

CREATIVE TECHNOLOGY LTD

FIRST QUARTER ENDED 30 SEPTEMBER 2014 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2014

1 CONSOLIDATED INCOME STATEMENT

	GROUP	
	Three months ended 30 September	
	2014	2013
	US\$'000	US\$'000
Sales, net	24,294	30,402
Cost of goods sold	(17,529)	(21,977)
Gross profit	6,765	8,425
Expenses:		
Selling, general and administrative	(7,886)	(9,007)
Research and development	(5,206)	(6,384)
Total expenses	(13,092)	(15,391)
Other income	47	57
Other (losses) gains, net	(3,563)	1,398
Loss before income tax	(9,843)	(5,511)
Income tax expense	(25)	(36)
Net loss	(9,868)	(5,547)
Attributable to:		
Equity holders of the Company	(9,833)	(5,540)
Non-controlling interests	(35)	(7)
Loss per share for loss attributable to equity holders of the Company		
- Basic (US\$ per share)	(0.14)	(0.08)
- Diluted (US\$ per share)	(0.14)	(0.08)

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

	GROUP	
	Three months ended	
	30 September	
	2014	2013
	US\$'000	US\$'000
Write-off/write-down for inventory obsolescence	(308)	(938)
Foreign exchange (loss) gain	(3,266)	1,329

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP	
	Three months ended	
	30 September	
	2014	2013
	US\$'000	US\$'000
Net loss	(9,868)	(5,547)
Other comprehensive income:		
Fair value gains (losses) of financial assets, available-for-sale:		
Fair value gains	4,811	34
Reclassification	(651)	-
Total comprehensive loss for the period	<u>(5,708)</u>	<u>(5,513)</u>
Attributable to:		
Shareholders of the Company	(5,673)	(5,506)
Non-controlling interests	(35)	(7)
Total comprehensive loss for the period	<u>(5,708)</u>	<u>(5,513)</u>

3 BALANCE SHEETS

	Group		Company	
	30 September 2014 US\$'000	30 June 2014 US\$'000	30 September 2014 US\$'000	30 June 2014 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	112,724	124,638	105,762	118,974
Trade receivables	11,748	10,559	4,890	4,208
Amounts due from subsidiaries	-	-	50,367	44,515
Inventories	28,466	28,922	15,562	15,002
Other current assets	2,192	1,896	450	187
	155,130	166,015	177,031	182,886
Non-current assets:				
Financial assets, available-for-sale	26,705	21,608	-	-
Amounts due from subsidiaries	-	-	143,856	143,022
Investments in subsidiaries	-	-	23,953	24,706
Property and equipment	6,294	6,465	594	651
Other non-current assets	94	98	-	-
	33,093	28,171	168,403	168,379
Total assets	188,223	194,186	345,434	351,265
LIABILITIES				
Current liabilities:				
Trade payables	9,630	9,383	6,029	5,907
Amounts due to subsidiaries	-	-	9,453	9,139
Accrued liabilities and provisions	37,445	37,899	21,645	24,474
Current income tax liabilities	698	735	-	-
	47,773	48,017	37,127	39,520
Non-current liabilities:				
Amounts due to subsidiaries	-	-	19,719	21,746
Deferred income tax liabilities	10,702	10,702	-	-
	10,702	10,702	19,719	21,746
Total liabilities	58,475	58,719	56,846	61,266
NET ASSETS	129,748	135,467	288,588	289,999
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve	14,056	9,896	-	-
Other reserves	62,570	62,570	35,106	35,106
Retained earnings	(197,523)	(187,695)	2,991	4,402
	129,594	135,262	288,588	289,999
Non-controlling interests	154	205	-	-
Total equity	129,748	135,467	288,588	289,999

