has been a Director of Creative since 1991. He is presently a Venture Partner of GGV Capital and also Chairman of Advantec Pte Ltd, an investment holding company. Mr. Lee is also currently Deputy Chairman of Vertex Venture Holdings Ltd (VVH), wholly-owned subsidiary of Temasek Holdings (Private) Limited engaged in the venture capital direct investment and fund management business. Mr. Lee was General Manager (1988 to February 1995) and subsequently President of Vertex Management Pte Ltd (VMPL) and executive Director of VVH from March 1995 to February 2004. Prior to this, he was with NatSteel group of companies as the Manager of the Project Development Department and the Ministry of National Development where he was Deputy Director of Planning. He sits on the boards of several companies, both local and overseas. He formerly served on the boards of Centillum Communications, Inc, Chartered Semiconductor Manufacturing Ltd, GRIC Communications Inc., ActivCard Corp and Gemplus International S.A. Mr. Lee holds a Bachelor of Science degree in Mechanical Engineering (First Class Honours) from Queen's University, Canada and a Master of Science degree in Operations Research and Systems Analysis from the U.S. Naval Postgraduate School.

NG KAI WA became a Director of Creative in 2005. He has been the Co-Founder, Chairman and Chief Executive Officer of InnoMedia Pte Ltd since 1995. InnoMedia is a leading supplier of broadband access IP Telephony, and SIP Trunking solutions to Cable MSOs, broadband service providers and distribution partners. Prior to that, he was the Co-Founder, Chief Technology Officer and Vice Chairman of the Board of Creative Technology Ltd. Mr. Ng holds an Executive Master of Business Administration Degree from the National University of Singapore and a Diploma in Electronic and Electrical Engineering from Ngee Ann Polytechnic.

LEE GWONG-YIH became a Director of Creative in 2009. He is currently a Senior Managing Director of Translink Capital, a Silicon Valley-based venture capital firm. Prior to joining Translink Capital in 2014, Mr. Lee was Chairman and Chief Executive Officer of the CyberTAN Technology, Inc., a leading networking company listed in Taiwan, since 2006. From September 1999 to January 2004, Mr. Lee served as General Manager and Senior Director at Cisco Systems, Inc. In March 1998, Mr. Lee established TransMedia Communications, a communication equipment company, and served as its President and Chief Executive Officer until September 1999 when TransMedia Communications was acquired by Cisco Systems, Inc. He also acts as an Independent Non-executive Director of AFOP, listed in NASDAQ, Tailyn Technologies, listed in Taiwan, and an Advisor of Foxconn. Mr. Lee holds a Bachelor of Science degree in Control Engineering from National Chiao-Tung University in Taiwan and a Master of Science degree in Electrical Engineering from New York University.

NG KEH LONG joined the Company in April 1993 as Financial Controller and held various financial positions until 1998 when he was appointed as Chief Financial Officer. Prior to joining Creative, he was a Senior Manager with Price Waterhouse (now PricewaterhouseCoopers LLP), where he gained more than ten years' experience in finance, accounting and auditing.

CORPORATE GOVERNANCE

For the financial year ended 30 June 2016

Creative Technology Ltd (“Creative” or the “Company”, and together with its subsidiaries, the “Group”) is committed to maintaining good corporate governance in accordance with the principles and guidelines set out in the Code of Corporate Governance issued in May 2012 (the “Code”). Creative’s approach on corporate governance takes into consideration the principles and guidelines set out in the Code, substantially complied with the key principles and supporting guidelines set out in the Code except where specifically identified and disclosed in this report.

This report outlines the main corporate governance practices that were in place throughout the financial year, with specific references to each of the principles of the Code.

PRINCIPLE 1: THE BOARD’S CONDUCT OF ITS AFFAIRS

The principal functions of the Board of Directors of the Company (the “Board”) are to provide guidance and to decide on certain important matters, including those involving the review and approval of strategic plans, direction and policies, to review the Group’s performance, to review the adequacy and integrity of internal controls, and to approve material acquisitions and disposals of assets.

These functions are either carried out directly by the Board or through committees, namely the Audit Committee, the Nominating Committee and the Remuneration Committee, established by the Board (collectively referred to as “Board Committees”).

Matters which are specifically reserved to the full Board for decision-making include those involving the review and approval of strategic plans, direction and policies, material acquisitions and disposals of assets, corporate or financial restructuring and share issuances, dividends and other returns to shareholders.

The Constitution of the Company allow the Company’s Directors to participate in a Board meeting by telephone conference or video conference whereby all persons participating in the meeting are able to communicate as a group, without requiring the Directors’ physical presence at the meeting.

The number of Board and Board Committee meetings held in the financial year ended 30 June 2016 and the attendance of directors during these meetings is as follows:

Name of Director (Number of Meetings Held)	Board (5)	Audit Committee (6)	Remuneration Committee (2)	Nominating Committee (1)
Sim Wong Hoo	5	–	2	1
Lee Kheng Nam	5	6	2	1
Ng Kai Wa	5	6	2	1
Lee Gwong-Yih	4	5	–	–

Upon appointment of each new director, a letter is provided setting out the director’s duties and obligations. The Group also conducts an orientation programme for new directors to familiarize them with the business activities and corporate governance practices.

Directors are updated regularly on the Group’s strategic directions, financial performance, updates on corporate governance practices, relevant new laws, regulations and changing business risks during Board meetings or at specially-convened sessions.

Directors are also encouraged to request for sponsorship from the Company to attend courses to update their knowledge and better equip themselves to discharge their duties as Directors.

PRINCIPLE 2: BOARD COMPOSITION AND GUIDANCE

The Board comprises four members, one of whom is an Executive Director and three of whom are independent non-Executive Directors. The criteria of independence are based on the definition given in the Code. Key information regarding the Directors is disclosed in Board of Directors and Executive Officers. Together the Board has a diverse wealth of experience as well as skills and knowledge and the diversity of experience, skills and competencies of the Directors enhance the effectiveness of the Board in carrying out its responsibilities.

The Executive Director is Mr Sim Wong Hoo, the Chairman and Chief Executive Officer of the Company. He is also a substantial shareholder.

The independent non-Executive Directors are Mr Lee Kheng Nam, Mr Ng Kai Wa and Mr Lee Gwong-Yih.

Two Directors have served as independent directors on the Board for more than nine years from the respective dates of their first appointment. They are Mr Lee Kheng Nam and Mr Ng Kai Wa. The Board had conducted a rigorous review on their status, taking into consideration all other factors in accessing the independence of a Director. These factors include, inter alia, if the Director has any interest, business relationship and/or other material contractual relationship with the Group which could reasonably be perceived to compromise his independence and interfere with the exercise of his independent business judgement with a view to the best interests of the Group. After due and careful review, the Board had determined Mr Lee Kheng Nam and Mr Ng Kai Wa are independent directors of the Company. The Board is of the view that their more than nine years of service has not affected their objectivity. They have continued to demonstrate ability to exercise strong independent judgement and act in the interests of the Company. Further, having gained in-depth understanding of the business of the Group, Mr Lee Kheng Nam and Mr Ng Kai Wa provide the Company with the experience and knowledge of the industry. Their contributions will be valuable to the Company.

The Board is of the view that the current Board, with independent non-Executive Directors making up at least half of the Board, provides for a strong and independent element on the Board capable of exercising objective judgement on corporate affairs of the Group. No individual or small group of individuals dominates the Board's decision-making.

PRINCIPLE 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has the same Chairman and Chief Executive Officer ("CEO"), Mr Sim Wong Hoo. The Company believes that the independent non-Executive Directors have demonstrated high commitment in their role as Directors and have ensured that there is a good balance of power and authority. As such, there is no need for the role of the Chairman and CEO to be separated.

Mr Sim Wong Hoo is a substantial shareholder of the Company with a shareholding of approximately 33.09%. With his substantial shareholding, his interest is aligned with the Company and that of the other shareholders.

Mr Lee Kheng Nam is the Lead Independent Director. As the Lead Independent Director, he leads and encourages dialogue between independent directors and provides feedback to the Chairman and CEO. As the Lead Independent Director, he is also available as the alternate channel for shareholders, should shareholders fail to resolve concerns through the normal channels of the Chairman and CEO, Chief Financial Officer or when such normal channels are inappropriate.

PRINCIPLE 4: BOARD MEMBERSHIP

The Nominating Committee (the "NC") consists of three members, two of whom are independent non-Executive Directors. The Chairman of the NC, Mr Ng Kai Wa, is an independent non-Executive Director. The other two members are Mr Sim Wong Hoo, an Executive Director, and Mr Lee Kheng Nam, an independent non-Executive Director.

The principal functions of the NC are, among other matters, to recommend all Board and Board Committee appointments, re-appointments or re-elections, to determine the independence of each Director, and to identify new Directors who have the diversity of experience and appropriate knowledge and skills to contribute effectively to the Board.

When a Director has multiple board representations, such director has to ensure that sufficient time and attention is given to the affairs of the Company. On the issue of multiple board representations, the Board is of the view that it should be left to the judgement and discretion of each Director. As such, the NC and the Board have decided not to set any maximum number of listed company board representations that any director may hold. The NC is satisfied that sufficient time and attention are being given by all the Directors to the affairs of the Company.

The Board does not have a practice of appointing alternate directors. There were no alternate directors in this financial year.

The Board has adopted a process for the selection, appointment and re-appointment of directors to the Board. The NC reviews the compositions of the Board periodically. It assesses and shortlists candidates for a position on the Board when a need arises.

CORPORATE GOVERNANCE

For the financial year ended 30 June 2016

PRINCIPLE 4: BOARD MEMBERSHIP (cont'd)

New Directors are at present appointed by way of a Board resolution, after the NC approves their appointment. The Company's Constitution provides that all Directors except Executive Directors are to retire at least once every three years by rotation, if they are appointed by the Company at a general meeting, and a newly appointed Director must submit himself for re-election at the next Annual General Meeting. The retiring Director is nonetheless eligible for re-election by shareholders at every Annual General Meeting. Accordingly, Mr Ng Kai Wa will, on the date of the Annual General Meeting, retire as Director. The NC recommends his re-appointment as Director at the Annual General Meeting to be held on 27 October 2016.

PRINCIPLE 5: BOARD PERFORMANCE

A review of the performance of the Board as a whole and its board committees and each individual director will be undertaken by the NC. The Company believes that the Board's performance is ultimately reflected in the performance of the Group. The Company assesses the Board's performance through its ability to steer the Group in the right direction and the support it renders to Management. In evaluating directors' performance, factors including the directors' attendance, participation and level of participation and contributions at the main board and board committee meetings and other Company activities, are also taken into consideration.

The NC uses its best efforts to ensure that the Directors appointed to the Board possess the relevant necessary background, experience, knowledge and skills so as to enable each Director to bring to the Board an independent and objective perspective to contribute to the effectiveness of the Board.

The Company believes that apart from the Directors' fiduciary duties (i.e. acting in good faith, with due diligence and care, and in the best interests of the Company and its shareholders), the Board's key responsibilities are to set strategic directions and to ensure that the long term objective of enhancing shareholders' value is achieved.

PRINCIPLE 6: ACCESS TO INFORMATION

In order to ensure that the Board is able to fulfill its responsibilities, management provides the Board members with regular updates of the performance and financial position of the Group including quarterly updates. Management staff and the Company's auditors, who can provide insight into the matters for discussion, are also invited from time to time to attend such meetings. The Company Secretary attends all Board meetings and ensures that all Board procedures are followed. The Company Secretary, together with other management staff of the Company, also ensures that the Company complies with the applicable statutory and regulatory rules.

The Directors have separate and independent access to the Company's senior management and the Company Secretary at all times. Should the Directors, whether as a group or individually, need independent professional advice, the Company will appoint a professional advisor selected by the group or individual, and approved by the Chairman and CEO, to render the advice. The cost of such independent professional advice will be borne by the Company.

PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION

PRINCIPLE 9: DISCLOSURE ON REMUNERATION

The Remuneration Committee (the "RC") consists of three Directors, two of whom are independent non-Executive Directors. The Chairman of the RC is Mr Sim Wong Hoo, an Executive Director. The other two members are Mr Lee Kheng Nam and Mr Ng Kai Wa, both of whom are independent non-Executive Directors.

The principal functions of the RC are, among other matters, to recommend to the Board the structure of the compensation programme for each Board member and the CEO (or executive of equivalent rank) to ensure that the programme is competitive and sufficient to attract, retain and motivate each Board member and CEO of the required quality to run the Company successfully; to review each Board member's and CEO's compensation annually and determine appropriate adjustments where necessary; and to review any other long term incentive schemes which may be set up from time to time. The RC members are also members of the committees administering the Creative Employee Share Option Plans and the Creative Performance Share Plan.

