

CREATIVE TECHNOLOGY LTD

SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2015 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2015

1 CONSOLIDATED INCOME STATEMENT

	GROUP			GROUP		
	Three months ended			Half year ended		
	2015	2014	% change	2015	2014	% change
	US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)
Sales, net	26,502	31,302	(15)	49,013	55,596	(12)
Cost of goods sold	(19,435)	(22,037)	(12)	(36,184)	(39,566)	(9)
Gross profit	7,067	9,265	(24)	12,829	16,030	(20)
Expenses:						
Selling, general and administrative	(10,251)	(8,950)	15	(22,215)	(16,836)	32
Research and development	(3,151)	(4,880)	(35)	(9,076)	(10,086)	(10)
Total expenses	(13,402)	(13,830)	(3)	(31,291)	(26,922)	16
Other income	58	41	n.m.	147	88	n.m.
Other gains	23,730	416	n.m.	23,730	432	n.m.
Other losses	(414)	(5,047)	n.m.	(2,251)	(8,626)	n.m.
Profit (loss) before income tax	17,039	(9,155)	n.m.	3,164	(18,998)	n.m.
Income tax expense	(5,027)	(23)	n.m.	(5,065)	(48)	n.m.
Net profit (loss)	12,012	(9,178)	n.m.	(1,901)	(19,046)	(90)
Attributable to:						
Equity holders of the Company	11,969	(9,194)	n.m.	(1,958)	(19,027)	(90)
Non-controlling interests	43	16	169	57	(19)	n.m.
Earnings (loss) per share attributable to equity holders of the Company						
- Basic (US\$ per share)	0.17	(0.13)	n.m.	(0.03)	(0.27)	(89)
- Diluted (US\$ per share)	0.17	(0.13)	n.m.	(0.03)	(0.27)	(89)

n.m. – not meaningful

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

	Three months ended			Half year ended		
	31 December			31 December		
	2015	2014	% change	2015	2014	% change
	US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)
Write-off/write-down for inventory obsolescence	(133)	(82)	62	(322)	(390)	(17)
Impairment loss on investments	(288)	(664)	(57)	(463)	(976)	(53)
Gain on disposal of investments	2,722	-	n.m.	2,722	-	n.m.
Foreign exchange loss	(126)	(4,383)	(97)	(1,788)	(7,649)	(77)
Litigation settlement	21,000	-	n.m.	21,000	-	n.m.

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			GROUP		
	Three months ended			Half year ended		
	31 December			31 December		
	2015	2014	% change	2015	2014	% change
	US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)
Net profit (loss)	12,012	(9,178)	n.m.	(1,901)	(19,046)	(90)
Other comprehensive income:						
Fair value (losses) gains of financial assets, available-for-sale:						
Fair value (losses) gains	(784)	1,288	n.m.	(3,496)	6,099	n.m.
Reclassification	(2,722)	-	n.m.	(2,722)	(651)	n.m.
Total comprehensive income (loss) for the period	<u>8,506</u>	<u>(7,890)</u>	n.m.	<u>(8,119)</u>	<u>(13,598)</u>	(40)
Attributable to:						
Shareholders of the Company	8,463	(7,906)	n.m.	(8,176)	(13,579)	(40)
Non-controlling interests	43	16	n.m.	57	(19)	n.m.
Total comprehensive income (loss) for the period	<u>8,506</u>	<u>(7,890)</u>	n.m.	<u>(8,119)</u>	<u>(13,598)</u>	(40)

