

CREATIVE TECHNOLOGY LTD

SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2016 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2016

1 CONSOLIDATED INCOME STATEMENT

	GROUP			GROUP		
	Three months ended			Half year ended		
	2016	2015	% change	2016	2015	% change
	US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)
Sales, net	22,153	26,502	(16)	39,405	49,013	(20)
Cost of goods sold	(15,943)	(19,435)	(18)	(28,362)	(36,184)	(22)
Gross profit	6,210	7,067	(12)	11,043	12,829	(14)
Expenses:						
Selling, general and administrative	(7,506)	(10,251)	(27)	(15,299)	(22,215)	(31)
Research and development	(2,964)	(3,151)	(6)	(6,394)	(9,076)	(30)
Total expenses	(10,470)	(13,402)	(22)	(21,693)	(31,291)	(31)
Other income	100	58	72	196	147	33
Other gains	703	23,730	n.m.	1,354	23,730	n.m.
Other losses	(2,776)	(414)	n.m.	(2,968)	(2,251)	32
Share of loss of associated companies	(95)	--	n.m.	(421)	--	n.m.
(Loss) profit before income tax	(6,328)	17,039	n.m.	(12,489)	3,164	n.m.
Income tax expense	(190)	(5,027)	(96)	(230)	(5,065)	(95)
Net (loss) profit	(6,518)	12,012	n.m.	(12,719)	(1,901)	n.m.
Attributable to:						
Equity holders of the Company	(6,547)	11,969	n.m.	(12,758)	(1,958)	n.m.
Non-controlling interests	29	43	(33)	39	57	(32)
(Loss) earnings per share attributable to equity holders of the Company						
- Basic (US\$ per share)	(0.09)	0.17	n.m.	(0.18)	(0.03)	n.m.
- Diluted (US\$ per share)	(0.09)	0.17	n.m.	(0.18)	(0.03)	n.m.

n.m. – not meaningful

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

	Three months ended			Half year ended		
	31 December			31 December		
	2016	2015	% change	2016	2015	% change
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Write-off/write-down for inventory obsolescence	(920)	(133)	n.m.	(1,889)	(322)	n.m.
Impairment loss on investments	(500)	(288)	74	(692)	(463)	49
Gain on disposal of investments	707	2,722	(74)	1,346	2,722	(51)
Foreign exchange loss	(2,277)	(126)	n.m.	(2,276)	(1,788)	27
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		
2016	2015	% change	2016	2015	% change	
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Net (loss) profit	(6,518)	12,012	n.m.	(12,719)	(1,901)	n.m.
Other comprehensive income:						
Available-for-sale financial assets:						
Fair value gains (losses)	367	(784)	n.m.	288	(3,496)	n.m.
Reclassification	(707)	(2,722)	(74)	(1,346)	(2,722)	(51)
Total comprehensive (loss) income for the period	<u>(6,858)</u>	<u>8,506</u>	n.m.	<u>(13,777)</u>	<u>(8,119)</u>	70
Attributable to:						
Shareholders of the Company	(6,887)	8,463	n.m.	(13,816)	(8,176)	69
Non-controlling interests	29	43	(33)	39	57	(32)
Total comprehensive (loss) income for the period	<u>(6,858)</u>	<u>8,506</u>	n.m.	<u>(13,777)</u>	<u>(8,119)</u>	70

