

CREATIVE TECHNOLOGY LTD

THIRD QUARTER ENDED 31 MARCH 2017 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 31 MARCH 2017

1 CONSOLIDATED INCOME STATEMENT

	GROUP			GROUP		
	Three months ended			Nine months ended		
	2017	2016	% change	2017	2016	% change
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Sales, net	16,007	18,459	(13)	55,412	67,472	(18)
Cost of goods sold	(11,528)	(13,224)	(13)	(39,890)	(49,408)	(19)
Gross profit	4,479	5,235	(14)	15,522	18,064	(14)
Expenses:						
Selling, general and administrative	(6,945)	(8,491)	(18)	(22,244)	(30,706)	(28)
Research and development	(2,859)	(2,946)	(3)	(9,253)	(12,022)	(23)
Total expenses	(9,804)	(11,437)	(14)	(31,497)	(42,728)	(26)
Other income	105	113	(7)	301	260	16
Other gains (losses), net	715	13,693	(95)	(899)	35,172	n.m.
Share of loss of associated companies	(69)	(347)	(80)	(490)	(347)	41
(Loss) profit before income tax	(4,574)	7,257	n.m.	(17,063)	10,421	n.m.
Income tax expense	(16)	(3,180)	(99)	(246)	(8,245)	(97)
Net (loss) profit	(4,590)	4,077	n.m.	(17,309)	2,176	n.m.
Attributable to:						
Equity holders of the Company	(4,611)	4,043	n.m.	(17,369)	2,085	n.m.
Non-controlling interests	21	34	(38)	60	91	(34)
(Loss) earnings per share attributable to equity holders of the Company						
- Basic (US\$ per share)	(0.07)	0.06	n.m.	(0.25)	0.03	n.m.
- Diluted (US\$ per share)	(0.07)	0.06	n.m.	(0.25)	0.03	n.m.

n.m. – not meaningful

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

	Three months ended			Nine months ended		
	31 March			31 March		
	2017 US\$'000	2016 US\$'000	% change + / (-)	2017 US\$'000	2016 US\$'000	% change + / (-)
Write-off/write-down for inventory obsolescence	(1,251)	(246)	n.m.	(3,140)	(568)	n.m.
Impairment loss on investments	-	(318)	(100)	(692)	(781)	(11)
Gain on disposal of investments	-	1	(100)	1,346	2,723	(51)
Foreign exchange gain (loss)	735	1,501	(51)	(1,541)	(287)	n.m.
Litigation settlement	-	12,500	(100)	-	33,500	(100)

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			GROUP		
	Three months ended			Nine months ended		
	31 March			31 March		
	2017 US\$'000	2016 US\$'000	% change + / (-)	2017 US\$'000	2016 US\$'000	% change + / (-)
Net (loss) profit	(4,590)	4,077	n.m.	(17,309)	2,176	n.m.
Other comprehensive income:						
Available-for-sale financial assets:						
Fair value gains (losses)	147	(1,305)	n.m.	435	(4,801)	n.m.
Reclassification	-	-		(1,346)	(2,722)	(51)
Total comprehensive (loss) income for the period	<u>(4,443)</u>	<u>2,772</u>	n.m.	<u>(18,220)</u>	<u>(5,347)</u>	n.m.
Attributable to:						
Shareholders of the Company	(4,464)	2,738	n.m.	(18,280)	(5,438)	n.m.
Non-controlling interests	21	34	(38)	60	91	(34)
Total comprehensive (loss) income for the period	<u>(4,443)</u>	<u>2,772</u>	n.m.	<u>(18,220)</u>	<u>(5,347)</u>	n.m.

