



Experience *Magical*® Audio Reality

**ANNUAL REPORT 2018**

**CREATIVE**®  
CREATIVE TECHNOLOGY LTD

## SUPER X-FI® HEADPHONE HOLOGRAPHY WON BEST OF CES AWARD 2018

GAME-CHANGING SUPER X-FI BLOWS THE MINDS OF EXPERT REVIEWERS, BAGS PRESTIGIOUS AVS FORUM BEST OF CES AWARD 2018

On its maiden outing at the world's largest consumer electronics show in Las Vegas in 2018, Creative's all-new Super X-Fi technology won the prestigious AVS Forum Best of CES 2018 Award.

"Super X-Fi has been a dream of mine since the 1990s, and has taken over twenty years of engineering sweat, tears and grit to realize this feat. And now to see how many have been blown away by its magical performance is something truly fulfilling for me on a personal level. I've never been so excited before in my whole life. As the creator of the Sound Blaster, which has sold over 400 million units worldwide, the excitement that I felt then doesn't even come close to what I feel now with Super X-Fi. What we are seeing here is life-changing.

We are on the verge of a universal game-changer in the way people experience audio in their headphones, where the audio experience is so expansive, immersive, and life-like, that it'll be the new norm of headphone-listening. Once you experience Super X-Fi, you won't want to go back to the old headphone experience. It's like after watching color on TV, you won't want to go back to black-and-white!

This is the 'Holy Grail' of headphone audio which the whole industry has been searching for. I believe this is what every headphone should sound like. This paradigm shift will elevate mankind's appreciation of audio through this gift we call Super X-Fi."

### - Sim Wong Hoo

Creator of Super X-Fi and Sound Blaster,  
CEO of Creative Technology



**AVS**FORUM

Mark Henninger (Senior Editor, AVS Forum -- the world's largest AV-enthusiast forum site) was so impressed with Super X-Fi that he awarded it **Best of CES 2018**.

He spoke with CEO of Creative Technology, Sim Wong Hoo, and shared that he was blown away by the Super X-Fi demo, and that it was the 'Holy Grail' of headphone audio. The demo involved listening to a high-end 5.1.2 multi-speaker system in a room, then when Super X-Fi-enabled headphones were put on, listeners experienced the exact same audio soundstage as they had heard a few moments before, this time just from two plain headphone drivers.

Excerpts of Mark Henninger's report can be found at: [www.sxfi.com/avsforum](http://www.sxfi.com/avsforum)



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## CHAIRMAN'S MESSAGE

Dear Shareholders,

In recap, fiscal year 2018 has been a very exciting year for the company, and for me personally. First of all, financially, we are back in the black, due mainly to the income contribution from various litigation matters. More importantly, the announcement of Super X-Fi technology has created a huge impact on stakeholders' mindshare, as well as lovers of great audio in general. This has led to a whole bevy of rave reviews, accolades and awards. The subsequent movement in our share price tells a lot about a renewed interest in our stock.

Pretty amazing if you consider that all this was based on sneak demos of a headphone audio technology. Super X-Fi is not just any 3D or surround sound technology; we had that 20 years ago. It's much, much more. Think of the magic of holography, but for audio, and for headphones. Super X-Fi Headphone Holography is real and is now. I have never been so excited in my whole life. I will cover this in greater detail below.

The financial performance of the Group during fiscal year 2018 continued to be adversely affected by the difficult and uncertain market conditions for the Group's products, resulting in a slight decline in sales. Revenue contribution from new Super X-Fi products, to be introduced shortly, will commence only in the current fiscal year.

Sales for fiscal year 2018 were US\$66 million compared to US\$70 million for fiscal year 2017. Gross profit as a percentage of sales was 28% in fiscal 2018 similar to that in fiscal 2017. Net profit for fiscal 2018 was US\$40 million, compared to a net loss of US\$23 million in fiscal 2017. There was no significant change in operating results for the Group. Net results for the year was lifted by the contribution from higher other gains, comprising mainly US\$64 million from various litigation matters. Further highlights of the Group's financial performance are detailed in the "Financial Highlights and Review" section of the annual report.

As I have mentioned earlier, we announced the groundbreaking Super X-Fi technology, a result of many years of long-term strategic investments in research and development. Without this persistent investment strategy, such technological breakthroughs would not have been possible.

This technology is going to be a game-changer. Super X-Fi was first unveiled at CES 2018 where it won the hearts of industry experts and critics – and was conferred the BEST OF CES AWARD by Mark Henninger, Senior Editor of the AVS Forum (the world's largest AV-enthusiast forum). Since then, it's blown away virtually everyone that it touches. What they witnessed was akin to the black & white TV era being taken over by the advent of colour. It was something so magical that no one believed was possible. It was something so revolutionary and life-changing that I believe that any headphone user who hears it would want it immediately.

Recently, Creative demonstrated Super X-Fi to a panel of expert judges and won the WIPO IP Enterprise Trophy for the Most Outstanding Overall IP champion, as well as the Most Innovative IP Champion Trophy. WIPO is the World Intellectual Property Organization – the IP agency of the United Nations.

Super X-Fi technology is flexible, scalable and can be implemented both as hardware solutions, as well as software integrated into various apps, such as live-streaming apps, and even embedded into smartphone operating systems. The possibilities are truly exciting. The first manifestations of this technology will take the form of the SXFI AMP and the SXFI AIR. Shipment for both are imminent.

The SXFI AMP delivers the best of both worlds in advanced personalized headphone audio. It incorporates Super X-Fi technology which is miniaturized into a 'dongle' no larger than a finger. It's also a premium high-performance headphone amplifier that is capable of driving even high impedance studio-grade headphones.

The SXFI AIR heralds a whole new range of advanced headphones that incorporate Super X-Fi technology right into the heart of a pair of Bluetooth wireless headphones.

I would like to invite you, our shareholders, to be part of this very exciting technology roll-out. We are extending a special Shareholders-Only Offer to you, where you can own the SXFI AMP and SXFI AIR at an exclusive Shareholder's Special price. You can also be part of a Super X-Fi incentivized referral program that will help to spread the word about this exciting technology even further. You can find out more at [sg.creative.com/special](http://sg.creative.com/special).

Looking ahead, for the current fiscal year, the Group expects no significant change in the uncertain and challenging market conditions. However, the introduction of new Super X-Fi products is expected to provide good potential revenue growth opportunities and help the Group work towards re-growing our business and an improvement in financial performance for the year.

Thank you.

Sim Wong Hoo  
Chairman & Chief Executive Officer

**FINANCIAL HIGHLIGHTS AND REVIEW**

For the financial year ended 30 June 2018

**Overview**

	US\$million	
	2018	2017
Sales, net	66.1	69.9
Gross profit	18.5	19.6
Gross profit margin	28%	28%
Expenses	43.6	42.5
Net profit (loss)	40.4	(22.9)

Sales for the financial year ended 30 June 2018 ("FY2018") were US\$66.1 million compared to US\$69.9 million for the financial year ended 30 June 2017 ("FY2017"). Gross profit in FY2018 was US\$18.5 million at a margin of 28% compared to US\$19.6 million at a margin of 28% in FY2017. Net profit in FY2018 was US\$40.4 million compared to net loss of US\$22.9 million in FY2017.

**Sales**

The Group's sales decreased marginally by 5% to US\$66.1 million in FY2018 compared to US\$69.9 million in FY2017.

	US\$million	
<b><u>Sales by Product Category</u></b>	2018	2017
Audio, speakers and headphones	62.3	64.1
Personal digital entertainment	2.1	4.1
Other products	1.7	1.7
	66.1	69.9

Sales of all product categories in FY2018 have decreased compared to FY2017 with the exception of sales of other products which remained the same as last year.

	US\$million	
<b><u>Sales by Region</u></b>	2018	2017
Asia Pacific	36.4	38.0
The Americas	10.4	9.6
Europe	19.3	22.3
	66.1	69.9

By geographical region, sales in the Asia Pacific region for FY2018 has decreased by 4% compared to FY2017, as a percentage of total sales was 55% in FY2018 compared to 54% in FY2017. Sales in the Americas region for FY2018 increased by 8% compared to FY2017, as a percentage of total sales was 16% in FY2018 compared to 14% in FY2017. Sales in the Europe region for FY2018 decreased by 13% compared to FY2017, as a percentage of total sales was 29% of total sales in FY2018 against 32% in FY2017.

**Gross Profit**

Gross profit was US\$18.5 million in FY2018 compared to US\$19.6 million in FY2017. Gross profit margin as a percentage of sales was 28% in FY2018, same as FY2017. Gross profit for FY2018 was in line with the sales mix.

## FINANCIAL HIGHLIGHTS AND REVIEW

For the financial year ended 30 June 2018

### Expenses

Total expenses increased marginally from US\$42.5 million in FY2017 to US\$43.6 million in FY2018.

Selling, general and administrative expenses were US\$30.7 million in FY2018 compared to US\$30.4 million in FY2017.

Research and development expenses were US\$12.9 million in FY2018 compared to US\$12.1 million in FY2017. The marginal increase was attributed to the Group investing in product research and development expenses in areas that are strategic to the Group.

### Net Profit

Net profit in FY2018 was US\$40.4 million compared to a net loss of US\$22.9 million in FY2017. Net profit in FY2018 included interest income of US\$1.2 million, other gains of US\$64.5 million and other losses of US\$0.4 million. Net loss in FY2017 included interest income of US\$0.4 million, other gains of US\$1.4 million, other losses of US\$1.4 million and share of loss of associated companies of US\$0.3 million.

Other gains of US\$64.5 million in FY2018 were due mainly to US\$63.8 million gains from litigation settlements. Other gains of US\$1.4 million in FY2017 were mainly due to US\$1.3 million gain on disposal of investments.

Other losses of US\$0.4 million in FY2018 relates mainly to impairment loss on investments. Other losses of US\$1.4 million in FY2017 relates to foreign exchange loss of US\$0.7 million and impairment loss on investments of US\$0.7 million.

### Balance Sheet

The US\$39.5 million increase in cash and cash equivalents was due mainly to money received from litigation settlements, offset partially by operating loss in FY2018.

The decrease in trade receivables by US\$0.7 million to US\$5.2 million and inventories by US\$3.8 million to US\$16.6 million as at 30 June 2018 were in line with the lower level of sales.

Available-for-sale financial assets decreased by US\$2.0 million to US\$7.6 million as at 30 June 2018 was due mainly to disposals and fair value loss in the revaluation of investments.

The decrease in trade payables by US\$3.5 million to US\$5.8 million and accrued liabilities and provisions by US\$2.5 million to US\$17.0 million as at 30 June 2018 were in line with the lower level of operating activities.

## BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

### DIRECTORS AND EXECUTIVE OFFICERS

Creative's directors and executive officers are as follows:-

Name	Age	Position
Sim Wong Hoo	63	Chairman of the Board and Chief Executive Officer
Lee Kheng Nam	70	Independent Non-Executive Director
Ng Kai Wa	62	Independent Non-Executive Director
Lee Gwong-Yih	63	Independent Non-Executive Director
Ng Keh Long	59	Chief Financial Officer

**SIM WONG HOO** founded Creative in 1981 and has been its Chairman of the Board and Chief Executive Officer since its inception.

**LEE KHENG NAM** has been a Director of Creative since 1991. He is presently a Venture Partner of GGV Capital and also Chairman of Advantec Pte Ltd, an investment holding company. Mr. Lee is also currently Deputy Chairman of Vertex Venture Holdings Ltd (VVH), wholly-owned subsidiary of Temasek Holdings (Private) Limited engaged in the venture capital direct investment and fund management business. Mr. Lee was General Manager (1988 to February 1995) and subsequently President of Vertex Management Pte Ltd (VMPL) and executive Director of VVH from March 1995 to February 2004. Prior to this, he was with NatSteel group of companies as the Manager of the Project Development Department and the Ministry of National Development where he was Deputy Director of Planning. He sits on the boards of several companies, both local and overseas. He formerly served on the boards of Heptagon Advanced Micro Optics (acquired by ams AG), China Finance Online, Gemplus International S.A. (later merged to become Gemalto) and Chartered Semiconductor Manufacturing Ltd. Mr. Lee holds a Bachelor of Science degree in Mechanical Engineering (First Class Honours) from Queen's University, Canada and a Master of Science degree in Operations Research and Systems Analysis from the U.S. Naval Postgraduate School.

**NG KAI WA** became a Director of Creative in 2005. He has been the Co-Founder, Chairman and Chief Executive Officer of InnoMedia Pte Ltd since 1995. InnoMedia is a leading supplier of broadband access IP Telephony, and SIP Trunking solutions to Cable MSOs, broadband service providers and distribution partners. Prior to that, he was the Co-Founder, Chief Technology Officer and Vice Chairman of the Board of Creative Technology Ltd. Mr. Ng holds an Executive Master of Business Administration Degree from the National University of Singapore and a Diploma in Electronic and Electrical Engineering from Ngee Ann Polytechnic.

**LEE GWONG-YIH** became a Director of Creative in 2009. He is Managing Director of Translink Capital. Prior to joining Translink Capital in 2014, Mr. Lee was Chairman and Chief Executive Officer of the CyberTAN Technology, Inc., a publicly listed company on the Taiwan Stock Exchange, since 2006 and an affiliated company of Foxconn Group. Prior to CyberTan, Mr Lee founded two start-up companies, Transmedia in March of 1998 and Digicom Systems in May of 1987. Both companies were successfully acquired by Cisco Systems and Creative Labs in 1999 and 1994 respectively. In addition, he serves on the board for Creative Lab, ITRI International, and is an Advisor for Foxconn. Mr Lee has also been granted as an outstanding alumni from NCTU and a distinguished Engineering award from CIE/USA, the Chinese Institute of Engineers Organization. Mr Lee holds a Master of Science degree in Electrical Engineering from the State University of New York at Stony Brook and a Bachelor of Science degree in Electrical Engineering from National Chiao-Tung University, Taiwan.

**NG KEH LONG** joined the Company in April 1993 as Financial Controller and held various financial positions until 1998 when he was appointed as Chief Financial Officer. Prior to joining Creative, he was a Senior Manager with Price Waterhouse (now PricewaterhouseCoopers LLP), where he gained more than ten years' experience in finance, accounting and auditing.

## CORPORATE GOVERNANCE

For the financial year ended 30 June 2018

Creative Technology Ltd (“Creative” or the “Company”, and together with its subsidiaries, the “Group”) is committed to maintaining good corporate governance in accordance with the principles and guidelines set out in the Code of Corporate Governance issued in May 2012 (the “Code”). Creative’s approach on corporate governance takes into consideration the principles and guidelines set out in the Code, substantially complied with the key principles and supporting guidelines set out in the Code except where specifically identified and disclosed in this report.

This report outlines the main corporate governance practices that were in place throughout the financial year, with specific references to each of the principles of the Code.

### PRINCIPLE 1: THE BOARD’S CONDUCT OF ITS AFFAIRS

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 Board also reviews management performance and sets the Company’s values and standards and ensures that obligations to shareholders and other stakeholders are understood and met. Sustainability issues are also considered as part of its strategic formulations.

These functions are either carried out directly by the Board or through committees, namely the Audit Committee, the Nominating Committee and the Remuneration Committee, established by the Board (collectively referred to as “Board Committees”).

Matters which are specifically reserved to the full Board for decision-making include those involving the review and approval of strategic plans, direction and policies, material acquisitions and disposals of assets, corporate or financial restructuring and share issuances, dividends and other returns to shareholders.