Mr Sim Wong Hoo, the Chairman and CEO of the Company, and the Chairman of the RC, has been receiving a nominal sum of S\$1 as his annual remuneration since the financial year ended 30 June 2008. He has also opted to be excluded from participating in the Creative Performance Share Plan.

Taking into consideration the remuneration package of Mr Sim Wong Hoo, there is minimal risk of any potential conflict of interest, and his ability to perform the role of the Chairman of the RC is similar to that of a non-Executive Director. Accordingly, the Board is of the view that he is suitable to perform the role of the Chairman of the RC.

The Company adopts a remuneration policy for employees comprising a fixed component and a performance based variable component. The fixed component is in the form of a base salary. The variable component is in the form of a variable bonus that is linked to the Company's and the individual employee's performance. Another element of the variable component is the grant of performance shares to employees under the Company's Performance Share Plan. The Company's employees participate in the performance review process that assesses the individual's performance against set performance targets. Performance against these targets is a factor determining remuneration. This seeks to align the interests of the employees with that of the shareholders.

Each non-Executive Director is paid an annual Director's fee of S\$60,000 (pro-rated where length of service is less than one year) and is subject to shareholders' approval at the Annual General Meeting. The Director's fee proposed to be paid to each of the Directors for the financial year ended 30 June 2016 is as follows:

Name of Director	Director's Fee*
Lee Kheng Nam	S\$60,000
Ng Kai Wa	S\$60,000
Lee Gwong-Yih	S\$60,000

* Executive Directors are not paid a Director's Fee.

Each non-Executive Director also participates in the Company's stock options and performance share plan. The details of the Directors' stock options and performance share awards are set out in the Directors' Statement. Non-Executive Directors are not paid any salary, bonus, or other remuneration.

The number of top five key executives of the Group (who are not Directors or the CEO) in remuneration bands is as follows:

Remuneration Bands	Number of Key Executives
S\$250,000 to S\$499,999	3
Less than S\$250,000	2

For confidentiality and competitive reasons, the Company is not disclosing each individual executive's remuneration and their names. The aggregate total remuneration paid to the top five key executives for the financial year ended 30 June 2016 was S\$1,422,000.

None of the employees of the Group whose annual remuneration exceeds S\$50,000 are immediate family members of the CEO or any other Director of the Company.

Details of the Creative Employee Share Option Plans and Creative Performance Share Plan are set out in the Notes to the Financial Statements.

CORPORATE GOVERNANCE

For the financial year ended 30 June 2016

PRINCIPLE 10: ACCOUNTABILITY

The Company provides shareholders with quarterly and annual financial results of the Group within the regulatory reporting periods, i.e. results for the first 3 quarters are released to shareholders within 45 days of the end of each quarter whilst the annual results are released within 60 days from the financial year end. In presenting the Group's annual and quarterly results, the Board aims to provide shareholders with a balanced and understandable assessment of the Group's performance and financial position with a commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which it operates.

The management provides all Directors with financial updates of the Group's performance, when required. The CEO and the Chief Financial Officer ("CFO") also provide assurance to the Board on the integrity of the financial statements of the Company and its subsidiaries.

PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is responsible for the overall risk management and internal control framework, but recognises that no cost effective risk management and internal control systems will preclude all errors and irregularities, as such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against the occurrence of material errors, poor judgement in decision-making, human errors, frauds or other irregularities.

The Board reviews the Group's business and operational activities as presented by the management to identify areas of significant risks and recommends as appropriate, the measures to control and mitigate such risks. Annually, the Board reviews the adequacy and effectiveness of the Company's risk management and internal control systems, including financial, operational, compliance and information technology controls.

For the financial year ended 30 June 2016, the Board has received assurance from the CEO and CFO that:

- the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and
- the risk management and internal control systems have been adequate and effective to address the risks which the Group considers relevant and material to its operations.

The Board, with the concurrence of the Audit Committee, is of the opinion that the Group's internal controls (including financial, operational, compliance and information technology controls) and risk management systems have been adequate and effective for the risks which the Group considers relevant and material to its operations for the financial year ended 30 June 2016. This opinion is arrived at based on the framework established and maintained by the Group, the work performed by the internal and external auditors, reviews carried out by Management, as well as assurances received from the CEO and CFO.

PRINCIPLE 12: AUDIT COMMITTEE

Given the growing emphasis accorded to risk management, the Board has nominated the Audit Committee ("AC") to assist the Board in risk management responsibilities and function.

The AC consists of three Directors, all of whom are independent non-Executive Directors. The Chairman of the AC is Mr Lee Kheng Nam. The other two members are Mr Ng Kai Wa and Mr Lee Gwong-Yih. All members of the AC have the appropriate accounting or relevant financial expertise or experience.

The principal functions of the AC, among other matters, are:

- to review and recommend for approval of the Board the quarterly and full year financial results and related announcement to be released on SGX-ST;
- assist the Board to review and oversee the internal controls and the Group's Enterprise Risk Management Framework;
- provide guidance to management and renders assistance to the Board to determine the nature and extent of significant risks which the Board would be willing to take in achieving the Group's strategic objectives;
- to review the scope and results of the audit and its cost-effectiveness and the independence and objectivity of the external auditors;
- to review the scope of work of the appointed internal auditors and evaluate the effectiveness of the internal auditors;
- to review the findings of the internal and external auditors and the response from the management;
- to make recommendations to the Board on the appointment, re-appointment and/or removal of internal and external auditors, and to approve the remuneration and terms of engagement of the internal and external auditors;
- to review interested person transactions;
- to review whistle-blowing investigations within the Group and ensuring appropriate follow-up in accordance with the Group's whistle-blowing policy; and
- reports any material matters, findings and recommendations to the Board.

The number of meetings convened by the AC is set out in Principle 1: The Board's Conduct of its Affairs.

During the financial year, the AC has reviewed with the CFO and the external auditors on changes to accounting standards and issues which are relevant to the Group and have a direct impact on the Group's financial statements.

The Company has in place a whistle-blowing procedure where staff of the Group can raise in confidence concerns on possible improprieties relating to accounting, financial reporting, internal controls and auditing matters. Under these procedures, arrangements are in place for independent investigation of such matters raised and for appropriate follow up action to be taken.

PRINCIPLE 13: INTERNAL AUDIT

The Company outsourced its internal audit function to Boardroom Business Solutions Pte. Ltd. The internal audit team performs risk assessment and conducts review to assess the adequacy and effectiveness of the Group's internal controls. The internal auditors have unrestricted access to the AC on internal audit matters. The AC reviews and endorses the internal audit plan and the internal audit reports which include the audit findings and recommendations of the internal auditors and management's responses to such findings. Any material non-compliance or failures in the internal audit function and the recommendations for improvements are reported to the AC. The AC also reviews the progress of any corrective, preventive or improvement measures as required.

For the financial year ended 30 June 2016, the AC is satisfied that the internal audit function is adequate and effective.

PRINCIPLE 14: SHAREHOLDER RIGHTS

The Group is committed to treat all shareholders fairly and equitably. The Group recognizes, protects and facilitates the exercise of shareholders' rights, and continually reviews and updates such governance arrangements.

The Company ensures that there is adequate, timely and sufficient information pertaining to changes in the Group's business which could be likely to materially affect the share price or value.

The Company ensures that shareholders have the opportunity to participate effectively and vote at the general meetings. Shareholders are also informed of the rules including voting procedures that govern the general meetings.

CORPORATE GOVERNANCE

For the financial year ended 30 June 2016

PRINCIPLE 15: COMMUNICATION WITH SHAREHOLDERS

The Company announces its quarterly and full year results within the regulatory periods. Material and price-sensitive information is publicly released via SGXNET on a timely basis. All shareholders of the Company receive the annual report of the Company and the notice of the Annual General Meeting, for which a notice is also advertised in the press and released via SGXNET. Shareholders and investors can access information on the Company at its website at www.creative.com which provides, inter-alia, corporate announcements, press releases and the latest financial results as disclosed by the Company on SGXNET. From time to time, the Company holds briefings with analysts and the media to coincide with the release of the Group's results. Shareholders may also seek clarification on investor related issues by email provided in the Company's website at www.creative.com.

The Company pays an annual dividend, taking into consideration the Company's financial performance, present cash position, projected cash flow generated from operations and projected capital requirements. This is provided that the amount of dividend declared does not exceed the Company's retained earnings.

PRINCIPLE 16: CONDUCT OF SHAREHOLDER MEETINGS

At general meetings of the Company, shareholders are given the opportunity to communicate their views and ask the Directors and management questions regarding matters affecting the Company. The Board, external auditors and senior management are normally available at the Annual General Meeting to respond to, and to assist the Directors in responding to shareholders' questions.

In accordance with the Constitution of the Company, shareholders may appoint not more than two proxies to attend and vote on their behalf. A proxy need not be a member of the Company. Relevant intermediaries such as the Central Provident Fund and custodian banks are entitled to appoint more than two proxies to attend and vote at the meeting. Shareholders who hold shares through these relevant intermediaries will be allowed to attend and vote at the forthcoming AGM subject to being appointed a proxy by their respective relevant intermediaries.

The Company has adopted electronic poll voting for the general meetings to ensure greater transparency and efficiency in the voting process and results. Shareholders are invited to vote on each of the resolutions by poll, using an electronic voting system. The voting results of all votes cast for or against each resolution are screened at the meeting and announced via the SGXNet after the meeting.

DEALINGS IN SECURITIES

In line with the recommended practices on dealings in securities set out in the SGX-ST Listing Rules, the Company provides internal guidance with regards to dealing in the Company's securities by the Company, its Directors and officers. These guidelines prohibit dealing in the Company's securities on short-term considerations and while in possession of unpublished material price-sensitive information in relation to such securities, and during the period commencing two weeks before the announcement of Group's financial statements for each of the first three quarters of its financial year and one month before the announcement of the Group's full year financial statements.

DIRECTORS' STATEMENT

For the financial year ended 30 June 2016

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 30 June 2016 and the balance sheet of the Company as at 30 June 2016.

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 18 to 61 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 30 June 2016 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

1. DIRECTORS

The directors of the Company in office at the date of this statement are as follows:

Sim Wong Hoo
Lee Kheng Nam
Ng Kai Wa
Lee Gwong-Yih

2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed under "Share options" and "Performance shares" in this statement.

3. DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

- (a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

Name of director	Holdings registered in name of director or nominee			Holdings in which director is deemed to have an interest		
	At 21.7.2016	At 30.6.2016	At 1.7.2015	At 21.7.2016	At 30.6.2016	At 1.7.2015
Creative Technology Ltd (Number of ordinary shares)						
Sim Wong Hoo	23,270,652	23,270,652	23,270,652	–	–	–
Lee Kheng Nam	45,000	45,000	45,000	10,000	10,000	10,000
Ng Kai Wa	2,348,555	2,348,555	2,348,555	–	–	–
Lee Gwong-Yih	45,000	45,000	45,000	–	–	–

In addition, by virtue of his interest of not less than 20% of the issued capital of Creative Technology Ltd., Mr Sim Wong Hoo is also deemed under the Companies Act to have interests in all of the Company's subsidiaries.

- (b) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interests in options to subscribe for ordinary shares of the Company granted pursuant to the Creative Technology (1999) Share Option Scheme ("1999 Scheme") as set out under "Share options" in this statement.

DIRECTORS' STATEMENT

For the financial year ended 30 June 2016

4. SHARE OPTIONS**(a) Employee share option plans**

The Creative Technology (1999) Share Option Scheme ("1999 Scheme") was approved by shareholders at an Extraordinary General Meeting on 30 December 1998 which allows options to be granted to full-time employees as well as consultants and non-executive directors. The total number of shares that may be granted under the 1999 Scheme was 7.5 million, provided that such amount shall be automatically increased on the first day (1 July) of each of the five financial years ended 30 June 2001, 2002, 2003, 2004 and 2005 by four percent of the issued share capital of the Company as at the last day of the immediate preceding financial year. The Option Committee has the discretion to decide the vesting schedule in the letter of offer. If it is not specifically stated in the letter of offer, 1/4 of the total amount of the grant vests on the first anniversary of the grant date and 1/48 of the total amount of the grant vests on the last day of each calendar month thereafter.

The exercise price of the options is determined at the average of the closing prices of the Company's shares as quoted on the Singapore Exchange Securities Trading Limited ("SGX-ST") or the National Association of Securities Dealers Automated Quotations ("NASDAQ") for five market days preceding the date of the grant.

Options expire after the tenth anniversary of the date of grant, except in the case of options granted to participants other than employees, options expire not later than the fifth anniversary of the date of grant. Effective 12 November 2007, amendments were made to the 1999 Scheme to allow the use of treasury shares to satisfy share based exercises. The options under the 1999 Scheme do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.