3 BALANCE SHEETS

	Group		Company	
	31 December 2015 US\$'000	30 June 2015 US\$'000	31 December 2015 US\$'000	30 June 2015 US\$'000
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	89,691	99,668	83,002	97,373
Trade receivables	10,539	9,782	167	4,290
Amounts due from subsidiaries	-	-	41,095	31,735
Inventories	27,141	28,879	2,770	15,939
Other current assets	4,211	1,320	2,361	422
	131,582	139,649	129,395	149,759
Non-current assets:				
Financial assets, available-for-sale	11,467	18,239	-	-
Amounts due from subsidiaries	-	-	137,156	145,344
Investments in subsidiaries	-	-	25,453	25,453
Property and equipment	1,115	1,361	251	369
Other non-current assets	183	88	-	-
	12,765	19,688	162,860	171,166
Total assets	144,347	159,337	292,255	320,925
<u>LIABILITIES</u>				
Current liabilities:				
Trade payables	10,306	15,639	625	10,409
Amounts due to subsidiaries	-	-	7,943	12,060
Accrued liabilities and provisions	30,112	31,445	16,651	20,451
Current income tax liabilities	626	643	-	-
	41,044	47,727	25,219	42,920
Non-current liabilities:				
Amounts due to subsidiaries	-	-	30,150	27,507
Deferred income tax liabilities	9,902	9,902	-	-
	9,902	9,902	30,150	27,507
Total liabilities	50,946	57,629	55,369	70,427
NET ASSETS	93,401	101,708	236,886	250,498
<u>EQUITY</u>				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve	6,086	12,304	-	-
Other reserves	62,369	62,562	34,905	35,098
Accumulated losses	(225,800)	(223,847)	(48,510)	(35,091)
	93,146	101,510	236,886	250,498
Non-controlling interests	255	198	-	-
Total equity	93,401	101,708	236,886	250,498

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Half year ended 31 December	
	2015	2014
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(1,901)	(19,046)
Adjustments for:		
Income tax expense	5,065	48
Depreciation of property and equipment	264	378
Employee share-based expenses	(193)	(8)
Gain on disposal of property and equipment	(4)	(392)
Impairment loss of financial assets, available-for-sale	463	976
Gain on disposal of financial assets, available-for-sale	(2,722)	--
Currency translation loss	1,858	7,152
Interest income	(148)	(88)
	<u>2,682</u>	<u>(10,980)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(757)	(3,379)
Inventories	1,738	3,703
Other assets and receivables	(2,980)	(459)
Trade payables	(5,333)	(835)
Accrued liabilities and provisions	(1,333)	(2,508)
Cash used in operations	<u>(5,983)</u>	<u>(14,458)</u>
Interest received	142	88
Income tax paid	(5,071)	(50)
Net cash used in operating activities	<u>(10,912)</u>	<u>(14,420)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(18)	(60)
Proceeds from sale of property and equipment	4	4,884
Proceeds from sale of financial assets, available-for-sale	2,813	1
Purchase of financial assets, available-for-sale	--	(1,750)
Net cash provided by investing activities	<u>2,799</u>	<u>3,075</u>
Cash flows from financing activities:		
Dividends paid to equity holders of the Company	--	(2,752)
Unclaimed dividends	5	--
Net cash provided by (used in) financing activities	<u>5</u>	<u>(2,752)</u>
Net decrease in cash and cash equivalents	(8,108)	(14,097)
Cash and cash equivalents at beginning of financial year	99,668	124,638
Effects of currency translation on cash and cash equivalents	(1,869)	(7,209)
Cash and cash equivalents at end of the period	<u>89,691</u>	<u>103,332</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
FY2016								
Balance at 1 July 2015	266,753	(16,262)	12,304	62,562	(223,847)	101,510	198	101,708
Loss for the period	-	-	-	-	(1,958)	(1,958)	57	(1,901)
Other comprehensive loss for the period	-	-	(6,218)	-	-	(6,218)	-	(6,218)
Total comprehensive loss for the period	-	-	(6,218)	-	(1,958)	(8,176)	57	(8,119)
Employee share-based expense	-	-	-	(193)	-	(193)	-	(193)
Unclaimed dividends	-	-	-	-	5	5	-	5
Total transactions with owners, recognised directly in equity	-	-	-	(193)	5	(188)	-	(188)
Balance at 31 December 2015	266,753	(16,262)	6,086	62,369	(225,800)	93,146	255	93,401
FY2015								
Balance at 1 July 2014	266,753	(16,262)	9,896	62,570	(187,695)	135,262	205	135,467
Loss for the period	-	-	-	-	(19,027)	(19,027)	(19)	(19,046)
Other comprehensive income for the period	-	-	5,448	-	-	5,448	-	5,448
Total comprehensive income (loss) for the period	-	-	5,448	-	(19,027)	(13,579)	(19)	(13,598)
Employee share-based expense	-	-	-	(8)	-	(8)	-	(8)
Liquidation of subsidiary	-	-	-	-	-	-	(16)	(16)
Dividends paid	-	-	-	-	(2,752)	(2,752)	-	(2,752)
Total transactions with owners, recognised directly in equity	-	-	-	(8)	(2,752)	(2,760)	(16)	(2,776)
Balance at 31 December 2014	266,753	(16,262)	15,344	62,562	(209,474)	118,923	170	119,093