The Constitution of the Company allow the Company’s Directors to participate in a Board meeting by telephone conference or video conference whereby all persons participating in the meeting are able to communicate as a group, without requiring the Directors’ physical presence at the meeting.

The number of Board and Board Committee meetings held in the financial year ended 30 June 2018 and the attendance of directors during these meetings is as follows:

Name of Director (Number of Meetings Held)	Board (5)	Audit Committee (6)	Remuneration Committee (2)	Nominating Committee (1)
Sim Wong Hoo	5	—	2	1
Lee Kheng Nam	5	6	2	1
Ng Kai Wa	4	5	2	1
Lee Gwong-Yih	5	6	—	—

Upon appointment of each new director, a letter is provided setting out the director’s duties and obligations. The Group also conducts an orientation programme for new directors to familiarize them with the business activities and corporate governance practices. The Company will provide training for first-time director in areas such as accounting, legal and industry-specific knowledge as appropriate. None of the directors is first-time director.

Directors are updated regularly on the Group’s strategic directions, financial performance, updates on corporate governance practices, relevant new laws, regulations and changing business risks during Board meetings or at specially-convened sessions.

Directors are also encouraged to request for sponsorship from the Company to attend courses to update their knowledge and better equip themselves to discharge their duties as Directors.

## **PRINCIPLE 2: BOARD COMPOSITION AND GUIDANCE**

The Board comprises four members, one of whom is an Executive Director and three of whom are independent non-Executive Directors. The criteria of independence are based on the definition given in the Code. Key information regarding the Directors is disclosed in Board of Directors and Executive Officers. Together the Board has a diverse wealth of experience as well as skills and knowledge and the diversity of experience, skills and competencies of the Directors enhance the effectiveness of the Board in carrying out its responsibilities.

The Board in reviewing Board composition will consider the benefits of all aspects of diversity, including diversity of skills, experience, background, gender, age and other relevant factors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made based on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The Executive Director is Mr Sim Wong Hoo, the Chairman and Chief Executive Officer of the Company. He is also a substantial shareholder.

The independent non-Executive Directors are Mr Lee Kheng Nam, Mr Ng Kai Wa and Mr Lee Gwong-Yih.

The three independent Directors have served on the Board for more than nine years from the respective dates of their first appointment. They are Mr Lee Kheng Nam, Mr Ng Kai Wa and Mr Lee Gwong-Yih. The Board had conducted a rigorous review on their status, taking into consideration all other factors in accessing the independence of a Director. These factors include, inter alia, if the Director has any interest, business relationship and/or other material contractual relationship with the Group which could reasonably be perceived to compromise his independence and interfere with the exercise of his independent business judgement with a view to the best interests of the Group. After due and careful review, the Board had determined Mr Lee Kheng Nam, Mr Ng Kai Wa and Mr Lee Gwong-Yih are independent directors of the Company. The Board is of the view that their more than nine years of service has not affected their objectivity. They have continued to demonstrate ability to exercise strong independent judgement and act in the interests of the Company. Further, having gained in-depth understanding of the business of the Group, Mr Lee Kheng Nam, Mr Ng Kai Wa and Mr Lee Gwong-Yih provide the Company with the experience and knowledge of the industry. Their contributions will be valuable to the Company.

The independent non-Executive Directors contribute to the Board by monitoring and reviewing Management's performance against goals and objectives. Their views and opinions provide different perspectives to the Group's business. While reviewing Management's proposals or decisions, they bring independent judgement to bear on business activities and transactions involving conflicts of interest and other complexities. Where appropriate and necessary, the non-Executive Directors would also meet without the presence of Management.

The Board is of the view that the current Board, with independent non-Executive Directors making up at least half of the Board, provides for a strong and independent element on the Board capable of exercising objective judgement on corporate affairs of the Group. No individual or small group of individuals dominates the Board's decision-making.

## **PRINCIPLE 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The Company has the same Chairman and Chief Executive Officer ("CEO"), Mr Sim Wong Hoo. Mr Sim Wong Hoo has played an instrumental role in developing the business, and has provided the Group with strong leadership and vision. Even though the Company does not have separate persons for the Chairman and CEO, the Company believes that the independent non-Executive Directors have demonstrated high commitment in their role as Directors and have ensured that there is a good balance of power and authority. As such, there is no need for the role of the Chairman and CEO to be separated.

Mr Sim Wong Hoo is a substantial shareholder of the Company with a shareholding of approximately 33.09%. With his substantial shareholding, his interest is aligned with the Company and that of the other shareholders.

## CORPORATE GOVERNANCE

For the financial year ended 30 June 2018

### PRINCIPLE 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER (cont'd)

Mr Sim, the Chairman provides strategic guidance and leads the Board. He is responsible for ensuring the effectiveness of the Board and its governance processes. With the assistance of the Company Secretary, he sets the agenda for Board meetings and ensures complete and accurate information is provided to the Board to facilitate good decision-making in particular on strategic issues. At meetings, he promotes a culture of open dialogue and debate, facilitating the effective contribution of all Directors. He also maintains effective communication with shareholders. At shareholder meetings, he ensures constructive dialogue between shareholders, Directors and Management. He is also responsible for making strategic proposals to the Board and implementing the Group's strategies and policies as well as the Board's decision. He assumes executive responsibility for the day-to-day management of the Group.

Mr Lee Kheng Nam is the Lead Independent Director. As the Lead Independent Director, he leads and encourages dialogue between independent directors and provides feedback to the Chairman and CEO. As the Lead Independent Director, he is also available as the alternate channel for shareholders, should shareholders fail to resolve concerns through the normal channels of the Chairman and CEO, Chief Financial Officer or when such normal channels are inappropriate.

### PRINCIPLE 4: BOARD MEMBERSHIP

The Nominating Committee (the "NC") consists of three members, two of whom are independent non-Executive Directors. The Chairman of the NC, Mr Ng Kai Wa, is an independent non-Executive Director. The other two members are Mr Sim Wong Hoo, an Executive Director, and Mr Lee Kheng Nam, an independent non-Executive Director.

The principal functions of the NC are, among other matters, to recommend all Board and Board Committee appointments, re-appointments or re-elections, to determine the independence of each Director, and to identify new Directors who have the diversity of experience and appropriate knowledge and skills to contribute effectively to the Board.

The key terms of reference of the NC include the following:

- Review the Board's succession plans and make recommendations to the Board on all appointments and re-appointments of Directors of the Company;
- Review the independence of Directors; and
- Assess the effectiveness of the Board as a whole and contribution by each individual Director.

When a Director has multiple board representations, such director has to ensure that sufficient time and attention is given to the affairs of the Company. On the issue of multiple board representations, the Board is of the view that it should be left to the judgement and discretion of each Director. As such, the NC and the Board have decided not to set any maximum number of listed company board representations that any director may hold. The NC is satisfied that sufficient time and attention are being given by all the Directors to the affairs of the Company.

The Board does not have a practice of appointing alternate directors. There were no alternate directors in this financial year.

The Board has adopted a process for the selection, appointment and re-appointment of directors to the Board. The NC reviews the compositions of the Board periodically. It assesses and shortlists candidates for a position on the Board when a need arises. The search and nomination process for new Directors, if any, will be through recommendations of Directors and Management and external search services. Potential candidates are interviewed by the NC to assess suitability and commitment.

New Directors are at present appointed by way of a Board resolution, after the NC approves their appointment. The Company's Constitution provides that all Directors except Executive Directors are to retire at least once every three years by rotation, if they are appointed by the Company at a general meeting, and a newly appointed Director must submit himself for re-election at the next Annual General Meeting. The retiring Director is nonetheless eligible for re-election by shareholders at every Annual General Meeting. Accordingly, Mr Lee Kheng Nam will, on the date of the Annual General Meeting, retire as Director. The NC recommends his re-appointment as Director at the Annual General Meeting to be held on 30 October 2018.

**PRINCIPLE 5: BOARD PERFORMANCE**

The NC assesses the effectiveness of the Board as a whole and its board committees and each individual director, and also assesses the contribution by the Chairman and each individual director to the effectiveness of the Board. The Company believes that the Board's performance is ultimately reflected in the performance of the Group. The Company assesses the Board's performance through its ability to steer the Group in the right direction and the support it renders to Management. In evaluating directors' performance, factors including the directors' attendance, participation and level of participation and contributions at the main board and board committee meetings and other Company activities, are also taken into consideration.

The NC uses its best efforts to ensure that the Directors appointed to the Board possess the relevant necessary background, experience, knowledge and skills so as to enable each Director to bring to the Board an independent and objective perspective to contribute to the effectiveness of the Board.

The Company believes that apart from the Directors' fiduciary duties (i.e. acting in good faith, with due diligence and care, and in the best interests of the Company and its shareholders), the Board's key responsibilities are to set strategic directions and to ensure that the long term objective of enhancing shareholders' value is achieved.

**PRINCIPLE 6: ACCESS TO INFORMATION**

In order to ensure that the Board is able to fulfill its responsibilities, management provides the Board members with regular updates of the performance and financial position of the Group. Information provided includes board papers with updates on key performance indicators, and background or explanatory information relating to matters to be brought before the Board. Management staff and the Company's auditors, who can provide insight into the matters for discussion, are also invited from time to time to attend such meetings. This enables the Board to make informed and sound business decisions and be kept abreast of key challenges, opportunities and developments for the Group.

The Company Secretary attends all Board meetings and ensures that all Board procedures are followed. The Company Secretary keeps the Directors informed of any significant developments or events relating to the Group. He ensures good communication flows within the Board and between Management and the Directors. The Company Secretary, together with other management staff of the Company, also ensures that the Company complies with the applicable statutory and regulatory rules. The appointment and removal of the Company Secretary is subject to the approval of the Board.

The Directors have separate and independent access to the Company's senior management and the Company Secretary at all times. Should the Directors, whether as a group or individually, need independent professional advice, the Company will appoint a professional advisor selected by the group or individual, and approved by the Chairman and CEO, to render the advice. The cost of such independent professional advice will be borne by the Company.

**PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES****PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION****PRINCIPLE 9: DISCLOSURE ON REMUNERATION**

The Remuneration Committee (the "RC") consists of three Directors, two of whom are independent non-Executive Directors. The Chairman of the RC is Mr Sim Wong Hoo, an Executive Director. The other two members are Mr Lee Kheng Nam and Mr Ng Kai Wa, both of whom are independent non-Executive Directors.

The principal functions of the RC are, among other matters, to recommend to the Board the structure of the compensation programme for each Board member and the CEO (or executive of equivalent rank) to ensure that the programme is competitive and sufficient to attract, retain and motivate each Board member and CEO of the required quality to run the Company successfully; to review each Board member's and CEO's compensation annually and determine appropriate adjustments where necessary; and to review any other long term incentive schemes which may be set up from time to time. The RC members are also members of the committees administering the Creative Employee Share Option Plans and the Creative Performance Share Plan.

## CORPORATE GOVERNANCE

For the financial year ended 30 June 2018

### PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

### PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION

### PRINCIPLE 9: DISCLOSURE ON REMUNERATION (cont'd)

The RC has access to relevant remuneration data and would seek expert advice from external remuneration consultants whenever required. During the year, there was no requirement for the engagement of external consultants.

Mr Sim Wong Hoo, the Chairman and CEO of the Company, and the Chairman of the RC, has been receiving a nominal sum of S\$1 as his annual remuneration since the financial year ended 30 June 2008. He has also opted to be excluded from participating in the Creative Performance Share Plan.

Taking into consideration the remuneration package of Mr Sim Wong Hoo, there is minimal risk of any potential conflict of interest, and his ability to perform the role of the Chairman of the RC is similar to that of a non-Executive Director. Accordingly, the Board is of the view that he is suitable to perform the role of the Chairman of the RC.

The Company adopts a remuneration policy for employees comprising a fixed component and a performance based variable component. The fixed component is in the form of a base salary. The variable component is in the form of a variable bonus that is linked to the Company's and the individual employee's performance. Another element of the variable component is the grant of performance shares to employees under the Company's Performance Share Plan. The Company's employees participate in the performance review process that assesses the individual's performance against set performance targets. Performance against these targets is a factor determining remuneration. This seeks to align the interests of the employees with that of the shareholders.

Each non-Executive Director is paid an annual Director's fee of S\$60,000 (pro-rated where length of service is less than one year) and is subject to shareholders' approval at the Annual General Meeting. The Director's fee proposed to be paid to each of the Directors for the financial year ended 30 June 2018 is as follows:

Name of Director	Director's Fee*
Lee Kheng Nam	S\$60,000
Ng Kai Wa	S\$60,000
Lee Gwong-Yih	S\$60,000

\* Executive Directors are not paid a Director's Fee.

Each non-Executive Director also participates in the Company's stock options and performance share plan. The details of the Directors' stock options and performance share awards are set out in the Directors' Statement. Non-Executive Directors are not paid any salary, bonus, or other remuneration.

The number of top five key executives of the Group (who are not Directors or the CEO) in remuneration bands is as follows:

Remuneration Bands	Number of Key Executives
S\$250,000 to S\$499,999	2
Less than S\$250,000	3

For confidentiality and competitive reasons, the Company is not disclosing each individual executive's remuneration and their names. The aggregate total remuneration paid to the top five key executives for the financial year ended 30 June 2018 was S\$1,276,000.

None of the employees of the Group whose annual remuneration exceeds S\$50,000 are immediate family members of the CEO or any other Director of the Company.

Details of the Creative Employee Share Option Plans and Creative Performance Share Plan are set out in the Notes to the Financial Statements.

**PRINCIPLE 10: ACCOUNTABILITY**

The Company provides shareholders with quarterly and annual financial results of the Group within the regulatory reporting periods, i.e. results for the first 3 quarters are released to shareholders within 45 days of the end of each quarter whilst the annual results are released within 60 days from the financial year end. In presenting the Group's annual and quarterly results, the Board aims to provide shareholders with a balanced and understandable assessment of the Group's performance and financial position with a commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which it operates.

The management provides all Directors with financial updates of the Group's performance, on a regular basis and when required, to enable the Board to make a balance and informed assessment of the Group's performance, position and prospect. The CEO and the Chief Financial Officer ("CFO") also provide assurance to the Board on the integrity of the financial statements of the Company and its subsidiaries.

The Board, together with the management, takes adequate steps to ensure compliance with all the Group's policies, legislative and regulatory requirements, including requirements under the listing rules.

**PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS**

The Board acknowledges that it is responsible for the overall risk management and internal control framework, but recognises that no cost effective risk management and internal control systems will preclude all errors and irregularities, as such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against the occurrence of material errors, poor judgment in decision-making, human errors, frauds or other irregularities.

The Board reviews the Group's business and operational activities as presented by the management to identify areas of significant risks and recommends as appropriate, the measures to control and mitigate such risks. Annually, the Board reviews the adequacy and effectiveness of the Company's risk management and internal control systems, including financial, operational, compliance and information technology controls.

For the financial year ended 30 June 2018, the Board has received assurance from the CEO and CFO that:

- the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and
- the risk management and internal control systems have been adequate and effective to address the risks which the Group considers relevant and material to its operations.

The Board, with the concurrence of the Audit Committee, is of the opinion that the Group's internal controls (including financial, operational, compliance and information technology controls) and risk management systems have been adequate and effective for the risks which the Group considers relevant and material to its operations for the financial year ended 30 June 2018. This opinion is arrived at based on the framework established and maintained by the Group, the work performed by the internal and external auditors, reviews carried out by Management, as well as assurances received from the CEO and CFO.