3 BALANCE SHEETS

	Group		Company	
	31 March 2017 US\$'000	30 June 2016 US\$'000	31 March 2017 US\$'000	30 June 2016 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	75,305	94,738	63,848	88,362
Trade receivables	7,050	7,570	401	245
Amounts due from subsidiaries	-	-	55,619	43,979
Inventories	21,865	25,052	4,558	5,153
Other current assets	1,236	1,797	584	633
	105,456	129,157	125,010	138,372
Non-current assets:				
Available-for-sale financial assets	11,456	11,960	-	-
Amounts due from subsidiaries	-	-	22,431	14,923
Investments in subsidiaries	-	-	25,365	25,353
Property and equipment	813	870	83	131
Other non-current assets	186	190	-	-
	12,455	13,020	47,879	40,407
Total assets	117,911	142,177	172,889	178,779
LIABILITIES				
Current liabilities:				
Trade payables	7,291	9,651	785	1,588
Amounts due to subsidiaries	-	-	9,101	8,325
Accrued liabilities and provisions	19,801	23,377	9,902	11,468
Current income tax liabilities	274	347	-	-
	27,366	33,375	19,788	21,381
Non-current liabilities:				
Amounts due to subsidiaries	-	-	19,042	30,162
Deferred income tax liabilities	10,302	10,302	-	-
	10,302	10,302	19,042	30,162
Total liabilities	37,668	43,677	38,830	51,543
NET ASSETS	80,243	98,500	134,059	127,236
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve	5,663	6,574	-	-
Other reserves	62,314	62,364	34,850	34,900
Accumulated losses	(238,575)	(221,219)	(151,282)	(158,155)
	79,893	98,210	134,059	127,236
Non-controlling interests	350	290	-	-
Total equity	80,243	98,500	134,059	127,236

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Nine months ended 31 March	
	2017	2016
	US\$'000	US\$'000
Cash flows from operating activities:		
Net (loss) profit	(17,309)	2,176
Adjustments for:		
Income tax expense	246	8,245
Depreciation of property and equipment	163	394
Employee share-based expenses	(50)	(198)
Share of loss of associated companies	490	347
Impairment loss of available-for-sale financial assets	692	781
Gain on disposal of available-for-sale financial assets	(1,346)	(2,723)
Currency translation loss	1,253	595
Interest income	(301)	(260)
	<u>(16,162)</u>	<u>9,357</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	520	1,858
Inventories	3,187	3,700
Other assets and receivables	565	(2,750)
Trade payables	(2,360)	(6,316)
Accrued liabilities and provisions	(3,576)	(2,857)
Cash (used in) provided by operations	<u>(17,826)</u>	<u>2,992</u>
Interest received	301	239
Income tax paid	(297)	(7,844)
Net cash used in operating activities	<u>(17,822)</u>	<u>(4,613)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(106)	(34)
Proceeds from sale of property and equipment	--	5
Proceeds from sale of available-for-sale financial assets	1,346	2,815
Purchase of available-for-sale financial assets	(1,100)	(500)
Loan to associated company	(490)	--
Net cash (used in) provided by investing activities	<u>(350)</u>	<u>2,286</u>
Cash flows from financing activities:		
Unclaimed dividends	13	5
Net cash provided by financing activities	<u>13</u>	<u>5</u>
Net decrease in cash and cash equivalents	(18,159)	(2,322)
Cash and cash equivalents at beginning of financial year	94,738	99,668
Effects of currency translation on cash and cash equivalents	(1,274)	(587)
Cash and cash equivalents at end of the period	<u>75,305</u>	<u>96,759</u>

5 STATEMENTS OF CHANGES IN EQUITY

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

	Share Capital US\$'000	Treasury Shares US\$'000	Fair Value Reserve US\$'000	Other Reserves US\$'000	Accumulated Losses US\$'000	Total US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
FY2017								
Balance at 1 July 2016	266,753	(16,262)	6,574	62,364	(221,219)	98,210	290	98,500
Loss for the period	-	-	-	-	(17,369)	(17,369)	60	(17,309)
Other comprehensive loss for the period	-	-	(911)	-	-	(911)	-	(911)
Total comprehensive loss for the period	-	-	(911)	-	(17,369)	(18,280)	60	(18,220)
Employee share-based expense	-	-	-	(50)	-	(50)	-	(50)
Unclaimed dividends	-	-	-	-	13	13	-	13
Total transactions with owners, recognised directly in equity	-	-	-	(50)	13	(37)	-	(37)
Balance at 31 March 2017	266,753	(16,262)	5,663	62,314	(238,575)	79,893	350	80,243
FY2016								
Balance at 1 July 2015	266,753	(16,262)	12,304	62,562	(223,847)	101,510	198	101,708
Profit for the period	-	-	-	-	2,085	2,085	91	2,176
Other comprehensive loss for the period	-	-	(7,523)	-	-	(7,523)	-	(7,523)
Total comprehensive loss (income) for the period	-	-	(7,523)	-	2,085	(5,438)	91	(5,347)
Employee share-based expense	-	-	-	(198)	-	(198)	-	(198)
Unclaimed dividends	-	-	-	-	5	5	-	5
Total transactions with owners, recognised directly in equity	-	-	-	(198)	5	(193)	-	(193)
Balance at 31 March 2016	266,753	(16,262)	4,781	62,364	(221,757)	95,879	289	96,168