The 1999 Scheme expired on 29 December 2008 but the options granted prior to the expiry date will continue to vest according to the terms and conditions of the 1999 Scheme and the respective grants.

Details of the Directors' share options are set out as follows:

Name of director	Number of unissued ordinary shares of the Company under option				
	Granted in financial year ended 30.6.2016	Aggregate granted since commencement of scheme to 30.6.2016	Aggregate exercised since commencement of scheme to 30.6.2016	Aggregate options lapsed	Aggregate outstanding as at 30.6.2016
Lee Kheng Nam	–	160,000	80,000	80,000	–
Ng Kai Wa	–	80,000	–	80,000	–

There were no options exercised during the financial years ended 30 June 2016 and 2015.

(b) Share options outstanding

The number of unissued ordinary shares of the Company under option in relation to the 1999 Scheme outstanding at the end of the financial year was as follows:

Grant date	Number of unissued ordinary shares under option at 30.6.2016	Weighted average exercise price	Expiry date
December 2007	1,092,000	US\$4.70	31 December 2017
	1,092,000		

5. PERFORMANCE SHARES

The Creative Performance Share Plan (the “Plan”) was approved by shareholders at an Extraordinary General Meeting on 29 October 2009 under which awards (the “Award”) of fully-paid shares, their equivalent cash value or combinations thereof, will be issued free of charge, to eligible employees and non-executive directors of the Company and its subsidiaries, provided that certain prescribed performance targets are met and/or upon expiry of the prescribed vesting periods.

The aggregate number of shares for which an Award may be granted on any date under the Plan, when added to the number of shares issued and/or issuable in respect of all Awards granted under the Plan and all shares, options or awards granted under any other share option or share scheme of the Company then in force, shall not exceed 15% of the total issued shares of the Company (excluding treasury shares) on the day preceding that date. Outstanding options under the 1999 Scheme are excluded from the computation of the 15% limit for the Plan. The Plan shall continue in force at the discretion of the Committee, subject to a maximum period of 10 years commencing on 29 October 2009.

On 31 March 2010, 2,793,600 performance shares were granted to non-executive directors and employees under the Plan. Of the total performance shares granted, 716,950 shares were vested immediately on the date of grant. The remaining performance shares will be released over 4 annual performance periods subject to the completion of service and the achievement of prescribed performance targets in each of the performance periods.

There were no awards granted under the Plan during the financial years ended 30 June 2016 and 2015. However, as at 30 June 2016, the Committee has extended the performance period till 31 December 2016 for 231,000 performance shares granted on 31 March 2010 that were subject to the achievement of prescribed performance targets.

Details of the Directors’ performance share awards are set out as follows:

Name of director	Granted in financial year ended 30.6.2016	Aggregate granted since commencement of Plan to 30.6.2016	Aggregate released since commencement of Plan to 30.6.2016	Aggregate lapsed since commencement of Plan to 30.6.2016	Aggregate outstanding as at 30.6.2016
Lee Kheng Nam	–	60,000	45,000	15,000	–
Ng Kai Wa	–	60,000	45,000	15,000	–
Lee Gwong-Yih	–	60,000	45,000	15,000	–

No participant was granted 5% or more of the total awards available under the Plan.

No performance shares were awarded to controlling shareholders of the Company or their associates.

DIRECTORS' STATEMENT

For the financial year ended 30 June 2016

6. AUDIT COMMITTEE

At the end of the financial year, the Audit Committee comprises the following members, all of whom are independent non-executive directors:

Lee Kheng Nam (Chairman)
Ng Kai Wa
Lee Gwong-Yih

The Audit Committee carried out its functions in accordance with Section 201B of the Singapore Companies Act, Chapter 50. In performing its functions, the Committee reviewed the overall scope of work of both internal and external audits and the assistance given by the Company's officers to the auditors. It met with the auditors to discuss the results of their examination and evaluation of the system of internal accounting control of the Company and its subsidiaries. The Committee also reviewed the requirements for approval and disclosure of interested person transactions.

The Committee reviewed the balance sheet of the Company and the consolidated financial statements of the Group as well as the independent auditor's report thereon and recommended to the Board of Directors the nomination of PricewaterhouseCoopers LLP as independent auditor of the Company at the forthcoming Annual General Meeting.

7. INDEPENDENT AUDITOR

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

Sim Wong Hoo
Director

15 September 2016

Lee Kheng Nam
Director

INDEPENDENT AUDITOR'S REPORT

to the members of Creative Technology Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of Creative Technology Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 18 to 61, which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 30 June 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2016, and the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date.

Report on other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants

Singapore

15 September 2016

CONSOLIDATED INCOME STATEMENT

For the financial year ended 30 June 2016

	Note	Group	
		2016 US\$'000	2015 US\$'000
Sales, net		84,574	99,482
Cost of goods sold	4	(61,605)	(71,022)
Gross profit		22,969	28,460
Expenses:			
Selling, general and administrative		(36,793)	(36,121)
Research and development		(15,289)	(19,674)
Total expenses	4	(52,082)	(55,795)
Other income	6	354	452
Other gains	7	41,538	9,608
Other losses	8	(1,370)	(16,848)
Share of loss of associated companies	17	(724)	–
Profit (loss) before income tax		10,685	(34,123)
Income tax (expense) credit	9	(7,973)	732
Net profit (loss)		2,712	(33,391)
Attributable to:			
Equity holders of the Company		2,620	(33,400)
Non-controlling interests		92	9
Earnings (loss) per share attributable to equity holders of the Company	10		
- Basic (US\$ per share)		0.04	(0.47)
- Diluted (US\$ per share)		0.04	(0.47)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2016

	Group	
	2016	2015
	US\$'000	US\$'000
Net profit (loss)	2,712	(33,391)
Other comprehensive (loss) income:		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets:		
Fair value (losses) gains	(3,007)	11,571
Reclassification	(2,723)	(9,163)
Total comprehensive loss for the financial year	(3,018)	(30,983)
Total comprehensive (loss) income attributable to:		
Equity holders of the Company	(3,110)	(30,992)
Non-controlling interests	92	9
Total comprehensive loss for the financial year	(3,018)	(30,983)

The accompanying notes form an integral part of these financial statements.

BALANCE SHEETS

As at 30 June 2016

	Note	Group		Company	
		2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
ASSETS					
Current assets:					
Cash and cash equivalents	11	94,738	99,668	88,362	97,373
Trade receivables	12	7,570	9,782	245	4,290
Amounts due from subsidiaries	13	–	–	43,979	31,735
Inventories	14	25,052	28,879	5,153	15,939
Other current assets	15	1,797	1,320	633	422
		129,157	139,649	138,372	149,759
Non-current assets:					
Available-for-sale financial assets	16	11,960	18,239	–	–
Amounts due from subsidiaries	13	–	–	14,923	145,344
Investments in subsidiaries	18	–	–	25,353	25,453
Property and equipment	19	870	1,361	131	369
Other non-current assets	21	190	88	–	–
		13,020	19,688	40,407	171,166
Total assets		142,177	159,337	178,779	320,925
LIABILITIES					
Current liabilities:					
Trade payables	22	9,651	15,639	1,588	10,409
Amounts due to subsidiaries	13	–	–	8,325	12,060
Accrued liabilities and provisions	23	23,377	31,445	11,468	20,451
Current income tax liabilities		347	643	–	–
		33,375	47,727	21,381	42,920
Non-current liabilities:					
Amounts due to subsidiaries	13	–	–	30,162	27,507
Deferred income tax liabilities	24	10,302	9,902	–	–
		10,302	9,902	30,162	27,507
Total liabilities		43,677	57,629	51,543	70,427
NET ASSETS		98,500	101,708	127,236	250,498
EQUITY					
Share capital	25	266,753	266,753	266,753	266,753
Treasury shares	25	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve		6,574	12,304	–	–
Other reserves	26	62,364	62,562	34,900	35,098
Accumulated losses	27	(221,219)	(223,847)	(158,155)	(35,091)
		98,210	101,510	127,236	250,498
Non-controlling interests		290	198	–	–
Total equity		98,500	101,708	127,236	250,498

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2016

	Note	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
2016									
Beginning of financial year		266,753	(16,262)	12,304	62,562	(223,847)	101,510	198	101,708
Profit for the year		–	–	–	–	2,620	2,620	92	2,712
Other comprehensive loss for the year		–	–	(5,730)	–	–	(5,730)	–	(5,730)
Total comprehensive (loss) income for the year		–	–	(5,730)	–	2,620	(3,110)	92	(3,018)
Employee share-based expense	26	–	–	–	(198)	–	(198)	–	(198)
Unclaimed dividends		–	–	–	–	8	8	–	8
Total transactions with owners, recognized directly in equity		–	–	–	(198)	8	(190)	–	(190)
End of financial year		266,753	(16,262)	6,574	62,364	(221,219)	98,210	290	98,500
2015									
Beginning of financial year		266,753	(16,262)	9,896	62,570	(187,695)	135,262	205	135,467
Loss for the year		–	–	–	–	(33,400)	(33,400)	9	(33,391)
Other comprehensive income for the year		–	–	2,408	–	–	2,408	–	2,408
Total comprehensive income (loss) for the year		–	–	2,408	–	(33,400)	(30,992)	9	(30,983)
Employee share-based expense	26	–	–	–	(8)	–	(8)	–	(8)
Liquidation of subsidiary		–	–	–	–	–	–	(16)	(16)
Dividends paid	28	–	–	–	–	(2,752)	(2,752)	–	(2,752)
Total transactions with owners, recognized directly in equity		–	–	–	(8)	(2,752)	(2,760)	(16)	(2,776)
End of financial year		266,753	(16,262)	12,304	62,562	(223,847)	101,510	198	101,708

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2016

	Note	Group	
		2016 US\$'000	2015 US\$'000
Cash flows from operating activities:			
Net profit (loss)		2,712	(33,391)
Adjustments for:			
Income tax expense (credit)		7,973	(732)
Depreciation of property and equipment	4	535	711
Employee share-based expense	5	(198)	(8)
Share of loss of associated companies		724	–
Loss (gain) on disposal of property and equipment	7,8	2	(392)
Impairment loss of available-for-sale financial assets	8	945	4,725
Gain on disposal of available-for-sale financial assets		(2,723)	(9,181)
Currency translation loss		840	11,272
Dividend income	6	(2)	(104)
Interest income	6	(352)	(348)
		10,456	(27,448)
Changes in working capital, net of effects from disposal of subsidiaries			
Trade receivables		2,212	777
Inventories		3,827	43
Other assets and receivables		(554)	568
Trade payables		(5,988)	6,256
Accrued liabilities and provisions		(8,068)	(6,454)
Cash provided by (used in) operations		1,885	(26,258)
Interest received		327	350
Income tax paid		(7,870)	(65)
Net cash used in operating activities		(5,658)	(25,973)
Cash flows from investing activities:			
Purchase of property and equipment		(54)	(99)
Proceeds from sale of property and equipment		8	4,884
Proceeds from sale of available-for-sale financial assets		2,828	12,133
Purchase of available-for-sale financial assets		(500)	(1,900)
Loan to associated company		(724)	–
Dividend received		2	104
Net cash provided by investing activities		1,560	15,122
Cash flows from financing activities:			
Dividends paid to equity holders of the Company		–	(2,752)
Unclaimed dividends		8	–
Net cash provided by (used in) financing activities		8	(2,752)
Net decrease in cash and cash equivalents		(4,090)	(13,603)
Cash and cash equivalents at beginning of financial year	11	99,668	124,638
Effects of currency translation on cash and cash equivalents		(840)	(11,367)
Cash and cash equivalents at end of financial year	11	94,738	99,668

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

Creative Technology Ltd. (the “Company”) is listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”) and incorporated and domiciled in Singapore. The address of its registered office is:

31 International Business Park
#03-01 Creative Resource
Singapore 609921.

The principal activities of the Company and its subsidiaries consist of the design, manufacture and distribution of digitised sound and video boards, computers and related multimedia and personal digital entertainment products.

2. SIGNIFICANT ACCOUNTING POLICIES**2.1 Basis of preparation**

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”) under the historical cost convention, except as disclosed in the accounting policies below.

The Group and the Company conduct a substantial portion of its business in United States dollars (“US\$” or “\$”). All dollar amounts included in the financial statements and in the notes herein are United States dollars unless designated as Singapore dollars (“S\$”). The Group and the Company operate on a thirteen week calendar closing on the Friday closest to the natural calendar quarter. The Group’s financial year 2016 ended on 1 July 2016, the Friday nearest to 30 June 2016, while the prior financial year ended on 26 June 2015. All financial years are described by their natural calendar dates.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group’s accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2015

On 27 June 2015, the Group adopted the new or amended FRS and Interpretations to FRS (“INT FRS”) that are mandatory for application for the financial year. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years.