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Three months ended 30 September	
	2014	2013
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(9,868)	(5,547)
Adjustments for:		
Income tax expense	25	36
Depreciation of property and equipment	206	120
Employee share-based expenses	-	59
Impairment loss of financial assets, available-for-sale	312	1
Currency translation gain	3,052	(1,177)
Interest income	(47)	(57)
	<u>(6,320)</u>	<u>(6,565)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(1,189)	(3,809)
Inventories	456	(3,514)
Other assets and receivables	(291)	259
Trade payables	231	1,690
Accrued liabilities and provisions	(454)	(338)
Cash used in operations	<u>(7,567)</u>	<u>(12,277)</u>
Interest received	46	47
Income tax paid	(27)	(39)
Net cash used in operating activities	<u>(7,548)</u>	<u>(12,269)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(35)	(57)
Proceeds from sale of financial assets, available-for-sale	1	562
Purchase of financial assets, available-for-sale	(1,250)	(250)
Net cash provided by investing activities	<u>(1,284)</u>	<u>255</u>
Cash flows from financing activities:		
Return of unclaimed dividends	<u>5</u>	<u>7</u>
Net cash provided by financing activities	<u>5</u>	<u>7</u>
Net decrease in cash and cash equivalents	(8,827)	(12,007)
Cash and cash equivalents at beginning of financial year	124,638	159,074
Effects of currency translation on cash and cash equivalents	(3,087)	1,196
Cash and cash equivalents at end of the period	<u>112,724</u>	<u>148,263</u>

5 STATEMENTS OF CHANGES IN EQUITY

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

	Share Capital US\$'000	Treasury Shares US\$'000	Fair Value Reserve US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
FY2015								
Balance at 1 July 2014	266,753	(16,262)	9,896	62,570	(187,695)	135,262	205	135,467
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	-	-	-	-	-	-	-
Employee share-based expense	-	-	-	-	-	-	-	-
Liquidation of subsidiary	-	-	-	-	-	-	(16)	(16)
Unclaimed dividend	-	-	-	-	5	5	-	5
Total comprehensive income (loss) for the period	-	-	4,160	-	(9,833)	(5,673)	(35)	(5,708)
Balance at 30 September 2014	266,753	(16,262)	14,056	62,570	(197,523)	129,594	154	129,748
FY2014								
Balance at 1 July 2013	266,753	(16,606)	9,485	63,351	(160,170)	162,813	236	163,049
Utilization of treasury shares for shares issued under employee options plans and performance share plan	-	79	-	(79)	-	-	-	-
Employee share-based expense	-	-	-	59	-	59	-	59
Unclaimed dividend	-	-	-	-	7	7	-	7
Total comprehensive income (loss) for the period	-	-	34	-	(5,540)	(5,506)	(7)	(5,513)
Balance at 30 September 2013	266,753	(16,527)	9,519	63,331	(165,703)	157,373	229	157,602

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

	Share Capital US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
FY2015					
Balance at 1 July 2014	266,753	(16,262)	35,106	4,402	289,999
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	-	-	-	-
Employee share-based expense	-	-	-	-	-
Unclaimed dividend	-	-	-	5	5
Total comprehensive loss for the period	-	-	-	(1,416)	(1,416)
Balance at 30 September 2014	266,753	(16,262)	35,106	2,991	288,588
FY2014					
Balance at 1 July 2013	266,753	(16,606)	35,887	33,678	319,712
Utilisation of treasury shares for shares issued under employee options plans and performance share plan	-	79	(79)	-	-
Employee share-based expense	-	-	59	-	59
Unclaimed dividend	-	-	-	7	7
Total comprehensive loss for the period	-	-	-	(5,243)	(5,243)
Balance at 30 September 2013	266,753	(16,527)	35,867	28,442	314,535

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

Issued and paid up capital

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

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

Employee share options plan

During the first quarter of FY2015, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q1 FY2014: Nil).

As at 30 September 2014, there were 2,130,500 (30 September 2013: 3,142,500) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plan.

Employee performance share plan

During the first quarter of FY2015, the Company did not issue any treasury shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q1 FY2014: 22,500).

As at 30 September 2014, there were 287,250 (30 September 2013: 536,000) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 30 September 2014, the Company held 4,668,351 (30 September 2013: 4,744,600) treasury shares against 70,331,649 (30 September 2013: 70,255,400) issued ordinary shares excluding treasury shares.