**PRINCIPLE 12: AUDIT COMMITTEE**

Given the growing emphasis accorded to risk management, the Board has nominated the Audit Committee ("AC") to assist the Board in risk management responsibilities and function.

The AC consists of three Directors, all of whom are independent non-Executive Directors. The Chairman of the AC is Mr Lee Kheng Nam. The other two members are Mr Ng Kai Wa and Mr Lee Gwong-Yih. The Board considers Mr Lee Kheng Nam, who has the appropriate financial management knowledge and experience, well qualified to chair the AC. The other members of the AC also have the appropriate accounting or relevant financial expertise or experience to discharge their responsibilities.

## CORPORATE GOVERNANCE

For the financial year ended 30 June 2018

### PRINCIPLE 12: AUDIT COMMITTEE (cont'd)

The principal functions of the AC, among other matters, are:

- to review and recommend for approval of the Board the quarterly and full year financial results and related announcement to be released on SGX-ST;
- assist the Board to review and oversee the internal controls and the Group's Enterprise Risk Management Framework;
- provide guidance to management and renders assistance to the Board to determine the nature and extent of significant risks which the Board would be willing to take in achieving the Group's strategic objectives;
- to review the scope and results of the audit and its cost-effectiveness and the independence and objectivity of the external auditors;
- to review the scope of work of the appointed internal auditors and evaluate the effectiveness of the internal auditors;
- to review the findings of the internal and external auditors and the response from the management;
- to make recommendations to the Board on the appointment, re-appointment and/or removal of internal and external auditors, and to approve the remuneration and terms of engagement of the internal and external auditors;
- to review interested person transactions;
- to review whistle-blowing investigations within the Group and ensuring appropriate follow-up in accordance with the Group's whistle-blowing policy; and
- reports any material matters, findings and recommendations to the Board.

The AC has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

The number of meetings convened by the AC is set out in Principle 1: The Board's Conduct of its Affairs. For the financial year, the AC has met with the external auditors in the absence of key management personnel.

In the review of the financial statements for the financial year ended 30 June 2018, the AC has reviewed with the CFO and the external auditors on changes to accounting standards and significant issues and assumptions which are relevant to the Group and have a direct impact on the group's financial statements. The AC also considered the report from the external auditors, including their findings on the key areas of audit focus. Significant matters that were discussed with management and external auditors have been included as key audit matters in the independent auditors' report for the financial year ended 30 June 2018. Refer to pages 21 to 23 of this Annual Report.

The Company has in place a whistle-blowing procedure where staff of the Group can raise in confidence concerns on possible improprieties relating to accounting, financial reporting, internal controls and auditing matters. Under these procedures, arrangements are in place for independent investigation of such matters raised and for appropriate follow up action to be taken. In relation to whistle blowing by non-employees, the whistle blower may report any impropriety and/or concern in writing to the CFO or the AC at the registered office address of the Company.

**PRINCIPLE 13: INTERNAL AUDIT**

The Board has approved the outsourcing of the Company's internal audit function as they are of the view that the current size and scope of the Group's operations does not warrant having internal audit function within the organization. GovernAce Advisory & Solutions Pte. Ltd. ("GovernAce") has been appointed to perform risk assessment and conducts review to assess the adequacy and effectiveness of the Group's internal controls. The AC reviews and endorses the internal audit plan and the internal audit reports which include the audit findings and recommendations of the internal auditors and management's responses to such findings. Any material non-compliance or failures in the internal audit function and the recommendations for improvements are reported to the AC. The AC also reviews the progress of any corrective, preventive or improvement measures as required.

The AC is satisfied that GovernAce has the appropriate resource to discharge its duties effectively as the staff assigned are members of the Institute of Internal Auditors, and adhere to standards set by nationally recognized professional bodies. For the financial year ended 30 June 2018, the AC is satisfied that the internal audit function is adequate and effective.

**PRINCIPLE 14: SHAREHOLDER RIGHTS**

The Group is committed to treat all shareholders fairly and equitably. The Group recognizes, protects and facilitates the exercise of shareholders' rights, and continually reviews and updates such governance arrangements.

The Company ensures that there is adequate, timely and sufficient information pertaining to changes in the Group's business which could be likely to materially affect the share price or value.

The Company ensures that shareholders have the opportunity to participate effectively and vote at the general meetings. Shareholders are also informed of the rules including voting procedures that govern the general meetings.

**PRINCIPLE 15: COMMUNICATION WITH SHAREHOLDERS**

The Company announces its quarterly and full year results within the regulatory periods. Material and price-sensitive information is publicly released via SGXNET on a timely basis. All shareholders of the Company receive the annual report of the Company and the notice of the Annual General Meeting, for which a notice is also advertised in the press and released via SGXNET. Shareholders and investors can access information on the Company at its website at [www.creative.com](http://www.creative.com) which provides, inter-alia, corporate announcements, press releases and the latest financial results as disclosed by the Company on SGXNET. From time to time, the Company holds briefings with analysts and the media to coincide with the release of the Group's results. Shareholders may also seek clarification on investor related issues by email provided in the Company's website at [www.creative.com](http://www.creative.com).

Specific guidelines have been laid down for compliance in respect of all public communications. The Company does not practise selective disclosure in the communication of material information. In addition, the Company has also put in place operational procedures to respond promptly to queries from SGX-ST on any unusual trading activities in its securities.

The Company pays an annual dividend, taking into consideration the Company's financial performance, present cash position, projected cash flow generated from operations and projected capital requirements. This is provided that the amount of dividend declared does not exceed the Company's retained earnings.

## CORPORATE GOVERNANCE

For the financial year ended 30 June 2018

### PRINCIPLE 16: CONDUCT OF SHAREHOLDER MEETINGS

At general meetings of the Company, shareholders are given the opportunity to communicate their views and ask the Directors and management questions regarding matters affecting the Company. The Board and senior management are available at the Annual General Meeting to respond to, and to assist the Directors in responding to shareholders' questions. The Company's external auditors are also present to address shareholders' queries relating to the conduct of the audit and the preparation and content of the auditor's report. Shareholders also have the opportunity to communicate with the Directors after the meeting. The Company prepares minutes of the general meetings relating to the agenda of the meeting and responses from the Board and Management. The minutes are available to shareholders upon their request.

In accordance with the Constitution of the Company, shareholders may appoint not more than two proxies to attend and vote on their behalf. A proxy need not be a member of the Company. Relevant intermediaries such as the Central Provident Fund and custodian banks are entitled to appoint more than two proxies to attend and vote at the meeting. Shareholders who hold shares through these relevant intermediaries will be allowed to attend and vote at the forthcoming AGM subject to being appointed a proxy by their respective relevant intermediaries.

Every matter requiring shareholders' approval is proposed on a separate resolution. Each item of special business included in the notice of meeting is accompanied, where appropriate, by an explanation for the proposed resolution.

The Company has adopted electronic poll voting for the general meetings to ensure greater transparency and efficiency in the voting process and results. Shareholders are invited to vote on each of the resolutions by poll, using an electronic voting system. The voting results of all votes cast for or against each resolution are screened at the meeting and announced via the SGXNet after the meeting.

### DEALINGS IN SECURITIES

In line with the recommended practices on dealings in securities set out in the SGX-ST Listing Rules, the Company provides internal guidance with regards to dealing in the Company's securities by the Company, its Directors and officers. These guidelines prohibit dealing in the Company's securities on short-term considerations and while in possession of unpublished material price-sensitive information in relation to such securities, and during the period commencing two weeks before the announcement of Group's financial statements for each of the first three quarters of its financial year and one month before the announcement of the Group's full year financial statements.

**SUSTAINABILITY REPORT**

For the financial year ended 30 June 2018

The group recognizes the importance of delivering long term value and sustainable returns to all our stakeholders. Sustainability has always been integral to Creative's operations. Creative works to keep its environmental, social and governance performance positive by being a responsible, diverse and equal opportunities employer, a global leader for product innovation in the audio and personal digital entertainment segments, and maintaining high standards in corporate governance.

**BOARD STATEMENT**

The Board is responsible for the long-term strategic direction of the Company and that it has considered sustainability issues as part of its strategic formulation. The Board is committed to the Group's efforts towards the employment of sustainable practices as it is our strategic approach to integrate sustainability in all aspects of our business and operations.

**MATERIAL ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS****Environment**

Our vision is to reduce and minimize adverse impact on the environment through a commitment for continuous improvement. We conduct our business operations responsibly and efficiently, constantly seek to minimize our environmental footprint and make efficient use of limited resources.

As a global leader for product innovation in audio and PDE segments, Creative offers consumers a complete, high quality digital entertainment experience through Creative's hardware, software applications and services. Finding a perfect balance between form and function, Creative strives to create value to our customers for every product purchased.

Excellence in design and engineering is at the heart of what we do. Our goal is to bring products which consumers love, using groundbreaking technology and leading-edge designs for not just the technically-savvy consumers, but for everyone who enjoys entertainment. With strong focus on user-friendly interface, multiple features and cool industrial designs, the Creative brand is synonymous with lifestyle personal digital entertainment.

To achieve this, we believe in investment in research and development, spending \$12.9 million in FY2018 on research and development on product development, industrial design and innovation in technology, with emphasis on developing responsible products.

We have put in effort to improve battery life and product energy efficiency during our product innovation process. This is done without sacrificing product performance or consumer experience. Product design will always take into consideration the amount and type of packaging materials used in our products. Raw materials and components used in our products are non-hazardous. Our products are compliant with Restriction of Hazardous Substance (RoHS), Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and Waste Electrical and Electronic Equipment (WEEE). The Company ensures raw materials and packaging materials used are sourced from quality and reliable suppliers. The overall goal is to minimize the environmental footprint of our products.

In our assessment, product distribution and logistics is another important environmental factor. We are working to optimize our approach to product distribution and logistics, focusing on logistical efficiency and reliability, cost efficiency, environmental footprint. With proper planning and scheduling, where possible, our products were transported to the market by sea freight, and cargoes are consolidated in the most efficient manner. Use of regional hubs has also helped in reducing the carbon footprint.

Creative strives to avoid unnecessary impact on the environment and to reduce environmental impact. We practice green initiatives in the workplace by reducing energy consumption, implementing energy-efficient measures and increasing paper recycling to reduce resource depletion.

One of the measures adopted is to reduce paper usage. Electronic documents are used whenever possible, without having to print hard copy. Invoices and statements of accounts to customers are sent through emails. Electronic approvals were implemented where possible, for various systems, like human resource systems and purchase requisition systems.

## SUSTAINABILITY REPORT

For the financial year ended 30 June 2018

### MATERIAL ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS (cont'd)

#### Environment (cont'd)

The Group also encourages employees to reduce business travel. Creative has offices in Asia, Europe and America. Interoffice communications are made through conference calls or electronic mails whenever possible. A fully integrated, seamless ERP system also helps in sharing of data for operations.

#### Social

Creative is operating in a highly competitive industry, we believe our people are the building block of the Company, where the ability to attract, develop and retain the right and best people, is paramount to the success of the Company.

We encourage a work environment that embraces inclusiveness, diversity and teamwork, with employees from various countries, ethnicities and age groups. We value diversity of our people which in turn helps foster innovation and enable us to better understand our customers.

Creative is an equal opportunity employer. Prospective employees are evaluated based on their qualifications, capabilities and experience, regardless of gender, age or ethnicity. Employee evaluations are conducted through a transparent appraisal process. Creative offers employees competitive remuneration packages commensurate with their experience, performance and job responsibilities.

To compete in an ever-changing industry, we believe in investing in employee training and development. Creative provides the necessary resources and support for employees who are keen to learn and develop their functional, technical, and professional skills. This will broaden and deepen employees' professional knowledge and skills, and also help employees to reach their fullest potential.

At Creative, we place emphasis within our organization to promote workplace safety and healthy work environment for our staff and visitors. A safe and healthy work environment enhances employee retention and morale.

#### Governance

Creative strongly believes that good corporate governance processes are essential for corporate sustainability. We are committed to adhere to a high standard of corporate governance, accountability and transparency to safeguard the interests of all stakeholders.

The Board monitors the effectiveness of management and reviews the Group's corporate governance practices. The Board adheres to the principles and guidelines of the Singapore's Code of Corporate Governance 2012. We have also adopted a Code of Business Conduct and Ethics which sets out the principles and policies upon which our businesses are to be conducted, and implemented a Whistle Blowing Policy which provides a mechanism for employees to raise concerns about possible improprieties in financial reporting or other improper business conduct, whilst protecting the whistleblowers from reprisal within the limits of the law.

For detailed discussion on the Group's corporate governance practices, please refer to the "Corporate Governance Report" section of the Annual Report.

**DIRECTORS' STATEMENT**

For the financial year ended 30 June 2018

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 30 June 2018 and the balance sheet of the Company as at 30 June 2018.

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 24 to 65 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 30 June 2018 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

**1. DIRECTORS**

The directors of the Company in office at the date of this statement are as follows:

Sim Wong Hoo  
Lee Kheng Nam  
Ng Kai Wa  
Lee Gwong-Yih

**2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES**

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed under "Share options" and "Performance shares" in this statement.

**3. DIRECTORS' INTERESTS IN SHARES OR DEBENTURES**

- (a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

Name of director	Holdings registered in name of director or nominee			Holdings in which director is deemed to have an interest		
	At 21.7.2018	At 30.6.2018	At 1.7.2017	At 21.7.2018	At 30.6.2018	At 1.7.2017
<b>Creative Technology Ltd</b> (Number of ordinary shares)						
Sim Wong Hoo	23,270,652	23,270,652	23,270,652	—	—	—
Lee Kheng Nam	45,000	45,000	45,000	10,000	10,000	10,000
Ng Kai Wa	2,193,555	2,193,555	2,348,555	—	—	—
Lee Gwong-Yih	45,000	45,000	45,000	—	—	—

In addition, by virtue of his interest of not less than 20% of the issued capital of Creative Technology Ltd., Mr Sim Wong Hoo is also deemed under the Companies Act to have interests in all of the Company's subsidiaries.

- (b) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interests in options to subscribe for ordinary shares of the Company granted pursuant to the Creative Technology (1999) Share Option Scheme ("1999 Scheme") as set out under "Share options" in this statement.

**DIRECTORS' STATEMENT**

For the financial year ended 30 June 2018

**4. SHARE OPTIONS****(a) Employee share option plans**

The Creative Technology (1999) Share Option Scheme ("1999 Scheme") was approved by shareholders at an Extraordinary General Meeting on 30 December 1998 which allows options to be granted to full-time employees as well as consultants and non-executive directors. The total number of shares that may be granted under the 1999 Scheme was 7.5 million, provided that such amount shall be automatically increased on the first day (1 July) of each of the five financial years ended 30 June 2001, 2002, 2003, 2004 and 2005 by four percent of the issued share capital of the Company as at the last day of the immediate preceding financial year. The Option Committee has the discretion to decide the vesting schedule in the letter of offer. If it is not specifically stated in the letter of offer, 1/4 of the total amount of the grant vests on the first anniversary of the grant date and 1/48 of the total amount of the grant vests on the last day of each calendar month thereafter.

The exercise price of the options is determined at the average of the closing prices of the Company's shares as quoted on the Singapore Exchange Securities Trading Limited ("SGX-ST") or the National Association of Securities Dealers Automated Quotations ("NASDAQ") for five market days preceding the date of the grant.

