

CREATIVE TECHNOLOGY LTD

FOURTH QUARTER AND FINANCIAL YEAR ENDED 30 JUNE 2018 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 30 JUNE 2018

1 CONSOLIDATED INCOME STATEMENT

	GROUP			GROUP		
	Three months ended			Financial year ended		
	2018	2017	% change	2018	2017	% change
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Sales, net	14,087	14,483	(3)	66,071	69,895	(5)
Cost of goods sold	(10,130)	(10,410)	(3)	(47,565)	(50,300)	(5)
Gross profit	3,957	4,073	(3)	18,506	19,595	(6)
Expenses:						
Selling, general and administrative	(6,419)	(8,160)	(21)	(30,696)	(30,404)	1
Research and development	(3,256)	(2,878)	13	(12,862)	(12,131)	6
Total expenses	(9,675)	(11,038)	(12)	(43,558)	(42,535)	2
Other income	620	129	n.m.	1,438	430	n.m.
Other gains (losses), net	30,669	874	n.m.	64,075	(25)	n.m.
Share of gain (loss) of associated companies	--	164	(100)	--	(326)	(100)
Profit (loss) before income tax	25,571	(5,798)	n.m.	40,461	(22,861)	n.m.
Income tax (expense) credit	(4)	234	n.m.	(50)	(12)	n.m.
Net profit (loss)	25,567	(5,564)	n.m.	40,411	(22,873)	n.m.
Attributable to:						
Equity holders of the Company	25,582	(5,537)	n.m.	40,420	(22,906)	n.m.
Non-controlling interests	(15)	(27)	(44)	(9)	33	n.m.
Earnings (Loss) per share attributable to equity holders of the Company						
- Basic (US\$ per share)	0.36	(0.08)	n.m.	0.57	(0.33)	n.m.
- Diluted (US\$ per share)	0.36	(0.08)	n.m.	0.57	(0.33)	n.m.

n.m. – not meaningful

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

	Three months ended			Financial year ended		
	30 June			30 June		
	2018	2017	% change	2018	2017	% change
	US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)
Write-off/write-down for inventory obsolescence	(301)	(1,753)	(83)	(2,222)	(4,893)	(55)
Impairment loss on investments	(352)	-	n.m.	(352)	(692)	(49)
Gain on disposal of investments	-	-	-	126	1,346	(91)
Foreign exchange gain (loss)	(1,901)	859	n.m.	(50)	(682)	(93)
Interest income	412	129	n.m.	1,230	430	n.m.
Litigation settlement	32,550	-	n.m.	63,750	-	n.m.

1(b) Breakdown of sales:

	GROUP		
	Financial year ended 30 June 2018 US\$'000	Financial year ended 30 June 2017 US\$'000	+ / (-) %
First Half Year			
(a) Sales	36,963	39,405	(6%)
(b) Net profit (loss)	18,605	(12,719)	n.m.
Second Half Year			
(c) Sales	29,108	30,490	(5%)
(b) Net profit (loss)	21,806	(10,154)	n.m.

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			GROUP		
	Three months ended			Financial year ended		
	30 June			30 June		
	2018	2017	% change	2018	2017	% change
	US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)
Net profit (loss)	25,567	(5,564)	n.m.	40,411	(22,873)	n.m.
Other comprehensive income (loss):						
Available-for-sale financial assets:						
Fair value (losses) gains	(2,718)	(247)	n.m.	(1,644)	188	n.m.
Reclassification	-	-	-	(126)	(1,346)	(91)
Total comprehensive income (loss) for the financial year	<u>22,849</u>	<u>(5,811)</u>	n.m.	<u>38,641</u>	<u>(24,031)</u>	n.m.
Total comprehensive income (loss) attributable to:						
Shareholders of the Company	22,864	(5,784)	n.m.	38,650	(24,064)	n.m.
Non-controlling interests	(15)	(27)	(44)	(9)	33	n.m.
Total comprehensive income (loss) for the financial year	<u>22,849</u>	<u>(5,811)</u>	n.m.	<u>38,641</u>	<u>(24,031)</u>	n.m.

