

CREATIVE TECHNOLOGY LTD

SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2017 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2017

1 CONSOLIDATED INCOME STATEMENT

	GROUP			GROUP		
	Three months ended			Half year ended		
	2017	2016	% change	2017	2016	% change
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Sales, net	20,856	22,153	(6)	36,963	39,405	(6)
Cost of goods sold	(15,009)	(15,943)	(6)	(26,639)	(28,362)	(6)
Gross profit	5,847	6,210	(6)	10,324	11,043	(7)
Expenses:						
Selling, general and administrative	(7,384)	(7,506)	(2)	(17,922)	(15,299)	17
Research and development	(3,178)	(2,964)	7	(6,537)	(6,394)	2
Total expenses	(10,562)	(10,470)	1	(24,459)	(21,693)	13
Other income	242	100	142	469	196	139
Other gains (losses), net	266	(2,073)	n.m.	32,303	(1,614)	n.m.
Share of loss of associated companies	--	(95)	(100)	--	(421)	(100)
(Loss) profit before income tax	(4,207)	(6,328)	(34)	18,637	(12,489)	n.m.
Income tax expense	(21)	(190)	(89)	(32)	(230)	(86)
Net (loss) profit	(4,228)	(6,518)	(35)	18,605	(12,719)	n.m.
Attributable to:						
Equity holders of the Company	(4,238)	(6,547)	(35)	18,594	(12,758)	n.m.
Non-controlling interests	10	29	(66)	11	39	(72)
(Loss) earnings per share attributable to equity holders of the Company						
- Basic (US\$ per share)	(0.06)	(0.09)	(33)	0.26	(0.18)	n.m.
- Diluted (US\$ per share)	(0.06)	(0.09)	(33)	0.26	(0.18)	n.m.

n.m. – not meaningful

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

	Three months ended			Half year ended		
	31 December			31 December		
	2017	2016	% change	2017	2016	% change
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Write-off/write-down for inventory obsolescence	(858)	(920)	(7)	(1,518)	(1,889)	(20)
Impairment loss on investments	-	(500)	(100)	-	(692)	(100)
Gain on disposal of investments	70	707	(90)	126	1,346	(91)
Foreign exchange gain (loss)	189	(2,277)	n.m.	757	(2,276)	n.m.
Litigation settlement	-	-	-	31,200	-	n.m.

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			GROUP		
	Three months ended			Half year ended		
	31 December			31 December		
2017	2016	% change	2017	2016	% change	
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Net (loss) profit	(4,228)	(6,518)	(35)	18,605	(12,719)	n.m.
Other comprehensive income:						
Available-for-sale financial assets:						
Fair value gains	993	367	n.m.	1,440	288	n.m.
Reclassification	(70)	(707)	(90)	(126)	(1,346)	(91)
Total comprehensive (loss) income for the period	<u>(3,305)</u>	<u>(6,858)</u>	(52)	<u>19,919</u>	<u>(13,777)</u>	n.m.
Attributable to:						
Shareholders of the Company	(3,315)	(6,887)	(52)	19,908	(13,816)	n.m.
Non-controlling interests	10	29	(66)	11	39	(72)
Total comprehensive (loss) income for the period	<u>(3,305)</u>	<u>(6,858)</u>	(52)	<u>19,919</u>	<u>(13,777)</u>	n.m.