Options expire after the tenth anniversary of the date of grant, except in the case of options granted to participants other than employees, options expire not later than the fifth anniversary of the date of grant. Effective 12 November 2007, amendments were made to the 1999 Scheme to allow the use of treasury shares to satisfy share based exercises. The options under the 1999 Scheme do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.

The 1999 Scheme expired on 29 December 2008 but the options granted prior to the expiry date continue to vest according to the terms and conditions of the 1999 Scheme and the respective grants. All outstanding options granted under the 1999 Scheme have expired during the financial year ended 30 June 2018.

Details of the Directors' share options are set out as follows:

Name of director	Granted in financial year ended 30.6.2018	Number of unissued ordinary shares of the Company under option			
		Aggregate granted since commencement of scheme to 30.6.2018	Aggregate exercised since commencement of scheme to 30.6.2018	Aggregate options lapsed	Aggregate outstanding as at 30.6.2018
Lee Kheng Nam	—	160,000	80,000	80,000	—
Ng Kai Wa	—	80,000	—	80,000	—

There were no options exercised during the financial years ended 30 June 2018 and 2017.

**(b) Share options outstanding**

As at 30 June 2018, there were no unissued ordinary shares under options granted to full-time employees, consultants and non-executive directors under the 1999 Scheme. All outstanding options granted under the 1999 Scheme have expired during the financial year ended 30 June 2018.

**5. PERFORMANCE SHARES**

The Creative Performance Share Plan (the “Plan”) was approved by shareholders at an Extraordinary General Meeting on 29 October 2009 under which awards (the “Award”) of fully-paid shares, their equivalent cash value or combinations thereof, will be issued free of charge, to eligible employees and non-executive directors of the Company and its subsidiaries, provided that certain prescribed performance targets are met and/or upon expiry of the prescribed vesting periods.

The aggregate number of shares for which an Award may be granted on any date under the Plan, when added to the number of shares issued and/or issuable in respect of all Awards granted under the Plan and all shares, options or awards granted under any other share option or share scheme of the Company then in force, shall not exceed 15% of the total issued shares of the Company (excluding treasury shares) on the day preceding that date. Outstanding options under the 1999 Scheme are excluded from the computation of the 15% limit for the Plan. The Plan shall continue in force at the discretion of the Committee, subject to a maximum period of 10 years commencing on 29 October 2009.

On 31 March 2010, 2,793,600 performance shares were granted to non-executive directors and employees under the Plan. Of the total performance shares granted, 716,950 shares were vested immediately on the date of grant. The remaining performance shares will be released over 4 annual performance periods subject to the completion of service and the achievement of prescribed performance targets in each of the performance periods.

There were no awards granted under the Plan during the financial years ended 30 June 2018 and 2017. However, as at 30 June 2018, the Committee has extended the performance period till 31 December 2018 for 208,000 performance shares granted on 31 March 2010 that were subject to the achievement of prescribed performance targets.

Details of the Directors’ performance share awards are set out as follows:

<b>Name of director</b>	<b>Granted in financial year ended 30.6.2018</b>	<b>Aggregate granted since commencement of Plan to 30.6.2018</b>	<b>Aggregate released since commencement of Plan to 30.6.2018</b>	<b>Aggregate lapsed since commencement of Plan to 30.6.2018</b>	<b>Aggregate outstanding as at 30.6.2018</b>
Lee Kheng Nam	–	60,000	45,000	15,000	–
Ng Kai Wa	–	60,000	45,000	15,000	–
Lee Gwong-Yih	–	60,000	45,000	15,000	–

No participant was granted 5% or more of the total awards available under the Plan.

No performance shares were awarded to controlling shareholders of the Company or their associates.

## DIRECTORS' STATEMENT

For the financial year ended 30 June 2018

### 6. AUDIT COMMITTEE

At the end of the financial year, the Audit Committee comprises the following members, all of whom are independent non-executive directors:

Lee Kheng Nam (Chairman)  
Ng Kai Wa  
Lee Gwong-Yih

The Audit Committee carried out its functions in accordance with Section 201B of the Singapore Companies Act, Chapter 50. In performing its functions, the Committee reviewed the overall scope of work of both internal and external audits and the assistance given by the Company's officers to the auditors. It met with the auditors to discuss the results of their examination and evaluation of the system of internal accounting control of the Company and its subsidiaries. The Committee also reviewed the requirements for approval and disclosure of interested person transactions.

The Committee reviewed the balance sheet of the Company and the consolidated financial statements of the Group as well as the independent auditor's report thereon and recommended to the Board of Directors the nomination of PricewaterhouseCoopers LLP as independent auditor of the Company at the forthcoming Annual General Meeting.

### 7. INDEPENDENT AUDITOR

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

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Sim Wong Hoo  
Director

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Lee Kheng Nam  
Director

19 September 2018

**INDEPENDENT AUDITOR'S REPORT**

to the members of Creative Technology Ltd.

**Report on the Financial Statements****Our opinion**

In our opinion, the accompanying consolidated financial statements of Creative Technology Ltd ("the Company") and its subsidiaries ("the Group") and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 30 June 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

*What we have audited*

The financial statements of the Company and the Group comprise:

- the consolidated income statement for the year ended 30 June 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the balance sheet of the Group as at 30 June 2018;
- the balance sheet of the Company as at 30 June 2018;
- the consolidated statement of changes in equity of the Group for the year then ended;
- the consolidated statement of cash flows of the Group for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

**Basis for Opinion**

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

**Our Audit Approach**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the accompanying financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the financial year ended 30 June 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT

to the members of Creative Technology Ltd.

<i>Key Audit Matter</i>	<i>How our audit addressed the Key Audit Matter</i>
<p><b>Inventory valuation</b></p> <p>The total inventory amounts to US\$24.6 million and provision for obsolescence and excess against net realisable value as at 30 June 2018 amounts to US\$8.0 million.</p> <p>This is a key audit matter because the gross inventory and related provision are material to the financial statements, involve a high level of judgement and are subject to uncertainty due to the short product life cycle of consumer electrical products, changing consumer demands and trends, as well as rapid technological changes.</p>	<p><b>Our work done is as follows:</b></p> <ol style="list-style-type: none"> <li>1. We assessed the assumptions, and considered the nature and suitability of historic data used in estimating the provisions;</li> <li>2. We compared the inventory on hand against the future sales projections as well as historical trends to assess the provision amount;</li> <li>3. For raw materials, we considered the compatibility of use in the production of other products in determining the provision amount;</li> <li>4. We tested the inventory balances to determine that they are carried at the lower of cost and net realisable value.</li> <li>5. We also checked the Group's disclosure in the financial statements in respect of this matter.</li> </ol> <p>Based on our procedures, we found management's assessment in respect of inventory valuation to be reasonable. We also found that the disclosures in the financial statements in respect of this matter to be adequate.</p>

### Other Information

Management is responsible for the other information. The other information comprises the Board of Directors, Corporate Governance Report, Sustainability Report and Directors' Statement (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the other sections of the annual report ("the Other Sections"), which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Other Sections, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

### Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is

a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on Other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Lee Chian Yorn.

PricewaterhouseCoopers LLP  
Public Accountants and Chartered Accountants  
Singapore, 19 September 2018

**CONSOLIDATED INCOME STATEMENT**

For the financial year ended 30 June 2018

	<b>Note</b>	<b>Group</b>	
		<b>2018</b> <b>US\$'000</b>	<b>2017</b> <b>US\$'000</b>
Sales, net		<b>66,071</b>	69,895
Cost of goods sold	4	<b>(47,565)</b>	(50,300)
<b>Gross profit</b>		<b>18,506</b>	19,595
Expenses:			
Selling, general and administrative		<b>(30,696)</b>	(30,404)
Research and development		<b>(12,862)</b>	(12,131)
<b>Total expenses</b>	4	<b>(43,558)</b>	(42,535)
Other income	6	<b>1,438</b>	430
Other gains	7	<b>64,477</b>	1,355
Other losses	8	<b>(402)</b>	(1,380)
Share of loss of associated companies	17	<b>–</b>	(326)
<b>Profit (loss) before income tax</b>		<b>40,461</b>	(22,861)
Income tax expense	9	<b>(50)</b>	(12)
<b>Net profit (loss)</b>		<b>40,411</b>	(22,873)
<b>Attributable to:</b>			
Equity holders of the Company		<b>40,420</b>	(22,906)
Non-controlling interests		<b>(9)</b>	33
Earnings (loss) per share attributable to equity holders of the Company	10		
- Basic (US\$ per share)		<b>0.57</b>	(0.33)
- Diluted (US\$ per share)		<b>0.57</b>	(0.33)

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the financial year ended 30 June 2018

	<b>Group</b>	
	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000
Net profit (loss)	<b>40,411</b>	(22,873)
Other comprehensive income (loss):		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets:		
- Fair value (losses) gains	<b>(1,644)</b>	188
- Reclassification	<b>(126)</b>	(1,346)
<b>Total comprehensive income (loss) for the financial year</b>	<b>38,641</b>	(24,031)
<b>Total comprehensive income (loss) income attributable to:</b>		
Equity holders of the Company	<b>38,650</b>	(24,064)
Non-controlling interests	<b>(9)</b>	33
<b>Total comprehensive income (loss) for the financial year</b>	<b>38,641</b>	(24,031)

The accompanying notes form an integral part of these financial statements.

**BALANCE SHEETS**

As at 30 June 2018

		Group		Company	
	Note	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	11	114,817	75,282	112,118	69,892
Trade receivables	12	5,156	5,850	15	193
Amounts due from subsidiaries	13	–	–	9,157	36,277
Inventories	14	16,582	20,413	1,978	2,489
Other current assets	15	1,236	1,422	220	597
		137,791	102,967	123,488	109,448
<b>Non-current assets:</b>					
Available-for-sale financial assets	16	7,602	9,622	–	–
Amounts due from subsidiaries	13	–	–	5,388	21,323
Investments in subsidiaries	18	–	–	14,365	14,665
Property and equipment	19	748	866	108	143
Other non-current assets	21	154	186	–	–
		8,504	10,674	19,861	36,131
<b>Total assets</b>		146,295	113,641	143,349	145,579
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Trade payables	22	5,816	9,300	233	417
Amounts due to subsidiaries	13	–	–	18,359	9,272
Accrued liabilities and provisions	23	17,012	19,477	9,363	10,169
Current income tax liabilities		1	5	–	–
		22,829	28,782	27,955	19,858
<b>Non-current liabilities:</b>					
Amounts due to subsidiaries	13	–	–	26,993	19,105
Deferred income tax liabilities	24	10,426	10,426	–	–
		10,426	10,426	26,993	19,105
<b>Total liabilities</b>		33,255	39,208	54,948	38,963
<b>NET ASSETS</b>		113,040	74,433	88,401	106,616
<b>EQUITY</b>					
Share capital	25	266,753	266,753	266,753	266,753
Treasury shares	25	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve		3,646	5,416	–	–
Other reserves	26	62,279	62,315	34,815	34,851
Accumulated losses	27	(203,690)	(244,112)	(196,905)	(178,726)
		112,726	74,110	88,401	106,616
Non-controlling interests		314	323	–	–
<b>Total equity</b>		113,040	74,433	88,401	106,616

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the financial year ended 30 June 2018

	Note	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
<b>2018</b>									
<b>Beginning of financial year</b>		266,753	(16,262)	5,416	62,315	(244,112)	74,110	323	74,433
Profit for the year		–	–	–	–	40,420	40,420	(9)	40,411
Other comprehensive loss for the year		–	–	(1,770)	–	–	(1,770)	–	(1,770)
<b>Total comprehensive (loss) income for the year</b>		–	–	(1,770)	–	40,420	38,650	(9)	38,641
Employee share-based expense	26	–	–	–	(36)	–	(36)	–	(36)
Unclaimed dividends		–	–	–	–	2	2	–	2
<b>Total transactions with owners, recognized directly in equity</b>		–	–	–	(36)	2	(34)	–	(34)
<b>End of financial year</b>		<b>266,753</b>	<b>(16,262)</b>	<b>3,646</b>	<b>62,279</b>	<b>(203,690)</b>	<b>112,726</b>	<b>314</b>	<b>113,040</b>
<b>2017</b>									
<b>Beginning of financial year</b>		266,753	(16,262)	6,574	62,364	(221,219)	98,210	290	98,500
Loss for the year		–	–	–	–	(22,906)	(22,906)	33	(22,873)
Other comprehensive loss for the year		–	–	(1,158)	–	–	(1,158)	–	(1,158)
<b>Total comprehensive (loss) income for the year</b>		–	–	(1,158)	–	(22,906)	(24,064)	33	(24,031)
Employee share-based expense	26	–	–	–	(49)	–	(49)	–	(49)
Unclaimed dividends		–	–	–	–	13	13	–	13
<b>Total transactions with owners, recognized directly in equity</b>		–	–	–	(49)	13	(36)	–	(36)
<b>End of financial year</b>		<b>266,753</b>	<b>(16,262)</b>	<b>5,416</b>	<b>62,315</b>	<b>(244,112)</b>	<b>74,110</b>	<b>323</b>	<b>74,433</b>

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the financial year ended 30 June 2018

	Note	Group	
		2018 US\$'000	2017 US\$'000
<b>Cash flows from operating activities:</b>			
Net profit (loss)		40,411	(22,873)
Adjustments for:			
Income tax expense		50	12
Depreciation of property and equipment	4	195	221
Employee share-based expense	5	(36)	(49)
Share of loss of associated companies		–	326
Gain on disposal of property and equipment	7	–	(9)
Impairment loss of available-for-sale financial assets	8	352	692
Gain on disposal of available-for-sale financial assets	7	(126)	(1,346)
Currency translation loss		42	351
Dividend income	6	(208)	–
Interest income	6	(1,230)	(430)
		<b>39,450</b>	<b>(23,105)</b>
Changes in working capital			
Trade receivables		694	1,720
Inventories		3,831	4,639
Other assets and receivables		242	403
Trade payables		(3,484)	(351)
Accrued liabilities and provisions		(2,465)	(3,776)
Cash provided by (used in) operations		<b>38,268</b>	<b>(20,470)</b>
Interest received		1,206	408
Income tax paid		(54)	(355)
<b>Net cash provided by (used in) operating activities</b>		<b>39,420</b>	<b>(20,417)</b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment		(97)	(217)
Proceeds from sale of property and equipment		20	9
Proceeds from sale of available-for-sale financial assets		473	2,934
Purchase of available-for-sale financial assets		(449)	(1,100)
Loan to associated company		–	(326)
Dividend received		208	–
<b>Net cash provided by investing activities</b>		<b>155</b>	<b>1,300</b>
<b>Cash flows from financing activities:</b>			
Unclaimed dividends		2	13
<b>Net cash provided by financing activities</b>		<b>2</b>	<b>13</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>39,577</b>	<b>(19,104)</b>
Cash and cash equivalents at beginning of financial year	11	75,282	94,738
Effects of currency translation on cash and cash equivalents		(42)	(352)
<b>Cash and cash equivalents at end of financial year</b>	11	<b>114,817</b>	<b>75,282</b>

The accompanying notes form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

**1. GENERAL INFORMATION**

Creative Technology Ltd. (the “Company”) is listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”) and incorporated and domiciled in Singapore. The address of its registered office is:

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

The principal activities of the Company and its subsidiaries consist of the design, manufacture and distribution of digitised sound and video boards, computers and related multimedia and personal digital entertainment products.

