

# CREATIVE TECHNOLOGY LTD

## FIRST QUARTER ENDED 30 SEPTEMBER 2017 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2017

1 CONSOLIDATED INCOME STATEMENT

|  | <b>GROUP</b>                               |                          |                             |
|--|--|--------------------------|-----------------------------|
|  | <b>Three months ended<br/>30 September</b> |                          |                             |
|  | <b>2017<br/>US\$'000</b>                   | <b>2016<br/>US\$'000</b> | <b>% change<br/>+ / (-)</b> |
| Sales, net   | 16,107                                     | 17,252                   | (7)                         |
| Cost of goods sold   | (11,630)                                   | (12,419)                 | (6)                         |
| <b>Gross profit</b>  | <b>4,477</b>                               | <b>4,833</b>             | (7)                         |
| Expenses:  |  |                          |                             |
| Selling, general and administrative  | (10,538)                                   | (7,793)                  | 35                          |
| Research and development   | (3,359)                                    | (3,430)                  | (2)                         |
| <b>Total expenses</b>  | <b>(13,897)</b>                            | <b>(11,223)</b>          | 24                          |
| Other income   | 227  | 96                       | 136                         |
| Other gains  | 32,037                                     | 459                      | n.m.                        |
| Share of loss of associated companies  | -  | (326)                    | n.m.                        |
| <b>Profit (loss) before income tax</b>   | <b>22,844</b>                              | <b>(6,161)</b>           | n.m.                        |
| Income tax expense   | (11)                                       | (40)                     | (73)                        |
| <b>Net profit (loss)</b>   | <b>22,833</b>                              | <b>(6,201)</b>           | n.m.                        |
| <b>Attributable to:</b>  |  |                          |                             |
| Equity holders of the Company  | 22,832                                     | (6,211)                  | n.m.                        |
| Non-controlling interests  | 1  | 10                       | (90)                        |
| Earnings (loss) per share for loss attributable to equity holders of the Company |  |                          |                             |
| - Basic (US\$ per share)   | 0.32                                       | (0.09)                   | n.m.                        |
| - Diluted (US\$ per share)   | 0.32                                       | (0.09)                   | n.m.                        |

n.m. - not meaningful

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

|   | <b>GROUP</b>              |                 |                 |
|---|---------------------------|-----------------|-----------------|
|   | <b>Three months ended</b> |                 |                 |
|   | <b>30 September</b>       |                 |                 |
|   | <b>2017</b>               | <b>2016</b>     | <b>% change</b> |
|   | <b>US\$'000</b>           | <b>US\$'000</b> | <b>+ / (-)</b>  |
| Write-off/write-down for inventory obsolescence | (660)                     | (969)           | (32)            |
| Gain on disposal of investments                 | 56                        | 639             | (91)            |
| Foreign exchange gain                           | 568                       | 1               | n.m.            |
| Litigation settlement                           | 31,200                    | -               | n.m.            |

**2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

|  | <b>GROUP</b>              |                 |                 |
|--|---------------------------|-----------------|-----------------|
|  | <b>Three months ended</b> |                 |                 |
|  | <b>30 September</b>       |                 |                 |
|  | <b>2017</b>               | <b>2016</b>     | <b>% change</b> |
|  | <b>US\$'000</b>           | <b>US\$'000</b> | <b>+ / (-)</b>  |
| Net profit (loss)                                | 22,833                    | (6,201)         | n.m.            |
| Other comprehensive income (loss):               |                           |                 |                 |
| Available-for-sale financial assets:             |                           |                 |                 |
| Fair value gains (losses)                        | 447                       | (79)            | n.m.            |
| Reclassification                                 | (56)                      | (639)           | (91)            |
| Total comprehensive profit (loss) for the period | <u>23,224</u>             | <u>(6,919)</u>  | n.m.            |
| Attributable to:                                 |                           |                 |                 |
| Shareholders of the Company                      | 23,223                    | (6,929)         | n.m.            |
| Non-controlling interests                        | 1                         | 10              | (90)            |
| Total comprehensive profit (loss) for the period | <u>23,224</u>             | <u>(6,919)</u>  | n.m.            |