2.2 Group accounting**(a) Subsidiaries**

Subsidiaries are entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the dates of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition, irrespective of the extent of non-controlling interests. Please refer to the paragraph “Intangible assets – Goodwill on acquisitions” for the accounting policy on goodwill on acquisition of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Group accounting (cont'd)

(a) Subsidiaries (cont'd)

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated income statement, consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

Please refer to the paragraph "Investments in subsidiaries and associated companies" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

(b) Transactions with non-controlling interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Company. Any difference between the change in the carrying amounts of the non-controlling interests and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the equity holders of the Company.

(c) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, and generally accompanied by a shareholding giving rise to between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses.

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associated companies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Dilution gains and losses arising from investments in associated companies are recognised in profit or loss.

Please refer to the paragraph "Investments in subsidiaries and associated companies" for the accounting policy on investments in associated companies in the separate financial statements of the Company.

2.3 Intangible assets

(a) Goodwill on acquisitions

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries and associated companies at the date of acquisition.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Goodwill on associated companies is included in the carrying amount of the investments.

Gains and losses on the disposal of subsidiaries and associated companies include the carrying amount of goodwill relating to the entity sold.

(b) Acquired trademarks and licenses

Trademarks and licenses acquired are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over the shorter of the contractual rights and estimated useful lives of the assets, ranging from one to ten years.

The amortisation period and amortisation method are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

2.4 Impairment of non-financial assets

(a) Goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Goodwill included in the carrying amount of an investment in an associated company is tested for impairment as part of the investment, rather than separately.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units ("CGU") expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised in profit or loss and is not reversed in a subsequent period.

(b) Intangible assets

Property and equipment

Investments in subsidiaries and associated companies

Intangible assets, property and equipment and investments in subsidiaries and associated companies are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.4 Impairment of non-financial assets (cont'd)

(b) Intangible assets

Property and equipment

Investments in subsidiaries and associated companies (cont'd)

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

2.5 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand and short-term bank deposits with various banks which are subject to an insignificant risk of change in value.

2.6 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "cash and cash equivalents", "trade receivables", "amounts due from subsidiaries", other receivables and loan within "other current assets" and "other non-current receivables" on the balance sheet.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is transferred to profit or loss.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs.

(d) Subsequent measurement

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss. Changes in fair values of available-for-sale equity securities are recognised in other comprehensive income and accumulated in the fair value reserve, together with the related currency translation differences.

(e) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(ii) Available-for-sale financial assets

A significant or prolonged decline in the fair value of an equity security below its cost is considered as an indicator that the available-for-sale financial asset is impaired.

If any evidence of impairment exists, the cumulative loss that was recognised in the fair value reserve is reclassified to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised as an expense. The impairment losses recognised as an expense on equity securities are not reversed through profit or loss.

2.7 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using standard cost, appropriately adjusted at the balance sheet date to approximate actual cost on a weighted average basis. In the case of finished products, cost includes materials, direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.8 Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.9 Property and equipment

(a) Measurement

Property and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Cost recognised includes purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.9 Property and equipment (cont'd)

(b) Depreciation

No depreciation is provided on freehold land. Depreciation is calculated using the straight line method to allocate their depreciable amounts over the estimated useful lives as follows:

Leasehold improvements	- Shorter of lease term or useful life
Buildings	- 20 to 30 years
Machinery and equipment	- 1 to 6 years
Furniture, fixtures and office equipment	- 1 to 8 years

The residual values, estimated useful lives and depreciation methods are reviewed and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

(c) Subsequent measurement

Subsequent expenditure relating to property and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) Disposal

On disposal of an item of property and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss when incurred.

2.10 Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

2.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

(a) Warranties

The warranty provision represents management's best estimate of probable liability under its product warranties. Management determines the warranty provision based on known product failures (if any), historical experience, and other currently available evidence.

(b) Provision for legal claims and fees

Management records provisions when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

(c) Other provisions

Other provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in profit or loss.

2.12 Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

2.13 Revenue recognition

Sales comprise the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Sales are presented net of value-added tax, rebates and discounts, and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue and related cost can be reliably measured, the Group has delivered the products to the customers, the customers have accepted the products, significant risks and rewards of ownership have been transferred and when it is probable that the collectability of the related receivables is reasonably assured. License income is recognised based on the consideration in relation to the assignment of rights for a fixed fee; this revenue is recognised upon completion of the contract.

Allowances are provided for estimated returns and discounts based on historical experience, current economic trends and changes in customer demand and acceptance of its products. Such allowances are adjusted periodically to reflect actual and anticipated experience. When recognising revenue, the Group records estimated reductions to revenue for customer and distributor programs and incentive offerings, including price protection, promotions, other volume-based incentives and rebates.

2.14 Research and development costs

As the Group cannot definitively distinguish the research phase from the development phase of its internal projects to create intangible assets, the Group treats the expenditure on its internal projects as if they were incurred in the research phase only. Accordingly, all research and development costs are recognised as an expense when incurred.

2.15 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and associated companies, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.16 Operating leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease. When a lease is terminated before the lease period expires, any payment made (or received) by the Group as penalty is recognised as an expense (or income) when termination takes place.

2.17 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund or pension on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

(b) Share-based compensation

Share options

The share options plan is an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of options is recognised as an expense in profit or loss with a corresponding increase in share-based compensation reserves over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to share-based compensation reserves over the remaining vesting period.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in other reserves are credited to share capital account when new ordinary shares are issued, or to the "treasury shares" account when treasury shares are re-issued to the employees.

Performance shares

The performance share plan contemplates the award of fully-paid ordinary shares, their equivalent cash value or combinations thereof, free of charge, provided that certain prescribed performance targets are met and/or upon expiry of the prescribed vesting periods.

The fair value of employee services received in exchange for the grant of the awards is recognised as a share-based compensation expense in profit or loss with a corresponding increase in the share-based compensation reserves over the vesting period. The amount is determined by reference to the fair value of the performance shares on the grant date.

If the performance target is a market condition, the probability of the performance target being met is taken into account in estimating the fair value of the ordinary shares granted at the grant date. The compensation expense is charged to profit or loss on a basis that fairly reflects the manner in which the benefits will accrue to the employee under the plan over the prescribed vesting periods from date of grant. No adjustments to the amounts charged to profit or loss are made whether or not the market condition is met.

For performance share grants with non-market conditions, the Company revises its estimates of the number of share grants expected to vest and corresponding adjustments are made to profit or loss and share-based compensation reserves.

2.18 Currency translation

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The functional currency of the Company is the United States Dollar (“US\$”), which reflects the economic environment in which the activities of the Company are largely exposed to. The financial statements are presented in United States Dollar.

(b) Transactions and balances

Transactions in a currency other than the United States Dollar (“foreign currency”) are translated into the United States Dollar using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates prevailing at the date when the fair values are determined.

(c) Translation of Group entities’ financial statements

The results and financial position of all the Group’s entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency by way of assets and liabilities being translated at the closing exchange rates prevailing at the date of the balance sheet, and income and expenses being translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated using the exchange rates at the dates of the transactions).

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the date of the balance sheet.

2.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

2.20 Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

Where the Company’s ordinary shares are repurchased (“treasury shares”), the consideration paid, including any directly attributable incremental cost, is presented as a component within equity attributable to the Company’s equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share options and performance share plan, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in other reserves of the Company.

2.21 Dividends to Company’s shareholders

Dividends to the Company’s shareholders are recognised when the dividends are approved for payment.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Revenue recognition

Allowances are provided for estimated returns and discounts. Management analyses historical returns, current economic trends and changes in customer demand and acceptance of its products when evaluating the adequacy of the sales returns allowance. Such allowances are adjusted periodically to reflect actual and anticipated experience. When recognising revenue, the Group records estimated reductions to revenue for customer and distributor programs and incentive offerings, including price protection, promotions, other volume-based incentives and rebates. Significant management judgement and estimates must be used in connection with establishing these allowances in any accounting period. The Group may take action when necessary in response to market conditions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered. The Group's net revenue for the financial year ended 30 June 2016 was US\$84,574,000 (2015: US\$99,482,000).

(b) Impairment of loans and receivables

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

(c) Valuation of inventories

The Group states inventories at the lower of cost and net realisable value. The Group records a write-down for inventories of components and products which have become obsolete or are in excess of anticipated demand or net realisable value. Management performs a detailed assessment of inventory at each balance sheet date to establish provisions for excess and obsolete inventories. Management's evaluation includes a review of, among other factors, historical sales, current economic trends, forecasted sales, demand requirements, product life cycle and product development plans, quality issues, and current inventory levels. The markets for PC peripherals and personal digital entertainment products are subject to a rapid and unpredictable pace of product and component obsolescence and demand changes. If future demand or market conditions for the Group's products are less favourable than forecasted or if unforeseen technological changes negatively impact the utility of component inventory, the Group may be required to record write-downs which would negatively affect gross margins in the period when the write-downs are recorded and its operating results and financial position could be adversely affected. The carrying amount of the Group's inventories at 30 June 2016 was US\$25,052,000 (2015: US\$28,879,000).

(d) Assessment of the probability of the outcome of current litigation

The Group is subject to certain legal proceedings, lawsuits and other claims. Assessments are made by management on a case-by-case basis to make a determination as to the impact, if any, on the business, liquidity, results of operations, financial condition or cashflows. Management believes that the ultimate outcome of the legal proceedings, lawsuits and other claims, individually and in aggregate will not have a material adverse impact to the Group.

(e) Income taxes

In preparing its financial statements, the Group estimates its income taxes for each of the jurisdictions in which it operates. This involves estimating the actual current tax exposure, assessing temporary differences resulting from differing treatment of items, such as reserves and provisions for tax and accounting purposes, and accounting for uncertainty in income taxes. These differences result in current and deferred income tax liabilities, which are included within the Group's consolidated balance sheet. The Group recognises deferred income tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised. The Group's income tax liabilities were US\$347,000 (2015: US\$643,000) and deferred income tax liabilities were US\$10,302,000 (2015: US\$9,902,000) at 30 June 2016.

4. EXPENSES BY NATURE

Included in the cost of goods sold, selling, general and administrative and research and development expenses are the following:

	Group	
	2016	2015
	US\$'000	US\$'000
Depreciation of property and equipment (Note 19)	535	711
Employee compensation (Note 5)	30,248	34,600
Advertising expenses	3,950	3,089
Rental expenses on operating leases	4,490	4,928
Research and development related expenses	1,601	2,691
Travel, entertainment and transportation expenses	848	1,127
Inventory write-off	872	1,911
Legal fees	8,453	5,454

5. EMPLOYEE COMPENSATION

	Group	
	2016	2015
	US\$'000	US\$'000
Wages and salaries	23,940	31,618
Employer's contribution to defined contribution plans including Central Provident Fund	2,441	2,990
Termination benefits	4,065	–
Employee share-based expense (Note 26)	(198)	(8)
	30,248	34,600

6. OTHER INCOME

	Group	
	2016	2015
	US\$'000	US\$'000
Interest income	352	348
Dividend income	2	104
	354	452

7. OTHER GAINS

	Group	
	2016	2015
	US\$'000	US\$'000
Gain/reclassification on disposal of available-for-sale financial assets	2,723	9,181
Gain on disposal of property and equipment	–	392
Litigation settlement	33,500	–
Write-back of subcontract accruals (Note 23)	5,200	–
Other gains	115	35
	41,538	9,608

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

8. OTHER LOSSES

	Group	
	2016	2015
	US\$'000	US\$'000
Impairment loss of available-for-sale financial assets (Note 16)	945	4,725
Loss on disposal of property and equipment	2	–
Currency translation loss	423	12,123
	1,370	16,848

9. INCOME TAXES

	Group	
	2016	2015
	US\$'000	US\$'000
Tax expense (credit) attributable to profit (loss) is made up of:		
Current income tax:		
- Tax expense for current financial year	56	–
- Withholding tax	7,888	94
	7,944	94
Under (over) provision in prior financial years :		
- Current income tax	(371)	(26)
- Deferred income tax (Note 24)	400	(800)
	7,973	(732)

The tax expense on Group's results differs from the theoretical amount that would arise using the Singapore standard rate of income tax as follows:

	Group	
	2016	2015
	US\$'000	US\$'000
Profit (loss) before income tax	10,685	(34,123)
Share of loss of associated companies	(724)	–
Profit (loss) before tax and share of loss of associated companies	11,409	(34,123)
Tax calculated at tax rate of 17% (2015: 17%)	1,940	(5,801)
Effects of		
- tax exempt income	(4,896)	(326)
- income not subject to tax	(113)	(650)
- expenses not deductible for tax purposes	161	2,466
- different tax rates in other countries	104	356
- deferred tax assets not recognised	3,463	4,340
- utilisation of tax losses and other reserves	(605)	(385)
- withholding tax	7,888	94
- under (over) provision in previous financial years	31	(826)
Tax expense (credit)	7,973	(732)

10. EARNINGS (LOSS) PER SHARE

	Group			
	2016		2015	
	Basic US\$'000	Diluted US\$'000	Basic US\$'000	Diluted US\$'000
Net profit (loss) attributable to equity holders of the Company	<u>2,620</u>	<u>2,620</u>	<u>(33,400)</u>	<u>(33,400)</u>
	Number of Shares '000		Number of Shares '000	
Weighted average number of ordinary shares outstanding	<u>70,332</u>	<u>70,332</u>	70,332	70,332
Adjustments for dilutive effects of				
– share options	–	–	–	–
– performance shares	–	<u>231</u>	–	–
Weighted average number of ordinary shares used to compute earnings (loss) per share	<u>70,332</u>	<u>70,563</u>	<u>70,332</u>	<u>70,332</u>
Earnings (loss) per share (US\$)	<u>0.04</u>	<u>0.04</u>	<u>(0.47)</u>	<u>(0.47)</u>

Basic earnings (loss) per share is calculated by dividing the net profit (loss) attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

For the purpose of calculating diluted earnings per share, profit (loss) attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The two categories of dilutive potential ordinary shares of the Company are share options and performance shares.

