

# CREATIVE TECHNOLOGY LTD

## SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2019 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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**UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF ENDED 31 DECEMBER 2019**

**1 CONSOLIDATED INCOME STATEMENT**

	GROUP			GROUP		
	Three months ended			Half year ended		
	31 December			31 December		
	2019	2018	% change	2019	2018	% change
	US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)
Sales, net	17,197	16,214	6	31,210	29,426	6
Cost of goods sold	(12,449)	(11,410)	9	(22,494)	(20,812)	8
<b>Gross profit</b>	<b>4,748</b>	<b>4,804</b>	(1)	<b>8,716</b>	<b>8,614</b>	1
Expenses:						
Selling, general and administrative	(5,161)	(6,534)	(21)	(11,247)	(13,314)	(16)
Research and development	(3,237)	(3,374)	(4)	(6,536)	(6,680)	(2)
<b>Total expenses</b>	<b>(8,398)</b>	<b>(9,908)</b>	(15)	<b>(17,783)</b>	<b>(19,994)</b>	(11)
Other income	333	405	(18)	716	829	(14)
Other gains (losses)	603	(235)	n.m.	32	(510)	n.m.
Interest expense on lease liabilities	(73)	-	n.m.	(149)	-	n.m.
<b>Loss before income tax</b>	<b>(2,787)</b>	<b>(4,934)</b>	(44)	<b>(8,468)</b>	<b>(11,061)</b>	(23)
Income tax (expense) credit	(8)	15	n.m.	5	39	(87)
<b>Net loss</b>	<b>(2,795)</b>	<b>(4,919)</b>	(43)	<b>(8,463)</b>	<b>(11,022)</b>	(23)
<b>Attributable to:</b>						
Equity holders of the Company	(2,800)	(4,922)	(43)	(8,469)	(11,035)	(23)
Non-controlling interests	5	3	67	6	13	(54)
Loss per share attributable to equity holders of the Company						
- Basic (US\$ per share)	(0.04)	(0.07)	(43)	(0.12)	(0.16)	(25)
- Diluted (US\$ per share)	(0.04)	(0.07)	(43)	(0.12)	(0.16)	(25)

n.m. - not meaningful

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

	<b>GROUP</b>			<b>GROUP</b>		
	<b>Three months ended</b>			<b>Half year ended</b>		
	<b>2019</b>	<b>2018</b>	<b>% change</b>	<b>2019</b>	<b>2018</b>	<b>% change</b>
<b>US\$'000</b>	<b>US\$'000</b>	<b>+ / (-)</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>+ / (-)</b>	
Write-off/write-down for inventory obsolescence	(563)	(548)	3	(1,047)	(1,191)	(12)
Write-back/(allowance made) for provision for bad debts	620	10	n.m.	620	(10)	n.m.
Depreciation	(498)	(38)	n.m.	(979)	(90)	n.m.
Fair value gain on financial assets at FVPL	6	-	n.m.	355	-	n.m.
Foreign exchange gain (loss)	568	(255)	n.m.	(389)	(556)	(30)
Interest income	333	404	(18)	716	828	(14)

**2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>GROUP</b>			<b>GROUP</b>		
	<b>Three months ended</b>			<b>Half year ended</b>		
	<b>2019</b>	<b>2018</b>	<b>% change</b>	<b>2019</b>	<b>2018</b>	<b>% change</b>
<b>US\$'000</b>	<b>US\$'000</b>	<b>+ / (-)</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>+ / (-)</b>	
Net loss	(2,795)	(4,919)	(43)	(8,463)	(11,022)	(23)
Other comprehensive income (loss):						
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)	144	96	50	136	(582)	n.m.
Total comprehensive loss for the period	<u>(2,651)</u>	<u>(4,823)</u>		<u>(8,327)</u>	<u>(11,604)</u>	
Attributable to:						
Shareholders of the Company	(2,656)	(4,826)	(45)	(8,333)	(11,617)	(28)
Non-controlling interests	5	3	67	6	13	(54)
Total comprehensive loss for the period	<u>(2,651)</u>	<u>(4,823)</u>	(45)	<u>(8,327)</u>	<u>(11,604)</u>	(28)