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

	Share Capital US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Accumulated Losses US\$'000	Total Equity US\$'000
FY2017					
Balance at 1 July 2016	266,753	(16,262)	34,900	(158,155)	127,236
Employee share-based expense	-	-	(50)	-	(50)
Unclaimed dividends	-	-	-	13	13
Total comprehensive profit for the period	-	-	-	6,860	6,860
Balance at 31 March 2017	266,753	(16,262)	34,850	(151,282)	134,059
FY2016					
Balance at 1 July 2015	266,753	(16,262)	35,098	(35,091)	250,498
Employee share-based expense	-	-	(198)	-	(198)
Unclaimed dividends	-	-	-	5	5
Total comprehensive loss for the period	-	-	-	(15,727)	(15,727)
Balance at 31 March 2016	266,753	(16,262)	34,900	(50,813)	234,578

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

Issued and paid up capital

As at 31 March 2017, the Company's issued and paid up capital excluding treasury shares comprises 70,331,649 (30 June 2016: 70,331,649) ordinary shares.

As at 31 March 2017, the Company's issued and paid up share capital was US\$266.8 million (31 December 2016: US\$266.8 million).

Employee share options plan

During the third quarter of FY2017, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q3 FY2016: Nil).

As at 31 March 2017, there were 1,018,000 (31 March 2016: 1,102,000) 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 third quarter of FY2017, the Company did not issue any ordinary shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q3 FY2016: Nil).

As at 31 March 2017, there were 217,500 (31 March 2016: 231,000) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 31 March 2017, the Company held 4,668,351 (31 March 2016: 4,668,351) treasury shares against 70,331,649 (31 March 2016: 70,331,649) issued ordinary shares excluding treasury shares.

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

	Three months ended	
	31 March	
	2017	2016
Balance at beginning of period	4,668,351	4,668,351
Issue for Employee Performance Share Plan	-	-
Balance at end of period	<u>4,668,351</u>	<u>4,668,351</u>

6 GROUP BORROWINGS

	GROUP	
	31 March 2017 US\$'000	30 June 2016 US\$'000
Amount repayable:		
<u>In one year or less, or on demand</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
<u>After one year</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Total	<hr/>	<hr/>
	-	-

7 NET ASSET VALUE

	GROUP		COMPANY	
	31 March 2017 US\$	30 June 2016 US\$	31 March 2017 US\$	30 June 2016 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.14	1.40	1.91	1.81

8 AUDIT

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

9 AUDITORS' REPORT

Not applicable.

10 ACCOUNTING POLICIES

Except as disclosed in Item 11 below, the Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 30 June 2016.

11 CHANGES IN ACCOUNTING POLICIES

None.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the third quarter of FY2017 decreased by 13% compared to the same quarter in FY2016, and net sales for the cumulative nine months ended 31 March 2017 decreased by 18% compared to the same period in FY2016. Revenue in the third quarter and cumulative nine months ended 31 March 2017 was lower due to the uncertain and difficult market conditions which continued to affect the sales of the Group's products.

Gross Profit

Gross profit margin was 28% in the third quarter of FY2017 and FY2016. For the cumulative nine months period of FY2017, gross profit margin was 28% compared to 27% in the same period in FY2016. Gross profit margin in the cumulative nine months period of FY2016 included employee severance charges of US\$0.5 million (see below). Excluding the employee severance charges, gross profit margin was 28%. Gross profit margin in the third quarter and cumulative nine months period of FY2017 was in line with the sales mix.

Net Profit

Net loss for the third quarter of FY2017 was US\$4.6 million compared to a net profit of US\$4.1 million in the third quarter of FY2016. Net loss in the third quarter of FY2017 included other gains (net) of US\$0.7 million. Net profit in the third quarter of FY2016 included other gains (net) of US\$13.7 million, share of loss of associated companies of US\$0.3 million and income tax expense of US\$3.2 million.

Net loss for the cumulative nine months period of 2017 was US\$17.3 million compared to net profit of US\$2.2 million in the cumulative nine months period of FY2016. Net loss in the cumulative nine months period of FY2017 included other losses (net) of US\$0.9 million and share of loss of associated companies of US\$0.5 million. Net profit in the cumulative nine months period of FY2016 included employee severance charges of US\$4.1 million in the first quarter of FY2016, other gains (net) of US\$35.2 million, share of loss of associated companies of US\$0.3 million and income tax expense of US\$8.2 million.