For share options, the weighted average number of shares in issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration.

For performance shares, the weighted average number of shares in issue is adjusted as if all outstanding performance shares are released.

Share options and performance shares had been excluded from the calculation of diluted loss per share for the financial year ended 30 June 2015 as their effects would be anti-dilutive (ie. loss per share would have been reduced in the event that share options and performance shares were exercised or vested). Thus, the diluted loss per share was the same as the basic loss per share for the financial year ended 30 June 2015.

11. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Cash at bank and on hand	<u>25,984</u>	56,824	<u>19,741</u>	54,650
Short-term bank deposits	<u>68,754</u>	42,844	<u>68,621</u>	42,723
	<u>94,738</u>	<u>99,668</u>	<u>88,362</u>	<u>97,373</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

12. TRADE RECEIVABLES

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Trade receivables				
- Associated companies	40	217	40	217
- Non-related parties	11,196	13,774	2,235	6,786
	11,236	13,991	2,275	7,003
Less: Allowance for sales returns and impairment of receivables	(3,666)	(4,209)	(2,030)	(2,713)
Trade receivables - net	7,570	9,782	245	4,290

13. AMOUNTS DUE FROM (TO) SUBSIDIARIES

	Company	
	2016 US\$'000	2015 US\$'000
Amounts due from subsidiaries - current		
- Trade	1,982	26,624
- Non-trade	57,954	23,068
	59,936	49,692
Less: Allowance for impairment	(15,957)	(17,957)
	43,979	31,735
Amounts due from subsidiaries - non-current		
- Trade	21,184	22,383
- Non-trade	154,173	167,805
	175,357	190,188
Less: Allowance for impairment	(160,434)	(44,844)
	14,923	145,344
Amounts due to subsidiaries - current		
- Trade	(3,440)	(3,715)
- Non-trade	(4,885)	(8,345)
	(8,325)	(12,060)
Amounts due to subsidiaries - non-current		
- Trade	(19,105)	(19,105)
- Non-trade	(11,057)	(8,402)
	(30,162)	(27,507)

The non-trade amounts due from and due to subsidiaries are interest-free and unsecured.

The current portions of non-trade amounts due from and due to subsidiaries are repayable on demand. There is no fixed repayment terms for the non-current portions of non-trade amounts due from and due to subsidiaries.

Management has assessed the fair values of the non-current amounts due from and due to subsidiaries and concluded that the fair values at balance sheet date approximate carrying values.

14. INVENTORIES

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Raw materials	6,859	4,933	5,041	4,904
Finished products	18,193	23,946	112	11,035
	25,052	28,879	5,153	15,939

The cost of inventories recognised in “cost of goods sold” amounts to US\$60,481,000 (2015: US\$69,270,000).

15. OTHER CURRENT ASSETS

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Prepaid expenses and security deposits	1,097	826	512	276
Prepaid non-income taxes	512	221	–	–
Other receivables from associated companies	3	30	3	30
Other receivables from non-related parties	185	243	118	116
Loan to non-related party	–	12,762	–	12,762
	1,797	14,082	633	13,184
Less: Allowance for impairment of loan to non-related party	–	(12,762)	–	(12,762)
	1,797	1,320	633	422

In July 2007, the Company divested 80.1% of its interest in its then wholly owned manufacturing subsidiary in Malaysia (“ex-subsiidiary”). Prior to divestment date, the Company had made loans to the ex-subsiidiary for the purchase of properties, construction of factory and working capital purposes amounting to approximately US\$36,900,000. Under the terms of the divestment agreement, this amount would be repaid in various instalments up to 1 June 2011, of which US\$24,100,000 had been repaid to date. Subsequent to the financial year ended 30 June 2009, the Company was informed that the ex-subsiidiary had decided to end all manufacturing business with the Company in view of the ex-subsiidiary’s unfavourable business and financial situation. The ex-subsiidiary is in the process of liquidation and the Company has made provision for the total outstanding balance of US\$12,762,000 since the financial year ended 30 June 2009. As the amount is deemed not recoverable, the Company has written-off this outstanding balance against the provision in the financial year ended 30 June 2016.

The other receivables from associated companies and non-related parties are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Beginning of financial year	18,239	21,608	-	-
Fair value losses (gains) recognised in other comprehensive income	(3,007)	11,571	-	-
Additions	500	1,900	-	-
Disposals	(2,827)	(12,115)	-	-
Impairment losses (Note 8)	(945)	(4,725)	-	-
End of financial year	11,960	18,239	-	-

Available-for-sale financial assets are analysed as follows:

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Listed equity securities	4,491	10,848	-	-
Unlisted equity securities	7,469	7,391	-	-
	11,960	18,239	-	-

The Group has recognised impairment losses of US\$945,000 (2015: US\$4,725,000) against securities whose fair values were below cost during the financial year.

17. INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2016 US\$'000	2015 US\$'000
Unquoted shares at cost	1,886	1,886
Loan to associated company	1,924	1,200
	3,810	3,086
Share of post-acquisition reserves	(3,810)	(3,086)
	-	-

The Group has no material associates as at the financial years ended 30 June 2016 and 2015. The Group's share in the net loss and total comprehensive loss of associated companies are as follow:

	Group	
	2016 US\$'000	2015 US\$'000
Loss for the year	(576)	(927)
Other comprehensive income	41	20
Total comprehensive loss	(535)	(907)

For the financial year ended 30 June 2016, the Group has granted a loan of US\$724,000 to the associated company and recognized share of loss of US\$724,000 (FY2015: Nil).

As at 30 June 2016, the Group has not recognized losses totaling US\$1,060,000 (FY2015: US\$1,249,000) in relation to its interests in associates.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2016 US\$'000	2015 US\$'000
<i>Equity investments at cost</i>		
Beginning of financial year	228,654	227,606
Additions	–	5,000
Liquidations	–	(3,952)
End of financial year	<u>228,654</u>	<u>228,654</u>
<i>Accumulated impairment</i>		
Beginning of financial year	(203,201)	(202,900)
Additions	(100)	(3,500)
Reversal following liquidation	–	3,199
End of financial year	<u>(203,301)</u>	<u>(203,201)</u>
Net carrying value at end of financial year	<u>25,353</u>	<u>25,453</u>

In the financial year ended 30 June 2015, the Group's wholly-owned subsidiary, Creative Labs Pte Ltd, has issued 5,000,000 ordinary shares for a cash consideration of US\$5,000,000 which is used for working capital. All issued ordinary shares of Creative Labs Pte Ltd are subscribed and fully paid by the Company.

The impairment loss of US\$100,000 in the financial year ended 30 June 2016 (2015: US\$3,500,000) reflects the write-down of the carrying amount of the Company's investments in certain subsidiaries to the recoverable amount following a review of the subsidiaries' net assets value.

Details of significant subsidiaries are included in Note 36.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

19. PROPERTY AND EQUIPMENT

	Leasehold improvements US\$'000	Land and buildings US\$'000	Machinery and equipment US\$'000	Furniture, fixtures and office equipment US\$'000	Total US\$'000
Group					
2016					
<i>Cost</i>					
Beginning of financial year	2,427	2,455	3,150	12,750	20,782
Additions	–	–	5	49	54
Disposals	(1,236)	–	(1,136)	(6,992)	(9,364)
Reclassification	–	–	381	(381)	–
End of financial year	<u>1,191</u>	<u>2,455</u>	<u>2,400</u>	<u>5,426</u>	<u>11,472</u>
<i>Accumulated depreciation</i>					
Beginning of financial year	2,351	1,680	2,839	12,551	19,421
Depreciation charge (Note 4)	71	62	251	151	535
Disposals	(1,236)	–	(1,132)	(6,986)	(9,354)
Reclassification	–	–	381	(381)	–
End of financial year	<u>1,186</u>	<u>1,742</u>	<u>2,339</u>	<u>5,335</u>	<u>10,602</u>
Net book value					
End of financial year	<u><u>5</u></u>	<u><u>713</u></u>	<u><u>61</u></u>	<u><u>91</u></u>	<u><u>870</u></u>
Group					
2015					
<i>Cost</i>					
Beginning of financial year	2,448	15,999	3,148	13,382	34,977
Additions	4	–	15	80	99
Disposals	(25)	(13,544)	(13)	(712)	(14,294)
End of financial year	<u>2,427</u>	<u>2,455</u>	<u>3,150</u>	<u>12,750</u>	<u>20,782</u>
<i>Accumulated depreciation</i>					
Beginning of financial year	2,297	10,607	2,604	13,004	28,512
Depreciation charge (Note 4)	79	125	248	259	711
Disposals	(25)	(9,052)	(13)	(712)	(9,802)
End of financial year	<u>2,351</u>	<u>1,680</u>	<u>2,839</u>	<u>12,551</u>	<u>19,421</u>
Net book value					
End of financial year	<u><u>76</u></u>	<u><u>775</u></u>	<u><u>311</u></u>	<u><u>199</u></u>	<u><u>1,361</u></u>

During the financial year ended 30 June 2015, a wholly-owned subsidiary in Ireland has disposed its freehold property for net proceeds of US\$4,884,000.

	Leasehold improvements US\$'000	Machinery and equipment US\$'000	Furniture, fixtures and office equipment US\$'000	Total US\$'000
<u>Company</u>				
2016				
<i>Cost</i>				
Beginning of financial year	1,715	3,052	9,380	14,147
Additions	–	5	16	21
Disposals	(720)	(762)	(4,835)	(6,317)
End of financial year	995	2,295	4,561	7,851
<i>Accumulated depreciation</i>				
Beginning of financial year	1,645	2,945	9,188	13,778
Depreciation charge	69	50	133	252
Disposals	(719)	(759)	(4,832)	(6,310)
End of financial year	995	2,236	4,489	7,720
<i>Net book value</i>				
End of financial year	–	59	72	131
<u>Company</u>				
2015				
<i>Cost</i>				
Beginning of financial year	1,739	3,050	9,755	14,544
Additions	1	15	75	91
Disposals	(25)	(13)	(450)	(488)
End of financial year	1,715	3,052	9,380	14,147
<i>Accumulated depreciation</i>				
Beginning of financial year	1,592	2,911	9,390	13,893
Depreciation charge	78	47	248	373
Disposals	(25)	(13)	(450)	(488)
End of financial year	1,645	2,945	9,188	13,778
<i>Net book value</i>				
End of financial year	70	107	192	369

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

20. INTANGIBLE ASSETS

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Goodwill arising on consolidation (Note (a))	-	-	-	-
Trademarks and licences (Note (b))	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(a) Goodwill arising on consolidation

	Group	
	2016 US\$'000	2015 US\$'000
<i>Cost</i>		
Beginning and end of financial year	<u>2,262</u>	<u>2,262</u>
<i>Accumulated amortisation</i>		
Beginning and end of financial year	<u>2,262</u>	<u>2,262</u>
Net book value	<u>-</u>	<u>-</u>

(b) Trademarks and licences

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
<i>Cost</i>				
Beginning of financial year	<u>11,847</u>	16,574	-	-
Write-off	<u>-</u>	(4,727)	-	-
End of financial year	<u>11,847</u>	<u>11,847</u>	-	-
<i>Accumulated amortisation</i>				
Beginning of financial year	<u>11,847</u>	16,574	-	-
Write-off	<u>-</u>	(4,727)	-	-
End of financial year	<u>11,847</u>	<u>11,847</u>	-	-
Net book value	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

21. OTHER NON-CURRENT ASSETS

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Security deposits	190	88	-	-
	<u>190</u>	<u>88</u>	<u>-</u>	<u>-</u>

22. TRADE PAYABLES

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Trade payables				
- Non-related parties	9,651	15,596	1,588	10,366
- Associated companies	-	43	-	43
	<u>9,651</u>	<u>15,639</u>	<u>1,588</u>	<u>10,409</u>

23. ACCRUED LIABILITIES AND PROVISIONS

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Marketing accruals	3,613	3,470	68	605
Payroll accruals	3,209	4,702	1,408	3,782
Warranty (Note (a))	583	793	-	792
Restructuring (Note (b))	989	1,343	281	281
Royalty accruals	2,006	2,179	84	325
Legal claims and fees (Note (c))	5,971	6,376	5,750	5,150
Deposits and other creditors	2,146	1,477	936	1,009
Subcontract accruals (Note 7)	-	5,200	-	5,200
Freight and duty accruals	222	583	-	183
Professional fees accruals	705	768	449	582
Other accruals	3,933	4,554	2,492	2,542
	<u>23,377</u>	<u>31,445</u>	<u>11,468</u>	<u>20,451</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

23. ACCRUED LIABILITIES AND PROVISIONS (cont'd)**(a) Warranty**

The warranty period for the bulk of the products typically ranges between 1 to 2 years. The product warranty provision reflects management's best estimate of probable liability under its product warranties. Management determines the warranty provision based on known product failures (if any), historical experience, and other currently available evidence.