### 3 BALANCE SHEETS

|                                     | Group                            |                             | Company                          |                             |
|-------------------------------------|----------------------------------|-----------------------------|----------------------------------|-----------------------------|
|                                     | 30 September<br>2017<br>US\$'000 | 30 June<br>2017<br>US\$'000 | 30 September<br>2017<br>US\$'000 | 30 June<br>2017<br>US\$'000 |
| <b>ASSETS</b>                       |                                  |                             |                                  |                             |
| <b>Current assets:</b>              |                                  |                             |                                  |                             |
| Cash and cash equivalents           | 92,814                           | 75,282                      | 88,216                           | 69,892                      |
| Trade receivables                   | 8,599                            | 5,850                       | 108                              | 193                         |
| Amounts due from subsidiaries       | -                                | -                           | 42,598                           | 36,277                      |
| Inventories                         | 21,462                           | 20,413                      | 2,874                            | 2,489                       |
| Other current assets                | 1,950                            | 1,422                       | 815                              | 597                         |
|                                     | <b>124,825</b>                   | <b>102,967</b>              | <b>134,611</b>                   | <b>109,448</b>              |
| <b>Non-current assets:</b>          |                                  |                             |                                  |                             |
| Available-for-sale financial assets | 9,701                            | 9,622                       | -                                | -                           |
| Amounts due from subsidiaries       | -                                | -                           | 4,081                            | 21,323                      |
| Investments in subsidiaries         | -                                | -                           | 14,665                           | 14,665                      |
| Property and equipment              | 838                              | 866                         | 128                              | 143                         |
| Other non-current assets            | 186                              | 186                         | -                                | -                           |
|                                     | <b>10,725</b>                    | <b>10,674</b>               | <b>18,874</b>                    | <b>36,131</b>               |
| <b>Total assets</b>                 | <b>135,550</b>                   | <b>113,641</b>              | <b>153,485</b>                   | <b>145,579</b>              |
| <b>LIABILITIES</b>                  |                                  |                             |                                  |                             |
| <b>Current liabilities:</b>         |                                  |                             |                                  |                             |
| Trade payables                      | 7,578                            | 9,300                       | 227                              | 417                         |
| Amounts due to subsidiaries         | -                                | -                           | 9,719                            | 9,272                       |
| Accrued liabilities and provisions  | 19,900                           | 19,477                      | 9,527                            | 10,169                      |
| Current income tax liabilities      | -                                | 5                           | -                                | -                           |
|                                     | <b>27,478</b>                    | <b>28,782</b>               | <b>19,473</b>                    | <b>19,858</b>               |
| <b>Non-current liabilities:</b>     |                                  |                             |                                  |                             |
| Amounts due to subsidiaries         | -                                | -                           | 27,803                           | 19,105                      |
| Deferred income tax liabilities     | 10,426                           | 10,426                      | -                                | -                           |
|                                     | <b>10,426</b>                    | <b>10,426</b>               | <b>27,803</b>                    | <b>19,105</b>               |
| <b>Total liabilities</b>            | <b>37,904</b>                    | <b>39,208</b>               | <b>47,276</b>                    | <b>38,963</b>               |
| <b>NET ASSETS</b>                   | <b>97,646</b>                    | <b>74,433</b>               | <b>106,209</b>                   | <b>106,616</b>              |
| <b>EQUITY</b>                       |                                  |                             |                                  |                             |
| Share capital                       | 266,753                          | 266,753                     | 266,753                          | 266,753                     |
| Treasury shares                     | (16,262)                         | (16,262)                    | (16,262)                         | (16,262)                    |
| Fair value reserve                  | 5,807                            | 5,416                       | -                                | -                           |
| Other reserves                      | 62,304                           | 62,315                      | 34,840                           | 34,851                      |
| Accumulated losses                  | (221,280)                        | (244,112)                   | (179,122)                        | (178,726)                   |
|                                     | 97,322                           | 74,110                      | 106,209                          | 106,616                     |
| Non-controlling interests           | 324                              | 323                         | -                                | -                           |
| <b>Total equity</b>                 | <b>97,646</b>                    | <b>74,433</b>               | <b>106,209</b>                   | <b>106,616</b>              |