**2. SIGNIFICANT ACCOUNTING POLICIES****2.1 Basis of preparation**

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”) under the historical cost convention, except as disclosed in the accounting policies below.

The Group and the Company conduct a substantial portion of its business in United States dollars (“US\$” or “\$”). All dollar amounts included in the financial statements and in the notes herein are United States dollars unless designated as Singapore dollars (“S\$”). The Group and the Company operate on a thirteen week calendar closing on the Friday closest to the natural calendar quarter. The Group’s financial year 2018 ended on 29 June 2018, the Friday nearest to 30 June 2018, while the prior financial year ended on 30 June 2017. All financial years are described by their natural calendar dates.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group’s accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

**Interpretations and amendments to published standards effective in 2017**

On 1 July 2017, the Group adopted the new or amended FRS and Interpretations to FRS (“INT FRS”) that are mandatory for application for the financial year. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years.

**2.2 Group accounting****(a) Subsidiaries**

Subsidiaries are entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the dates of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition, irrespective of the extent of non-controlling interests. Please refer to the paragraph “Intangible assets – Goodwill on acquisitions” for the accounting policy on goodwill on acquisition of subsidiaries.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.2 Group accounting (cont'd)

##### (a) Subsidiaries (cont'd)

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated income statement, consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

Please refer to the paragraph "Investments in subsidiaries and associated companies" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

##### (b) Transactions with non-controlling interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Company. Any difference between the change in the carrying amounts of the non-controlling interests and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the equity holders of the Company.

##### (c) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, and generally accompanied by a shareholding giving rise to between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses.

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associated companies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Dilution gains and losses arising from investments in associated companies are recognised in profit or loss.

Please refer to the paragraph "Investments in subsidiaries and associated companies" for the accounting policy on investments in associated companies in the separate financial statements of the Company.

## 2.3 Intangible assets

### (a) Goodwill on acquisitions

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries and associated companies at the date of acquisition.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Goodwill on associated companies is included in the carrying amount of the investments.

Gains and losses on the disposal of subsidiaries and associated companies include the carrying amount of goodwill relating to the entity sold.

### (b) Acquired trademarks and licenses

Trademarks and licenses acquired are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over the shorter of the contractual rights and estimated useful lives of the assets, ranging from one to ten years.

The amortisation period and amortisation method are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

## 2.4 Impairment of non-financial assets

### (a) Goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Goodwill included in the carrying amount of an investment in an associated company is tested for impairment as part of the investment, rather than separately.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units ("CGU") expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised in profit or loss and is not reversed in a subsequent period.

### (b) Intangible assets

#### Property and equipment

#### Investments in subsidiaries and associated companies

Intangible assets, property and equipment and investments in subsidiaries and associated companies are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.4 Impairment of non-financial assets (cont'd)

##### (b) Intangible assets

##### Property and equipment

##### Investments in subsidiaries and associated companies (cont'd)

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

#### 2.5 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand and short-term bank deposits with various banks which are subject to an insignificant risk of change in value.

#### 2.6 Financial assets

##### (a) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### (i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "cash and cash equivalents", "trade receivables", "amounts due from subsidiaries", other receivables and loan within "other current assets" and "other non-current receivables" on the balance sheet.

##### (ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

##### (b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is transferred to profit or loss.

**(c) Initial measurement**

Financial assets are initially recognised at fair value plus transaction costs.

**(d) Subsequent measurement**

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Dividend income on available-for-sale financial assets and interest are recognised separately in profit or loss. Changes in fair values of available-for-sale equity securities are recognised in other comprehensive income and accumulated in the fair value reserve, together with the related currency translation differences.

**(e) Impairment**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

**(i) Loans and receivables**

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

**(ii) Available-for-sale financial assets**

A significant or prolonged decline in the fair value of an equity security below its cost is considered as an indicator that the available-for-sale financial asset is impaired.

If any evidence of impairment exists, the cumulative loss that was recognised in the fair value reserve is reclassified to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised as an expense. The impairment losses recognised as an expense on equity securities are not reversed through profit or loss.

**2.7 Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost is determined using standard cost, appropriately adjusted at the balance sheet date to approximate actual cost on a weighted average basis. In the case of finished products, cost includes materials, direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

**2.8 Investments in subsidiaries and associated companies**

Investments in subsidiaries and associated companies are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.9 Property and equipment

##### (a) Measurement

Property and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Cost recognised includes purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

##### (b) Depreciation

No depreciation is provided on freehold land. Depreciation is calculated using the straight line method to allocate their depreciable amounts over the estimated useful lives as follows:

Leasehold improvements	- Shorter of lease term or useful life
Buildings	- 20 to 30 years
Machinery and equipment	- 1 to 6 years
Furniture, fixtures and office equipment	- 1 to 8 years

The residual values, estimated useful lives and depreciation methods are reviewed and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

##### (c) Subsequent measurement

Subsequent expenditure relating to property and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

##### (d) Disposal

On disposal of an item of property and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss when incurred.

#### 2.10 Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

#### 2.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

##### (a) Warranties

The warranty provision represents management's best estimate of probable liability under its product warranties. Management determines the warranty provision based on known product failures (if any), historical experience, and other currently available evidence.

##### (b) Provision for legal claims and fees

Management records provisions when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

**(c) Other provisions**

Other provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in profit or loss.

**2.12 Fair value estimation of financial assets and liabilities**

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

**2.13 Revenue recognition**

Sales comprise the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Sales are presented net of value-added tax, rebates and discounts, and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue and related cost can be reliably measured, the Group has delivered the products to the customers, the customers have accepted the products, significant risks and rewards of ownership have been transferred and when it is probable that the collectability of the related receivables is reasonably assured. 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.

Allowances are provided for estimated returns and discounts based on historical experience, current economic trends and changes in customer demand and acceptance of its products. Such allowances are adjusted periodically to reflect actual and anticipated experience. When recognising revenue, the Group records estimated reductions to revenue for customer and distributor programs and incentive offerings, including price protection, promotions, other volume-based incentives and rebates.

**2.14 Research and development costs**

As the Group cannot definitively distinguish the research phase from the development phase of its internal projects to create intangible assets, the Group treats the expenditure on its internal projects as if they were incurred in the research phase only. Accordingly, all research and development costs are recognised as an expense when incurred.

**2.15 Income taxes**

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and associated companies, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.15 Income taxes (cont'd)

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss.

#### 2.16 Operating leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease. When a lease is terminated before the lease period expires, any payment made (or received) by the Group as penalty is recognised as an expense (or income) when termination takes place.

#### 2.17 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

##### (a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund or pension on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

##### (b) Share-based compensation

###### Share options

The share options plan is an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of options is recognised as an expense in profit or loss with a corresponding increase in share-based compensation reserves over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to share-based compensation reserves over the remaining vesting period.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in other reserves are credited to share capital account when new ordinary shares are issued, or to the "treasury shares" account when treasury shares are re-issued to the employees.

**Performance shares**

The performance share plan contemplates the award of fully-paid ordinary shares, their equivalent cash value or combinations thereof, free of charge, provided that certain prescribed performance targets are met and/or upon expiry of the prescribed vesting periods.

The fair value of employee services received in exchange for the grant of the awards is recognised as a share-based compensation expense in profit or loss with a corresponding increase in the share-based compensation reserves over the vesting period. The amount is determined by reference to the fair value of the performance shares on the grant date.

If the performance target is a market condition, the probability of the performance target being met is taken into account in estimating the fair value of the ordinary shares granted at the grant date. The compensation expense is charged to profit or loss on a basis that fairly reflects the manner in which the benefits will accrue to the employee under the plan over the prescribed vesting periods from date of grant. No adjustments to the amounts charged to profit or loss are made whether or not the market condition is met.

For performance share grants with non-market conditions, the Company revises its estimates of the number of share grants expected to vest and corresponding adjustments are made to profit or loss and share-based compensation reserves.

**2.18 Currency translation****(a) Functional and presentation currency**

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The functional currency of the Company is the United States Dollar (“US\$”), which reflects the economic environment in which the activities of the Company are largely exposed to. The financial statements are presented in United States Dollar.

**(b) Transactions and balances**

Transactions in a currency other than the United States Dollar (“foreign currency”) are translated into the United States Dollar using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates prevailing at the date when the fair values are determined.

**(c) Translation of Group entities’ financial statements**

The results and financial position of all the Group’s entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency by way of assets and liabilities being translated at the closing exchange rates prevailing at the date of the balance sheet, and income and expenses being translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated using the exchange rates at the dates of the transactions).

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the date of the balance sheet.

**2.19 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 2.20 Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

Where the Company's ordinary shares are repurchased ("treasury shares"), the consideration paid, including any directly attributable incremental cost, is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share options and performance share plan, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in other reserves of the Company.

#### 2.21 Dividends to Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

### 3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### (a) Revenue recognition

Allowances are provided for estimated returns and discounts. Management analyses historical returns, current economic trends and changes in customer demand and acceptance of its products when evaluating the adequacy of the sales returns allowance. Such allowances are adjusted periodically to reflect actual and anticipated experience. When recognising revenue, the Group records estimated reductions to revenue for customer and distributor programs and incentive offerings, including price protection, promotions, other volume-based incentives and rebates. Significant management judgement and estimates must be used in connection with establishing these allowances in any accounting period. The Group may take action when necessary in response to market conditions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered. The Group's net revenue for the financial year ended 30 June 2018 was US\$66,071,000 (2017: US\$69,895,000).

#### (b) Valuation of inventories

The Group states inventories at the lower of cost and net realisable value. The Group records a write-down for inventories of components and products which have become obsolete or are in excess of anticipated demand or net realisable value. Management performs a detailed assessment of inventory at each balance sheet date to establish provisions for excess and obsolete inventories. Management's evaluation includes a review of, among other factors, historical sales, current economic trends, forecasted sales, demand requirements, product life cycle and product development plans, quality issues, and current inventory levels. The markets for PC peripherals and personal digital entertainment products are subject to a rapid and unpredictable pace of product and component obsolescence and demand changes. If future demand or market conditions for the Group's products are less favourable than forecasted or if unforeseen technological changes negatively impact the utility of component inventory, the Group may be required to record write-downs which would negatively affect gross margins in the period when the write-downs are recorded and its operating results and financial position could be adversely affected. The carrying amount of the Group's inventories at 30 June 2018 was US\$16,582,000 (2017: US\$20,413,000).

**(c) Assessment of the probability of the outcome of current litigation**

The Group is subject to certain legal proceedings, lawsuits and other claims. Assessments are made by management on a case-by-case basis to make a determination as to the impact, if any, on the business, liquidity, results of operations, financial condition or cashflows. Management believes that the ultimate outcome of the legal proceedings, lawsuits and other claims, individually and in aggregate will not have a material adverse impact to the Group. Management will only recognise the provision when, and only when the entity has a present obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The related provisions are recognised in Note 23.

**(d) Income taxes**

In preparing its financial statements, the Group estimates its income taxes for each of the jurisdictions in which it operates. This involves estimating the actual current tax exposure, assessing temporary differences resulting from differing treatment of items, such as reserves and provisions for tax and accounting purposes, and accounting for uncertainty in income taxes. These differences result in current and deferred income tax liabilities, which are included within the Group's consolidated balance sheet. The Group recognises deferred income tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised. The Group's income tax liabilities were US\$1,000 (2017: US\$5,000) and deferred income tax liabilities were US\$10,426,000 (2017: US\$10,426,000) at 30 June 2018.

**4. EXPENSES BY NATURE**

Included in the cost of goods sold, selling, general and administrative and research and development expenses are the following:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Depreciation of property and equipment (Note 19)	<b>195</b>	221
Employee compensation (Note 5)	<b>26,917</b>	24,978
Advertising expenses	<b>2,499</b>	2,850
Rental expenses on operating leases	<b>4,677</b>	4,071
Research and development related expenses	<b>1,166</b>	1,325
Travel, entertainment and transportation expenses	<b>567</b>	598
Inventory write-off/write-down	<b>2,222</b>	4,893
Legal fees	<b>5,823</b>	5,348

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

**5. EMPLOYEE COMPENSATION**

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Wages and salaries	<b>24,732</b>	22,819
Employer's contribution to defined contribution plans including Central Provident Fund	<b>2,221</b>	2,208
Employee share-based expense (Note 26)	<b>(36)</b>	(49)
	<b>26,917</b>	24,978

**6. OTHER INCOME**

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Interest income	<b>1,230</b>	430
Dividend income	<b>208</b>	–
	<b>1,438</b>	430

**7. OTHER GAINS**

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Gain/reclassification on disposal of available-for-sale financial assets	<b>126</b>	1,346
Gain on disposal of property and equipment	<b>–</b>	9
Litigation settlement	<b>63,750</b>	–
Disposal of network resources	<b>319</b>	–
Other gains	<b>282</b>	–
	<b>64,477</b>	1,355

Litigation settlements during the financial year ended 30 June 2018 comprise of:

- (i) Gains recognised following judgement awarded in favour of the Company and its subsidiary Qmax Communications Pte Ltd ("Qmax") in respect of legal proceedings that the Company and Qmax had initiated during the financial year ended 30 June 2012 against an equipment vendor to recover damages and losses suffered in relation to a wireless broadband project.
- (ii) Amounts received by a wholly-owned subsidiary, ZiiLabs Inc., Ltd ("ZiiLabs"), from a patent aggregator arising from settlement of ZiiLabs' patent infringement lawsuits filed in the United States during the financial year ended 30 June 2017.

**8. OTHER LOSSES**

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Impairment loss of available-for-sale financial assets (Note 16)	<b>352</b>	692
Currency translation loss	<b>50</b>	682
Other losses	<b>—</b>	6
	<b>402</b>	<b>1,380</b>

**9. INCOME TAXES**

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Tax expense attributable to profit (loss) is made up of:		
Current income tax:		
- Tax expense for current financial year	<b>3</b>	5
- Withholding tax	<b>56</b>	308
	<b>59</b>	313
Over provision in prior financial years :		
- Current income tax	<b>(9)</b>	(301)
	<b>50</b>	<b>12</b>

The tax expense on Group's results differs from the theoretical amount that would arise using the Singapore standard rate of income tax as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Profit (loss) before income tax	<b>40,461</b>	(22,861)
Share of loss of associated companies	<b>—</b>	(326)
Profit (loss) before tax and share of loss of associated companies	<b>40,461</b>	(22,535)
Tax calculated at tax rate of 17% (2017: 17%)	<b>6,878</b>	(3,831)
Effects of		
- tax exempt (income) loss	<b>(4,235)</b>	418
- income not subject to tax	<b>(1,208)</b>	(552)
- expenses not deductible for tax purposes	<b>149</b>	166
- different tax rates in other countries	<b>70</b>	57
- deferred tax assets not recognised	<b>3,706</b>	4,028
- utilisation of tax losses and capital allowances	<b>(5,357)</b>	(281)
- withholding tax	<b>56</b>	308
- over provision in previous financial years	<b>(9)</b>	(301)
Tax expense	<b>50</b>	<b>12</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

**10. EARNINGS (LOSS) PER SHARE**

	Group			
	2018		2017	
	Basic US\$'000	Diluted US\$'000	Basic US\$'000	Diluted US\$'000
Net profit (loss) attributable to equity holders of the Company	<b>40,420</b>	<b>40,420</b>	(22,906)	(22,906)
	Number of Shares '000	Number of Shares '000	Number of Shares '000	Number of Shares '000
Weighted average number of ordinary shares outstanding	<b>70,332</b>	<b>70,332</b>	70,332	70,332
Adjustments for dilutive effects of				
– share options	–	–	–	–
– performance shares	–	<b>208</b>	–	–
Weighted average number of ordinary shares used to compute earnings (loss) per share	<b>70,332</b>	<b>70,540</b>	70,332	70,332
Earnings (loss) per share (US\$)	<b>0.57</b>	<b>0.57</b>	(0.33)	(0.33)

Basic earnings (loss) per share is calculated by dividing the net profit (loss) attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

For the purpose of calculating diluted earnings per share, profit (loss) attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares of the Company comprises share options and performance shares.