3 BALANCE SHEETS

	Group		Company	
	30 June 2018 US\$'000	30 June 2017 US\$'000	30 June 2018 US\$'000	30 June 2017 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	114,817	75,282	112,118	69,892
Trade receivables	5,156	5,850	15	193
Amounts due from subsidiaries	-	-	9,157	36,277
Inventories	16,582	20,413	1,978	2,489
Other current assets	1,236	1,422	220	597
	137,791	102,967	123,488	109,448
Non-current assets:				
Available-for-sale financial assets	7,602	9,622	-	-
Amounts due from subsidiaries	-	-	5,388	21,323
Investments in subsidiaries	-	-	14,365	14,665
Property and equipment	748	866	108	143
Other non-current assets	154	186	-	-
	8,504	10,674	19,861	36,131
Total assets	146,295	113,641	143,349	145,579
LIABILITIES				
Current liabilities:				
Trade payables	5,816	9,300	233	417
Amounts due to subsidiaries	-	-	18,359	9,272
Accrued liabilities and provisions	17,012	19,477	9,363	10,169
Current income tax liabilities	1	5	-	-
	22,829	28,782	27,955	19,858
Non-current liabilities:				
Amounts due to subsidiaries	-	-	26,993	19,105
Deferred income tax liabilities	10,426	10,426	-	-
	10,426	10,426	26,993	19,105
Total liabilities	33,255	39,208	54,948	38,963
NET ASSETS	113,040	74,433	88,401	106,616
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve	3,646	5,416	-	-
Other reserves	62,279	62,315	34,815	34,851
Accumulated losses	(203,690)	(244,112)	(196,905)	(178,726)
	112,726	74,110	88,401	106,616
Non-controlling interests	314	323	-	-
Total equity	113,040	74,433	88,401	106,616

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Financial year ended 30 June	
	2018	2017
	US\$'000	US\$'000
Cash flows from operating activities:		
Net profit (loss)	40,411	(22,873)
Adjustments for:		
Income tax expense	50	12
Depreciation of property and equipment	195	221
Employee share-based expenses	(36)	(49)
Share of loss of associated companies	--	326
Gain on disposal of property and equipment	--	(9)
Impairment loss of available-for-sale financial assets	352	692
Gain on disposal of available-for-sale financial assets	(126)	(1,346)
Currency translation loss	42	351
Dividend income	(208)	-
Interest income	(1,230)	(430)
	<u>39,450</u>	<u>(23,105)</u>
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	<u>38,268</u>	<u>(20,470)</u>
Interest received	1,206	408
Income tax paid	(54)	(355)
Net cash provided by (used in) operating activities	<u>39,420</u>	<u>(20,417)</u>
Cash flows from investing activities:		
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	-
Net cash provided by investing activities	<u>155</u>	<u>1,300</u>
Cash flows from financing activities:		
Unclaimed dividends	2	13
Net cash provided by financing activities	<u>2</u>	<u>13</u>
Net increase (decrease) in cash and cash equivalents	39,577	(19,104)
Cash and cash equivalents at beginning of financial year	75,282	94,738
Effects of currency translation on cash and cash equivalents	(42)	(352)
Cash and cash equivalents at end of the financial year	<u>114,817</u>	<u>75,282</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 year	-	-	-	-	40,420	40,420	(9)	40,411
Other comprehensive loss for the year	-	-	(1,770)	-	-	(1,770)	-	(1,770)
Total comprehensive (loss) income for the year	-	-	(1,770)	-	40,420	38,650	(9)	38,641
Employee share-based expense	-	-	-	(36)	-	(36)	-	(36)
Unclaimed dividends	-	-	-	-	2	2	-	2
Total transactions with owners, recognised directly in equity	-	-	-	(36)	2	(34)	-	(34)
Balance at 30 June 2018	266,753	(16,262)	3,646	62,279	(203,690)	112,726	314	113,040
FY2017								
Balance at 1 July 2016	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)
Total comprehensive (loss) income for the year	-	-	(1,158)	-	(22,906)	(24,064)	33	(24,031)
Employee share-based expense	-	-	-	(49)	-	(49)	-	(49)
Unclaimed dividends	-	-	-	-	13	13	-	13
Total transactions with owners, recognised directly in equity	-	-	-	(49)	13	(36)	-	(36)
Balance at 30 June 2017	266,753	(16,262)	5,416	62,315	(244,112)	74,110	323	74,433