### 3 BALANCE SHEETS

	<u>Group</u>		<u>Company</u>	
	<u>31 December 2019 US\$'000</u>	<u>30 June 2019 US\$'000</u>	<u>31 December 2019 US\$'000</u>	<u>30 June 2019 US\$'000</u>
<b><u>ASSETS</u></b>				
<b>Current assets:</b>				
Cash and cash equivalents	100,786	107,766	94,625	102,639
Trade receivables	5,060	4,441	87	134
Amounts due from subsidiaries	-	-	14,443	9,822
Inventories	14,624	15,279	775	1,476
Other current assets	1,575	1,316	234	312
	<b><u>122,045</u></b>	<b><u>128,802</u></b>	<b><u>110,164</u></b>	<b><u>114,383</u></b>
<b>Non-current assets:</b>				
Financial assets at fair value through profit or loss (FVPL)	2,162	1,847	-	-
Financial assets at fair value through other comprehensive income (FVOCI)	6,349	6,213	-	-
Amounts due from subsidiaries	-	-	8,925	8,915
Investments in subsidiaries	-	-	13,865	13,865
Property and equipment	713	677	91	82
Right-of-use assets	6,081	-	5,835	-
Other non-current assets	155	156	-	-
	<b><u>15,460</u></b>	<b><u>8,893</u></b>	<b><u>28,716</u></b>	<b><u>22,862</u></b>
<b>Total assets</b>	<b><u>137,505</u></b>	<b><u>137,695</u></b>	<b><u>138,880</u></b>	<b><u>137,245</u></b>
<b><u>LIABILITIES</u></b>				
<b>Current liabilities:</b>				
Trade payables	5,296	3,908	263	285
Amounts due to subsidiaries	-	-	20,548	20,757
Accrued liabilities and provisions	13,104	13,096	6,987	7,169
Contract liabilities	2,288	1,804	2	2
Lease liabilities	1,725	-	1,554	-
Current income tax liabilities	-	6	-	-
	<b><u>22,413</u></b>	<b><u>18,814</u></b>	<b><u>29,354</u></b>	<b><u>28,213</u></b>
<b>Non-current liabilities:</b>				
Amounts due to subsidiaries	-	-	36,520	36,953
Lease liabilities	4,533	-	4,468	-
Deferred income tax liabilities	8,826	8,826	-	-
	<b><u>13,359</u></b>	<b><u>8,826</u></b>	<b><u>40,988</u></b>	<b><u>36,953</u></b>
<b>Total liabilities</b>	<b><u>35,772</u></b>	<b><u>27,640</u></b>	<b><u>70,342</u></b>	<b><u>65,166</u></b>
<b>NET ASSETS</b>	<b><u>101,733</u></b>	<b><u>110,055</u></b>	<b><u>68,538</u></b>	<b><u>72,079</u></b>
<b><u>EQUITY</u></b>				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,035)	(16,035)	(16,035)	(16,035)
Fair value reserve	1,100	964	-	-
Other reserves	45,628	45,628	32,089	32,089
Accumulated losses	(196,037)	(187,573)	(214,269)	(210,728)
	<b><u>101,409</u></b>	<b><u>109,737</u></b>	<b><u>68,538</u></b>	<b><u>72,079</u></b>
Non-controlling interests	324	318	-	-
<b>Total equity</b>	<b><u>101,733</u></b>	<b><u>110,055</u></b>	<b><u>68,538</u></b>	<b><u>72,079</u></b>

#### 4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	Half year ended 31 December	
	2019	2018
	US\$'000	US\$'000
<b>Cash flows from operating activities:</b>		
Net loss	(8,463)	(11,022)
Adjustments for:		
Income tax credit	(5)	(39)
Depreciation	979	90
Employee share-based expenses	-	(14)
Fair value gain on financial assets at FVPL	(355)	-
Currency translation loss	410	514
Dividend income	-	(1)
Interest income	(716)	(828)
Interest expense on lease liabilities	149	-
	<u>(8,001)</u>	<u>(11,300)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(619)	73
Inventories	655	(780)
Other assets and receivables	(274)	(48)
Trade payables	1,388	1,182
Accrued liabilities and provisions	(52)	(798)
Contract liabilities	484	(324)
Cash used in operations	<u>(6,419)</u>	<u>(11,995)</u>
Interest received	732	844
Income tax received	-	38
<b>Net cash used in operating activities</b>	<b><u>(5,687)</u></b>	<b><u>(11,113)</u></b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(107)	(47)
Proceeds from sale of financial assets at FVPL	40	419
Purchase of financial assets at FVOCI	-	(135)
Dividend received	-	1
<b>Net cash (used in) provided by investing activities</b>	<b><u>(67)</u></b>	<b><u>238</u></b>
<b>Cash flows from financing activities:</b>		
Payment of lease liabilities	(670)	-
Interest paid on lease liabilities	(149)	-
Unclaimed dividends	5	1
<b>Net cash (used in) provided by financing activities</b>	<b><u>(814)</u></b>	<b><u>1</u></b>
<b>Net decrease in cash and cash equivalents</b>	<b>(6,568)</b>	<b>(10,874)</b>
Cash and cash equivalents at beginning of financial year	107,766	114,817
Effects of currency translation on cash and cash equivalents	(412)	(514)
<b>Cash and cash equivalents at end of the period</b>	<b><u>100,786</u></b>	<b><u>103,429</u></b>