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

	Three months ended	
	30 September	
	2014	2013
Balance at beginning of period	4,668,351	4,767,100
Issued for Employee Performance Share Plan	-	(22,500)
Balance at end of period	<u>4,668,351</u>	<u>4,744,600</u>

6 GROUP BORROWINGS

	GROUP	
	30 September 2014 US\$'000	30 June 2014 US\$'000
Amount repayable:		
<u>In one year or less, or on demand</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
<u>After one year</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Total	-	-
	<hr/>	<hr/>

7 NET ASSET VALUE

	GROUP		COMPANY	
	30 September 2014 US\$	30 June 2014 US\$	30 September 2014 US\$	30 June 2014 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.84	1.93	4.10	4.12

8 AUDIT

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

9 AUDITORS' REPORT

Not applicable.

10 ACCOUNTING POLICIES

Except as disclosed in Item 11 below, the Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 30 June 2014.

11 CHANGES IN ACCOUNTING POLICIES

None.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the first quarter of FY2015 decreased by 20% compared to the same quarter in FY2014. Revenue was lower in the first quarter of FY2015 due to the uncertain and difficult market conditions which continued to affect the sales of the Group's products.

Gross Profit

Gross profit margin at 28% in the first quarter of FY2015 and FY2014 was in line with the sales mix.

Net Loss

Net loss for the first quarter of FY2015 was US\$9.9 million compared to net loss of US\$5.5 million in the first quarter of FY2014. The higher net loss in the first quarter of FY2015 was due mainly to other losses (net) of US\$3.6 million in the first quarter of FY2015 compared to other gains (net) of US\$1.4 million in the first quarter of FY2014.

Selling, general and administrative expenses in the first quarter of FY2015 decreased by 12% compared to the first quarter of FY2014. The decrease in selling, general and administrative expenses was due mainly to lower level of sales.

Research and development expenses in the first quarter of FY2015 decreased by 18% compared to the first quarter of FY2014. The decrease in research and development expenses was due mainly to cost cutting actions taken by management in the fourth quarter of FY2014.

Other losses (net) of US\$3.6 million in the first quarter of FY2015 were due mainly to foreign exchange loss of US\$3.3 million. Other gains (net) of US\$1.4 million in the first quarter of FY2014 were due mainly to foreign exchange gain of US\$1.3 million.

The functional currency of the Company and its subsidiaries is predominantly the US dollar and accordingly, gains and losses resulting from the translation of monetary assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net income (loss). The exchange differences were due mainly to the cash and cash equivalent balances held by the Group. Cash and cash equivalents were held mainly in Singapore dollar, with the balance mainly in US dollar, Euro, British Pound and Japanese Yen. The exchange loss in the first quarter of FY2015 was due mainly to the depreciation of these currencies against the US dollar and the exchange gain in the first quarter of FY2014 was due mainly to the appreciation of Singapore dollar, Euro and British Pound against the US dollar.

BALANCE SHEETS

The decrease in cash and cash equivalents was due to net cash used in operating activities (see below). The increase in financial assets available-for sale was due mainly to fair value gain in revaluation of investments and new investments in the first quarter of FY2015.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$7.5 million in the first quarter of FY2015 (Q1 FY2014: US\$12.3 million) was due mainly to the operating loss for the period.

Net cash used in investing activities of US\$1.3 million in the first quarter of FY2015 (Q1 FY 2014: US\$0.2 million net cash provided) was due mainly to purchase of financial assets available-for-sale.

Net cash provided by financing activities in the first quarter of FY2015 was not material.

13 VARIANCE FROM PROSPECT STATEMENT

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

14 PROSPECTS

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

15 DIVIDEND

No dividends have been recommended in the first quarter of FY2015 and no dividends were recommended or declared for the same period last year.

16 INTERESTED PERSON TRANSACTIONS

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

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
29 OCTOBER 2014

CONFIRMATION BY THE BOARD

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the interim financial information for the first quarter ended 30 September 2014 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director