

CREATIVE TECHNOLOGY LTD

FIRST QUARTER ENDED 30 SEPTEMBER 2019 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2019

1 CONSOLIDATED INCOME STATEMENT

	GROUP		
	Three months ended		
	30 September		
	2019	2018	% change
	US\$'000	US\$'000	+ / (-)
Sales, net	14,013	13,212	6
Cost of goods sold	(10,045)	(9,402)	7
Gross profit	3,968	3,810	4
Expenses:			
Selling, general and administrative	(6,086)	(6,780)	(10)
Research and development	(3,299)	(3,306)	(0)
Total expenses	(9,385)	(10,086)	(7)
Other income	383	424	(10)
Other losses, net	(571)	(275)	n.m.
Interest expense on lease liabilities	(76)	--	n.m.
Loss before income tax	(5,681)	(6,127)	(7)
Income tax credit	13	24	(46)
Net loss	(5,668)	(6,103)	(7)
Attributable to:			
Equity holders of the Company	(5,669)	(6,113)	(7)
Non-controlling interests	1	10	(90)
Loss per share for loss attributable to equity holders of the Company			
- Basic (US\$ per share)	(0.08)	(0.09)	(11)
- Diluted (US\$ per share)	(0.08)	(0.09)	(11)

n.m. - not meaningful

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

	GROUP		
	Three months ended		
	30 September		
	2019	2018	% change
	US\$'000	US\$'000	+ / (-)
Write-off/write-down for inventory obsolescence	(484)	(643)	(25)
Depreciation	(481)	(52)	n.m.
Fair value gain on financial assets at FVPL	349	-	n.m.
Foreign exchange loss	(957)	(301)	n.m.
Interest income	383	424	(10)

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP		
	Three months ended		
	30 September		
	2019	2018	% change
	US\$'000	US\$'000	+ / (-)
Net loss	(5,668)	(6,103)	(7)
Other comprehensive income (loss):			
Items that will not be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income ("Financial assets at FVOCI"):			
Fair value losses	(8)	(678)	(99)
Total comprehensive loss for the period	<u>(5,676)</u>	<u>(6,781)</u>	(16)
Attributable to:			
Shareholders of the Company	(5,676)	(6,791)	(16)
Non-controlling interests	1	10	(90)
Total comprehensive loss for the period	<u>(5,675)</u>	<u>(6,781)</u>	(16)

3 BALANCE SHEETS

	Group		Company	
	30 September 2019 US\$'000	30 June 2019 US\$'000	30 September 2019 US\$'000	30 June 2019 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	101,273	107,766	96,870	102,639
Trade receivables	4,821	4,441	67	134
Amounts due from subsidiaries	-	-	13,419	9,822
Inventories	16,441	15,279	1,254	1,476
Other current assets	1,423	1,316	341	312
	123,958	128,802	111,951	114,383
Non-current assets:				
Financial assets at fair value through profit or loss (FVPL)	2,196	1,847	-	-
Financial assets at fair value through other comprehensive income (FVOCI)	6,205	6,213	-	-
Amounts due from subsidiaries	-	-	8,886	8,915
Investments in subsidiaries	-	-	13,865	13,865
Property and equipment	733	677	107	82
Right-of-use assets	6,211	-	5,913	-
Other non-current assets	156	156	-	-
	15,501	8,893	28,771	22,862
Total assets	139,459	137,695	140,722	137,245
LIABILITIES				
Current liabilities:				
Trade payables	4,139	3,908	429	285
Amounts due to subsidiaries	-	-	20,868	20,757
Accrued liabilities and provisions	13,692	13,096	7,030	7,169
Contract liabilities	2,064	1,804	2	2
Lease liabilities	1,614	-	1,433	-
Current income tax liabilities	-	6	-	-
	21,509	18,814	29,762	28,213
Non-current liabilities:				
Amounts due to subsidiaries	-	-	36,846	36,953
Lease liabilities	4,745	-	4,644	-
Deferred income tax liabilities	8,826	8,826	-	-
	13,571	8,826	41,490	36,953
Total liabilities	35,080	27,640	71,252	65,166
NET ASSETS	104,379	110,055	69,470	72,079
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,035)	(16,035)	(16,035)	(16,035)
Fair value reserve	956	964	-	-
Other reserves	45,628	45,628	32,089	32,089
Accumulated losses	(193,242)	(187,573)	(213,337)	(210,728)
	104,060	109,737	69,470	72,079
Non-controlling interests	319	318	-	-
Total equity	104,379	110,055	69,470	72,079