3 BALANCE SHEETS

	Group		Company	
	31 December 2017 US\$'000	30 June 2017 US\$'000	31 December 2017 US\$'000	30 June 2017 US\$'000
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	118,352	75,282	112,424	69,892
Trade receivables	7,841	5,850	34	193
Amounts due from subsidiaries	-	-	21,630	36,277
Inventories	18,606	20,413	2,749	2,489
Other current assets	2,036	1,422	848	597
	146,835	102,967	137,685	109,448
Non-current assets:				
Available-for-sale financial assets	10,723	9,622	-	-
Amounts due from subsidiaries	-	-	4,204	21,323
Investments in subsidiaries	-	-	14,665	14,665
Property and equipment	799	866	114	143
Other non-current assets	186	186	-	-
	11,708	10,674	18,983	36,131
Total assets	158,543	113,641	156,668	145,579
<u>LIABILITIES</u>				
Current liabilities:				
Trade payables	7,199	9,300	223	417
Amounts due to subsidiaries	-	-	15,721	9,272
Accrued liabilities and provisions	46,584	19,477	9,699	10,169
Current income tax liabilities	-	5	-	-
	53,783	28,782	25,643	19,858
Non-current liabilities:				
Amounts due to subsidiaries	-	-	27,573	19,105
Deferred income tax liabilities	10,426	10,426	-	-
	10,426	10,426	27,573	19,105
Total liabilities	64,209	39,208	53,216	38,963
NET ASSETS	94,334	74,433	103,452	106,616
<u>EQUITY</u>				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve	6,730	5,416	-	-
Other reserves	62,295	62,315	34,831	34,851
Accumulated losses	(225,516)	(244,112)	(181,870)	(178,726)
	94,000	74,110	103,452	106,616
Non-controlling interests	334	323	-	-
Total equity	94,334	74,433	103,452	106,616

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Half year ended 31 December	
	2017	2016
	US\$'000	US\$'000
Cash flows from operating activities:		
Net profit (loss)	18,605	(12,719)
Adjustments for:		
Income tax expense	32	230
Depreciation of property and equipment	96	108
Employee share-based expenses	(20)	(17)
Gain on disposal of property and equipment	(10)	--
Share of loss of associated companies	--	421
Impairment loss of available-for-sale financial assets	--	692
Gain on disposal of available-for-sale financial assets	(126)	(1,346)
Currency translation (gain) loss	(807)	1,875
Dividend income	(1)	--
Interest income	(468)	(196)
	<u>17,301</u>	<u>(10,952)</u>
 Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(1,991)	(2,078)
Inventories	1,807	1,606
Other assets and receivables	(564)	355
Trade payables	(2,101)	(638)
Accrued liabilities and provisions	27,107	(1,581)
Cash provided by (used in) operations	<u>41,559</u>	<u>(13,288)</u>
Interest received	418	192
Income tax paid	(37)	(278)
Net cash provided by (used in) operating activities	<u>41,940</u>	<u>(13,374)</u>
 Cash flows from investing activities:		
Purchase of property and equipment	(35)	(67)
Proceeds from sale of property and equipment	16	--
Proceeds from sale of available-for-sale financial assets	473	1,346
Purchase of available-for-sale financial assets	(134)	(250)
Dividend received	1	--
Loan to associated company	--	(421)
Net cash provided by investing activities	<u>321</u>	<u>608</u>
 Cash flows from financing activities:		
Unclaimed dividends	2	4
Net cash provided by financing activities	<u>2</u>	<u>4</u>
 Net increase (decrease) in cash and cash equivalents	42,263	(12,762)
Cash and cash equivalents at beginning of financial year	75,282	94,738
Effects of currency translation on cash and cash equivalents	807	(1,905)
Cash and cash equivalents at end of the period	<u><u>118,352</u></u>	<u><u>80,071</u></u>