#### 4 CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | <b>GROUP</b>                           |                       |
|--|--|-----------------------|
|  | <b>Three months ended 30 September</b> |                       |
|  | <b>2017</b>                            | <b>2016</b>           |
|  | <b>US\$'000</b>                        | <b>US\$'000</b>       |
| <b>Cash flows from operating activities:</b>   |  |                       |
| Net profit (loss)  | 22,833                                 | (6,201)               |
| Adjustments for:   |  |                       |
| Income tax expense   | 11                                     | 40                    |
| Depreciation of property and equipment   | 52                                     | 50                    |
| Employee share-based expenses  | (11)                                   | -                     |
| Share of loss of associated companies  | -                                      | 326                   |
| Gain on disposal of property and equipment   | (1)                                    | -                     |
| Impairment loss of available-for-sale financial assets                                   | -                                      | 192                   |
| Gain on disposal of available-for-sale financial assets                                  | (56)                                   | (639)                 |
| Currency translation (gain) loss   | (486)                                  | 46                    |
| Interest income  | (227)                                  | (96)                  |
|  | <u>22,115</u>                          | <u>(6,282)</u>        |
| <br>   |  |                       |
| Changes in working capital, net of effects from acquisition and disposal of subsidiaries |  |                       |
| Trade receivables  | (2,749)                                | (535)                 |
| Inventories  | (1,049)                                | 162                   |
| Other assets and receivables   | (523)                                  | 191                   |
| Trade payables   | (1,722)                                | (2,066)               |
| Accrued liabilities and provisions   | 423                                    | 131                   |
| Cash provided by (used in) operations  | <u>16,495</u>                          | <u>(8,399)</u>        |
| Interest received  | 222                                    | 94                    |
| Income tax paid  | (16)                                   | (97)                  |
| <b>Net cash provided by (used in) operating activities</b>                               | <u><b>16,701</b></u>                   | <u><b>(8,402)</b></u> |
| <br>   |  |                       |
| <b>Cash flows from investing activities:</b>   |  |                       |
| Purchase of property and equipment   | (24)                                   | (21)                  |
| Proceeds from sale of property and equipment   | 1                                      | -                     |
| Proceeds from sale of available-for-sale financial assets                                | 402                                    | 639                   |
| Purchase of available-for-sale financial assets  | (34)                                   | -                     |
| Loan to associated company   | -                                      | (326)                 |
| <b>Net cash provided by investing activities</b>   | <u><b>345</b></u>                      | <u><b>292</b></u>     |
| <br>   |  |                       |
| <b>Net increase (decrease) in cash and cash equivalents</b>                              | <b>17,046</b>                          | <b>(8,110)</b>        |
| Cash and cash equivalents at beginning of financial year                                 | 75,282                                 | 94,738                |
| Effects of currency translation on cash and cash equivalents                             | 486                                    | (41)                  |
| <b>Cash and cash equivalents at end of the period</b>                                    | <u><b>92,814</b></u>                   | <u><b>86,587</b></u>  |

## 5 STATEMENTS OF CHANGES IN EQUITY

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

|  | Share<br>Capital<br>US\$'000 | Treasury<br>Shares<br>US\$'000 | Fair Value<br>Reserve<br>US\$'000 | Other<br>Reserves<br>US\$'000 | Accumulated<br>Losses<br>US\$'000 | Total<br>US\$'000 | Non-<br>controlling<br>Interests<br>US\$'000 | Total<br>Equity<br>US\$'000 |
|--|------------------------------|--------------------------------|-----------------------------------|-------------------------------|-----------------------------------|-------------------|--|-----------------------------|
| <b>FY2018</b>  |                              |                                |                                   |                               |                                   |                   |  |                             |
| Balance at 1 July 2017   | 266,753                      | (16,262)                       | 5,416                             | 62,315                        | (244,112)                         | 74,110            | 323  | 74,433                      |
| Profit for the period  | -                            | -                              | -                                 | -                             | 22,832                            | 22,832            | 1  | 22,833                      |
| Other comprehensive income for the period                            | -                            | -                              | 391                               | -                             | -                                 | 391               | -  | 391                         |
| <b>Total comprehensive income for the period</b>                     | -                            | -                              | 391                               | -                             | 22,832                            | 23,223            | 1  | 23,224                      |
| Employee share-based expense   | -                            | -                              | -                                 | (11)                          | -                                 | (11)              | -  | (11)                        |
| <b>Total transactions with owners, recognised directly in equity</b> | -                            | -                              | -                                 | (11)                          | -                                 | (11)              | -  | (11)                        |
| <b>Balance at 30 September 2017</b>                                  | <b>266,753</b>               | <b>(16,262)</b>                | <b>5,807</b>                      | <b>62,304</b>                 | <b>(221,280)</b>                  | <b>97,322</b>     | <b>324</b>                                   | <b>97,646</b>               |
| <b>FY2017</b>  |                              |                                |                                   |                               |                                   |                   |  |                             |
| Balance at 1 July 2016   | 266,753                      | (16,262)                       | 6,574                             | 62,364                        | (221,219)                         | 98,210            | 290  | 98,500                      |
| Loss for the period  | -                            | -                              | -                                 | -                             | (6,211)                           | (6,211)           | 10   | (6,201)                     |
| Other comprehensive loss for the period                              | -                            | -                              | (718)                             | -                             | -                                 | (718)             | -  | (718)                       |
| <b>Total comprehensive loss for the period</b>                       | -                            | -                              | (718)                             | -                             | (6,211)                           | (6,929)           | 10   | (6,919)                     |
| Employee share-based expense   | -                            | -                              | -                                 | -                             | -                                 | -                 | -  | -                           |
| <b>Total transactions with owners, recognised directly in equity</b> | -                            | -                              | -                                 | -                             | -                                 | -                 | -  | -                           |
| <b>Balance at 30 September 2016</b>                                  | <b>266,753</b>               | <b>(16,262)</b>                | <b>5,856</b>                      | <b>62,364</b>                 | <b>(227,430)</b>                  | <b>91,281</b>     | <b>300</b>                                   | <b>91,581</b>               |