## 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
<b>FY2020</b>								
<b>Balance at 1 July 2019</b>	266,753	(16,035)	964	45,628	(187,573)	109,737	318	110,055
Loss for the period	-	-	-	-	(8,469)	(8,469)	6	(8,463)
Other comprehensive income for the period	-	-	136	-	-	136	-	136
<b>Total comprehensive loss for the period</b>	-	-	136	-	(8,469)	(8,333)	6	(8,327)
Employee share-based expense	-	-	-	-	-	-	-	-
Unclaimed dividends	-	-	-	-	5	5	-	5
<b>Total transactions with owners, recognised directly in equity</b>	-	-	-	-	5	5	-	5
<b>Balance at 31 December 2019</b>	<b>266,753</b>	<b>(16,035)</b>	<b>1,100</b>	<b>45,628</b>	<b>(196,037)</b>	<b>101,409</b>	<b>324</b>	<b>101,733</b>
<b>FY2019</b>								
<b>Balance at 30 June 2018</b>	266,753	(16,262)	3,646	62,279	(203,690)	112,726	314	113,040
Adoption of SFRS(I) 9	-	-	(3,866)	-	3,866	-	-	-
<b>Balance at 1 July 2018</b>	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)
<b>Total comprehensive loss for the period</b>	-	-	(582)	-	(11,035)	(11,617)	13	(11,604)
Employee share-based expense	-	-	-	(14)	-	(14)	-	(14)
Unclaimed dividends	-	-	-	-	1	1	-	1
<b>Total transactions with owners, recognised directly in equity</b>	-	-	-	(14)	1	(13)	-	(13)
<b>Balance at 31 December 2018</b>	<b>266,753</b>	<b>(16,262)</b>	<b>(802)</b>	<b>62,265</b>	<b>(210,858)</b>	<b>101,096</b>	<b>327</b>	<b>101,423</b>

### 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
<b>FY2020</b>					
<b>Balance at 1 July 2019</b>	266,753	(16,035)	32,089	(210,728)	72,079
Total comprehensive loss for the period	-	-	-	(3,546)	(3,546)
Employee share-based expense	-	-	-	-	-
Unclaimed dividend	-	-	-	5	5
<b>Balance at 31 December 2019</b>	<b>266,753</b>	<b>(16,035)</b>	<b>32,089</b>	<b>(214,269)</b>	<b>68,538</b>
<b>FY2019</b>					
<b>Balance at 1 July 2018</b>	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 dividend	-	-	-	1	1
<b>Balance at 31 December 2018</b>	<b>266,753</b>	<b>(16,262)</b>	<b>34,801</b>	<b>(199,307)</b>	<b>85,985</b>

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

### Issued and paid up capital

As at 31 December 2019, the Company's issued and paid up capital excluding treasury shares comprises 70,396,649 (30 June 2019: 70,396,649) ordinary shares.

As at 31 December 2019, the Company's issued and paid up share capital was US\$266.8 million (30 September 2019: US\$266.8 million).

### Employee share options plan

During the extraordinary general meeting in October 2019, the shareholders have approved the adoption of the Creative Share Option Scheme (2019) (the "2019 Scheme"). As at 31 December 2019, no share options were granted under the 2019 Scheme.

All outstanding share options granted under the Company's (1999) Share Option Scheme have expired in FY2018.

### Employee performance share plan

As at 30 June 2019, there were no outstanding awards pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries.

In the second quarter of FY2019, the Company did not issue any treasury shares pursuant to the Employee Performance Share Plan. The unissued ordinary shares pursuant to the Employee Performance Share Plan as at 31 December 2018 was 204,000.

### Treasury shares

As at 31 December 2019, the Company held 4,603,351 (31 December 2018: 4,668,351) treasury shares against 70,396,649 (31 December 2018: 70,331,649) issued ordinary shares excluding treasury shares.

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

	<b>Three months ended</b>	
	<b>31 December</b>	
	<b>2019</b>	<b>2018</b>
Balance at beginning of period	4,603,351	4,668,351
Issued for Employee Performance Share Plan	-	-
Balance at end of period	<u>4,603,351</u>	<u>4,668,351</u>

## 6 GROUP BORROWINGS

	GROUP	
	31 December 2019 US\$'000	30 June 2019 US\$'000
<b>Amount repayable:</b>		
<u>In one year or less, or on demand</u>		
Secured	1,725	-
Unsecured	-	-
	<u>1,725</u>	<u>-</u>
<u>After one year</u>		
Secured	4,533	-
Unsecured	-	-
	<u>4,533</u>	<u>-</u>
Total	<u>6,258</u>	<u>-</u>

Secured borrowings relate to lease liabilities on adoption of SFRS(I) 16 *Leases*, secured over right-of-use assets.

