

Issuer: Creative Technology Ltd
Security: Creative Technology Ltd

Meeting details:

Date: 27 Oct 2016

Time: 10:30AM

Venue: 31 International Business Park, #03-01 Creative Resource, Singapore 609921

Company Description

Creative Technology Ltd., together with its subsidiaries, designs, manufactures, and distributes digital entertainment products worldwide. It primarily provides digitized sound and video boards, computers, and related multimedia and personal digital entertainment products. The company also offers sound blasters, gaming headsets, speakers, headphones, MP3 players, Web cameras, and accessories, as well as software products. In addition, it provides multimedia solutions for personal computers and personal digital entertainment products; and data communications, telecommunications, wireless broadband, and related services. The company markets its products and solutions to consumers and system integrators through a distribution network, including traditional marketing channels, original equipment manufacturers, and Internet. Creative Technology Ltd. was founded in 1981 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C76)

1. In the Corporate Governance Report, under Principal 1: The Board’s conduct of its Affairs (page 6 of the annual report):

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.

The group has one main product category of “Audio, speakers and headphones” and revenue has fallen, almost yearly except for one, from US\$150.4 million in 2010 to US\$77.8 million in 2016. The group has made losses every year in its core operations.

Revenue	2011 US\$million	2012 US\$million	2013 US\$million	2014 US\$million	2015 US\$million	2016 US\$million
Audio, speakers and headphones	142.3	143.9	122.0	103.5	90.2	77.8
Net (loss)/profit	(47.1)	(83.9)	16.7*	(21.8)	(33.4)	2.7**

Source: Creative Technology Annual Reports

* includes a one time licensing income of US\$20.0 million and a US\$26.7 million gain on divestment of a subsidiary company

** includes US\$33.5 million proceeds from settlements in patent lawsuit

What guidance has the board provided to the company on its strategic plans and directions? Can the board help shareholders understand the scope and outcome of any strategic review carried out for the group? Have the directors acted with due skill and care in the providing guidance to the group, especially in the approval of its strategic plans? The group has stuck to the same strategy of building better audio, speakers and headphones but, year after year, revenue has declined with no clear signs of turning around.

2. In FY2013, the Chairman first mentioned monetising the group’s portfolio of 3D graphics and media processing patents. Since then, legal fees have greatly increased from US\$2.5 million in FY2014, to US\$5.5 million in FY2015 and to US\$8.5 million in FY2016.

The outcome has been mixed. With the disclosure of a US\$33.5 million proceeds from settlements in patent lawsuit (together with withholding tax payments of US\$7.8 million), and also a termination of the investigation in relation to Creative’s US Patent 6,928,433, it is not clear to shareholders that, ultimately, the group will be able to defend and be rightfully compensated for its intellectual properties. Even if the group wins the lawsuit, there is no assurance that the net financial settlements will be positive or significant.

How is the company funding the legal fees? Is this going to be a new “strategic thrust” for the group? Can the company disclose the number of outstanding lawsuits?

On 31 October 2015 and 22 January 2016, the company made two announcements regarding agreements that ZiiLabs entered into with Apple and Samsung respectively to settle the patent infringement lawsuit filed in the United States in March 2014. It was further disclosed that both Apple and Samsung will take a license for the ZiiLabs' patents. Note 2.13 on Revenue recognition (page 29) states that:

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.

Shareholders would like to know if the licensing agreements are in force. What is the total licensing fee collected during the financial year? Can the company point out to shareholders where to find the information on the licensing fees in the annual report?

3. Two of the three independent directors have served the board since 1991 and 2005. Given that technology cycles are getting shorter and consumption trends are constantly evolving, **what are the board's renewal plans? Also, has the board started the succession planning for the key executive team?**

New directors and new key executives with the relevant experience and competencies (especially technology/consumer/marketing) can help the group to innovate and reinvent itself. While the group has focused its efforts in making the best products, the group can do even better if it leverages on good marketing and good position of its products to build up an eco-system to complement its range of products. Examples of other very successful hardware and computer accessory companies include Beats Electronics, Razer, Oculus, and GoPro.