For share options, the weighted average number of shares in issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration.

For performance shares, the weighted average number of shares in issue is adjusted as if all outstanding performance shares are released.

Share options and performance shares had been excluded from the calculation of diluted loss per share for the financial year ended 30 June 2017 as their effects would be anti-dilutive (ie. loss per share would have been reduced in the event that share options and performance shares were exercised or vested). Thus, the diluted loss per share was the same as the basic loss per share for the financial year ended 30 June 2017.

**11. CASH AND CASH EQUIVALENTS**

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Cash at bank and on hand	<b>28,968</b>	26,135	<b>26,269</b>	20,745
Short-term bank deposits	<b>85,849</b>	49,147	<b>85,849</b>	49,147
	<b>114,817</b>	75,282	<b>112,118</b>	69,892

**12. TRADE RECEIVABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Trade receivables				
- Non-related parties	<b>7,828</b>	8,640	<b>1,765</b>	1,998
Less: Allowance for sales returns and impairment of receivables	<b>(2,672)</b>	(2,790)	<b>(1,750)</b>	(1,805)
Trade receivables - net	<b>5,156</b>	5,850	<b>15</b>	193

**13. AMOUNTS DUE FROM (TO) SUBSIDIARIES**

	<b>Company</b>	
	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000
Amounts due from subsidiaries - current		
- Trade	<b>1,998</b>	1,994
- Non-trade	<b>46,366</b>	62,740
	<b>48,364</b>	64,734
Less: Allowance for impairment	<b>(39,207)</b>	(28,457)
	<b>9,157</b>	36,277
Amounts due from subsidiaries - non-current		
- Trade	<b>18,617</b>	21,184
- Non-trade	<b>127,643</b>	143,578
	<b>146,260</b>	164,762
Less: Allowance for impairment	<b>(140,872)</b>	(143,439)
	<b>5,388</b>	21,323
Amounts due to subsidiaries - current		
- Trade	<b>(2,558)</b>	(2,950)
- Non-trade	<b>(15,801)</b>	(6,322)
	<b>(18,359)</b>	(9,272)
Amounts due to subsidiaries - non-current		
- Trade	<b>(19,605)</b>	(19,105)
- Non-trade	<b>(7,388)</b>	-
	<b>(26,993)</b>	(19,105)

The non-trade amounts due from and due to subsidiaries are interest-free and unsecured.

The current portions of non-trade amounts due from and due to subsidiaries are repayable on demand. There is no fixed repayment terms and repayments are not expected to be within twelve months for the non-current portions of amounts due from and due to subsidiaries.

Management has assessed the fair values of the non-current amounts due from and due to subsidiaries and concluded that the fair values at balance sheet date approximate carrying values.

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

**14. INVENTORIES**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Raw materials	<b>2,963</b>	3,754	<b>1,978</b>	2,488
Finished products	<b>13,619</b>	16,659	<b>–</b>	1
	<b>16,582</b>	20,413	<b>1,978</b>	2,489

The cost of inventories recognised in “cost of goods sold” amounts to US\$47,565,000 (2017: US\$50,302,000).

**15. OTHER CURRENT ASSETS**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Prepayments	<b>763</b>	1,097	<b>39</b>	407
Deposits	<b>144</b>	157	<b>52</b>	67
Other receivables from non-related parties	<b>329</b>	168	<b>129</b>	123
	<b>1,236</b>	1,422	<b>220</b>	597

The other receivables from non-related parties are unsecured, interest-free and repayable on demand.

**16. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Beginning of financial year	<b>9,622</b>	11,960	<b>–</b>	–
Fair value (losses) gains recognised in other comprehensive income	<b>(1,644)</b>	188	<b>–</b>	–
Additions	<b>449</b>	1,100	<b>–</b>	–
Disposals	<b>(473)</b>	(2,934)	<b>–</b>	–
Impairment losses (Note 8)	<b>(352)</b>	(692)	<b>–</b>	–
End of financial year	<b>7,602</b>	9,622	<b>–</b>	–

Available-for-sale financial assets are analysed as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Listed equity securities	<b>3,630</b>	4,422	<b>–</b>	–
Unlisted equity securities	<b>3,972</b>	5,200	<b>–</b>	–
	<b>7,602</b>	9,622	<b>–</b>	–

The Group has recognised impairment losses of US\$352,000 (2017: US\$692,000) against securities whose fair values were below cost during the financial year.

**17. INVESTMENTS IN ASSOCIATED COMPANIES**

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Unquoted shares at cost	<b>1,886</b>	1,886
Loan to associated company	<b>2,250</b>	2,250
	<b>4,136</b>	4,136
Share of post-acquisition reserves	<b>(4,136)</b>	(4,136)
	<b>–</b>	–

The Group has no material associates as at the financial years ended 30 June 2018 and 2017.

During the financial year ended 30 June 2017, the Group has granted a loan of US\$326,000 to the associated company and recognized share of loss of US\$326,000.

The loan to associated company is unsecured and interest-free.

As at 30 June 2018, the Group has recognized all losses (FY2017 unrecognized losses: US\$58,000) in relation to its interests in associates.

**18. INVESTMENTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<i>Equity investments at cost</i>		
Beginning of financial year	<b>228,666</b>	228,654
Additions	<b>–</b>	12
End of financial year	<b>228,666</b>	228,666
<i>Accumulated impairment</i>		
Beginning of financial year	<b>(214,001)</b>	(203,301)
Additions	<b>(300)</b>	(10,700)
End of financial year	<b>(214,301)</b>	(214,001)
Net carrying value at end of financial year	<b>14,365</b>	14,665

During the financial year ended 30 June 2017, the Company acquired a Bermuda incorporated company from a 100% owned indirect subsidiary, for a cash consideration of US\$12,000.

The impairment loss of US\$300,000 in the financial year ended 30 June 2018 (2017: US\$10,700,000) reflects the write-down of the carrying amount of the Company's investments in certain subsidiaries to the recoverable amount following a review of the subsidiaries' net assets value.

Details of significant subsidiaries are included in Note 36.

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

**19. PROPERTY AND EQUIPMENT**

	Leasehold improvements US\$'000	Land and buildings US\$'000	Machinery and equipment US\$'000	Furniture, fixtures and office equipment US\$'000	Total US\$'000
<b>Group</b>					
<b>2018</b>					
<i>Cost</i>					
Beginning of financial year	1,219	2,455	2,344	5,303	11,321
Additions	29	–	29	39	97
Disposals	(99)	–	(551)	(1,414)	(2,064)
End of financial year	1,149	2,455	1,822	3,928	9,354
<i>Accumulated depreciation</i>					
Beginning of financial year	1,195	1,804	2,304	5,152	10,455
Depreciation charge (Note 4)	20	62	31	82	195
Disposals	(99)	–	(545)	(1,400)	(2,044)
End of financial year	1,116	1,866	1,790	3,834	8,606
<b>Net book value</b>					
End of financial year	<b>33</b>	<b>589</b>	<b>32</b>	<b>94</b>	<b>748</b>
<b>Group</b>					
<b>2017</b>					
<i>Cost</i>					
Beginning of financial year	1,191	2,455	2,400	5,426	11,472
Additions	28	–	11	178	217
Disposals	–	–	(67)	(301)	(368)
End of financial year	1,219	2,455	2,344	5,303	11,321
<i>Accumulated depreciation</i>					
Beginning of financial year	1,186	1,742	2,339	5,335	10,602
Depreciation charge (Note 4)	9	62	32	118	221
Disposals	–	–	(67)	(301)	(368)
End of financial year	1,195	1,804	2,304	5,152	10,455
<b>Net book value</b>					
End of financial year	<b>24</b>	<b>651</b>	<b>40</b>	<b>151</b>	<b>866</b>

	Leasehold improvements US\$'000	Machinery and equipment US\$'000	Furniture, fixtures and office equipment US\$'000	Total US\$'000
<b><u>Company</u></b>				
<b>2018</b>				
<i>Cost</i>				
Beginning of financial year	995	2,231	4,523	7,749
Additions	29	21	14	64
Disposals	(99)	(551)	(1,409)	(2,059)
End of financial year	925	1,701	3,128	5,754
<i>Accumulated depreciation</i>				
Beginning of financial year	995	2,200	4,411	7,606
Depreciation charge	5	26	49	80
Disposals	(99)	(545)	(1,396)	(2,040)
End of financial year	901	1,681	3,064	5,646
<b><i>Net book value</i></b>				
<b>End of financial year</b>	<b>24</b>	<b>20</b>	<b>64</b>	<b>108</b>

<b><u>Company</u></b>				
<b>2017</b>				
<i>Cost</i>				
Beginning of financial year	995	2,295	4,561	7,851
Additions	–	3	122	125
Disposals	–	(67)	(160)	(227)
End of financial year	995	2,231	4,523	7,749
<i>Accumulated depreciation</i>				
Beginning of financial year	995	2,236	4,489	7,720
Depreciation charge	–	31	82	113
Disposals	–	(67)	(160)	(227)
End of financial year	995	2,200	4,411	7,606
<b><i>Net book value</i></b>				
<b>End of financial year</b>	<b>–</b>	<b>31</b>	<b>112</b>	<b>143</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

**20. INTANGIBLE ASSETS**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Goodwill arising on consolidation (Note (a))	–	–	–	–
Trademarks and licences (Note (b))	–	–	–	–
	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

**(a) Goodwill arising on consolidation**

	<b>Group</b>	
	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000
<i>Cost</i>		
Beginning and end of financial year	<b>2,262</b>	2,262
<i>Accumulated impairment</i>		
Beginning and end of financial year	<b>2,262</b>	2,262
Net book value	<b>–</b>	<b>–</b>

**(b) Trademarks and licences**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
<i>Cost</i>				
Beginning of financial year	<b>11,847</b>	11,847	–	–
Write-off	–	–	–	–
End of financial year	<b>11,847</b>	11,847	–	–
<i>Accumulated amortisation</i>				
Beginning of financial year	<b>11,847</b>	11,847	–	–
Write-off	–	–	–	–
End of financial year	<b>11,847</b>	11,847	–	–
Net book value	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

**21. OTHER NON-CURRENT ASSETS**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Security deposits	<b>154</b>	186	–	–

**22. TRADE PAYABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Trade payables				
- Non-related parties	<b>5,816</b>	9,300	<b>233</b>	417

**23. ACCRUED LIABILITIES AND PROVISIONS**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Warranty (Note (a))	<b>246</b>	354	–	–
Restructuring (Note (b))	–	1,002	–	281
Legal claims and fees (Note (c))	<b>5,598</b>	6,474	<b>4,250</b>	5,750
Marketing accruals	<b>2,452</b>	2,494	–	68
Payroll accruals	<b>3,459</b>	3,058	<b>1,654</b>	1,321
Royalty accruals	<b>1,259</b>	306	<b>1,209</b>	126
Deposits and other creditors	<b>840</b>	1,953	<b>299</b>	352
Freight and duty accruals	<b>186</b>	211	–	–
Professional fees accruals	<b>591</b>	649	<b>392</b>	410
Other accruals	<b>2,381</b>	2,976	<b>1,559</b>	1,861
	<b>17,012</b>	19,477	<b>9,363</b>	10,169

**(a) Warranty**

The warranty period for the bulk of the products typically ranges between 1 to 2 years. The product warranty provision reflects management's best estimate of probable liability under its product warranties. Management determines the warranty provision based on known product failures (if any), historical experience, and other currently available evidence.

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

**23. ACCRUED LIABILITIES AND PROVISIONS (cont'd)****(a) Warranty (cont'd)**

Movements in provision for warranty are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Beginning of financial year	<b>354</b>	583	–	–
Provision made (write-back)	<b>429</b>	(51)	–	–
Provision utilised	<b>(537)</b>	(178)	–	–
End of financial year	<b>246</b>	354	–	–

**(b) Restructuring**

Movements in provision for restructuring are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Beginning of financial year	<b>1,002</b>	989	<b>281</b>	281
Currency translation difference	<b>29</b>	13	–	–
Provision written back	<b>(1,031)</b>	–	<b>(281)</b>	–
End of financial year	<b>–</b>	1,002	–	281

**(c) Legal claims and fees**

The provision for legal claims is in respect of certain legal claims brought against the Group. In the opinion of management, after taking appropriate legal advice, the outcomes of these legal claims are not expected to give rise to any significant loss beyond the amounts provided at 30 June 2018. Management considers that disclosure of further details of these claims will seriously prejudice the Group's negotiating position and accordingly, further information on the nature of the obligation has not been provided.

**24. DEFERRED INCOME TAX LIABILITIES**

Movements in deferred income tax liabilities account are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
<b><u>Transfer pricing and withholding tax</u></b>				
Beginning of financial year	<b>10,426</b>	10,302	–	–
Currency translation difference	–	156	–	–
Provision utilised	–	(32)	–	–
End of financial year	<b>10,426</b>	10,426	–	–

The deferred income tax liabilities are expected to be settled after one year.

Respectively, the Group and the Company have unrecognised tax losses of approximately US\$716,000,000 and US\$435,000,000 (2017: US\$709,000,000 and US\$424,000,000) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses in their respective countries of incorporation. Approximately US\$196,000,000 of the Group's tax losses expire between 2019 and 2035. The Group also has United States tax deductions not included in unrecognised tax losses of approximately US\$60,000,000 (2017: US\$60,000,000) as a result of the exercise of employee share options of which the tax benefit has not been realised. The tax benefit of the deductions, when realised will be accounted for as a credit to other reserves rather than a reduction of the income tax expense.

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

**25. SHARE CAPITAL AND TREASURY SHARES**

	Number of ordinary shares		Amount	
	Issued share capital '000	Treasury shares '000	Share capital US\$'000	Treasury shares US\$'000
<b>Group and Company</b>				
<b>2018</b>				
Beginning and end of financial year	<u>75,000</u>	<u>(4,668)</u>	<u>266,753</u>	<u>(16,262)</u>
<b>2017</b>				
Beginning and end of financial year	<u>75,000</u>	<u>(4,668)</u>	<u>266,753</u>	<u>(16,262)</u>

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

**(a) Treasury shares**

No shares were acquired in the financial years ended 30 June 2018 and 2017.

The Company did not issue any treasury shares pursuant to the Creative Technology (1999) Share Option Scheme ("1999 Scheme") in the financial years ended 30 June 2018 and 30 June 2017.

For the financial year ended 30 June 2018, the Company did not issue any treasury shares (2017: nil) pursuant to the Creative Performance Share Plan.

