

CREATIVE TECHNOLOGY LTD

SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2009 FINANCIAL STATEMENTS & DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2009

1 CONSOLIDATED INCOME STATEMENT

	GROUP			
	Three months ended		Half year ended	
	31 December		31 December	
	2009	2008	2009	2008
	US\$'000	US\$'000	US\$'000	US\$'000
Sales, net	80,713	155,695	152,772	296,925
Cost of goods sold	60,174	133,368	114,404	243,976
Gross profit	20,539	22,327	38,368	52,949
Expenses:				
Selling, general and administrative	(16,114)	(27,155)	(30,917)	(57,028)
Research and development	(13,862)	(15,379)	(28,515)	(33,053)
Total expenses	(29,976)	(42,534)	(59,432)	(90,081)
Other income	155	1,601	374	3,394
Other gains (losses), net	2,554	(15,873)	13,076	(40,275)
Share of loss of associated companies	(617)	(657)	(579)	(1,595)
Interest expense	(30)	(1)	(59)	(78)
Loss before income tax	(7,375)	(35,137)	(8,252)	(75,686)
Income tax credit (expense)	2,118	(351)	1,952	(628)
Net loss	(5,257)	(35,488)	(6,300)	(76,314)
Attributable to:				
Equity holders of the Company	(5,257)	(35,487)	(6,300)	(76,313)
Minority interests	--	(1)	--	(1)
Loss per share for loss attributable to equity holders of the Company				
- Basic (US\$ per share)	(0.08)	(0.48)	(0.09)	(1.01)
- Diluted (US\$ per share)	(0.08)	(0.48)	(0.09)	(1.01)

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

	GROUP			
	Three months ended		Half year ended	
	31 December		31 December	
	2009	2008	2009	2008
	US\$'000	US\$'000	US\$'000	US\$'000
Depreciation and amortization	(4,034)	(1,703)	(5,885)	(3,388)
Reversal of inventory write-off/write-down /(Write-off/write-down for inventory obsolescence)	1,533	(820)	4,182	(1,168)
Impairment in value of financial assets, available-for-sale	(5)	(3,502)	(81)	(12,361)
Foreign exchange gain (loss)	146	(12,697)	5,917	(28,079)
Gain on disposal of investments in associated companies	-	-	4,874	-

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			
	Three months ended		Half year ended	
	31 December		31 December	
	2009	2008	2009	2008
	US\$'000	US\$'000	US\$'000	US\$'000
Net loss	(5,257)	(35,488)	(6,300)	(76,314)
Other comprehensive income:				
Net fair value changes of financial assets, available-for-sale	2,755	1,341	6,687	(396)
Total comprehensive income for the period	<u>(2,502)</u>	<u>(34,147)</u>	<u>387</u>	<u>(76,710)</u>
Attributable to:				
Shareholders of the Company	(2,502)	(34,146)	387	(76,709)
Minority interest	-	(1)	-	(1)
Total comprehensive income for the period	<u>(2,502)</u>	<u>(34,147)</u>	<u>387</u>	<u>(76,710)</u>

3 BALANCE SHEETS

	GROUP		COMPANY	
	31 December 2009 US\$'000	30 June 2009 US\$'000	31 December 2009 US\$'000	30 June 2009 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	243,438	250,551	206,189	218,472
Trade receivables	41,802	42,365	4,839	6,017
Amounts due from subsidiaries	-	-	37,836	43,379
Inventories	36,875	37,600	18,572	18,104
Other current assets	20,212	21,448	5,857	4,934
	342,327	351,964	273,293	290,906
Non-current assets:				
Financial assets, available-for-sale	34,359	27,753	-	-
Other non-current receivables	678	977	-	-
Amounts due from subsidiaries	-	-	194,001	186,395
Investments in associated companies	-	1,372	-	-
Investments in subsidiaries	-	-	45,390	45,390
Property and equipment	33,792	33,944	1,937	2,060
Intangible assets	6,539	6,719	-	-
Other non-current assets	27,283	31,693	846	768
	102,651	102,458	242,174	234,613
Total assets	444,978	454,422	515,467	525,519
LIABILITIES AND EQUITY				
Current liabilities:				
Trade payables	27,383	30,296	18,500	18,608
Amounts due to subsidiaries	-	-	20,748	17,174
Accrued liabilities and provisions	69,617	70,014	29,765	28,852
Current income tax liabilities	2,175	2,203	1,955	2,000
Current portion of long term obligations	7	10	7	10
	99,182	102,523	70,975	66,644
Non-current liabilities:				
Amounts due to subsidiaries	-	-	21,149	20,526
Deferred income tax liabilities	27,501	29,510	11,800	13,800
	27,501	29,510	32,949	34,326
Total liabilities	126,683	132,033	103,924	100,970
Equity:				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(21,454)	(21,475)	(21,454)	(21,475)
Fair value reserve	13,838	7,151	-	-
Other reserves	60,940	60,512	33,477	33,049
Retained earnings	(2,158)	9,072	132,767	146,222
	317,919	322,013	411,543	424,549
Minority interests	376	376	-	-
Total equity	318,295	322,389	411,543	424,549
Total liabilities and equity	444,978	454,422	515,467	525,519