Movements in provision for warranty are as follows:

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Beginning of financial year	793	976	792	975
Provision made (write-back)	331	(13)	(652)	(13)
Provision utilised	(541)	(170)	(140)	(170)
End of financial year	583	793	–	792

(b) Restructuring

Movements in provision for restructuring are as follows:

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Beginning of financial year	1,343	1,343	281	281
Currency translation difference	(91)	–	–	–
Provision utilised	–	–	–	–
Provision written back	(263)	–	–	–
End of financial year	989	1,343	281	281

(c) Legal claims and fees

The provision for legal claims is in respect of certain legal claims brought against the Group. In the opinion of management, after taking appropriate legal advice, the outcomes of these legal claims are not expected to give rise to any significant loss beyond the amounts provided at 30 June 2016. Management considers that disclosure of further details of these claims will seriously prejudice the Group's negotiating position and accordingly, further information on the nature of the obligation has not been provided.

24. DEFERRED INCOME TAX LIABILITIES

Movements in deferred income tax account are as follows:

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Beginning of financial year	9,902	10,702	–	–
Additional (over) provision in prior financial years (Note 9)	400	(800)	–	–
End of financial year	10,302	9,902	–	–

Deferred income tax liabilities (assets) consist of the following:

	Unremitted offshore interest income US\$'000	Undistributed profits of foreign subsidiaries US\$'000	Transfer pricing and withholding tax US\$'000	Others US\$'000	Total deferred tax liabilities US\$'000	Deferred tax assets- tax losses US\$'000	Net deferred tax liabilities US\$'000
Group							
2016							
Beginning of financial year	5,388	–	9,902	–	15,290	(5,388)	9,902
(Over) additional provision	(5,388)	–	400	–	(4,988)	5,388	400
End of financial year	–	–	10,302	–	10,302	–	10,302
2015							
Beginning of financial year	5,388	6,412	6,700	4,002	22,502	(11,800)	10,702
(Over) additional provision	–	(6,412)	3,202	(4,002)	(7,212)	6,412	(800)
End of financial year	5,388	–	9,902	–	15,290	(5,388)	9,902

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

24. DEFERRED INCOME TAX LIABILITIES (cont'd)

	Unremitted offshore interest income US\$'000	Undistributed profits of foreign subsidiaries US\$'000	Total deferred tax liabilities US\$'000	Deferred tax assets -tax losses US\$'000	Net deferred tax liabilities US\$'000
Company					
2016					
Beginning of financial year	5,388	–	5,388	(5,388)	–
Over provision	(5,388)	–	(5,388)	5,388	–
End of financial year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
2015					
Beginning of financial year	5,388	6,412	11,800	(11,800)	–
Over provision	–	(6,412)	(6,412)	6,412	–
End of financial year	<u>5,388</u>	<u>–</u>	<u>5,388</u>	<u>(5,388)</u>	<u>–</u>

The deferred income tax liabilities/assets are expected to be settled/recovered after one year.

Deferred income tax assets are recognised for tax losses and other reserves carried forward to the extent that realisation of the related tax benefits through future taxable profit is probable. The deferred tax asset of US\$5,388,000 as at the financial year ended 30 June 2015 pertains to losses brought forward from the previous financial years which can be used to offset certain future tax liabilities.

Respectively, the Group and the Company have unrecognised tax losses of approximately US\$682,000,000 and US\$406,000,000 (2015: US\$628,000,000 and US\$360,000,000) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses in their respective countries of incorporation. Approximately US\$197,000,000 of the Group's tax losses expire between 2017 and 2036. The Group also has United States tax deductions not included in unrecognised tax losses of approximately US\$60,000,000 (2015: US\$60,000,000) as a result of the exercise of employee share options of which the tax benefit has not been realised. The tax benefit of the deductions, when realised will be accounted for as a credit to other reserves rather than a reduction of the income tax expense.

25. SHARE CAPITAL AND TREASURY SHARES

	Number of ordinary shares		Amount	
	Issued share capital '000	Treasury shares '000	Share capital US\$'000	Treasury shares US\$'000
Group and Company				
2016				
Beginning and end of financial year	<u>75,000</u>	<u>(4,668)</u>	<u>266,753</u>	<u>(16,262)</u>
2015				
Beginning and end of financial year	<u>75,000</u>	<u>(4,668)</u>	<u>266,753</u>	<u>(16,262)</u>

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

(a) Treasury shares

No shares were acquired in the financial years ended 30 June 2016 and 2015.

The Company did not issue any treasury shares pursuant to the Creative Technology (1999) Share Option Scheme ("1999 Scheme") in the financial years ended 30 June 2016 and 30 June 2015.

For the financial year ended 30 June 2016, the Company did not issue any treasury shares (2015: nil) pursuant to the Creative Performance Share Plan.

(b) Share options

The Creative Technology (1999) Share Option Scheme ("1999 Scheme") was approved by shareholders at an Extraordinary General Meeting on 30 December 1998 which allows options to be granted to full-time employees as well as consultants and non-executive directors. The total number of shares that may be granted under the 1999 Scheme was 7.5 million, provided that such amount shall be automatically increased on the first day (1 July) of each of the five financial years ended 30 June 2001, 2002, 2003, 2004 and 2005 by four percent of the issued share capital of the Company as at the last day of the immediate preceding financial year. The Option Committee has the discretion to decide the vesting schedule in the letter of offer. If it is not specifically stated in the letter of offer, 1/4 of the total amount of the grant vests on the first anniversary of the grant date and 1/48 of the total amount of the grant vests on the last day of each calendar month thereafter.

The exercise price of the options is determined at the average of the closing prices of the Company's shares as quoted on the SGX-ST or the National Association of Securities Dealers Automated Quotations ("NASDAQ") for five market days preceding the date of the grant.

Options expire after the tenth anniversary of the date of grant, except in the case of options granted to participants other than employees, options expire not later than the fifth anniversary of the date of grant. Effective 12 November 2007, amendments were made to the 1999 Scheme to allow the use of treasury shares to satisfy share based exercises. The options under the 1999 Scheme do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.

The 1999 Scheme expired on 29 December 2008 but the existing options granted prior to the expiry date will continue to vest according to the terms and conditions of the 1999 Scheme and the respective grants.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

25. SHARE CAPITAL AND TREASURY SHARES (cont'd)**(b) Share options (cont'd)**

Movements in the number of unissued ordinary shares under option and their exercise prices were as follows:

	Number of options (‘000)	Weighted average exercise price (US\$)
Outstanding at 30 June 2014	2,520	5.62
Exercised	–	–
Cancelled/Forfeited/Expired	(395)	6.06
Outstanding at 30 June 2015	2,125	5.54
Exercised	–	–
Cancelled/Forfeited/Expired	(1,033)	6.43
Outstanding at 30 June 2016	1,092	4.70
Exercisable at 30 June 2016	1,092	4.70

There were no options exercised during the financial years ended 30 June 2016 and 2015.

The options outstanding as at 30 June 2016 and 30 June 2015 were in the following exercise price ranges:

Range of exercise prices	2016		2015	
	Number of shares outstanding (‘000)	Weighted average remaining contractual term (in years)	Number of shares outstanding (‘000)	Weighted average remaining contractual term (in years)
US\$3.00 to US\$4.99	1,092	1.50	1,462	2.52
US\$5.00 to US\$10.99	–	–	663	0.31
	<u>1,092</u>	<u>1.50</u>	<u>2,125</u>	<u>1.83</u>

(c) Performance shares

The Creative Performance Share Plan (the “Plan”) was approved by shareholders at an Extraordinary General Meeting on 29 October 2009 under which awards (the “Award”) of fully-paid shares, their equivalent cash value or combinations thereof, will be issued free of charge, to eligible employees and non-executive directors of the Company and its subsidiaries, provided that certain prescribed performance targets are met and/or upon expiry of the prescribed vesting periods.

On 31 March 2010, 2,793,600 performance shares were granted subject to the terms and conditions of the Plan. Of the total performance shares granted, 716,950 shares were vested immediately on the date of grant.

There were no awards granted under the Plan during the financial years ended 30 June 2016 and 2015. However, as at 30 June 2016, the Committee has extended the performance period till 31 December 2016 for 231,000 performance shares granted on 31 March 2010 that were subject to the achievement of prescribed performance targets.

The fair value of the performance shares is determined at the grant date using the Monte Carlo simulation model which involves projecting future outcomes based on statistical distributions of key random variables including share price and volatility of returns.

The fair values and assumption inputs used in the model are as follows:

Grant date	Vesting date	Number of shares ('000)	Fair value per share US\$	Expected volatility %	Dividend yield %	Risk-free interest rate %	Share price at grant date US\$
31.3.2010	31.3.2011	514.5	3.49	56.07	1.99	0.45	3.57
31.3.2010	31.3.2012	514.5	3.40	56.07	1.99	0.62	3.57
31.3.2010	31.3.2013	514.5	3.33	56.07	1.99	0.72	3.57
31.3.2010	31.3.2014	514.5	3.29	56.07	1.99	1.08	3.57

Movements in the number of performance shares are as follows:

Grant date	Outstanding at 1 July 2015 ('000)	Granted ('000)	Vested and released ('000)	Cancelled ('000)	Outstanding at 30 June 2016 ('000)
31 March 2010	285	–	–	(54)	231

Grant date	Outstanding at 1 July 2014 ('000)	Granted ('000)	Vested and released ('000)	Cancelled ('000)	Outstanding at 30 June 2015 ('000)
31 March 2010	287	–	–	(2)	285

There were no shares released during the financial years ended 30 June 2016 and 2015.

26. OTHER RESERVES

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
(a) Composition:				
Capital reserves	19,932	19,932	6,951	6,951
Share-based compensation reserves (Note (b))	42,432	42,630	27,949	28,147
	62,364	62,562	34,900	35,098

Capital reserves arose from changes of interests in the group companies in prior financial years. Share-based compensation reserves comprised mainly of compensation expense for share options, tax benefits relating to exercise of non-qualified share options by US employees, performance share plans and Chairman's gift of shares to employees.

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For the financial year ended 30 June 2016

26. OTHER RESERVES (cont'd)

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
(b) Movements:				
Share-based compensation reserves				
Beginning of financial year	42,630	42,638	28,147	28,155
Amortisation of deferred share compensation (Note 5)	(198)	(8)	(198)	(8)
End of financial year	42,432	42,630	27,949	28,147

27. ACCUMULATED LOSSES

Movements in accumulated losses for the Company are as follows:

	Company	
	2016 US\$'000	2015 US\$'000
Beginning of financial year	(35,091)	4,402
Net loss	(123,072)	(36,741)
Unclaimed dividends (dividends paid) (Note 28)	8	(2,752)
End of financial year	(158,155)	(35,091)

28. DIVIDENDS

No dividend was paid in respect of the previous financial year and no dividend has been proposed for the financial year ended 30 June 2016. Final exempt dividend of US\$2,752,000 at S\$0.05 per share was paid in the financial year ended 30 June 2015.

29. CONTINGENCIES

The Company has issued banker's guarantee of US\$1,335,000 (2015: US\$1,335,000) to its landlord as security deposit for its office building in Singapore.