Selling, general and administrative expenses in the third quarter of FY2017 and cumulative nine months period of FY2017 decreased by 18% and 28%, respectively, compared to the same periods in the corresponding year. Excluding employee severance charges in the first quarter of FY2016, selling, general and administrative expenses for cumulative nine months period of FY2017 decreased by 24% compared to the same period in the corresponding year. Selling, general and administrative expenses in the third quarter and cumulative nine months period of FY2016 were higher due mainly to higher legal expenses for on-going litigation. The lower level of sales has also contributed to a reduction in selling, general and administrative expenses in the third quarter and cumulative nine months period of FY2017 compared to the same corresponding periods.

Research and development expenses in the third quarter and cumulative nine months period of FY2017 decreased by 3% and 23%, respectively, compared to the same periods in the corresponding year. Excluding employee severance charges in the first quarter of FY2016, research and development expenses in the cumulative nine months period of FY2017 decreased by 5% compared to the same period in the corresponding year.

Other gains (net) of US\$0.7 million in the third quarter of FY2017 were due mainly to foreign exchange gain. Other gains (net) of US\$14.0 million in the third quarter of FY2016 were due mainly to US\$1.5 million foreign exchange gain and US\$12.5 million from settlement of a patent lawsuit. Other losses (net) of US\$0.9 million for the cumulative nine months period of FY2017 were due mainly to US\$0.7 million impairment loss on investments and US\$1.5 million foreign exchange loss, offset partially by US\$1.3 million gain on disposal of investments. Other gains (net) of US\$35.2 million for the cumulative nine months period of FY2016 were due mainly to US\$2.7 million gain on disposal of investments and US\$33.5 million from settlements in patent lawsuit, offset partially by US\$0.8 million impairment loss on investments and US\$0.3 million foreign exchange loss.

The functional currency of the Company and its subsidiaries is predominantly the US dollar and accordingly, gains and losses resulting from the translation of monetary assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net profit (loss). The exchange differences were due mainly to the cash and cash equivalent balances held by the Group. Cash and cash equivalents were held mainly in US dollar, with the balance

mainly in Singapore dollar, Euro, British Pound and Japanese Yen. The exchange gain in the third quarter of FY2017 was due mainly to the appreciation of these currencies against the US dollar. The exchange loss in the cumulative nine months period of FY2017 was due mainly to depreciation of these currencies against the US dollar. The exchange gain in the third quarter of FY2016 was due mainly to the appreciation of Singapore dollar, Euro and Japanese Yen against the US dollar. The exchange loss in the cumulative nine months period of FY2016 was due mainly to depreciation of Singapore dollar against the US dollar in the first quarter of FY2016.

Income tax expense of US\$3.2 million and US\$8.2 million in the third quarter and cumulative nine months period of FY2016 was due mainly to US\$0.4 million adjustment to the Group's provision for transfer pricing and withholding tax exposure of foreign subsidiaries, and US\$2.8 million and US\$7.8 million withholding tax payment pertaining to patent lawsuit settlements in the third quarter and cumulative nine months period of FY2016.

BALANCE SHEETS

The decrease in cash and cash equivalents was due mainly to net cash used in operating activities (see below). The decrease in inventories was in line with the lower level of sales. The decrease in trade payables and accrued liabilities and provisions were due mainly to lower level of operating activities.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$17.8 million in the cumulative nine months period of FY2017 (cumulative nine months period of FY2016: US\$4.6 million) was due mainly to operating loss for the period.

Net cash used in investing activities of US\$0.4 million in the cumulative nine months period of FY2017 (cumulative nine months period of FY2016: US\$2.3 million net cash provided) was due mainly to loan to an associated company of US\$0.5 million and new investments amounting to US\$1.1 million, offset partially by US\$1.3 million proceeds from sale of investments.

Net cash provided by financing activities in the cumulative nine months period of FY2017 was not material (cumulative nine months period of FY2016: not material).

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the third quarter of FY2017 as compared to the prospect statement disclosed in the announcement of results for the second quarter ended 31 December 2016.

14 PROSPECTS

The Group expects no significant change in the market conditions. Revenue in this quarter is expected to be comparable to the current level and the Group expects to report an operating loss.

15 DIVIDEND

No dividends have been recommended in the third quarter of FY2017 and no dividends were recommended or declared for the same period last year.

16 INTERESTED PERSON TRANSACTIONS

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

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

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

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
27 APRIL 2017

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 third quarter and cumulative nine months period ended 31 March 2017 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director