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
Employee share-based expense	-	-	(36)	-	(36)
Unclaimed dividends	-	-	-	2	2
Total comprehensive loss for the year	-	-	-	(18,181)	(18,181)
Balance at 30 June 2018	266,753	(16,262)	34,815	(196,905)	88,401
FY2017					
Balance at 1 July 2016	266,753	(16,262)	34,900	(158,155)	127,236
Employee share-based expense	-	-	(49)	-	(49)
Unclaimed dividends	-	-	-	13	13
Total comprehensive loss for the year	-	-	-	(20,584)	(20,584)
Balance at 30 June 2017	266,753	(16,262)	34,851	(178,726)	106,616

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

Issued and paid up capital

As at 30 June 2018, 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 June 2018, the Company's issued and paid up share capital was US\$266.8 million (31 March 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 fourth quarter of FY2017, the Company did not issue any ordinary shares for cash upon the exercise of the options granted to eligible employees and directors, and the unissued ordinary shares as at 30 June 2017 was 1,014,000 shares.

Employee performance share plan

During the fourth 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 (Q4 FY2017: Nil).

As at 30 June 2018, there were 207,750 unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan (30 June 2017: 217,500).

Treasury shares

As at 30 June 2018, the Company held 4,668,351 (30 June 2017: 4,668,351) treasury shares against 70,331,649 (30 June 2017: 70,331,649) issued ordinary shares excluding treasury shares.

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

	Three months ended	
	30 June	
	2018	2017
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	
	30 June 2018 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	
	30 June 2018 US\$	30 June 2017 US\$	30 June 2018 US\$	30 June 2017 US\$
Net asset value per ordinary share based on issued capital at the end of the financial year	1.61	1.06	1.26	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 fourth quarter and full year of FY2018 decreased slightly by 3% and 5%, respectively, compared to the same corresponding periods in FY2017. Net sales in FY2018 decreased by 4% and 13% in Asia Pacific and Europe regions, but increased by 8% for the Americas region compared to FY2017.

Gross Profit

Gross profit margin was at 28% in the fourth quarter of FY2018 and FY2017, and for the full year of FY2018 and FY2017. Gross profit margin in the fourth quarter and full year of FY2018 remained consistent compared to FY2017 and were in line with the sales mix.

Net Profit

Net profit for the fourth quarter of FY2018 was US\$25.6 million compared to a net loss of US\$5.6 million in the fourth quarter of FY2017. Net profit in the fourth quarter of FY2018 included interest income of US\$0.4 million and other gains (net) of US\$30.7 million. Net loss in the fourth quarter of FY2017 included interest income of US\$0.1 million, other gains (net) of US\$0.9 million and share of gain of associated companies of US\$0.2 million.

Net profit in FY2018 was US\$40.4 million compared to net loss of US\$22.9 million in FY2017. Net profit in FY2018 included interest income of US\$1.2 million and other gains (net) of US\$64.1 million. Net loss in FY2017 included interest income of US\$0.4 million and share of loss of associated companies of US\$0.3 million.

Selling, general and administrative expenses in the fourth quarter of FY2018 decreased by 21% compared to the fourth quarter of FY2017 due mainly to higher legal expenses in the fourth quarter of FY2017. For the full year of FY2018, the increase in selling, general and administrative expenses was not significant and legal expenses for FY2018 were comparable to FY2017.

Research and development expenses in the fourth quarter of FY2018 increased by 13% compared to the same corresponding period in FY2017 and for the full year of FY2018, increased by 6% compared to FY2017. The increase was attributed to the Group investing in product research and development expenses in areas that are strategic to the Group.

Other gains (net) of US\$30.7 million in the fourth quarter of FY2018 were due mainly to US\$32.6 million gains from litigation settlements, offset partially by foreign exchange loss of US\$1.9 million. Other gains (net) of US\$0.9 million in the fourth quarter of FY2017 were due mainly to foreign exchange gain of US\$0.9 million.

