

CREATIVE TECHNOLOGY LTD

SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2018 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2018

1 CONSOLIDATED INCOME STATEMENT

	GROUP			GROUP		
	Three months ended			Half year ended		
	31 December			31 December		
	2018	2017	% change	2018	2017	% change
	US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)
Sales, net	16,214	20,856	(22)	29,426	36,963	(20)
Cost of goods sold	(11,410)	(15,009)	(24)	(20,812)	(26,639)	(22)
Gross profit	4,804	5,847	(18)	8,614	10,324	(17)
Expenses:						
Selling, general and administrative	(6,534)	(7,384)	(12)	(13,314)	(17,922)	(26)
Research and development	(3,374)	(3,178)	6	(6,680)	(6,537)	2
Total expenses	(9,908)	(10,562)	(6)	(19,994)	(24,459)	(18)
Other income	405	242	67	829	469	77
Other (losses) gains	(235)	266	n.m.	(510)	32,303	n.m.
(Loss) profit before income tax	(4,934)	(4,207)	17	(11,061)	18,637	n.m.
Income tax credit (expense)	15	(21)	n.m.	39	(32)	n.m.
Net (loss) profit	(4,919)	(4,228)	16	(11,022)	18,605	n.m.
Attributable to:						
Equity holders of the Company	(4,922)	(4,238)	16	(11,035)	18,594	n.m.
Non-controlling interests	3	10	(70)	13	11	18
(Loss) earnings per share attributable to equity holders of the Company						
- Basic (US\$ per share)	(0.07)	(0.06)	17	(0.16)	0.26	n.m.
- Diluted (US\$ per share)	(0.07)	(0.06)	17	(0.16)	0.26	n.m.

n.m. - not meaningful

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

	GROUP			GROUP		
	Three months ended			Half year ended		
	31 December			31 December		
2018	2017	% change	2018	2017	% change	
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Write-off/write-down for inventory obsolescence	(548)	(858)	(36)	(1,191)	(1,518)	(22)
Foreign exchange (loss) gain	(255)	189	n.m.	(556)	757	n.m.
Interest income	404	241	68	828	468	77
Litigation settlement	-	-	-	-	31,200	(100)

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			GROUP		
	Three months ended			Half year ended		
	31 December			31 December		
2018	2017	% change	2018	2017	% change	
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Net (loss) profit	(4,919)	(4,228)	16	(11,022)	18,605	n.m.
Other comprehensive income (loss):						
Items that may be reclassified subsequently to profit or loss:						
Available-for-sale financial assets:						
Fair value gains (losses)	-	993	(100)	-	1,440	(100)
Reclassification	-	(70)	(100)	-	(126)	(100)
	-	923	(100)	-	1,314	(100)
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 gains (losses)	96	-	n.m.	(582)	-	n.m.
Total comprehensive (loss) income for the period	<u>(4,823)</u>	<u>(3,305)</u>		<u>(11,604)</u>	<u>19,919</u>	
Attributable to:						
Shareholders of the Company	(4,826)	(3,315)	46	(11,617)	19,908	n.m.
Non-controlling interests	3	10	(70)	13	11	18
Total comprehensive (loss) income for the period	<u>(4,823)</u>	<u>(3,305)</u>	46	<u>(11,604)</u>	<u>19,919</u>	n.m.