**(b) Share options**

The Creative Technology (1999) Share Option Scheme ("1999 Scheme") was approved by shareholders at an Extraordinary General Meeting on 30 December 1998 which allows options to be granted to full-time employees as well as consultants and non-executive directors. The total number of shares that may be granted under the 1999 Scheme was 7.5 million, provided that such amount shall be automatically increased on the first day (1 July) of each of the five financial years ended 30 June 2001, 2002, 2003, 2004 and 2005 by four percent of the issued share capital of the Company as at the last day of the immediate preceding financial year. The Option Committee has the discretion to decide the vesting schedule in the letter of offer. If it is not specifically stated in the letter of offer, 1/4 of the total amount of the grant vests on the first anniversary of the grant date and 1/48 of the total amount of the grant vests on the last day of each calendar month thereafter.

The exercise price of the options is determined at the average of the closing prices of the Company's shares as quoted on the SGX-ST or the National Association of Securities Dealers Automated Quotations ("NASDAQ") for five market days preceding the date of the grant.

Options expire after the tenth anniversary of the date of grant, except in the case of options granted to participants other than employees, options expire not later than the fifth anniversary of the date of grant. Effective 12 November 2007, amendments were made to the 1999 Scheme to allow the use of treasury shares to satisfy share based exercises. The options under the 1999 Scheme do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.

The 1999 Scheme expired on 29 December 2008 but the existing options granted prior to the expiry date continue to vest according to the terms and conditions of the 1999 Scheme and the respective grants. All outstanding options granted under the 1999 Scheme have expired during the financial year ended 30 June 2018.

Movements in the number of unissued ordinary shares under option and their exercise prices were as follows:

	Number of options (‘000)	Weighted average exercise price (US\$)
<b>Outstanding at 30 June 2016</b>	<b>1,092</b>	<b>4.70</b>
Cancelled/Forfeited/Expired	(78)	4.70
<b>Outstanding at 30 June 2017</b>	<b>1,014</b>	<b>4.70</b>
Cancelled/Forfeited/Expired	(1,014)	4.70
<b>Outstanding at 30 June 2018</b>	<b>–</b>	<b>–</b>
<b>Exercisable at 30 June 2018</b>	<b>–</b>	<b>–</b>

There were no options exercised during the financial years ended 30 June 2018 and 2017.

There are no outstanding options as at 30 June 2018 and as at 30 June 2017, the options outstanding were in the following exercise price range:

	2017	
	Number of shares outstanding (‘000)	Weighted average remaining contractual term (in years)
<b>Range of exercise prices</b>		
US\$3.00 to US\$4.99	1,014	0.50

**(c) Performance shares**

The Creative Performance Share Plan (the “Plan”) was approved by shareholders at an Extraordinary General Meeting on 29 October 2009 under which awards (the “Award”) of fully-paid shares, their equivalent cash value or combinations thereof, will be issued free of charge, to eligible employees and non-executive directors of the Company and its subsidiaries, provided that certain prescribed performance targets are met and/or upon expiry of the prescribed vesting periods.

On 31 March 2010, 2,793,600 performance shares were granted subject to the terms and conditions of the Plan. Of the total performance shares granted, 716,950 shares were vested immediately on the date of grant.

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2018

### 25. SHARE CAPITAL AND TREASURY SHARES (cont'd)

#### (c) Performance shares (cont'd)

There were no awards granted under the Plan during the financial years ended 30 June 2018 and 2017. However, as at 30 June 2018, the Committee has extended the performance period till 31 December 2018 for 208,000 performance shares granted on 31 March 2010 that were subject to the achievement of prescribed performance targets.

The fair value of the performance shares is determined at the grant date using the Monte Carlo simulation model which involves projecting future outcomes based on statistical distributions of key random variables including share price and volatility of returns.

The fair values and assumption inputs used in the model are as follows:

Grant date	Vesting date	Number of shares ('000)	Fair value per share US\$	Expected volatility %	Dividend yield %	Risk-free interest rate %	Share price at grant date US\$
31.3.2010	31.3.2011	514.5	3.49	56.07	1.99	0.45	3.57
31.3.2010	31.3.2012	514.5	3.40	56.07	1.99	0.62	3.57
31.3.2010	31.3.2013	514.5	3.33	56.07	1.99	0.72	3.57
31.3.2010	31.3.2014	514.5	3.29	56.07	1.99	1.08	3.57

Movements in the number of performance shares are as follows:

Grant date	Outstanding at 1 July 2017 ('000)	Granted ('000)	Vested and released ('000)	Cancelled ('000)	Outstanding at 30 June 2018 ('000)
31 March 2010	218	–	–	(10)	208

  

Grant date	Outstanding at 1 July 2016 ('000)	Granted ('000)	Vested and released ('000)	Cancelled ('000)	Outstanding at 30 June 2017 ('000)
31 March 2010	231	–	–	(13)	218

There were no shares released during the financial years ended 30 June 2018 and 2017.

### 26. OTHER RESERVES

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
(a) <b>Composition:</b>				
Capital reserves	19,932	19,932	6,951	6,951
Share-based compensation reserves (Note (b))	42,347	42,383	27,864	27,900
	<b>62,279</b>	<b>62,315</b>	<b>34,815</b>	<b>34,851</b>

Capital reserves arose from changes of interests in the group companies in prior financial years. Share-based compensation reserves comprised mainly of compensation expense for share options, tax benefits relating to exercise of non-qualified share options by US employees, performance share plans and Chairman's gift of shares to employees.

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
<b>(b) Movements:</b>				
<b>Share-based compensation reserves</b>				
Beginning of financial year	42,383	42,432	27,900	27,949
Credit to Profit or Loss (Note 5)	(36)	(49)	(36)	(49)
End of financial year	42,347	42,383	27,864	27,900

## 27. ACCUMULATED LOSSES

Movements in accumulated losses for the Company are as follows:

	Company	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	(178,726)	(158,155)
Net loss	(18,181)	(20,584)
Unclaimed dividends	2	13
End of financial year	(196,905)	(178,726)

## 28. DIVIDENDS

No dividend was paid in respect of the previous financial year and no dividend has been proposed for the financial year ended 30 June 2018.

## 29. CONTINGENCIES

The Company has issued banker's guarantee of US\$1,555,000 (2017: US\$1,382,000) to its landlord for its office building in Singapore.

## 30. COMMITMENTS

### (a) Capital and other commitments

Capital and other expenditures contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Property and equipment	–	5	–	–
Purchase obligations	4,274	4,436	954	1,797
	4,274	4,441	954	1,797

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

**30. COMMITMENTS (cont'd)****(b) Operating lease commitments – where the Group is a lessee**

The Group leases office space from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Not later than one year	<b>1,990</b>	3,857
Between one and five years	<b>7,054</b>	7,008
Later than five years	<b>–</b>	1,755
	<b>9,044</b>	<b>12,620</b>

**31. FINANCIAL RISK MANAGEMENT**

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The Group's principal financial instruments, other than foreign exchange contracts, comprise investments, cash at bank and short-term bank deposits. All financial transactions with the banks are duly accepted with Board of Directors' resolutions, with banking mandates, which define the permitted financial instruments and facility limits, approved by the Board of Directors. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is the Group's policy not to engage in foreign exchange and/or derivatives speculation or trading or enter into any complex foreign exchange or derivatives transactions. From time to time, the Group enters into forward exchange contracts to reduce its exposure to currency translation gains and losses.

The main financial risks arising from the Group's operations and the use of financial instruments are market risk (including price risk, interest rate risk and currency risk), credit risk and liquidity risk. Management does not view the Company on a standalone basis and therefore all risks relevant to the Group are considered and managed at the Group level. The policies for managing each of these risks at the Group level are summarised below.

**(a) Market risk****(i) Price risk**

As part of its long-term business strategy, from time to time, the Group makes strategic equity investments in companies that can provide the Group with technologies or products that management believes will give the Group a competitive advantage in the markets in which the Group competes. The Group has strategic investments in quoted equity shares. The Group manages the risk of unfavourable changes by cautious review of the investments before investing and continuous monitoring of the performance of investments held and assessing market risk relevant to which the investments operate. The market value of these investments will fluctuate with market conditions. The table below summarises the impact to the Group's fair value reserve in equity arising as a result of a 10% increase/decrease in prices of quoted equity securities. This analysis assumes that all other variables remain constant.

	Equity	
	10% increase US\$'000	10% decrease US\$'000
<b>Group</b>		
<b>2018</b>		
Quoted equity securities	<b>363</b>	<b>(363)</b>
<b>2017</b>		
Quoted equity securities	<b>442</b>	<b>(442)</b>

**(ii) Interest rate risk**

The Group has balances placed with reputable banks and financial institutions. The Group manages its interest rate risks on its interest income by placing the cash balances in varying maturities and interest rate terms with due consideration to operating cash flow requirements and optimising yield.

**(iii) Currency risk**

The functional currency of the companies in the Group is predominantly the US dollar and accordingly, gains and losses resulting from the translation of financial assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net profit (loss). From time to time, the Group enters into forward exchange contracts to reduce its exposure to currency translation gains and losses. Forward exchange contracts are marked to market each period and the resulting gains and losses are included in the determination of net profit (loss). No forward exchange contracts were outstanding as at 30 June 2018 and 30 June 2017.

The Group's currency exposure is as follows:

	SGD US\$'000	EUR US\$'000	GBP US\$'000
<b>Group</b>			
<b>2018</b>			
<u>Financial assets</u>			
Cash and cash equivalents	17,348	14,627	4,108
Available-for-sale financial assets	3,340	–	–
Trade receivables	92	1,953	149
Other receivables	51	122	–
Other financial assets - deposits	50	61	–
Receivables from subsidiaries	10,286	5,638	87
	<b>31,167</b>	<b>22,401</b>	<b>4,344</b>
<u>Financial liabilities</u>			
Financial liabilities	(4,860)	(2,616)	(86)
Payables to subsidiaries	(10,286)	(5,638)	(87)
	<b>(15,146)</b>	<b>(8,254)</b>	<b>(173)</b>
<b>Net financial assets</b>	<b>16,021</b>	<b>14,147</b>	<b>4,171</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

**31. FINANCIAL RISK MANAGEMENT (cont'd)****(a) Market risk (cont'd)****(iii) Currency risk (cont'd)**

	SGD US\$'000	EUR US\$'000	GBP US\$'000
<b>Group</b>			
<b>2017</b>			
<u>Financial assets</u>			
Cash and cash equivalents	1,378	10,150	3,402
Available-for-sale financial assets	4,248	–	–
Trade receivables	141	2,226	56
Other receivables	59	–	2
Other financial assets - deposits	50	75	–
Receivables from subsidiaries	30,457	6,526	73
	<u>36,333</u>	<u>18,977</u>	<u>3,533</u>
<u>Financial liabilities</u>			
Financial liabilities	(5,309)	(2,844)	(46)
Payables to subsidiaries	(30,457)	(6,526)	(73)
	<u>(35,766)</u>	<u>(9,370)</u>	<u>(119)</u>
Net financial assets	<u>567</u>	<u>9,607</u>	<u>3,414</u>

A change of 10% in foreign currency exchange rates relative to US\$ at the reporting date would increase/(decrease) profit (loss) before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	10% strengthened		10% weakened	
	Profit and loss US\$'000	Other comprehensive income US\$'000	Profit and loss US\$'000	Other comprehensive income US\$'000
<b>Group</b>				
<b>2018</b>				
SGD against USD	1,268	334	(1,268)	(334)
EUR against USD	1,415	–	(1,415)	–
GBP against USD	417	–	(417)	–
<b>2017</b>				
SGD against USD	(368)	425	368	(425)
EUR against USD	961	–	(961)	–
GBP against USD	341	–	(341)	–

**(b) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially subject the Group to significant concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The Group deals only with financial institutions with high credit ratings and limits the amount of credit exposure to any one financial institution. The Group sells its products to original equipment manufacturers, distributors and key retailers. The Group believes that the concentration of credit risk in its trade receivables is substantially mitigated due to performance of ongoing credit evaluations of its customers' financial condition, use of short collection terms, use of letters of credit in certain circumstances, procurement of credit insurance coverage and the geographical dispersion of sales. The Group establishes allowances for doubtful accounts, returns and discounts based on credit profiles of its customers, current economic trends, contractual terms and conditions and historical payment, returns and discount experience.

The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

As at 30 June 2018, there were no significant concentrations of credit risk and only 2 customers (2017: 2) individually accounted for 10% or more of net accounts receivable.

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Past due 1 to 60 days	<b>486</b>	326
Past due 61 to 120 days	<b>16</b>	59
Past due over 120 days	<b>–</b>	555
	<b>502</b>	<b>940</b>

The carrying amount of trade receivables individually determined to be impaired and the movements in the related allowance for impairment are as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Past due 1 to 60 days	<b>39</b>	67
Past due 61 to 120 days	<b>20</b>	27
Past due over 120 days	<b>1,795</b>	1,926
	<b>1,854</b>	2,020
Less: Allowance for impairment	<b>(1,854)</b>	(2,020)
	<b>–</b>	<b>–</b>
Beginning of financial year	<b>2,020</b>	2,735
Allowance write-back	<b>(141)</b>	(95)
Allowance utilised	<b>(25)</b>	(620)
End of financial year	<b>1,854</b>	2,020

The impaired trade receivables arose mainly from sales to customers who significantly delayed their payments.

**(c) Liquidity risk**

To manage liquidity risk, the Group monitors its net operating cash flows and maintains an adequate level of cash and cash equivalents and secured committed funding facilities from financial institutions. In assessing the adequacy of these funding facilities, management reviews its working capital requirements regularly.

As at 30 June 2018 and 30 June 2017, the Group's financial liabilities mature in less than 1 year's time.

**(d) Capital risk**

The Group's and Company's objectives when managing capital, which is total equity, are to safeguard the Group's and Company's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group and Company may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares or obtain new borrowings.

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

**31. FINANCIAL RISK MANAGEMENT (cont'd)****(d) Capital risk (cont'd)**

As at 30 June 2018 and 2017, the Group and Company does not have any outstanding bank borrowings and the Group and Company is not subject to any externally imposed capital requirements.

**(e) Fair value measurements**

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	US\$'000			
	Level 1	Level 2	Level 3	Total
<b>Group</b>				
<b>2018</b>				
Available-for-sale financial assets				
– Listed equity securities	3,630	–	–	3,630
– Unlisted equity securities	–	–	3,972	3,972
	<u>3,630</u>	<u>–</u>	<u>3,972</u>	<u>7,602</u>
<b>2017</b>				
Available-for-sale financial assets				
– Listed equity securities	4,422	–	–	4,422
– Unlisted equity securities	–	–	5,200	5,200
	<u>4,422</u>	<u>–</u>	<u>5,200</u>	<u>9,622</u>

Fair values for listed equity securities are determined using quoted market prices at the balance sheet date. These instruments are included in Level 1.

Fair values for unlisted equity securities are determined by using net asset values which approximate the fair value of the investments. These instruments are included in Level 3.

The changes in Level 3 instruments are as follows:

	Group	
	2018 US\$'000	2017 US\$'000
<b>Group</b>		
Beginning of financial year	5,200	7,469
Purchase of level 3 securities	449	1,100
Disposals	(472)	(2,934)
Fair value (loss) gain recognised in		
– other comprehensive income	(855)	65
Impairment losses	(350)	(500)
End of financial year	<u>3,972</u>	<u>5,200</u>

**(f) Financial instruments by category**

The carrying amount of the different categories of financial instruments is as disclosed on the face of the balance sheet and in Note 11, Note 12, Note 13, Note 15, Note 16, Note 21, Note 22 and Note 23 to the financial statements.

