



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Creative Technology Ltd.

Security: Creative Technology Ltd.

Meeting details:

Date: 30 October 2018

Time: 10.30 a.m.

Venue: 31 International Business Park, #03-01 Creative Resource, Singapore 609921

Company Description

Creative Technology Ltd., together with its subsidiaries, designs, manufactures, and distributes digital entertainment products worldwide. It primarily provides digitized sound and video boards, computers, and related multimedia and personal digital entertainment products. The company also offers sound blasters, gaming headsets, speakers, headphones, MP3 players, Web cameras, and accessories, as well as software products. In addition, it provides multimedia solutions for personal computers and personal digital entertainment products. The company markets its products and solutions to consumers and system integrators through a distribution network, including traditional marketing channels, original equipment manufacturers, and Internet. Creative Technology Ltd. was founded in 1981 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C76)

1. The following diagram shows the company’s stock price in the past year.



(Source: SGX StockFacts)

On 17 January 2018, the company announced that its all-new Super X-Fi technology has won the prestigious AVS Forum ‘Best of CES 2018 Award’ on its maiden outing at the world’s largest consumer electronics show in Las Vegas this year.

In addition, Super X-Fi received rave reviews from experts, including:

Gordon Ung, Executive Editor, PCWorld	<i>“I just finished the best demo of the show. It's not a curved TV, it's not 8K, it is ... wait for it, Creative Lab's new Super X-Fi technology.”</i>
Michael Brown, TechHive Staff	<i>“Super X-Fi Headphone Audio Holography demo blew my mind ... If the shipping product is as good as what the company is demoing at CES, it will forever change your perception of headphones.”</i>
Ted Kritsonis, Mobile Syrup	<i>“If you're curious about what 'audio holography' is, Creative Labs has the goods with its Super X-Fi technology. I gave it a good listen at CES 2018, and it sounded glorious ... After hearing the results, I was simply blown away. Even with all the audio products I've tested over the years, my ears were never subjected to anything quite like this”.</i>

Despite winning the “Best of CES 2018 Award”, and the rave reviews obtained, the market reaction was muted, as seen in the stock price chart below.



(Source: SGX StockFacts)

The spike in the stock price happened only after the Business Times ran an article titled "Creative brings '3D' sound to headphones after US\$100m R&D" on 23 February 2018 in which Mr Sim Wong Hoo, Chairman & Chief Executive Officer, disclosed the following:

- *"Many have asked how much is the dongle. When we said it's US\$150, they said that's very cheap... We didn't want to sell chips. The whole industry was asking us to sell them our chips so they could make sound cards. But if we sold chips, our revenue would be reduced to a fraction, so we didn't sell chips.... By not selling chips, we invited competition to fill the gap. Competition came in and sold chips. This time, we'll sell chips. We'll sell technology."*

Following the Business Times article, the stock price spiked on high volume from \$1.25-\$1.26 on 22 February, to \$1.46-\$3.39 on 23 February, to \$3.30-\$4.38 on 24 February. Within 8 trading days, the stock price reached a high of \$10 on 6 March. The price action and the trading volume can be seen in the chart below.



(Source: Adapted from SGX StockFacts)

- (i) **Would the board consider it prudent to make an announcement on SGX prior to the chairman and CEO speaking to the media, in which market sensitive information such as the business model and the pricing were disclosed? Would the board consider any future release of critical information on SGXNet to ensure thorough public dissemination (as stated in the Appendix 7.1 Corporate Disclosure Policy)?**

In Principle 15: Communication with shareholders (page 13), the company has stated that specific guidelines have been laid down for compliance in respect of all public communications and that the Company does not practise selective disclosure in the communication of material information.

- (ii) **Would the board be reviewing the company's compliance to its guidelines and look at how it could be further improved?**

2. Would the board/management provide better clarity to shareholders on the following operational matters?

- (i) **Revenue:** Sales of the group's products continue to drop. Gross profit was US\$18.5 million while expenses were US\$43.6 million. **Does the group consider it timely to review the group's business model and strategic direction? How is the group leveraging the interest surrounding Super X-Fi to boost**

its position in the “Audio, speakers and headphones” category? Does management expect the segment to be profitable in the near future?

- (ii) Super X-Fi:** On 26 September 2018, the company announced that it experienced “*phenomenally strong initial sales numbers right from the time its new Super X-Fi online store*”. In less than 20 minutes, 600 units were sold. Mr Sim had said that initial stocks are limited and are selling out fast. **Have the sales figures met management’s expectations?** A check on the website shows that there are stocks still readily available. **When will the group be selling/shipping globally?**
- (iii) Available-for-sale (AFS) financial assets:** The group has a portfolio of AFS financial assets with a carrying value of US\$7.6 million, down from US\$9.6 million. Fair value losses of US\$(1.644) million were recognised in other comprehensive income in the financial year (page 44). **Can management disclose what these AFS assets are? Who is overseeing the portfolio and how is the portfolio managed?**
- (iv) Technology obsolescence:** On pages 15 & 16, the company presented its Sustainability Report which only showed the material environmental, social and governance factors. Under Chapter 7 of the Listing Manual on Continuing Listing Obligations, Rule 711B states that the sustainability report must describe the issuer’s sustainability practices with reference to the following primary components: (a) material environmental, social and governance factors; (b) policies, practices and performance; (c) targets; (d) sustainability reporting framework; and (e) board statement. **Could the board/management clarify if it will be publishing a full Sustainability Report, including technology obsolescence as a key material issue affecting the company, in accordance with Rule 711B?**

3. At the 36th Annual General Meeting scheduled to be held on 30 October 2018, Mr. Lee Kheng Nam, will retire from the board as director of the company pursuant to Article 84 of the company’s Constitution and, being eligible, offers himself for re-election. Mr Lee was first appointed to the board in 1991. Mr Lee has been on the board for approximately 27 years.

In fact, all three independent directors have served on the board for more than nine years from the respective dates of their first appointment.

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“2018 Code”). As a consequence of the revised 2018 Code, the Singapore Exchange will be making amendments to its Listing Rules. The Listing Rule changes will come into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.



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Has the company evaluated the impact of the 2018 Code and the amendments to the Listing Rules on the board?

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 and 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Creative%20Technology%20Ltd>

The company's response could be found here: -----