3 BALANCE SHEETS

	Group			Company		
	31 December 2018	30 June 2018	1 July 2017	31 December 2018	30 June 2018	1 July 2017
	US\$'000	Restated US\$'000	Restated US\$'000	US\$'000	US\$'000	Restated US\$'000
ASSETS						
Current assets:						
Cash and cash equivalents	103,429	114,817	75,282	95,960	112,118	69,892
Trade receivables	5,903	5,976	6,624	69	15	193
Amounts due from subsidiaries	-	-	-	18,306	9,157	36,277
Inventories	17,362	16,582	20,413	1,230	1,978	2,489
Other current assets	1,267	1,236	1,422	242	220	597
	127,961	138,611	103,741	115,807	123,488	109,448
Non-current assets:						
Financial assets at FVPL	2,487	-	-	-	-	-
Financial assets at FVOCI	4,249	-	-	-	-	-
Available-for-sale financial assets	-	7,602	9,622	-	-	-
Amounts due from subsidiaries	-	-	-	5,186	5,388	21,323
Investments in subsidiaries	-	-	-	14,365	14,365	14,665
Property and equipment	705	748	866	103	108	143
Other non-current assets	155	154	186	-	-	-
	7,596	8,504	10,674	19,654	19,861	36,131
Total assets	135,557	147,115	114,415	135,461	143,349	145,579
LIABILITIES						
Current liabilities:						
Trade payables	6,998	5,816	9,300	518	233	417
Amounts due to subsidiaries	-	-	-	17,062	18,359	9,272
Accrued liabilities and provisions	14,082	14,880	17,526	7,767	9,363	10,101
Contract liabilities	2,628	2,952	2,725	2	-	68
Current income tax liabilities	-	1	5	-	-	-
	23,708	23,649	29,556	25,349	27,955	19,858
Non-current liabilities:						
Amounts due to subsidiaries	-	-	-	24,127	26,993	19,105
Deferred income tax liabilities	10,426	10,426	10,426	-	-	-
	10,426	10,426	10,426	24,127	26,993	19,105
Total liabilities	34,134	34,075	39,982	49,476	54,948	38,963
NET ASSETS	101,423	113,040	74,433	85,985	88,401	106,616
EQUITY						
Share capital	266,753	266,753	266,753	266,753	266,753	266,753
Treasury shares	(16,262)	(16,262)	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve	(802)	3,646	5,416	-	-	-
Other reserves	62,265	62,279	62,315	34,801	34,815	34,851
Accumulated losses	(210,858)	(203,690)	(244,112)	(199,307)	(196,905)	(178,726)
	101,096	112,726	74,110	85,985	88,401	106,616
Non-controlling interests	327	314	323	-	-	-
Total equity	101,423	113,040	74,433	85,985	88,401	106,616

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Half year ended 31 December	
	2018	2017
	US\$'000	Restated US\$'000
Cash flows from operating activities:		
Net (loss) profit	(11,022)	18,605
Adjustments for:		
Income tax (credit) expense	(39)	32
Depreciation of property and equipment	90	96
Employee share-based expenses	(14)	(20)
Gain on disposal of property and equipment	--	(10)
Gain on disposal of available-for-sale financial assets	--	(126)
Currency translation loss (gain)	514	(807)
Dividend income	(1)	(1)
Interest income	(828)	(468)
	<u>(11,300)</u>	<u>17,301</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	73	(2,101)
Inventories	(780)	1,807
Other assets and receivables	(48)	(564)
Trade payables	1,182	(2,101)
Accrued liabilities and provisions	(798)	26,246
Contract liabilities	(324)	971
Cash (used in) provided by operations	<u>(11,995)</u>	<u>41,559</u>
Interest received	844	418
Income tax received (paid)	38	(37)
Net cash (used in) provided by operating activities	<u>(11,113)</u>	<u>41,940</u>
Cash flows from investing activities:		
Purchase of property and equipment	(47)	(35)
Proceeds from sale of property and equipment	--	16
Proceeds from sale of financial assets at FVPL	419	--
Proceeds from sale of available-for-sale financial assets	--	473
Purchase of financial assets at FVOCI	(135)	--
Purchase of available-for-sale financial assets	--	(134)
Dividend received	1	1
Net cash provided by investing activities	<u>238</u>	<u>321</u>
Cash flows from financing activities:		
Unclaimed dividends	1	2
Net cash provided by financing activities	<u>1</u>	<u>2</u>
Net (decrease) increase in cash and cash equivalents	(10,874)	42,263
Cash and cash equivalents at beginning of financial year	114,817	75,282
Effects of currency translation on cash and cash equivalents	(514)	807
Cash and cash equivalents at end of the period	<u>103,429</u>	<u>118,352</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
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	-	-	-	-	(11,035)	(11,035)	13	(11,022)
Other comprehensive loss for the period	-	-	(582)	-	-	(582)	-	(582)
Total comprehensive loss for the period	-	-	(582)	-	(11,035)	(11,617)	13	(11,604)
Employee share-based expense	-	-	-	(14)	-	(14)	-	(14)
Unclaimed dividends	-	-	-	-	1	1	-	1
Total transactions with owners, recognised directly in equity	-	-	-	(14)	1	(13)	-	(13)
Balance at 31 December 2018	266,753	(16,262)	(802)	62,265	(210,858)	101,096	327	101,423
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

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
FY2019					
Balance at 1 July 2018	266,753	(16,262)	34,815	(196,905)	88,401
Total comprehensive loss for the period	-	-	-	(2,403)	(2,403)
Employee share-based expense	-	-	(14)	-	(14)
Unclaimed dividends	-	-	-	1	1
Balance at 31 December 2018	266,753	(16,262)	34,801	(199,307)	85,985
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

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

Issued and paid up capital

As at 31 December 2018, the Company's issued and paid up capital excluding treasury shares comprises 70,331,649 (30 June 2018: 70,331,649) ordinary shares.