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
FY2016					
Balance at 1 July 2015	266,753	(16,262)	35,098	(35,091)	250,498
Employee share-based expense	-	-	(193)	-	(193)
Unclaimed dividends	-	-	-	5	5
Total comprehensive loss for the period	-	-	-	(13,424)	(13,424)
Balance at 31 December 2015	266,753	(16,262)	34,905	(48,510)	236,886
FY2015					
Balance at 1 July 2014	266,753	(16,262)	35,106	4,402	289,999
Employee share-based expense	-	-	(8)	-	(8)
Dividends paid	-	-	-	(2,752)	(2,752)
Total comprehensive loss for the period	-	-	-	(13,820)	(13,820)
Balance at 31 December 2014	266,753	(16,262)	35,098	(12,170)	273,419

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

Issued and paid up capital

As at 31 December 2015, the Company's issued and paid up capital excluding treasury shares comprises 70,331,649 (30 June 2015: 70,331,649) ordinary shares.

As at 31 December 2015, the Company's issued and paid up share capital was US\$266.8 million (30 September 2015: US\$266.8 million).

Employee share options plan

During the second quarter of FY2016, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q2 FY2015: Nil).

As at 31 December 2015, there were 1,106,500 (31 December 2014: 2,125,500) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plan.

Employee performance share plan

During the second quarter of FY2016, the Company did not issue any ordinary shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q2 FY2015: Nil).

As at 31 December 2015, there were 232,500 (31 December 2014: 285,000) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 31 December 2015, the Company held 4,668,351 (31 December 2014: 4,668,351) treasury shares against 70,331,649 (31 December 2014: 70,331,649) issued ordinary shares excluding treasury shares.

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

	Three months ended	
	31 December	
	2015	2014
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 December 2015 US\$'000	30 June 2015 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 December 2015 US\$	30 June 2015 US\$	31 December 2015 US\$	30 June 2015 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.33	1.45	3.37	3.56

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 2015.

11 CHANGES IN ACCOUNTING POLICIES

None.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the second quarter of FY2016 decreased by 15% compared to the same quarter in FY2015, and net sales for the first half year of FY2016 decreased by 12% compared to the same period in FY2015. Revenue in the second quarter and first half year of FY2016 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 27% in the second quarter of FY2016 compared to 30% in the second quarter of FY2015 and 26% in the first half year of FY2016 compared to 29% in FY2015. Gross profit margin in the second quarter and first half year of FY2016 was in line with the sales mix.

Net Profit

Net profit for the second quarter of FY2016 was US\$12.0 million compared to a net loss of US\$9.2 million in the second quarter of FY2015. Net profit in the second quarter of FY2016 included other gains of US\$23.7 million, other losses of US\$0.4 million and income tax expense of US\$5.0 million. Net loss in the second quarter of FY2015 included other gains of US\$0.4 million and other losses of US\$5.0 million.

Net loss for the first half year of FY2016 was US\$1.9 million compared to US\$19.0 million in the first half year of FY2015. Net loss in the first half year of FY2016 included employee severance charges of US\$4.1 million in the first quarter of FY2016, other gains of US\$23.7 million, other losses of US\$2.3 million and income tax expense of US\$5.1 million. Net loss in the first half year of FY2015 included other gains of US\$0.4 million and other losses of US\$8.6 million.

