

**38<sup>th</sup> ANNUAL GENERAL MEETING  
RESPONSES TO QUESTIONS RECEIVED FROM SHAREHOLDERS**

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**1. Is the company maintaining its strategy to focus more on China for Super X-Fi?**

Yes. China is a very important market in the world. However, it is a challenging market especially for foreign entities who are selling commoditized products. The opportunities lie in new and innovative technologies and products. Super X-Fi would qualify as such a technology. That said, as with any new technology, there is a longer adoption period. Currently, our strategy is to put more emphasis on the OEM market, because it can drive up the adoption rate of Super X-Fi more rapidly, which would have a positive spill-over effect to the Super X-Fi product market.

**2. What is the progress of Super X-Fi in the OEM segment and cooperation with other companies?**

We have been engaging several OEM customers, mostly in China, over the past two years. There is keen interest amongst these customers in our Super X-Fi technology. However, it is a long sales cycle where we have to go through several departments, evaluation and negotiations, which involves face-to-face meetings and demonstrations, before we arrive at a deal. Only then can we start the design-in cycle, which could still take several months.

We have been marching diligently through this whole process with several prospects, until the Covid-19 pandemic struck the world – and with all the restrictive measures including travels, all these progress ground to a halt.

At this moment, we are slowly starting to re-engage with these OEM customers amidst a very challenging climate. We do have a few OEM customers who are at an advanced stage of this process.

On another front, with the new SXFI LIVE technology which allows users to enjoy Super X-Fi without needing SXFI headphones, we are starting to engage companies that are doing live-streamings. This could be a potentially huge market especially in the current climate, and we are in the process of formulating a new business model for it.

**3. What is the revenue contribution from the OEM segment?**

As noted above, the sales and design cycles for the OEM market are generally longer. The revenue contribution from this OEM segment is currently not material. Although the per unit revenues from the OEM segment are lower, the volumes are potentially much higher.

**4. What has been the reception and progress from the Super X-Fi launch in China?**

We took a very brave move to launch Super X-Fi online in the midst of the Covid-19 pandemic, but it was really challenging. Although the initial response was good, the conversion to sales was lower than expected. We had scaled back the follow-up marketing activities, because the returns were not justifiable in this climate. We are changing our marketing strategy to adapt to this new climate for Super X-Fi in China.

**5. What is the revenue contribution from Super X-Fi products?**

As noted above, the adoption period for new technologies like Super X-Fi is longer. Currently, the revenue contribution is not significant, and we are not disclosing this separately.

**6. How does Creative justify its high R&D costs, relative to revenue?**

Creative operates in a highly competitive industry that is characterized by rapidly changing technologies and a ‘winner takes all’ phenomenon.

To remain competitive and viable, Creative’s business depends to a significant extent on its ability to develop and introduce new products and product enhancements. Therefore, Creative will need to continue to invest in R&D, in areas that are strategic to the Group. A significant portion of the R&D costs are in new technologies like Super X-Fi and related products.

We believe all headphones in the future will adopt a spatialization technology, like Super X-Fi. This has all the makings of a typical ‘winner takes all’ situation, and we have to keep investing in Super X-Fi for it to be a clear winner and a catalyst for share value enhancement.

**7. What new Super X-Fi products will Creative launch in the near future?**

Besides the freshly-launched products such as SXFI GAMER, SXFI THEATER, SXFI AIR and SXFI TRIO, the upcoming SXFI products are:

- SXFI CARRIER, the world’s first Dolby Atmos soundbar with built-in Super X-Fi
- SXFI AIR GAMER, a hybrid wireless USB headphone that combines the best of two worlds with low-latency USB audio for games and movies, and wireless Bluetooth for music

**8. What is the future direction of Creative’s products?**

We will be looking at new potential product categories that can expand the Super X-Fi ecosystem, such as TVs, sound cards, speakers, teleconferencing systems, live-streaming platforms and other entertainment devices such as set-top boxes.

**9. For products from China sold in the US with tariffs levied, can the company increase selling prices to offset the tariffs?**

Our ability to increase selling prices is driven by various factors such as competition and other market conditions. For existing products, it is currently rather difficult to adjust prices. For new products with new features, there are potentially more opportunities to factor some tariffs into the selling prices.

**10. Why is there an increase in inventory write-off / write-down?**

The level of inventory write-off/write-down is in line with revenue level. It increased by 10%, while revenue increased by 11%.

**11. What is the expected level of legal fees in the next few years?**

Legal fees will depend on the level of litigation activities. For the current financial year, we do not expect major changes in the level of legal fees. Beyond that, we have no visibility.

**12. What is the expected capital expenditure for the current financial year?**

Capital expenditures over the past few years were not material. At the current level of business, capital expenditures for the current financial year are not expected to be material.

**13. Will there be any dividend payment?**

There will be no dividend payment for this year. Currently, the Company does not have sufficient retained earnings to pay a dividend.

BY ORDER OF THE BOARD

Ng Keh Long  
Company Secretary  
29 October 2020