As at 31 December 2018, the Company's issued and paid up share capital was US\$266.8 million (30 September 2018: US\$266.8 million).

Employee share options plan

All outstanding options granted under the Company's Employee Share Options Plan have expired in the second quarter of FY2018. During the second quarter of FY2018, the Company did not issue any ordinary shares for cash upon the exercise of the options granted to eligible employees and directors, and there were no unissued ordinary shares as at 31 December 2017.

Employee performance share plan

During the second quarter of FY2019, 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 (Q2 FY2018: Nil).

As at 31 December 2018, there were 204,000 unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan (31 December 2017: 212,250).

Treasury shares

As at 31 December 2018, the Company held 4,668,351 (31 December 2017: 4,668,351) treasury shares against 70,331,649 (31 December 2017: 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	
	2018	2017
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

	GROUP	
	31 December 2018 US\$'000	30 June 2018 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 2018 US\$	30 June 2018 US\$	31 December 2018 US\$	30 June 2018 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.44	1.61	1.22	1.26

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 2018.

11 CHANGES IN ACCOUNTING POLICIES

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* and has prepared its first set of financial information under SFRS(I)s from the

first quarter ended 30 September 2018. The application of the new and revised standards has no material effect on the financial statements, except as described below:

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

SFRS(I) 9 retains the mixed measurement model and establishes three primary measurement categories for Financial Assets: Amortised Cost, Fair Value through Other Comprehensive Income (“FVOCI”) and Fair Value through Profit or Loss (“FVPL”). Equity investments currently accounted as available-for-sale financial assets (“AFS”) 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. 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. For financial assets held by the Group on 1 July 2018, the Group has assessed the business models that are applicable on that date to these assets so as to classify them into the appropriate categories under SFRS(I) 9. Material reclassifications resulting from the Group’s assessment are disclosed below.

	AFS US\$'000	Financial assets, at FVPL US\$'000	Financial assets, at FVOCI US\$'000	Fair value reserve US\$'000	Accumulated losses US\$'000
Balance as at 30 June 2018 – before adoption of SFRS(I) 9	7,602	-	-	3,646	(203,690)
Reclassify investments from AFS to Financial assets at FVPL	(2,907)	2,907	-	(2,516)	2,516
Reclassify investments from AFS to Financial assets at FVOCI	(4,695)	-	4,695	(1,350)	1,350
Balance as at 1 July 2018 – after adoption of SFRS(I) 9	<u>-</u>	<u>2,907</u>	<u>4,695</u>	<u>(220)</u>	<u>(199,824)</u>

SFRS(I) 9 also contains a new expected credit losses model which applies to financial assets classified at amortised cost. The adoption of the expected credit loss model did not result in any significant impact on the financial statements.

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

The core principle of SFRS(I) 15 is that an entity recognizes 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 recognizes 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: Recognize 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 and the Company has applied the changes in accounting policies retrospectively to each prior period reported. As such, the comparative FY2018 figures in this report is not comparable to previously announced FY2018 figures.

The following comparative figures that have been restated with impact arising from the adoption of SFRS(I) 15 are summarized below:

	GROUP		
	Reported under SFRS US\$'000	Effects of SFRS(I) 15 US\$'000	Restated under SFRS(I) 15 US\$'000
<u>As at 1 July 2017</u>			
<u>Balance Sheets</u>			
<u>Assets</u>			
Trade receivables	5,850	774	6,624
<u>Liabilities</u>			
Accrued liabilities and provisions	19,477	(1,951)	17,526
Contract liabilities	-	2,725	2,725
<u>As at 30 June 2018</u>			
<u>Balance Sheets</u>			
<u>Assets</u>			
Trade receivables	5,156	820	5,976
<u>Liabilities</u>			
Accrued liabilities and provisions	17,012	(2,132)	14,880
Contract liabilities	-	2,952	2,952
<u>COMPANY</u>			
	Reported under SFRS US\$'000	Effects of SFRS(I) 15 US\$'000	Restated under SFRS(I) 15 US\$'000
<u>As at 1 July 2017</u>			
<u>Balance Sheets</u>			
<u>Liabilities</u>			
Accrued liabilities and provisions	10,169	(68)	10,101
Contract liabilities	-	68	68