**32. RELATED PARTY TRANSACTIONS**

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

**(a) Sales and purchases of goods and services**

	<b>Group</b>	
	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000
Sales of goods and/or services to associated companies	<b>12</b>	655

**(b) Key management personnel compensation**

Key management personnel compensation is as follows:

	<b>Group</b>	
	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000
Short-term employees benefits	<b>971</b>	999
Employer's contribution to defined contribution plans including Central Provident Fund	<b>52</b>	56
	<b>1,023</b>	1,055

Included in the above is total compensation to the Chairman and Chief Executive Officer of the Company amounting to S\$1 (2017: S\$1).

**33. SEGMENT INFORMATION**

Management determines the operating segments based on the reports reviewed and used by the chief operating decision-maker ("CODM") to make strategic decisions.

The CODM considers the business from a geographic segment perspective. Geographically, management considers the performance of the business of the sale of advanced multimedia solutions for personal computers and personal digital entertainment products in Asia Pacific, Europe and The Americas.

The reportable operating segments derive their revenue primarily from the sale of advanced multimedia solutions for personal computers and personal digital entertainment products. In addition, services within Asia Pacific include investment holding and this is included within the reportable operating segment as it is included in the reports provided to the CODM.

**NOTES TO THE FINANCIAL STATEMENTS**

For the financial year ended 30 June 2018

**33. SEGMENT INFORMATION (cont'd)**

The segment information provided to the CODM for the reportable segments is as follows:

	Asia Pacific US\$'000	The Americas US\$'000	Europe US\$'000	Total US\$'000
<b>Group</b>				
<b>2018</b>				
<b>Sales</b>	36,343	10,400	19,328	66,071
<b>(Loss) profit after total expenses</b>	(26,306)	1,143	111	(25,052)
Other income	1,436	2	–	1,438
Other gains	64,254	–	223	64,477
Other losses	(494)	–	92	(402)
Profit before income tax	38,890	1,145	426	40,461
Income tax expense	(37)	(11)	(2)	(50)
<b>Net profit</b>	38,853	1,134	424	40,411
<b>Other segment items</b>				
Additions to				
- property and equipment	95	–	2	97
Depreciation	116	63	16	195
Impairment of available-for-sale financial assets	(352)	–	–	(352)
<b>Segment assets</b>	138,793	5,138	2,364	146,295
<b>Segment liabilities</b>	19,000	2,498	11,757	33,255
<b>Group</b>				
<b>2017</b>				
<b>Sales</b>	38,025	9,607	22,263	69,895
<b>(Loss) profit after total expenses</b>	(23,495)	524	31	(22,940)
Other income	429	1	–	430
Other gains	1,355	–	–	1,355
Other losses	(1,157)	–	(223)	(1,380)
Share of loss of associated companies	(326)	–	–	(326)
(Loss) profit before income tax	(23,194)	525	(192)	(22,861)
Income tax (expense) credit	(299)	(170)	457	(12)
<b>Net (loss) profit</b>	(23,493)	355	265	(22,873)
<b>Other segment items</b>				
Additions to				
- property and equipment	186	–	31	217
Depreciation	145	65	11	221
Impairment of available-for-sale financial assets	(692)	–	–	(692)
<b>Segment assets</b>	104,132	6,162	3,347	113,641
<b>Segment liabilities</b>	24,013	3,740	11,455	39,208

The revenue reported to the CODM excludes sales between segments. The revenue from external parties reported to the CODM is measured in a manner consistent with that in profit or loss. Geographic revenue information for the financial years ended 30 June 2018 and 30 June 2017 is based on the location of the selling entity.

The CODM assesses the performance of the operating segments based on net profit or loss. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

The amounts provided to the CODM with respect to total assets are measured in a manner consistent with that of the financial statements. For the purposes of monitoring segment performance and allocating resources between segments, the CODM monitors the total assets attributable to each segment. All assets are allocated to reportable segments.

The amounts provided to the CODM with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. All liabilities are allocated to reportable segments.

Summary of net sales by country:

	<b>Group</b>	
	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000
Singapore	<b>28,480</b>	30,798
United States of America	<b>10,400</b>	9,607
Ireland	<b>19,328</b>	22,263
Other countries	<b>7,863</b>	7,227
	<b>66,071</b>	69,895

Summary of net sales by product category:

	<b>Group</b>	
	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000
Audio, speakers and headphones	<b>62,317</b>	64,068
Personal digital entertainment	<b>2,071</b>	4,077
Other products	<b>1,683</b>	1,750
	<b>66,071</b>	69,895

For the financial year ended 30 June 2018, there was 1 customer (2017: nil) who accounted for 10% or more of net revenues.

Summary of property and equipment by country:

	<b>Group</b>	
	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000
Singapore	<b>147</b>	187
United States of America	<b>590</b>	653
Ireland	<b>7</b>	21
Other countries	<b>4</b>	5
	<b>748</b>	866

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2018

### 34. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

The Singapore Accounting Standards Council has introduced a new Singapore financial reporting framework that is equivalent to the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The new framework is referred to as ‘Singapore Financial Reporting Standards (International)’ (“SFRS(I)s”) hereinafter.

As required by the listing requirements of the Singapore Exchange, with effect from the Group’s financial year beginning on 1 July 2018, the Group has adopted SFRS(I)s, SFRS(I) 9 Financial Instruments, and SFRS(I) 15 Revenue from Contracts with Customers.

In adopting SFRS(I)s, the Group is required to apply all of the specific transition requirements in SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International). The Group expects that the adoption of SFRS(I)s will have no material impact on the financial statements in the year of initial application.

The following SFRS(I)s are relevant to the Group:

(a) *SFRS(I) 9 Financial Instruments*

SFRS(I) 9 introduces new requirements for classification and measurement of financial assets and financial liabilities, general hedge accounting and impairment requirements for financial assets. Equity investments currently accounted as Available-For-Sale (“AFS”) investments are required to be measured at fair value through profit or loss with an irrevocable option at the adoption of this standard, to present changes in fair value in Other Comprehensive Income (“FVOCI”). Gains and losses realised on the sale of financial assets at FVOCI are not transferred to profit or loss on sale but reclassified from FVOCI reserve to retained earnings. The Group has elected for fair value through FVOCI for equity investments accounted as AFS investments as at 30 June 2018. However, for new investments, the election will be assessed on the inception of each investment.

SFRS(I) 9 also contains a new expected credit losses model which applies to financial assets classified at amortised cost. The Group has assessed that there is no material impact to the current impairment provision balance based on the expected credit loss model.

(b) *SFRS(I) 15 Revenue from Contracts with Customers*

The core principle of SFRS(I) 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

SFRS(I) 15 requires a contract liability (refund liability) and a right to returned goods to be recognized for products expected to be returned. The Group has assessed that the new revenue standard will have minimal impact on the current business process.

(c) *SFRS(I) 16 Leases*

SFRS(I) 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under SFRS(I) 16.

The new standard also introduces expanded disclosure requirements and changes in presentation. SFRS(I) 16 will take effect for the Group from financial year beginning 1 July 2019. The Group has yet to determine the impact.

### 35. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of CREATIVE TECHNOLOGY LTD. on 19 September 2018.

### 36. LISTING OF SIGNIFICANT COMPANIES IN THE GROUP

Name of companies	Principal activities	Country of business / incorporation	Proportion of ownership interest held	
			2018 %	2017 %
<b>Significant subsidiaries held by the Group</b>				
Creative Labs, Inc. (a)	Distribution of digitised sound and video boards, computers, related multimedia and personal digital entertainment products	United States of America	100	100
Creative Labs (Europe) Limited (c)	Distribution of digitised sound and video boards, computers, related multimedia and personal digital entertainment products	Republic of Ireland	100	100
Creative Labs Pte Ltd (b)	Development and sale of audio and multimedia entertainment products	Singapore	100	100
Creative Media Kabashiki Kaisha (a)	Distribution of digitised sound and video boards, computers and related multimedia products	Japan	70	70
CTI Limited (a)	Investment holding	Bermuda	100	100
CTI II Limited (a)	Investment holding	Bermuda	100	100

(a) Not required to be audited under the laws of the country of incorporation

(b) Audited by PricewaterhouseCoopers LLP, Singapore

(c) Audited by PricewaterhouseCoopers, Dublin

All the Singapore-incorporated subsidiaries were audited by the Company's auditor, PricewaterhouseCoopers LLP, Singapore.

For subsidiaries which appointed different auditors, the Audit Committee and Board of Directors are satisfied that the appointment would not compromise the standard and effectiveness of the audit.

There are no significant associated companies held by the Group.

**SGX-ST LISTING MANUAL REQUIREMENTS**

For the financial year ended 30 June 2018

**Additional Requirements of SGX-ST Listing Manual****DIRECTORS' REMUNERATION**

The following information relates to remuneration of directors of the Company during the financial year:

	<b>2018</b>	2017
Number of directors of the Company in remuneration bands:		
- above S\$500,000	–	–
- S\$250,000 to below S\$500,000	–	–
- below S\$250,000	<b>4</b>	4
Total	<b>4</b>	4

The Company proposed to pay Directors' fees of S\$180,000 in the current financial year (2017: paid S\$180,000) to its non-executive directors on its Board of Directors.

The Company paid a total remuneration of S\$1 (2017: S\$1) to its Chairman and Chief Executive Officer.

**AUDITOR'S REMUNERATION**

The following information relates to fees of the auditors during the financial year:

	<b>2018</b> <b>US\$'000</b>	2017 US\$'000
Audit fees paid/payable to:		
- Auditor of the Company	<b>139</b>	138
- Other auditors *	<b>42</b>	43
Other fees paid/payable to:		
- Auditor of the Company	<b>36</b>	38
- Other auditors *	<b>18</b>	18

\* Include PricewaterhouseCoopers member firms outside Singapore

The Group has complied with Rules 712 and 715 or 716 of the Listing Manual issued by SGX-ST in relation to its auditors.

The Audit Committee has reviewed all non-audit services provided by the auditor of the Company and in the Audit Committee's opinion, the non-audit services provided, will not affect the independence of the auditors.

**PROPERTIES OF THE GROUP**

The net book values of properties held by the Group are as follows:

	<b>2018</b> <b>US\$'000</b>	2017 US\$'000
Freehold land and buildings	<b>589</b>	651

**MATERIAL CONTRACTS**

There is no material contract entered into by the Company or any of its subsidiaries involving the interest of the chief executive officer, any director or controlling shareholder, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

**STATISTICS OF SHAREHOLDING AS AT 7 SEPTEMBER 2018**

Number of Issued Shares	:	75,000,000
Number of Issued Shares (excluding Treasury Shares)	:	70,331,649
Number / Percentage of Treasury Shares	:	4,668,351 (6.64%)
Class of Shares	:	Ordinary shares
Voting Rights (excluding Treasury Shares)	:	1 vote per share

Based on the information available to the Company as at 7 September 2018, 63.65% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual issued by SGX-ST is complied with.

Size of shareholdings	Number of shareholders	Percentage of shareholders (%)	Number of shares	Percentage of shares (%)
1 - 99	1,124	9.54	50,475	0.07
100 - 1,000	6,331	53.74	3,552,238	5.05
1,001 - 10,000	3,898	33.08	13,161,010	18.71
10,001 - 1,000,000	423	3.59	18,916,138	26.90
1,000,001 and above	6	0.05	34,651,788	49.27
<b>Total</b>	<b>11,782</b>	<b>100.00</b>	<b>70,331,649</b>	<b>100.00</b>

**TWENTY LARGEST SHAREHOLDERS**

Name of shareholder	Number of shares	Percentage (%)
1 Sim Wong Hoo	23,270,652	33.09
2 Citibank Nominees Singapore Pte Ltd	4,505,004	6.41
3 DBS Nominees (Private) Limited	2,968,993	4.22
4 Maybank Kim Eng Securities Pte. Ltd.	1,509,864	2.15
5 Ng Keh Long	1,305,875	1.86
6 United Overseas Bank Nominees (Private) Limited	1,091,400	1.55
7 OCBC Nominees Singapore Private Limited	852,850	1.21
8 Raffles Nominees (Pte) Limited	708,672	1.01
9 Hong Leong Finance Nominees Pte Ltd	672,900	0.96
10 BNP Paribas Nominees Singapore Pte Ltd	664,450	0.94
11 OCBC Securities Private Limited	601,650	0.86
12 Sim Guan Huat	476,675	0.68
13 Ng Soo Chaio	475,000	0.68
14 Phillip Securities Pte Ltd	466,750	0.66
15 UOB Kay Hian Private Limited	438,400	0.62
16 iFAST Financial Pte Ltd	359,750	0.51
17 Choo Ah Seng	323,850	0.46
18 Optimus Capital International Limited	300,000	0.43
19 Lee Chooh Siang	268,000	0.38
20 Chan Siew Kim Alice	259,400	0.37
<b>Total</b>	<b>41,520,135</b>	<b>59.05</b>

Substantial shareholder	Number of ordinary shares	
	Direct interest	Deemed interest
Sim Wong Hoo	23,270,652	—

## CORPORATE INFORMATION

### Board of Directors

Sim Wong Hoo, Chairman of the Board and Chief Executive Officer  
Lee Kheng Nam, Independent Non-Executive Director  
Ng Kai Wa, Independent Non-Executive Director  
Lee Gwong-Yih, Independent Non-Executive Director

### Company Secretary

Ng Keh Long

### Registered Office

31 International Business Park  
#03-01 Creative Resource  
Singapore 609921  
Tel: 65-6895-4000

### Share Registrar

Boardroom Corporate & Advisory Services Pte. Ltd.  
50 Raffles Place  
#32-01 Singapore Land Tower  
Singapore 048623

### Corporate Counsel

Duane Morris & Selvam LLP  
16 Collyer Quay  
#17-00  
Singapore 049318

### Independent Auditor

PricewaterhouseCoopers LLP  
7 Straits View, Marina One  
East Tower, Level 12  
Singapore 018936  
Audit Partner: Lee Chian Yorn  
Year of appointment: 2016  
Number of years of appointment: 3 years

# *Super<sup>®</sup>* X-Fi *has left skeptics* **MINDS BLOWN!**

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**"Hands down, this was the BEST DEMO OF CES—and it's the product I'm most looking forward to reviewing this year."**

- PCWorld

**"The device also made straightforward stereo music tracks sound MAGICAL, as if you were in the room with the musicians playing live."**

- Michael Brown, TechHive Staff

**“What the F\*\*\*?! . . . It was really something else I think, all of us, there was a collective gasp when the technology was demonstrated to us . . . its feels like big leap forward”**

- Wong Renhao (Content Producer, Tech In Asia)

**"Creative has the demo to beat at this year's CES. The company is showing an early prototype of a product it calls Super X-Fi Headphone Audio. And it blew my mind."**

- TechHive

**"Creative ... looks to have finally cracked the issue of fitting full sized speakers into a pair of portable cans... I heard it through the earphones in exactly the same way I heard it via the speakers, and it was nothing short of AMAZING."**

- Sherwin Loh, GeekCulture

**".. no one in the industry could solve this decade's-long problem. Creative's Super X-Fi could be the GAME CHANGER."**

- The Neo Dimension

**“Creative's new Super X-Fi audio tech is FRIGGING MIND-BLOWING. The company known for Soundblaster finally has a new killer product, and you'll probably want one too.”**

- Aloysius Low, CNET



*...as good as the real thing!*