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Three months ended 30 September	
	2019	2018
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(5,668)	(6,103)
Adjustments for:		
Income tax credit	(13)	(24)
Depreciation	481	52
Employee share-based expenses	-	(5)
Fair value gain on financial assets at FVPL	(349)	-
Currency translation loss	948	288
Dividend income	-	(1)
Interest income	(383)	(424)
Interest expense on lease liabilities	76	-
	<u>(4,908)</u>	<u>(6,217)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(380)	572
Inventories	(1,162)	(1,809)
Other assets and receivables	(85)	(137)
Trade payables	231	243
Accrued liabilities and provisions	596	11
Contract liabilities	260	(224)
Cash used in operations	<u>(5,448)</u>	<u>(7,561)</u>
Interest received	361	343
Income tax received	7	23
Net cash used in operating activities	<u>(5,080)</u>	<u>(7,195)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(91)	(29)
Proceeds from sale of financial assets at FVPL	-	419
Dividend received	-	1
Net cash (used in) provided by investing activities	<u>(91)</u>	<u>391</u>
Cash flows from financing activities:		
Payment of lease liabilities	(161)	-
Interest paid on lease liabilities	(76)	-
Net cash used in financing activities	<u>(237)</u>	<u>-</u>
Net decrease in cash and cash equivalents	(5,408)	(6,804)
Cash and cash equivalents at beginning of financial year	107,766	114,817
Effects of currency translation on cash and cash equivalents	(1,085)	(288)
Cash and cash equivalents at end of the period	<u>101,273</u>	<u>107,725</u>

5 STATEMENTS OF CHANGES IN EQUITY

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

	Share Capital US\$'000	Treasury Shares US\$'000	Fair Value Reserve US\$'000	Other Reserves US\$'000	Accumulated Losses US\$'000	Total US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
FY2020								
Balance at 1 July 2019	266,753	(16,035)	964	45,628	(187,573)	109,737	318	110,055
Loss for the period	-	-	-	-	(5,669)	(5,669)	1	(5,668)
Other comprehensive loss for the period	-	-	(8)	-	-	(8)	-	(8)
Total comprehensive loss for the period	-	-	(8)	-	(5,669)	(5,677)	1	(5,676)
Employee share-based expense	-	-	-	-	-	-	-	-
Total transactions with owners, recognised directly in equity	-	-	-	-	-	-	-	-
Balance at 30 September 2019	266,753	(16,035)	956	45,628	(193,242)	104,060	319	104,379
FY2019								
Balance at 30 June 2018	266,753	(16,262)	3,646	62,279	(203,690)	112,726	314	113,040
Adoption of SFRS(I) 9	-	-	(3,866)	-	3,866	-	-	-
Balance at 1 July 2018	266,753	(16,262)	(220)	62,279	(199,824)	112,726	314	113,040
Loss for the period	-	-	-	-	(6,113)	(6,113)	10	(6,103)
Other comprehensive loss for the period	-	-	(678)	-	-	(678)	-	(678)
Total comprehensive loss for the period	-	-	(678)	-	(6,113)	(6,791)	10	(6,781)
Employee share-based expense	-	-	-	(5)	-	(5)	-	(5)
Total transactions with owners, recognised directly in equity	-	-	-	(5)	-	(5)	-	(5)
Balance at 30 September 2018	266,753	(16,262)	(898)	62,274	(205,937)	105,930	324	106,254

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

	Share Capital US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
FY2020					
Balance at 1 July 2019	266,753	(16,035)	32,089	(210,728)	72,079
Total comprehensive loss for the period	-	-	-	(2,609)	(2,609)
Employee share-based expense	-	-	-	-	-
Balance at 30 September 2019	266,753	(16,035)	32,089	(213,337)	69,470
FY2019					
Balance at 1 July 2018	266,753	(16,262)	34,815	(196,905)	88,401
Total comprehensive loss for the period	-	-	-	(1,220)	(1,220)
Employee share-based expense	-	-	(5)	-	(5)
Balance at 30 September 2018	266,753	(16,262)	34,810	(198,125)	87,176

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

Issued and paid up capital

As at 30 September 2019, the Company's issued and paid up capital excluding treasury shares comprises 70,396,649 (30 June 2019: 70,396,649) ordinary shares.

As at 30 September 2019, the Company's issued and paid up share capital was US\$266.8 million (30 June 2019: US\$266.8 million).

Employee share options plan

All outstanding options granted under the Company's Employee Share Options Plan have expired in FY2018.