## 7 NET ASSET VALUE

	GROUP		COMPANY	
	31 December 2019 US\$	30 June 2019 US\$	31 December 2019 US\$	30 June 2019 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.45	1.56	0.97	1.02

## 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 2019.

## 11 CHANGES IN ACCOUNTING POLICIES

The Group has adopted SFRS(I) 16 *Leases* which is mandatorily effective for the Group from 1 July 2019. The Group has applied the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Under the new standard, a lessee recognizes a right-of-use asset representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments in the statement of financial position. Depreciation

charges on the right-of-use assets and interest expense on the lease liability are recorded in the income statement. Lease payments are classified as financing cash flows in the statement of cash flows. Lessor accounting remains largely similar to the previous accounting standard.

As at 1 July 2019, right-of-use assets and lease liabilities recorded by the Group under SFRS(I) 16 was US\$6.7 million.

## 12 REVIEW OF GROUP PERFORMANCE

### **CONSOLIDATED INCOME STATEMENT**

#### **Net Sales**

Net sales for the second quarter and first half year of FY2020 increased by 6% compared to the same periods in the corresponding year.

#### **Gross Profit**

Gross profit margin at 28% in the second quarter and first half year of FY2020 was lower compared to 30% in the second quarter and 29% in the first half year of FY2019 due mainly to an increased in cost of sales for certain products sold in the US resulting from higher US tariffs levied on these products from China. Gross profit margin in the second quarter and first half year of FY2020 was in line with the sales mix.

#### **Net Loss**

Net loss for the second quarter of FY2020 was US\$2.8 million compared to US\$4.9 million in the second quarter of FY2019. Net loss for the second quarter of FY2020 included other gains (net) of US\$0.6 million compared to other losses (net) US\$0.2 million in the second quarter of FY2019. Net loss for the second quarter of FY2020 also included depreciation of US\$0.5 million on right-of-use assets relating to office leases resulting from a change in the accounting policy on leases.

Net loss for the first half year of FY2020 was US\$8.5 million compared to US\$11.0 million in the first half year of FY2019. Net loss in the first half year of FY2020 included depreciation of US\$0.9 million on right-of-use assets. Net loss in the first half year of FY2019 included other losses (net) of US\$0.5 million.

Selling, general and administrative expenses in the second quarter and first half year of FY2020 decreased by 21% and 16% compared to the second quarter and first half year of FY2019. The decrease in selling, general and administrative expenses was due mainly to the lower legal expenses for on-going litigations and write-back of provision for bad debts recovered through liquidation proceeds of a debtor.

Research and development expenses in the second quarter and first half year of FY2020 was comparable to the same periods in the corresponding year.

Other gains (net) of US\$0.6 million in the second quarter FY2020 was due mainly to foreign exchange gain.

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

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 second quarter of FY2020 was due mainly to the appreciation of Singapore dollar, Euro and British Pound against the US dollar. The exchange loss in first half year of FY2020 was due mainly to the depreciation of Singapore dollar, Euro and British Pound against the US dollar in the first quarter of FY2020, offset partially by the appreciation of these currencies against the US dollar in the second quarter of FY2020. 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.

## **BALANCE SHEETS**

The decrease in cash and cash equivalents was due to net cash used in operating activities (see below). Right-of-use assets and lease liabilities as at 31 December 2019 were in relation to the adoption of SFRS(I) 16 on 1 July 2019. The increase in trade payables was due mainly to a payment cycle crossing the second quarter of FY2020 which closed on 27 December 2019. The Group operates on a thirteen week calendar closing on the Friday nearest to the natural calendar quarter.

## **CONSOLIDATED STATEMENTS OF CASH FLOWS**

Net cash used in operating activities of US\$5.7 million in the first half year of FY2020 (first half year of FY2019: US\$11.1 million) was due mainly to operating loss for the period, offset partially by an increase in trade payables.

Cash flows from investing activities was not material.

Net cash used in financing activities of US\$0.8 million in the first half year of FY2020 (first half year of FY2019: not material) was due mainly to payment of lease and interest on lease liabilities in relation to the adoption of SFRS(I) 16.

### **13 VARIANCE FROM PROSPECT STATEMENT**

There is no significant variance in operating performance of the Group from the previous prospect statement.

### **14 PROSPECTS**

Market conditions for the Group's products remain challenging, and the recent outbreak of the novel coronavirus in China may negatively affect market conditions, although the extent of its effect is presently uncertain.

For the next two quarters, revenue is expected to be lower compared to the current level and the Group expects to report an operating loss.

### **15 DIVIDEND**

No dividends have been recommended in the second quarter of FY2020 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  
30 JANUARY 2020

**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 2019 to be false or misleading in any material aspect.

On behalf of the Board of Directors

**Sim Wong Hoo**  
**Chairman**

**Lee Kheng Nam**  
**Director**