3 BALANCE SHEETS

	Group		Company	
	31 December 2016 US\$'000	30 June 2016 US\$'000	31 December 2016 US\$'000	30 June 2016 US\$'000
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	80,071	94,738	74,708	88,362
Trade receivables	9,648	7,570	198	245
Amounts due from subsidiaries	-	-	48,140	43,979
Inventories	23,446	25,052	4,892	5,153
Other current assets	1,452	1,797	673	633
	114,617	129,157	128,611	138,372
Non-current assets:				
Available-for-sale financial assets	10,459	11,960	-	-
Amounts due from subsidiaries	-	-	15,813	14,923
Investments in subsidiaries	-	-	25,353	25,353
Property and equipment	829	870	106	131
Other non-current assets	184	190	-	-
	11,472	13,020	41,272	40,407
Total assets	126,089	142,177	169,883	178,779
<u>LIABILITIES</u>				
Current liabilities:				
Trade payables	9,013	9,651	795	1,588
Amounts due to subsidiaries	-	-	9,037	8,325
Accrued liabilities and provisions	21,796	23,377	10,847	11,468
Current income tax liabilities	268	347	-	-
	31,077	33,375	20,679	21,381
Non-current liabilities:				
Amounts due to subsidiaries	-	-	31,042	30,162
Deferred income tax liabilities	10,302	10,302	-	-
	10,302	10,302	31,042	30,162
Total liabilities	41,379	43,677	51,721	51,543
NET ASSETS	84,710	98,500	118,162	127,236
<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	5,516	6,574	-	-
Other reserves	62,347	62,364	34,883	34,900
Accumulated losses	(233,973)	(221,219)	(167,212)	(158,155)
	84,381	98,210	118,162	127,236
Non-controlling interests	329	290	-	-
Total equity	84,710	98,500	118,162	127,236

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Half year ended 31 December	
	2016	2015
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(12,719)	(1,901)
Adjustments for:		
Income tax expense	230	5,065
Depreciation of property and equipment	108	264
Employee share-based expenses	(17)	(193)
Gain on disposal of property and equipment	--	(4)
Share of loss of associated companies	421	--
Impairment loss of available-for-sale financial assets	692	463
Gain on disposal of available-for-sale financial assets	(1,346)	(2,722)
Currency translation loss	1,875	1,858
Interest income	(196)	(148)
	<u>(10,952)</u>	<u>2,682</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(2,078)	(757)
Inventories	1,606	1,738
Other assets and receivables	355	(2,980)
Trade payables	(638)	(5,333)
Accrued liabilities and provisions	(1,581)	(1,333)
Cash used in operations	<u>(13,288)</u>	<u>(5,983)</u>
Interest received	192	142
Income tax paid	(278)	(5,071)
Net cash used in operating activities	<u>(13,374)</u>	<u>(10,912)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(67)	(18)
Proceeds from sale of property and equipment	--	4
Proceeds from sale of available-for-sale financial assets	1,346	2,813
Purchase of available-for-sale financial assets	(250)	--
Loan to associated company	(421)	--
Net cash provided by investing activities	<u>608</u>	<u>2,799</u>
Cash flows from financing activities:		
Unclaimed dividends	4	5
Net cash provided by financing activities	<u>4</u>	<u>5</u>
Net decrease in cash and cash equivalents	(12,762)	(8,108)
Cash and cash equivalents at beginning of financial year	94,738	99,668
Effects of currency translation on cash and cash equivalents	(1,905)	(1,869)
Cash and cash equivalents at end of the period	<u><u>80,071</u></u>	<u><u>89,691</u></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	-	-	-	-	(12,758)	(12,758)	39	(12,719)
Other comprehensive loss for the period	-	-	(1,058)	-	-	(1,058)	-	(1,058)
Total comprehensive loss for the period	-	-	(1,058)	-	(12,758)	(13,816)	39	(13,777)
Employee share-based expense	-	-	-	(17)	-	(17)	-	(17)
Unclaimed dividends	-	-	-	-	4	4	-	4
Total transactions with owners, recognised directly in equity	-	-	-	(17)	4	(13)	-	(13)
Balance at 31 December 2016	266,753	(16,262)	5,516	62,347	(233,973)	84,381	329	84,710
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 income for the period	-	-	(6,218)	-	-	(6,218)	-	(6,218)
Total comprehensive income (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

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	-	-	(17)	-	(17)
Unclaimed dividends	-	-	-	4	4
Total comprehensive loss for the period	-	-	-	(9,061)	(9,061)
Balance at 31 December 2016	266,753	(16,262)	34,883	(167,212)	118,162
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

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

Issued and paid up capital

As at 31 December 2016, 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 December 2016, the Company's issued and paid up share capital was US\$266.8 million (30 September 2016: US\$266.8 million).