30. COMMITMENTS**(a) Capital and other commitments**

Capital and other expenditures contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	Group		Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Property and equipment	4	5	–	5
Purchase obligations	5,598	2,714	2,872	2,680
	5,602	2,719	2,872	2,685

(b) Operating lease commitments – where the Group is a lessee

The Group leases office space from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	Group	
	2016 US\$'000	2015 US\$'000
Not later than one year	3,569	3,903
Between one and five years	3,835	7,133
	7,404	11,036

31. FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The Group's principal financial instruments, other than foreign exchange contracts, comprise investments, cash at bank and short-term bank deposits. All financial transactions with the banks are duly accepted with Board of Directors' resolutions, with banking mandates, which define the permitted financial instruments and facility limits, approved by the Board of Directors. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is the Group's policy not to engage in foreign exchange and/or derivatives speculation or trading or enter into any complex foreign exchange or derivatives transactions. From time to time, the Group enters into forward exchange contracts to reduce its exposure to currency translation gains and losses.

The main financial risks arising from the Group's operations and the use of financial instruments are market risk (including price risk, interest rate risk and currency risk), credit risk and liquidity risk. Management does not view the Company on a standalone basis and therefore all risks relevant to the Group are considered and managed at the Group level. The policies for managing each of these risks at the Group level are summarised below.

(a) Market risk**(i) Price risk**

As part of its long-term business strategy, from time to time, the Group makes strategic equity investments in companies that can provide the Group with technologies or products that management believes will give the Group a competitive advantage in the markets in which the Group competes. The Group has strategic investments in quoted equity shares. The Group manages the risk of unfavourable changes by cautious review of the investments before investing and continuous monitoring of the performance of investments held and assessing market risk relevant to which the investments operate. The market value of these investments will fluctuate with market conditions. The table below summarises the impact to the Group's fair value reserve in equity arising as a result of a 10% increase/decrease in prices of quoted equity securities. This analysis assumes that all other variables remain constant.

	Equity	
	10% increase US\$'000	10% decrease US\$'000
Group		
2016		
Quoted equity securities	449	(449)
2015		
Quoted equity securities	1,085	(1,085)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

31. FINANCIAL RISK MANAGEMENT (cont'd)**(a) Market risk (cont'd)****(ii) Interest rate risk**

The Group has balances placed with reputable banks and financial institutions. The Group manages its interest rate risks on its interest income by placing the cash balances in varying maturities and interest rate terms with due consideration to operating cash flow requirements and optimising yield.

(iii) Currency risk

The functional currency of the companies in the Group is predominantly the US dollar and accordingly, gains and losses resulting from the translation of financial assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net profit (loss). From time to time, the Group enters into forward exchange contracts to reduce its exposure to currency translation gains and losses. Forward exchange contracts are marked to market each period and the resulting gains and losses are included in the determination of net profit (loss). No forward exchange contracts were outstanding as at 30 June 2016 and 30 June 2015.

The Group's currency exposure is as follows:

	USD US\$'000	SGD US\$'000	EUR US\$'000	GBP US\$'000	Others US\$'000	Total US\$'000
Group						
2016						
<u>Financial assets</u>						
Cash and cash equivalents	64,609	10,005	11,800	3,402	4,922	94,738
Available-for-sale financial assets	7,525	4,435	–	–	–	11,960
Trade receivables	4,726	274	2,127	112	331	7,570
Other receivables	95	62	3	–	28	188
Other financial assets - deposits	143	236	66	22	81	548
Receivables from subsidiaries	467,034	31,265	6,381	54	392	505,126
	<u>544,132</u>	<u>46,277</u>	<u>20,377</u>	<u>3,590</u>	<u>5,754</u>	<u>620,130</u>
<u>Financial liabilities</u>						
Financial liabilities	(23,103)	(5,913)	(3,681)	–	(331)	(33,028)
Payables to subsidiaries	(467,034)	(31,265)	(6,381)	(54)	(392)	(505,126)
	<u>(490,137)</u>	<u>(37,178)</u>	<u>(10,062)</u>	<u>(54)</u>	<u>(723)</u>	<u>(538,154)</u>
Net financial assets	<u><u>53,995</u></u>	<u><u>9,099</u></u>	<u><u>10,315</u></u>	<u><u>3,536</u></u>	<u><u>5,031</u></u>	<u><u>81,976</u></u>

<u>Group</u>	<u>USD</u> <u>US\$'000</u>	<u>SGD</u> <u>US\$'000</u>	<u>EUR</u> <u>US\$'000</u>	<u>GBP</u> <u>US\$'000</u>	<u>Others</u> <u>US\$'000</u>	<u>Total</u> <u>US\$'000</u>
2015						
<u>Financial assets</u>						
Cash and cash equivalents	44,555	32,987	12,307	3,903	5,916	99,668
Available-for-sale financial assets	7,465	10,774	–	–	–	18,239
Trade receivables	5,508	613	2,830	190	641	9,782
Other receivables	92	115	33	–	33	273
Other financial assets - deposits	87	218	66	26	81	478
Receivables from subsidiaries	446,363	32,068	6,530	244	1,275	486,480
	<u>504,070</u>	<u>76,775</u>	<u>21,766</u>	<u>4,363</u>	<u>7,946</u>	<u>614,920</u>
<u>Financial liabilities</u>						
Financial liabilities	(34,734)	(7,186)	(4,652)	(75)	(437)	(47,084)
Payables to subsidiaries	(446,363)	(32,068)	(6,530)	(244)	(1,275)	(486,480)
	<u>(481,097)</u>	<u>(39,254)</u>	<u>(11,182)</u>	<u>(319)</u>	<u>(1,712)</u>	<u>(533,564)</u>
Net financial assets	<u>22,973</u>	<u>37,521</u>	<u>10,584</u>	<u>4,044</u>	<u>6,234</u>	<u>81,356</u>

A change of 10% in foreign currency exchange rates relative to US\$ at the reporting date would increase/(decrease) profit (loss) before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

<u>Group</u>	<u>10% strengthened</u>		<u>10% weakened</u>	
	<u>Profit and loss</u> <u>US\$'000</u>	<u>Other comprehensive income</u> <u>US\$'000</u>	<u>Profit and loss</u> <u>US\$'000</u>	<u>Other comprehensive income</u> <u>US\$'000</u>
2016				
SGD against USD	466	444	(466)	(444)
EUR against USD	1,032	–	(1,032)	–
GBP against USD	354	–	(354)	–
Others against USD	503	–	(503)	–
2015				
SGD against USD	2,675	1,077	(2,675)	(1,077)
EUR against USD	1,058	–	(1,058)	–
GBP against USD	404	–	(404)	–
Others against USD	623	–	(623)	–

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The Group deals only with financial institutions with high credit ratings and limits the amount of credit exposure to any one financial institution. The Group sells its products to original equipment manufacturers, distributors and key retailers. The Group believes that the concentration of credit risk in its trade receivables is substantially mitigated due to performance of ongoing credit evaluations of its customers' financial condition, use of short collection terms, use of letters of credit in certain circumstances, procurement of credit insurance coverage and the geographical dispersion of sales. The Group establishes allowances for doubtful accounts, returns and discounts for specifically identified doubtful accounts, returns and discounts based on credit profiles of its customers, current economic trends, contractual terms and conditions and historical payment, returns and discount experience.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

31. FINANCIAL RISK MANAGEMENT (cont'd)**(b) Credit risk (cont'd)**

The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

As at 30 June 2016, there were no significant concentrations of credit risk and only 2 customers (2015: 1) individually accounted for 10% or more of net accounts receivable.

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	Group	
	2016	2015
	US\$'000	US\$'000
Past due 1 to 60 days	612	1,310
Past due 61 to 120 days	72	2
Past due over 120 days	331	385
	1,015	1,697

The carrying amount of trade receivables individually determined to be impaired and the movements in the related allowance for impairment are as follows:

	Group	
	2016	2015
	US\$'000	US\$'000
Past due 1 to 60 days	1	135
Past due 61 to 120 days	111	7
Past due over 120 days	2,623	2,996
	2,735	3,138
Less: Allowance for impairment	(2,735)	(3,138)
	-	-
Beginning of financial year	3,138	3,486
Currency translation differences	(7)	-
Allowance (write-back) made	(149)	21
Allowance utilised	(247)	(369)
End of financial year	2,735	3,138

The impaired trade receivables arose mainly from sales to customers who significantly delayed their payments.

(c) Liquidity risk

To manage liquidity risk, the Group monitors its net operating cash flows and maintains an adequate level of cash and cash equivalents and secured committed funding facilities from financial institutions. In assessing the adequacy of these funding facilities, management reviews its working capital requirements regularly.

As at 30 June 2016 and 30 June 2015, the Group's financial liabilities mature in less than 1 year's time.

(d) Capital risk

The Group's and Company's objectives when managing capital, which is total equity, are to safeguard the Group's and Company's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group and Company may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares or obtain new borrowings.

As at 30 June 2016 and 2015, the Group and Company does not have any outstanding bank borrowings and the Group and Company is not subject to any externally imposed capital requirements.

(e) Fair value measurements

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	US\$'000			Total
	Level 1	Level 2	Level 3	
Group				
2016				
Available-for-sale financial assets				
– Listed equity securities	4,491	–	–	4,491
– Unlisted equity securities	–	–	7,469	7,469
	<u>4,491</u>	<u>–</u>	<u>7,469</u>	<u>11,960</u>
2015				
Available-for-sale financial assets				
– Listed equity securities	10,848	–	–	10,848
– Unlisted equity securities	–	–	7,391	7,391
	<u>10,848</u>	<u>–</u>	<u>7,391</u>	<u>18,239</u>

Fair values for listed equity securities are determined using quoted market prices at the balance sheet date. These instruments are included in Level 1.

Fair values for unlisted equity securities are determined by using net asset values which approximate the fair value of the investments. These instruments are included in Level 3.

The changes in Level 3 instruments are as follows:

	Group	
	2016 US\$'000	2015 US\$'000
Group		
Beginning of financial year	7,391	7,942
Purchase of level 3 securities	500	1,900
Disposals	(2,760)	(5,418)
Fair value gain recognised in		
- other comprehensive income	2,338	6,417
Impairment losses	–	(3,450)
End of financial year	<u>7,469</u>	<u>7,391</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

31. FINANCIAL RISK MANAGEMENT (cont'd)**(f) Financial instruments by category**

The carrying amount of the different categories of financial instruments is as disclosed on the face of the balance sheet and in Note 11, Note 12, Note 13, Note 15, Note 16, Note 21, Note 22 and Note 23 to the financial statements.

32. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(a) Sales and purchases of goods and services

	Group	
	2016	2015
	US\$'000	US\$'000
Sales of goods and/or services to associated companies	1,052	721
Purchases of goods and/or services from associated companies	32	–

Outstanding balances arising from sale/purchase of goods and services, are set out in Notes 12, 15 and 22 respectively.

(b) Key management personnel compensation

Key management personnel compensation is as follows:

	Group	
	2016	2015
	US\$'000	US\$'000
Short-term employees benefits	1,016	1,215
Employer's contribution to defined contribution plans including Central Provident Fund	52	51
	1,068	1,266

Included in the above is total compensation to the Chairman and Chief Executive Officer of the Company amounting to S\$1 (2015: S\$1).

33. SEGMENT INFORMATION

Management determines the operating segments based on the reports reviewed and used by the chief operating decision-maker ("CODM") to make strategic decisions.

The CODM considers the business from a geographic segment perspective. Geographically, management considers the performance of the business of the sale of advanced multimedia solutions for personal computers and personal digital entertainment products in Asia Pacific, Europe and The Americas.

The reportable operating segments derive their revenue primarily from the sale of advanced multimedia solutions for personal computers and personal digital entertainment products. In addition, services within Asia Pacific include investment holding and this is included within the reportable operating segment as it is included in the reports provided to the CODM.