Employee performance share plan

As at 30 June 2019, there were no outstanding awards pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries.

In the first quarter of FY2019, the Company did not issue any treasury shares pursuant to the Employee Performance Share Plan. The unissued ordinary shares pursuant to the Employee Performance Share Plan as at 30 September 2018 was 206,250.

Treasury shares

As at 30 September 2019, the Company held 4,603,351 (30 September 2018: 4,668,351) treasury shares against 70,396,649 (30 September 2018: 70,331,649) issued ordinary shares excluding treasury shares.

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

	Three months ended	
	30 September	
	2019	2018
Balance at beginning of period	4,603,351	4,668,351
Issued for Employee Performance Share Plan	-	-
Balance at end of period	<u>4,603,351</u>	<u>4,668,351</u>

6 GROUP BORROWINGS

	GROUP	
	30 September 2019 US\$'000	30 June 2019 US\$'000
Amount repayable:		
<u>In one year or less, or on demand</u>		
Secured	1,614	-
Unsecured	-	-
	<u>1,614</u>	<u>-</u>
<u>After one year</u>		
Secured	4,745	-
Unsecured	-	-
	<u>4,745</u>	<u>-</u>
Total	<u>6,359</u>	<u>-</u>

Secured borrowings relate to lease liabilities on adoption of SFRS(I) 16 *Leases*, secured over right-of-use assets.

7 NET ASSET VALUE

	GROUP		COMPANY	
	30 September 2019 US\$	30 June 2019 US\$	30 September 2019 US\$	30 June 2019 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.48	1.56	0.99	1.02

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 2019.

11 CHANGES IN ACCOUNTING POLICIES

The Group has adopted SFRS(I) 16 *Leases* which is mandatorily effective for the Group from 1 July 2019. The Group has applied the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Under the new standard, a lessee recognizes a right-of-use asset representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments in the statement of financial position. Depreciation

charges on the right-of-use assets and interest expense on the lease liability are recorded in the income statement. Lease payments are classified as financing cash flows in the statement of cash flows. Lessor accounting remains largely similar to the previous accounting standard.

As at 1 July 2019, right-of-use assets and lease liabilities recorded by the Group under SFRS(I) 16 was US\$6.7 million.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the first quarter of FY2020 increased by 6% compared to the same quarter in FY2019.

Gross Profit

Gross profit margin was 28% in the first quarter of FY2020 compared to 29% in the first quarter of FY2019. Gross profit margin in the first quarter of FY2020 was in line with the sales mix.

Net Loss

Net loss for the first quarter of FY2020 was US\$5.7 million compared to US\$6.1 million in the first quarter of FY2019. Net loss for the first quarter of FY2020 and FY2019 included other losses (net) of US\$0.6 million and US\$0.3 million, respectively. Net loss for the first quarter of FY2020 also included depreciation of US\$0.4 million on right-of-use assets resulting from a change in the accounting policy on leases.

Selling, general and administrative expenses in the first quarter of FY2020 decreased by 10% compared to the first quarter of FY2019. The decrease in selling, general and administrative expenses was due mainly to the lower legal expenses for on-going litigations.

Research and development expenses in the first quarter of FY2020 was comparable to the first quarter of FY2019.

Other losses (net) of US\$0.6 million in the first quarter of FY2020 was due mainly to foreign exchange loss of US\$0.9 million offset partially by fair value gain on financial assets at FVPL of US\$0.3 million. Other losses (net) of US\$0.3 million in the first quarter of FY2019 was due mainly to foreign exchange loss of US\$0.3 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 loss in the first quarter of FY2020 and FY2019 was due mainly to the depreciation of these currencies against the US dollar.

BALANCE SHEETS

The decrease in cash and cash equivalents was due to net cash used in operating activities (see below). Higher level of inventories was in anticipation of higher sales in the holiday seasons. Right-of-use assets and lease liabilities as at 30 September 2019 were in relation to the adoption of SFRS(I) 16 on 1 July 2019.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$5.1 million in the first quarter of FY2020 (Q1 FY2019: US\$7.2 million) was due mainly to operating loss for the period and an increase in inventories.

Cash flows from investing activities and financing activities were not material.

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the first quarter of FY2020 as compared to the prospect statement disclosed in the announcement of results for the fourth quarter and full year ended 30 June 2019.

14 PROSPECTS

The Group expects no significant change in the uncertain global economic conditions and the on-going trade tensions, and the 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 FY2020 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
30 OCTOBER 2019

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 2019 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director