5 STATEMENTS OF CHANGES IN EQUITY

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

	Share Capital US\$'000	Treasury Shares US\$'000	Fair Value Reserve US\$'000	Other Reserves US\$'000	Accumulated Losses US\$'000	Total US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
FY2018								
Balance at 1 July 2017	266,753	(16,262)	5,416	62,315	(244,112)	74,110	323	74,433
Profit for the period	-	-	-	-	18,594	18,594	11	18,605
Other comprehensive income for the period	-	-	1,314	-	-	1,314	-	1,314
Total comprehensive income for the period	-	-	1,314	-	18,594	19,908	11	19,919
Employee share-based expense	-	-	-	(20)	-	(20)	-	(20)
Unclaimed dividends	-	-	-	-	2	2	-	2
Total transactions with owners, recognised directly in equity	-	-	-	(20)	2	(18)	-	(18)
Balance at 31 December 2017	266,753	(16,262)	6,730	62,295	(225,516)	94,000	334	94,334
FY2017								
Balance at 1 July 2016	266,753	(16,262)	6,574	62,364	(221,219)	98,210	290	98,500
Loss for the period	-	-	-	-	(12,758)	(12,758)	39	(12,719)
Other comprehensive loss for the period	-	-	(1,058)	-	-	(1,058)	-	(1,058)
Total comprehensive income (loss) for the period	-	-	(1,058)	-	(12,758)	(13,816)	39	(13,777)
Employee share-based expense	-	-	-	(17)	-	(17)	-	(17)
Unclaimed dividends	-	-	-	-	4	4	-	4
Total transactions with owners, recognised directly in equity	-	-	-	(17)	4	(13)	-	(13)
Balance at 31 December 2016	266,753	(16,262)	5,516	62,347	(233,973)	84,381	329	84,710

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

	Share Capital US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Accumulated Losses US\$'000	Total Equity US\$'000
FY2018					
Balance at 1 July 2017	266,753	(16,262)	34,851	(178,726)	106,616
Total comprehensive loss for the period	-	-	-	(3,146)	(3,146)
Employee share-based expense	-	-	(20)	-	(20)
Unclaimed dividends	-	-	-	2	2
Balance at 31 December 2017	266,753	(16,262)	34,831	(181,870)	103,452
FY2017					
Balance at 1 July 2016	266,753	(16,262)	34,900	(158,155)	127,236
Total comprehensive loss for the period	-	-	-	(9,061)	(9,061)
Employee share-based expense	-	-	(17)	-	(17)
Unclaimed dividends	-	-	-	4	4
Balance at 31 December 2016	266,753	(16,262)	34,883	(167,212)	118,162

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

Issued and paid up capital

As at 31 December 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 31 December 2017, the Company's issued and paid up share capital was US\$266.8 million (30 September 2017: US\$266.8 million).

Employee share options plan

During the second 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 (Q2 FY2017: Nil).

As at 31 December 2017, there were no unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plan (31 December 2016: 1,052,000).

Employee performance share plan

During the second quarter of FY2018, the Company did not issue any ordinary shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q2 FY2017: Nil).

As at 31 December 2017, there were 212,250 unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan (31 December 2016: 226,500).

Treasury shares

As at 31 December 2017, the Company held 4,668,351 (31 December 2016: 4,668,351) treasury shares against 70,331,649 (31 December 2016: 70,331,649) issued ordinary shares excluding treasury shares.

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

	Three months ended	
	31 December	
	2017	2016
Balance at beginning of period	4,668,351	4,668,351
Issue for Employee Performance Share Plan	-	-
Balance at end of period	<u>4,668,351</u>	<u>4,668,351</u>

6 GROUP BORROWINGS

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

7 NET ASSET VALUE

	GROUP		COMPANY	
	31 December 2017 US\$	30 June 2017 US\$	31 December 2017 US\$	30 June 2017 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.34	1.06	1.47	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 second quarter and first half year of FY2018 decreased by 6% compared to the same quarter in FY2017 and first half year of FY2017. Revenue in the second quarter and first half year of FY2018 was lower due to the uncertain and difficult market conditions which continued to affect the sales of the Group's products.

Gross Profit

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

Net Profit

Net loss for the second quarter of FY2018 was US\$4.2 million compared to US\$6.5 million in the second quarter of FY2017. Net loss in the second quarter of FY2018 included other gains (net) of US\$0.3 million compared to other losses (net) of US\$2.1 million in the second quarter of FY2017.

Net profit for the first half year of FY2018 was US\$18.6 million compared to net loss of US\$12.7 million in the first half year of FY2017. Net profit in the first half year of FY2018 included other gains (net) of US\$32.3 million. Net loss in the first half year of FY2017 included other losses (net) of US\$1.6 million and share of loss of associated companies of US\$0.4 million.