The segment information provided to the CODM for the reportable segments is as follows:

Group	Asia Pacific US\$'000	The Americas US\$'000	Europe US\$'000	Total US\$'000
2016				
Sales	42,459	14,608	27,507	84,574
(Loss) profit after total expenses	(31,086)	806	1,167	(29,113)
Other income	337	1	16	354
Other gains	41,438	–	100	41,538
Other losses	(1,076)	(1)	(293)	(1,370)
Share of loss of associated companies	(724)	–	–	(724)
Profit before income tax	8,889	806	990	10,685
Income tax (expense) credit	(7,301)	335	(1,007)	(7,973)
Net profit (loss)	1,588	1,141	(17)	2,712
Other segment items				
Additions to				
- property and equipment	53	–	1	54
Depreciation	466	66	3	535
Impairment of available-for-sale financial assets	(945)	–	–	(945)
Segment assets	131,341	7,461	3,375	142,177
Segment liabilities	27,194	3,785	12,698	43,677
Group				
2015				
Sales	51,699	16,680	31,103	99,482
(Loss) profit after total expenses	(26,418)	450	(1,367)	(27,335)
Other income	398	1	53	452
Other gains	9,201	3	404	9,608
Other losses	(15,558)	–	(1,290)	(16,848)
(Loss) profit before income tax	(32,377)	454	(2,200)	(34,123)
Income tax credit (expense)	5,242	(12)	(4,498)	732
Net (loss) profit	(27,135)	442	(6,698)	(33,391)
Other segment items				
Additions to				
- property and equipment	91	8	–	99
Depreciation	574	70	67	711
Impairment of available-for-sale financial assets	(4,725)	–	–	(4,725)
Segment assets	139,622	8,780	10,935	159,337
Segment liabilities	40,678	4,130	12,821	57,629

The revenue reported to the CODM excludes sales between segments. The revenue from external parties reported to the CODM is measured in a manner consistent with that in profit or loss. Geographic revenue information for the financial years ended 30 June 2016 and 30 June 2015 is based on the location of the selling entity.

The CODM assesses the performance of the operating segments based on net profit or loss. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

33. SEGMENT INFORMATION (cont'd)

The amounts provided to the CODM with respect to total assets are measured in a manner consistent with that of the financial statements. For the purposes of monitoring segment performance and allocating resources between segments, the CODM monitors the total assets attributable to each segment. All assets are allocated to reportable segments.

The amounts provided to the CODM with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. All liabilities are allocated to reportable segments.

Summary of net sales by country:

	Group	
	2016 US\$'000	2015 US\$'000
Singapore	35,673	45,401
United States of America	14,608	16,680
Ireland	27,507	31,103
Other countries	6,786	6,298
	84,574	99,482

Summary of net sales by product category:

	Group	
	2016 US\$'000	2015 US\$'000
Audio, speakers and headphones	77,779	90,216
Personal digital entertainment	2,774	5,101
Other products	4,021	4,165
	84,574	99,482

There was no customer who accounted for 10% or more of net revenues for the current and prior financial years.

Summary of property and equipment by country:

	Group	
	2016 US\$'000	2015 US\$'000
Singapore	145	569
United States of America	719	786
Ireland	1	3
Other countries	5	3
	870	1,361

34. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 2 July 2016 and which the Group has not early adopted:

- FRS 16 Property plant and equipment and FRS 38 Intangible assets (effective for annual periods beginning on or after 1 January 2016)

This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. This has also clarified that revenue is generally

presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances. These are where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

This amendment is not expected to have any significant impact on the financial statements of the Group.

- FRS 110 Consolidated financial statements and FRS 28 Investments in associates and joint ventures (effective for annual periods beginning on or after 1 January 2016*)

These amendments address an inconsistency between FRS 110 and FRS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

This amendment is not expected to have any significant impact on the financial statements of the Group.

* *(In August 2015, the IASB has published an Exposure Draft to propose deferring the effective date of the amendment indefinitely. Earlier application of the amendment continues to be permitted. No deferral has been made for similar amendment to FRS 110 and FRS 28 as at 31 October 2015).*

- FRS 1 Presentation of financial statements (effective for annual periods beginning on or after 1 January 2016)

The amendment clarifies guidance in FRS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

This amendment is not expected to have any significant impact on the financial statements of the Group.

- FRS 115 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2017*)

This is the converged standard on revenue recognition. It replaces FRS 11 Construction contracts, FRS 18 Revenue, and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of FRS 115 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

FRS 115 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2016

34. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS (cont'd)

- FRS 115 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2017*) (cont'd)

This amendment is not expected to have any significant impact on the financial statements of the Group.

* *(The effective date of IFRS 15 Revenue from contracts with customers has been deferred from 1 January 2017 to 1 January 2018. No such deferral has been made for FRS 115 Revenue from contracts with customers as at 31 October 2015).*

- FRS 109 Financial instruments (effective for annual periods beginning on or after 1 January 2018)

The complete version of FRS 109 replaces most of the guidance in FRS 39. FRS 109 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income (OCI) and fair value through Profit or Loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in FRS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. FRS 109 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under FRS 39.

This amendment is not expected to have any significant impact on the financial statements of the Group.

- FRS 116 Leases (effective for annual periods beginning on or after 1 January 2019)

FRS 116 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An option exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest cash continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under FRS 116, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group is assessing the impact of the adoption of FRS 116.

35. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of CREATIVE TECHNOLOGY LTD. on 15 September 2016.

36. LISTING OF SIGNIFICANT COMPANIES IN THE GROUP

Name of companies	Principal activities	Country of business / incorporation	Proportion of ownership interest held	
			2016 %	2015 %
Significant subsidiaries held by the Group				
Creative Labs, Inc. (a)	Distribution of digitised sound and video boards, computers, related multimedia and personal digital entertainment products	United States of America	100	100
Creative Labs (Ireland) Ltd (c)	Distribution of digitised sound and video boards, computers, related multimedia and personal digital entertainment products	Republic of Ireland	100	100
Creative Labs Pte Ltd (b)	Development and sale of audio and multimedia entertainment products	Singapore	100	100
QMax Pte Ltd and subsidiary companies (b)	Provision of data communications, telecommunications, wireless broadband and related services	Singapore	100	100
CTI Limited (a)	Investment holding	Bermuda	100	100
CTI II Limited (a)	Investment holding	Bermuda	100	100

(a) Not required to be audited under the laws of the country of incorporation

(b) Audited by PricewaterhouseCoopers LLP, Singapore

(c) Audited by PricewaterhouseCoopers, Dublin

All the Singapore-incorporated subsidiaries were audited by the Company's auditor, PricewaterhouseCoopers LLP, Singapore.

For subsidiaries which appointed different auditors, the Audit Committee and Board of Directors are satisfied that the appointment would not compromise the standard and effectiveness of the audit.

There are no significant associated companies held by the Group.

SGX-ST LISTING MANUAL REQUIREMENTS

For the financial year ended 30 June 2016

Additional Requirements of SGX-ST Listing Manual**DIRECTORS' REMUNERATION**

The following information relates to remuneration of directors of the Company during the financial year:

	<u>2016</u>	<u>2015</u>
Number of directors of the Company in remuneration bands:		
- above S\$500,000	-	-
- S\$250,000 to below S\$500,000	-	-
- below S\$250,000	4	4
Total	4	4

The Company proposed to pay Directors' fees of S\$180,000 in the current financial year (2015: paid S\$180,000) to its non-executive directors on its Board of Directors.

The Company paid a total remuneration of S\$1 (2015: S\$1) to its Chairman and Chief Executive Officer.

AUDITOR'S REMUNERATION

The following information relates to fees of the auditors during the financial year:

	<u>2016</u> <u>US\$'000</u>	<u>2015</u> <u>US\$'000</u>
Audit fees paid/payable to:		
- Auditor of the Company	182	197
- Other auditors *	30	26
Other fees paid/payable to:		
- Auditor of the Company	36	38
- Other auditors *	19	18

* Include PricewaterhouseCoopers member firms outside Singapore

The Group has complied with Rules 712 and 715 or 716 of the Listing Manual issued by SGX-ST in relation to its auditors.

The Audit Committee has reviewed all non-audit services provided by the auditor of the Company and in the Audit Committee's opinion, the non-audit services provided, will not affect the independence of the auditors.

PROPERTIES OF THE GROUP

The net book values of properties held by the Group are as follows:

	<u>2016</u> <u>US\$'000</u>	<u>2015</u> <u>US\$'000</u>
Freehold land and buildings	713	775

During the financial year ended 30 June 2015, a wholly-owned subsidiary in Ireland has disposed its freehold property for net proceeds of US\$4,884,000 and recognised a gain of US\$392,000.

MATERIAL CONTRACTS

There is no material contract entered into by the Company or any of its subsidiaries involving the interest of the chief executive officer, any director or controlling shareholder, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

STATISTICS OF SHAREHOLDING AS AT 13 SEPTEMBER 2016

Number of Issued Shares	:	75,000,000
Number of Issued Shares (excluding Treasury Shares)	:	70,331,649
Number / Percentage of Treasury Shares	:	4,668,351 (6.64%)
Class of Shares	:	Ordinary shares
Voting Rights (excluding Treasury Shares)	:	1 vote per share

Based on the information available to the Company as at 13 September 2016, 63.43% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual issued by SGX-ST is complied with.

Size of shareholdings	Number of shareholders	Percentage of shareholders (%)	Number of shares	Percentage of shares (%)
1 - 99	1,134	9.72	51,212	0.07
100 - 1,000	6,310	54.08	3,418,184	4.86
1,001 - 10,000	3,734	32.01	12,792,116	18.19
10,001 - 1,000,000	485	4.16	20,820,872	29.60
1,000,001 and above	4	0.03	33,249,265	47.28
Total	11,667	100.00	70,331,649	100.00

TWENTY LARGEST SHAREHOLDERS

Name of shareholder	Number of shares	Percentage (%)
1 Sim Wong Hoo	23,270,652	33.09
2 Citibank Nominees Singapore Pte Ltd	5,634,093	8.01
3 DBS Nominees (Private) Limited	3,122,650	4.44
4 United Overseas Bank Nominees (Private) Limited	1,221,870	1.74
5 OCBC Nominees Singapore Private Limited	922,900	1.31
6 Pornchada Vanich	856,000	1.22
7 Ng Keh Long	845,000	1.20
8 BNP Paribas Securities Services Singapore Branch	647,225	0.92
9 BNP Paribas Nominees Singapore Pte Ltd	639,450	0.91
10 Maybank Kim Eng Securities Pte. Ltd.	632,558	0.90
11 Hong Leong Finance Nominees Pte Ltd	594,700	0.85
12 Merrill Lynch (Singapore) Pte Ltd	436,787	0.62
13 OCBC Securities Private Limited	400,600	0.57
14 UOB Kay Hian Private Limited	355,200	0.51
15 Phillip Securities Pte Ltd	333,100	0.47
16 Choo Ah Seng	323,850	0.46
17 Chan Siew Kim Alice	259,400	0.37
18 Low Ting Pong	243,160	0.35
19 Raffles Nominees (Pte) Limited	241,492	0.34
20 Teng Cheng Sin	230,100	0.33
Total	41,210,787	58.61

Substantial shareholder	Number of ordinary shares	
	Direct interest	Deemed interest
Sim Wong Hoo	23,270,652	-

CORPORATE INFORMATION

Board of Directors

Sim Wong Hoo, Chairman of the Board and Chief Executive Officer

Lee Kheng Nam, Independent Non-Executive Director

Ng Kai Wa, Independent Non-Executive Director

Lee Gwong-Yih, Independent Non-Executive Director

Company Secretary

Ng Keh Long

Registered Office

31 International Business Park

#03-01 Creative Resource

Singapore 609921

Tel: 65-6895-4000

Share Registrar

Boardroom Corporate & Advisory Services Pte. Ltd.

50 Raffles Place

#32-01 Singapore Land Tower

Singapore 048623

Corporate Counsel

Duane Morris & Selvam LLP

16 Collyer Quay

#17-00

Singapore 049318

Independent Auditor

PricewaterhouseCoopers LLP

8 Cross Street

#17-00 PWC Building

Singapore 048424

Audit Partner: Lee Chian Yorn

Year of appointment: 2016

Number of years of appointment: 1 year

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The iRoar Go is our first speaker to incorporate Creative's groundbreaking **SuperWide** technology that delivers a startlingly wide audio experience from a small device. Normally, speakers of this size play back content without realistic left and right channel imaging. But with SuperWide, iRoar Go's intelligent processing ensures that your ears perceive left and right sources in their correct place with amazing accuracy!

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Full marks for Creative's tiny speaker that is big on sound.
- The Straits Times”

Captivating beauty

HEART-GRABBING fidelity

MIND-BLOWING power

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CAPTIVATINGLY BEAUTIFUL

Beautifully machine finished pulsating passive bass radiators



ROAR AUDIO MODE

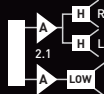
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5 drivers with built-in subwoofer for awesome bass



2 amplifiers for room-filling, balanced audio



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Versatile connectivity with Bluetooth, USB, MicroSD card and USB flash drive



One-touch Bluetooth pairing for wireless streaming



Save your personalized equalizer settings and audio signature into the iRoar Go



Transform into a personal PA system for presentation and singing



Hands-free speakerphone teleconferencing



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Integrated digital music player with lossless audio playback



12 hours of audio playback & charges your phone or tablet



Sound Blaster USB audio for digital lossless playback

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