Other gains (net) of US\$64.1 million in FY2018 were due mainly to US\$63.8 million gains from litigation settlements. Other losses (net) in FY2017 comprised mainly US\$1.3 million gain on disposal of investments, offset partially by US\$0.7 million impairment loss on investments and foreign exchange loss of US\$0.7 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 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 loss in the fourth quarter of FY2018 was due mainly to the depreciation of these currencies against the US dollar. The exchange difference for FY2018 was not significant. The exchange gain in the fourth quarter of FY2017 was due mainly to the appreciation of British Pound and Euro against the US dollar. The exchange loss for FY2017 was due mainly to depreciation of British Pound, Japanese Yen and Singapore dollar 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 decrease in trade receivables and inventories were in line with the lower level of sales. The decrease in available-for-sale financial assets was due mainly to disposals and fair value loss in revaluation of investments. The decrease in trade payables and accrued liabilities and provisions were due mainly to lower level of operating activities.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash provided by operating activities of US\$39.4 million in FY2018 (FY2017: US\$20.4 million net cash used) was due mainly to US\$63.8 million gains from litigation settlements, offset partially by operating loss for the period.

Net cash provided by investing activities in FY2018 was not material (FY2017: US\$1.3 million).

Net cash provided by financing activities in FY2018 was not material (FY2017: not material).

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the fourth quarter of FY2018 as compared to the prospect statement disclosed in the announcement of results for the third quarter ended 31 March 2018.

14 PROSPECTS

For the current financial year, the Group expects no significant change in the market conditions and overall market for the Group's products remain challenging. However, following the recent announcement of Super X-Fi ("SXFI"), a groundbreaking new headphone holography technology (more information on sxfi.com), sales of new SXFI products is expected to provide good revenue growth opportunities for the current financial year (FY2019). SXFI was announced in the third quarter of FY2018 and has received overwhelming reception. We expect to commence volume shipment of the new SXFI products from the next quarter (Q2 FY2019). For the current quarter, revenue is expected to be comparable to the current level and the Group expects to report an operating loss.

15 DIVIDEND

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

16 SEGMENTAL REPORTING

	ASIA PACIFIC US\$'000	THE AMERICAS US\$'000	EUROPE US\$'000	TOTAL US\$'000
GROUP				
2018				
Sales	36,343	10,400	19,328	66,071
(Loss) profit after total expenses	(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)
Net profit	38,853	1,134	424	40,411
Other segment items				
Additions to				
- property and equipment	95	-	2	97
Depreciation	116	63	16	195
Impairment of available-for sale financial assets	(352)	-	-	(352)
Segment assets	138,793	5,138	2,364	146,295
Segment liabilities	19,000	2,498	11,757	33,255
GROUP				
2017				
Sales	38,025	9,607	22,263	69,895
(Loss) profit after total expenses	(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)
Net (loss) profit	(23,493)	355	265	(22,873)
Other segment items				
Additions to				
- property and equipment	186	-	31	217
Depreciation	145	65	11	221
Impairment of available-for sale financial assets	(692)	-	-	(692)
Segment assets	104,132	6,162	3,347	113,641
Segment liabilities	24,013	3,740	11,455	39,208

Summary of net sales by country:

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

Summary of net sales by product category:

	GROUP	
	30 June 2018 US\$'000	30 June 2017 US\$'000
Audio, speakers and headphones	62,317	64,068
Personal digital entertainment	2,071	4,077
Other products	1,683	1,750
	<u>66,071</u>	<u>69,895</u>

Summary of property and equipment by country:

	GROUP	
	30 June 2018 US\$'000	30 June 2017 US\$'000
Singapore	147	187
United States of America	590	653
Ireland	7	21
Other countries	4	5
	<u>748</u>	<u>866</u>

17 INTERESTED PERSON TRANSACTIONS

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

18 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).

19 REPORT OF PERSONS OCCUPYING MANAGERIAL POSITIONS WHO ARE RELATED TO A DIRECTOR, CHIEF EXECUTIVE OFFICER OR SUBSTANTIAL SHAREHOLDER

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year the position was held	Details of changes in duties and position held, if any, during the year
Low Ting Pong	70	Brother-in-law of Mr. Sim Wong Hoo, Chairman, Chief Executive Officer and substantial shareholder.	Senior Vice President, HQ Services since 1999. Responsible for overseeing the facility and related services.	Nil.

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
24 AUGUST 2018