

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

	GROUP		
	Three months ended		
	30 September		
	2017	2016	% change
	US\$'000	US\$'000	+ / (-)
Sales, net	16,107	17,252	(7)
Cost of goods sold	(11,630)	(12,419)	(6)
Gross profit	4,477	4,833	(7)
Expenses:			
Selling, general and administrative	(10,538)	(7,793)	35
Research and development	(3,359)	(3,430)	(2)
Total expenses	(13,897)	(11,223)	24
Other income	227	96	136
Other gains	32,037	459	n.m.
Share of loss of associated companies	-	(326)	n.m.
Profit (loss) before income tax	22,844	(6,161)	n.m.
Income tax expense	(11)	(40)	(73)
Net profit (loss)	22,833	(6,201)	n.m.
Attributable to:			
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:

	GROUP		
	Three months ended		
	30 September		
	2017	2016	% change
	US\$'000	US\$'000	+ / (-)
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

	GROUP		
	Three months ended		
	30 September		
	2017	2016	% change
	US\$'000	US\$'000	+ / (-)
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 2017 US\$'000	30 June 2017 US\$'000	30 September 2017 US\$'000	30 June 2017 US\$'000
ASSETS				
Current assets:				
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
	124,825	102,967	134,611	109,448
Non-current assets:				
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	-	-
	10,725	10,674	18,874	36,131
Total assets	135,550	113,641	153,485	145,579
LIABILITIES				
Current liabilities:				
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	-	-
	27,478	28,782	19,473	19,858
Non-current liabilities:				
Amounts due to subsidiaries	-	-	27,803	19,105
Deferred income tax liabilities	10,426	10,426	-	-
	10,426	10,426	27,803	19,105
Total liabilities	37,904	39,208	47,276	38,963
NET ASSETS	97,646	74,433	106,209	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	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	-	-
Total equity	97,646	74,433	106,209	106,616

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Three months ended 30 September	
	2017	2016
	US\$'000	US\$'000
Cash flows from operating activities:		
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>
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)
Net cash provided by (used in) operating activities	<u>16,701</u>	<u>(8,402)</u>
Cash flows from investing activities:		
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)
Net cash provided by investing activities	<u>345</u>	<u>292</u>
Net increase (decrease) in cash and cash equivalents	17,046	(8,110)
Cash and cash equivalents at beginning of financial year	75,282	94,738
Effects of currency translation on cash and cash equivalents	486	(41)
Cash and cash equivalents at end of the period	<u>92,814</u>	<u>86,587</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	-	-	-	-	22,832	22,832	1	22,833
Other comprehensive income for the period	-	-	391	-	-	391	-	391
Total comprehensive income for the period	-	-	391	-	22,832	23,223	1	23,224
Employee share-based expense	-	-	-	(11)	-	(11)	-	(11)
Total transactions with owners, recognised directly in equity	-	-	-	(11)	-	(11)	-	(11)
Balance at 30 September 2017	266,753	(16,262)	5,807	62,304	(221,280)	97,322	324	97,646
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	-	-	-	-	(6,211)	(6,211)	10	(6,201)
Other comprehensive loss for the period	-	-	(718)	-	-	(718)	-	(718)
Total comprehensive loss for the period	-	-	(718)	-	(6,211)	(6,929)	10	(6,919)
Employee share-based expense	-	-	-	-	-	-	-	-
Total transactions with owners, recognised directly in equity	-	-	-	-	-	-	-	-
Balance at 30 September 2016	266,753	(16,262)	5,856	62,364	(227,430)	91,281	300	91,581

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
FY2018					
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)
Balance at 30 September 2017	266,753	(16,262)	34,840	(179,122)	106,209
FY2017					
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	-	-	-	-	-
Balance at 30 September 2016	266,753	(16,262)	34,900	(161,767)	123,624

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:

	Three months ended 30 September	
	2017	2016
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	
	30 September 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	
	30 September 2017 US\$	30 June 2017 US\$	30 September 2017 US\$	30 June 2017 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.39	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