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

|   | Share<br>Capital<br>US\$'000 | Treasury<br>Shares<br>US\$'000 | Other<br>Reserves<br>US\$'000 | Retained<br>Earnings<br>US\$'000 | Total<br>Equity<br>US\$'000 |
|---|------------------------------|--------------------------------|-------------------------------|----------------------------------|-----------------------------|
| <b>FY2018</b>                           |                              |                                |                               |                                  |                             |
| Balance at 1 July 2017                  | 266,753                      | (16,262)                       | 34,851                        | (178,726)                        | 106,616                     |
| Total comprehensive loss for the period | -                            | -                              | -                             | (396)                            | (396)                       |
| Employee share-based expense            | -                            | -                              | (11)                          | -                                | (11)                        |
| <b>Balance at 30 September 2017</b>     | <b>266,753</b>               | <b>(16,262)</b>                | <b>34,840</b>                 | <b>(179,122)</b>                 | <b>106,209</b>              |
| <b>FY2017</b>                           |                              |                                |                               |                                  |                             |
| Balance at 1 July 2016                  | 266,753                      | (16,262)                       | 34,900                        | (158,155)                        | 127,236                     |
| Total comprehensive loss for the period | -                            | -                              | -                             | (3,612)                          | (3,612)                     |
| Employee share-based expense            | -                            | -                              | -                             | -                                | -                           |
| <b>Balance at 30 September 2016</b>     | <b>266,753</b>               | <b>(16,262)</b>                | <b>34,900</b>                 | <b>(161,767)</b>                 | <b>123,624</b>              |

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

### Issued and paid up capital

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

As at 30 September 2017, the Company's issued and paid up share capital was US\$266.8 million (30 June 2017: US\$266.8 million).

### Employee share options plan

During the first quarter of FY2018, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q1 FY2017: Nil).

As at 30 September 2017, there were 1,005,000 (30 September 2016: 1,082,000) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plan.

### Employee performance share plan

During the first quarter of FY2018, the Company did not issue any treasury shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q1 FY2017: Nil).

As at 30 September 2017, there were 214,500 (30 September 2016: 231,000) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

### Treasury shares

As at 30 September 2017, the Company held 4,668,351 (30 September 2016: 4,668,351) treasury shares against 70,331,649 (30 September 2016: 70,331,649) issued ordinary shares excluding treasury shares.

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

|  | <b>Three months ended<br/>30 September</b> |                  |
|--|--|------------------|
|  | <b>2017</b>                                | <b>2016</b>      |
| Balance at beginning of period             | 4,668,351                                  | 4,668,351        |
| Issued for Employee Performance Share Plan | -  | -                |
| Balance at end of period                   | <u>4,668,351</u>                           | <u>4,668,351</u> |

## 6 GROUP BORROWINGS

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

## 7 NET ASSET VALUE

|  | <b>GROUP</b>                          |                                  | <b>COMPANY</b>                        |                                  |
|--|---------------------------------------|----------------------------------|---------------------------------------|----------------------------------|
|  | <b>30 September<br/>2017<br/>US\$</b> | <b>30 June<br/>2017<br/>US\$</b> | <b>30 September<br/>2017<br/>US\$</b> | <b>30 June<br/>2017<br/>US\$</b> |
| Net asset value per ordinary share<br>based on issued capital at the end of<br>the period / financial year | 1.39                                  | 1.06                             | 1.51                                  | 1.52                             |

## 8 AUDIT

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

## 9 AUDITORS' REPORT

Not applicable.