There is no change to the Company's comparative balance sheet as at 30 June 2018 figures and the Group's FY2018 Consolidated Income Statement and Consolidated Statement of Comprehensive Income.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the second quarter of FY2019 decreased by 22% compared to the same quarter in FY2018, and net sales for the first half year of FY2019 decreased by 20% compared to the same period in FY2018. Revenue in the second quarter and first half year of FY2019 was lower due to the uncertain and difficult market conditions which affected the sales of the Group's products.

Gross Profit

Gross profit margin was 30% in the second quarter of FY2019 and 29% in the first half year of FY2019 compared to 28% in the second quarter and first half year of FY2018. Gross profit margin in the second quarter and first half year of FY2019 was in line with the sales mix.

Net (Loss) Profit

Net loss for the second quarter of FY2019 was US\$4.9 million compared to US\$4.2 million in the second quarter of FY2018. Net loss in the second quarter of FY2019 include other losses (net) of US\$0.2 million compared to other gains (net) of US\$0.3 million in the second quarter of FY2018.

Net loss for the first half year of FY2019 was US\$11.0 million compared to net profit of US\$18.6 million in the first half year of FY2018. Net loss in the first half year of FY2019 included other losses (net) of US\$0.5 million. Net profit in the first half year of FY2018 included other gains (net) of US\$32.3 million.

Selling, general and administrative expenses in the second quarter and first half year of FY2019 decreased by 12% and 26% compared to the second quarter and first half year of FY2018. The decrease in selling, general and administrative expenses in the second quarter and first half year of FY2019 was due mainly to lower level of sales.

Research and development expenses in the second quarter and first half year of FY2019 remained at about the same level compared to the same periods in the corresponding year.

Other losses (net) of US\$0.2 million and US\$0.5 million in the second quarter and first half year of FY2019, respectively, were due mainly to foreign exchange loss.

Other gains (net) of US\$0.3 million in the second quarter of FY2018 were due mainly to 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.

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 second quarter and first half year of FY2019 was due mainly to the depreciation of Euro and British Pound against the US dollar. The exchange gain in the second quarter and first half year of FY2018 was due mainly to the appreciation of Singapore dollar, Euro and British Pound against the US dollar.

BALANCE SHEETS

The decrease in cash and cash equivalents was due to net cash used in operating activities (see below). Financial assets at FVPL and FVOCI were reclassified from available-for-sale financial assets in adoption of SFRS(I) 9. Financial assets at FVPL and FVOCI in total has decreased compared to available-for-sale financial assets due mainly to disposal of financial assets at FVPL and fair value loss in revaluation of financial assets at FVOCI. The higher trade payables as at December 2018 was due mainly to higher level of operating activities in the holiday season compared to the fourth quarter of FY2018.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities was US\$11.1 million in the first half year of FY2019 due mainly to operating loss for the period. Net cash provided by operating activities in the first half year of FY2018 was US\$41.9 million 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, offset partially by operating loss for the period.

Net cash provided by investing activities of US\$0.2 million in the first half year of FY2019 (first half year of FY2018: US\$0.3 million) was due mainly to proceeds from sale of financial assets at FVPL.

Net cash provided by 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 second quarter of FY2019 as compared to the prospect statement disclosed in the announcement of results for the first quarter ended 30 September 2018.

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 non-holiday season quarter compared to the current level, and the Group expects to report an operating loss. Revenue contribution from Super X-Fi products for the quarter is not expected to be significant to the overall revenue for the Group.

In February 2019, a wholly-owned subsidiary, ZiiLabs Inc., Ltd, has settled certain patent infringement lawsuits filed in the United States. The settlement sum received of US\$17.9 million will be recognised by the Group as other income in the current quarter. This will offset the operating loss and is expected to result in a net profit for the current quarter.

15 DIVIDEND

No dividends have been recommended in the second quarter of FY2019 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
14 FEBRUARY 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 second quarter and half year ended 31 December 2018 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director