Selling, general and administrative expenses in the second quarter and first half year of FY2016 increased by 15% and 32%, 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 the first half year of FY2016 increased by 24% compared to the first half year of FY2015. The increase in selling, general and administrative expenses was due mainly to an increase in legal expenses for on-going litigation.

Research and development expenses in the second quarter and first half year of FY2016 decreased by 35% and 10%, 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 first half year of FY2016 decreased by 33% compared to the first half year of FY2015. The decrease in research and development expenses was due mainly to cost cutting actions taken by management.

Other gains of US\$23.7 million in the second quarter and first half year of FY2016 were due mainly to US\$2.7 million gain on disposal of investments and US\$21.0 million from settlement of a patent lawsuit. Other gains of US\$0.4 million in the second quarter and first half year of FY2015 was due mainly to US\$0.4 million gain on disposal of a property owned by a subsidiary in Ireland.

Other losses of US\$0.4 million in the second quarter of FY2016 were due mainly to US\$0.3 million impairment loss on investments and US\$0.1 million foreign exchange loss. Other losses of US\$2.3 million in the first half year of FY2016 were due mainly to US\$0.5 million impairment loss on investments and US\$1.8 million foreign exchange loss. Other losses of US\$5.0 million in the second quarter of FY2015 were due mainly to foreign exchange loss of US\$4.4 million and impairment loss on investments of US\$0.6 million. Other losses of US\$8.6 million in the first half year of FY2015 were due mainly to foreign exchange loss of US\$7.6 million and impairment loss on investments of US\$1.0 million.

The functional currency of the Company and its subsidiaries is predominantly the US dollar and accordingly, gains and losses resulting from the translation of monetary assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net profit (loss). The exchange differences were due mainly to the cash and cash equivalent balances held by the Group. Cash and cash equivalents were held mainly in Singapore dollar, with the balance mainly in US dollar, Euro, British Pound and Japanese Yen. The exchange difference in the second quarter of FY2016 was not significant. The exchange loss in the first half year of FY2016 was due mainly to depreciation of Singapore

dollar against the US dollar in the first quarter of FY2016. The exchange loss in the second quarter and first half year of FY2015 was due mainly to depreciation of Singapore dollar, British Pound, Euro and Japanese Yen against the US dollar.

Income tax expense of US\$5.0 million and US\$5.1 million in the second quarter and first half year of FY2016 was due mainly to US\$5.0 million withholding tax payment pertaining to the patent lawsuit settlement.

BALANCE SHEETS

The decrease in cash and cash equivalents was due mainly to net cash used in operating activities (see below). The increase in other current assets was due mainly to advance payment to vendors. The decrease in financial assets available-for-sale was due mainly to disposal of investments and fair value loss in revaluation of investments. Trade payables at December 2015 was lower compared to June 2015. The higher trade payables as at June 2015 was due mainly to a payment cycle crossing over year end closing on 26 June 2015.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$10.9 million in the first half year of FY2016 (first half year of FY2015: US\$14.4 million) was due mainly to withholding tax payment and lower trade payables.

Net cash provided by investing activities of US\$2.8 million in the first half year of FY2016 (first half year of FY2015: US\$3.1 million) was due mainly to US\$2.8 million proceeds from sale of investments.

Net cash provided by financing activities in the first half year of FY2016 was not material (first half year of FY2015: US\$2.8 million used).

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the second quarter of FY2016 as compared to the prospect statement disclosed in the announcement of results for the first quarter ended 30 September 2015.

14 PROSPECTS

The Group expects no significant change in the market conditions and overall market for the Group's products remains challenging. Revenue is expected to be lower in this quarter and the Group expects to report an operating loss.

A recent settlement of a patent infringement lawsuit by a wholly-owned subsidiary, ZiiLabs Inc., Ltd, is expected to contribute approximately US\$0.14 of earnings per share for the quarter.

15 DIVIDEND

No dividends have been recommended in the second quarter of FY2016 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
28 JANUARY 2016

CONFIRMATION BY THE BOARD

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the interim financial information for the second quarter and half year ended 31 December 2015 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director