Selling, general and administrative expenses in the second quarter of FY2018 was comparable to the second quarter of FY2017, but for the first half year of FY2018, it increased by 17% compared to the same period in the corresponding year. Sales, general and administrative expenses in the first half year of FY2018 were higher due mainly to higher legal expenses for on-going litigation. Excluding legal fees, selling, general and administrative expenses in the first half year of FY2018 was comparable to the same period in the corresponding year.

Research and development expenses in the second quarter and first half year of FY2018 remained at about the same level compared to the same periods in the corresponding year.

Other gains (net) of US\$0.3 million in the second quarter of FY2018 were due mainly foreign exchange gain. Other gains (net) of US\$32.3 million in the first half year of FY2018 were due mainly to US\$31.2 million received from settlement of patent lawsuits and foreign exchange gain of US\$0.8 million.

Other losses (net) of US\$2.1 million in the second quarter of FY2017 were due mainly to US\$2.3 million foreign exchange loss and US\$0.5 million impairment loss on investments, offset partially by US\$0.7 million gain on disposal of investments. Other losses (net) of US\$1.6 million in the first half year of FY2017 were due mainly to US\$2.3 million foreign exchange loss and US\$0.7 million impairment loss on investments, offset partially by US\$1.4 million gain on disposal of investments.

The functional currency of the Company and its subsidiaries is predominantly the US dollar and accordingly, gains and losses resulting from the translation of monetary assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net profit (loss). The exchange differences were due mainly to the cash and cash equivalent balances held by the Group. Cash and cash equivalents were held mainly in US dollar, with the balance mainly in Singapore dollar, Euro, British Pound and Japanese Yen. The exchange gain in the second quarter and first half year of FY2018 was due mainly to the appreciation of these currencies against the US dollar. The exchange loss in the second quarter and first half year of FY2017 was due mainly to the depreciation of these currencies against the US dollar.

BALANCE SHEETS

The increase in cash and cash equivalents was due mainly to net cash provided by operating activities (see below). The increase in trade receivables was due mainly to higher sales in the holiday season and the decrease in inventories was in line with the expected lower level of sales after the holiday season. The increase in financial assets available-for-sale was due mainly to fair value gains on revaluation of investments. The lower trade payables as at December 2017 was in line with the level of operating activities. The increase in accrued liabilities and provisions was due mainly to judgement sums, awarded by the Singapore High Court in respect of legal proceedings against an equipment vendor, amounting to US\$27.5 million received during the quarter. As the equipment vendor has filed an appeal against the judgement to the Singapore Court of Appeal, pending the outcome of the appeal, the money received has not been recognized in the Company's income statement and has been included as other creditors in accrued liabilities and provisions.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash provided by operating activities of US\$41.9 million in the first half year of FY2018 (first half year of FY2017: net cash used of US\$13.4 million) was due mainly to US\$31.2 million received from settlement of patent lawsuits and US\$27.5 million judgement sums received from an equipment vendor (see above), offset partially by operating loss for the period.

Net cash provided by investing activities of US\$0.3 million in the first half year of FY2018 (first half year of FY2017: US\$0.6 million) was due mainly to proceeds from sale of investments.

Net cash provided by financing activities in the first half year of FY2018 was not material (first half year of FY2017: not material).

13 VARIANCE FROM PROSPECT STATEMENT

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

14 PROSPECTS

The Group expects no significant change in the market conditions and overall market for the Group's products remains challenging. Revenue is expected to be lower in this quarter and the Group expects to report an operating loss.

15 DIVIDEND

No dividends have been recommended in the second quarter of 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' UNDERTAKINGS PURSUANT TO LISTING RULE 720(1)

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

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
8 FEBRUARY 2018

CONFIRMATION BY THE BOARD

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the interim financial information for the second quarter and half year ended 31 December 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