Employee share options plan

During the second 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 (Q2 FY2016: Nil).

As at 31 December 2016, there were 1,052,000 (31 December 2015: 1,106,500) 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 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 (Q2 FY2016: Nil).

As at 31 December 2016, there were 226,500 (31 December 2015: 232,500) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 31 December 2016, the Company held 4,668,351 (31 December 2015: 4,668,351) treasury shares against 70,331,649 (31 December 2015: 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	
	2016	2015
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 2016 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 December 2016 US\$	30 June 2016 US\$	31 December 2016 US\$	30 June 2016 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.20	1.40	1.68	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 second quarter of FY2017 decreased by 16% compared to the same quarter in FY2016, and net sales for the first half year of FY2017 decreased by 20% compared to the same period in FY2016. Revenue in the second quarter and first half year of FY2017 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 second quarter and first half year of FY2017 compared to 27% in the second quarter and 26% in the first half year of FY2016. Gross profit margin in the first half year of FY2016 included employee severance charges of US\$0.5 million (see below). Excluding the employee severance charges, gross profit margin was 27%. Gross profit margin in the second quarter and first half year of FY2017 was in line with the sales mix.

Net Profit

Net loss for the second quarter of FY2017 was US\$6.5 million compared to a net profit of US\$12.0 million in the second quarter of FY2016. Net loss in the second quarter of FY2017 included other gains of US\$0.7 million and other losses of US\$2.8 million. 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 for the first half year of FY2017 was US\$12.7 million compared to US\$1.9 million in the first half year of FY2016. Net loss in the first half year of FY2017 included other gains of US\$1.4 million, other losses of US\$3.0 million and share of loss of associated companies of US\$0.4 million. 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.

Selling, general and administrative expenses in the second quarter and first half year of FY2017 decreased by 27% and 31%, 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 FY2017 decreased by 27% compared to the first half year of FY2016. Sales, general and administrative expenses in the second quarter and first half year 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 sales, general and administrative expenses in the second quarter and first half year of FY2017 compared to the same corresponding periods.

Research and development expenses in the second quarter and first half year of FY2017 decreased by 6% and 30%, 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 FY2017 decreased by 6% compared to the first half year of FY2016. The decrease in research and development expenses was due mainly to cost cutting actions taken by management.

Other gains of US\$0.7 million and US\$1.4 million in the second quarter and first half year of FY2017 were due mainly to gain on disposal of investments. 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 losses of US\$2.8 million in the second quarter of FY2017 were due mainly to US\$2.3 million foreign exchange loss and US\$0.5 million impairment loss on investments. Other losses of US\$3.0 million in the first half year of FY2017 were due mainly to US\$2.3 million foreign exchange loss and US\$0.7 million impairment loss on investments. 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\$1.8 million foreign exchange loss and US\$0.5 million impairment loss on investments.

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 difference in the second quarter and first half year of FY2017 was due mainly to the depreciation of these currencies against the US dollar. 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.

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 trade receivables was due mainly to higher sales in the holiday season and the decrease in inventories was in line with the expected lower level of sales after the holiday season. The decrease in financial assets available-for-sale was due mainly to disposal and impairment of investments. The decrease in 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\$13.4 million in the first half year of FY2017 (first half year of FY2016: US\$10.9 million) was due mainly to operating loss for the period.

Net cash provided by investing activities of US\$0.6 million in the first half year of FY2017 (first half year of FY2016: US\$2.8 million) was due mainly to US\$1.3 million proceeds from sale of investments, offset partially by loan to an associated company of US\$0.4 million and investments amounting to US\$0.3 million.

Net cash provided by financing activities in the first half year of FY2017 was not material (first half year of FY2016: not material).

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the second quarter of FY2017 as compared to the prospect statement disclosed in the announcement of results for the first quarter ended 30 September 2016.

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.

15 DIVIDEND

No dividends have been recommended in the second 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
2 FEBRUARY 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 second quarter and half year ended 31 December 2016 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director