## 10 ACCOUNTING POLICIES

Except as disclosed in Item 11 below, the Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 30 June 2017.

## 11 CHANGES IN ACCOUNTING POLICIES

None.



## **12 REVIEW OF GROUP PERFORMANCE**

### **CONSOLIDATED INCOME STATEMENT**

#### **Net Sales**

Net sales for the first quarter of FY2018 decreased by 7% compared to the same quarter in FY2017. Revenue was lower in the first quarter of FY2018 due to the uncertain and difficult market conditions which continued to affect the sales of the Group's products.

#### **Gross Profit**

Gross profit margin was 28% in the first quarter of FY2018, same as the first quarter of FY2017. Gross profit margin in the first quarter of FY2018 was in line with the sales mix.

#### **Net Profit (Loss)**

Net profit for the first quarter of FY2018 was US\$22.8 million compared to net loss of US\$6.2 million in the first quarter of FY2017. Net profit in the first quarter of FY2018 include other gains (net) of US\$32.0 million compared to other gains (net) of US\$0.5 million in the first quarter of FY2017.

Selling, general and administrative expenses in the first quarter of FY2018 increased by 35% compared to the first quarter of FY2017. The increase in selling, general and administrative expenses was due mainly to higher legal expenses for on-going litigations. Excluding legal fees, there was no significant increase in selling, general and administrative expenses.

Research and development expenses in the first quarter of FY2018 was comparable to the first quarter of FY2017.

Other gains (net) of US\$32.0 million in the first quarter of FY2018 were due mainly to US\$31.2 million received from settlement of patent lawsuits and US\$0.6 million foreign exchange gain. Other gains (net) of US\$0.5 million in the first quarter of FY2017 were due mainly to gain on disposal of investments of US\$0.6 million.

The functional currency of the Company and its subsidiaries is predominantly the US dollar and accordingly, gains and losses resulting from the translation of monetary assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net income (loss). The exchange differences were due mainly to the cash and cash equivalent balances held by the Group. Cash and cash equivalents were held mainly in US dollar, with the balance mainly in Singapore dollar, Euro, British Pound and Japanese Yen. The exchange gain in the first quarter of FY2018 was due mainly to the appreciation of these currencies against the US dollar. The exchange gain was not material in the first quarter of FY2017.

### **BALANCE SHEETS**

The increase in cash and cash equivalents was due to net cash provided by operating activities (see below). The increase in trade receivables was due mainly to seasonal variations and customers mix. The lower trade payables as at September 2017 was in line with the level of operating activities.

### **CONSOLIDATED STATEMENTS OF CASH FLOWS**

Net cash provided by operating activities of US\$16.7 million in the first quarter of FY2018 (Q1 FY2017: US\$8.4 million net cash used) was due mainly to the US\$31.2 million received from settlement of patent lawsuits.

Net cash provided by investing activities in the first quarter of FY2018 of US\$0.3 million (Q1 FY2017: US\$0.3 million) was due mainly to proceeds from sale of investments.

There was no cash used/provided by financing activities in the first quarter of FY2018 (Q1 FY2017: Nil).

### **13 VARIANCE FROM PROSPECT STATEMENT**

There has been no significant variance in the operating performance of the Group in the first quarter of FY2018 as compared to the prospect statement disclosed in the announcement of results for the fourth quarter and full year ended 30 June 2017.

### **14 PROSPECTS**

The Group expects no significant change in the market conditions and overall market for the Group's products remains challenging. However, revenue is expected to be higher for the holiday season in this quarter compared to the current level and the Group expects an improvement in operating results for the quarter from the current level.

### **15 DIVIDEND**

No dividends have been recommended in the first quarter of FY2018 and no dividends were recommended or declared for the same period last year.

### **16 INTERESTED PERSON TRANSACTIONS**

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

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

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

BY ORDER OF THE BOARD

NG KEH LONG  
COMPANY SECRETARY  
19 OCTOBER 2017

**CONFIRMATION BY THE BOARD**

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the interim financial information for the first quarter ended 30 September 2017 to be false or misleading in any material aspect.

On behalf of the Board of Directors

**Sim Wong Hoo**  
**Chairman**

**Lee Kheng Nam**  
**Director**