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Half year ended 31 December	
	2009	2008
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(6,300)	(76,314)
Adjustments for:		
Income tax (credit) expenses	(1,952)	628
Depreciation of property and equipment	5,623	3,388
Amortisation of intangible assets	262	--
Employee share option expense	428	828
Share of loss of associated companies	579	1,595
Loss on disposal of property and equipment	52	36
Impairment loss of financial assets, available-for-sale	81	12,361
Net impairment loss of investments in associated companies	80	--
Gain on disposal of financial assets, available-for-sale	--	(56)
Gain on disposal of investments in associated companies	(4,874)	--
Foreign exchange (gain) loss	(4,567)	22,326
Dividend income	(65)	(96)
Interest income	(309)	(3,297)
Interest expense	59	78
	<u>(10,903)</u>	<u>(38,523)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	563	15,032
Inventories	725	42,640
Other assets and prepaids	5,117	27,383
Trade payables	(2,913)	(30,868)
Accrued liabilities and provisions	(451)	(16,356)
Cash used in operations	<u>(7,862)</u>	<u>(692)</u>
Interest received	312	3,313
Interest paid	(3)	(75)
Income tax refunded (paid)	150	(2,583)
Net cash used in operating activities	<u>(7,403)</u>	<u>(37)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(5,531)	(2,233)
Proceeds from sale of property and equipment	8	47
Proceeds from disposal of investments in associated companies	6,189	--
Proceeds from sale of financial assets, available-for-sale	--	152
Purchase of new subsidiaries (net of cash acquired)	--	(247)
Purchase of financial assets, available-for-sale	--	(202)
Purchase of investments in associated companies	(83)	(602)
Dividend received	65	96
Net cash provided by (used in) investing activities	<u>648</u>	<u>(2,989)</u>
Cash flows from financing activities:		
Proceeds from exercise of ordinary share options	21	10
Purchase of treasury shares	--	(19,135)
Repayments of borrowings	--	(100,000)
Repayments of capital leases	(3)	(12)
Dividends paid to ordinary shareholders	(4,930)	--
Net cash used in financing activities	<u>(4,912)</u>	<u>(119,137)</u>
Net decrease in cash and cash equivalents	(11,667)	(122,163)
Cash and cash equivalents at beginning of financial year	250,551	408,644
Effects of currency translation on cash and cash equivalents	4,554	(22,318)
Cash and cash equivalents at end of the period	<u>243,438</u>	<u>264,163</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	Retained Earnings US\$'000	Total US\$'000	Minority Interests US\$'000	Total Equity US\$'000
FY2010								
Balance at 1 July 2009	266,753	(21,475)	7,151	60,512	9,072	322,013	376	322,389
Purchase of treasury shares	-	-	-	-	-	-	-	-
Utilization of treasury shares for shares issued under employee options plans	-	21	-	-	-	21	-	21
Dividends paid	-	-	-	-	(4,930)	(4,930)	-	(4,930)
Cancellation of treasury shares	-	-	-	-	-	-	-	-
Share option expense	-	-	-	428	-	428	-	428
Total comprehensive income for the period	-	-	6,687	-	(6,300)	387	-	387
Balance at 31 December 2009	266,753	(21,454)	13,838	60,940	(2,158)	317,919	376	318,295
FY2009								
Balance at 1 July 2008	300,100	(32,113)	3,377	59,286	146,945	477,595	379	477,974
Purchase of treasury shares	-	(19,135)	-	-	-	(19,135)	-	(19,135)
Utilization of treasury shares for shares issued under employee options plans	-	10	-	(4)	-	6	-	6
Cancellation of treasury shares	(33,347)	33,347	-	-	-	-	-	-
Share option expense	-	-	-	828	-	828	-	828
Total comprehensive loss for the period	-	-	(396)	-	(76,313)	(76,709)	(1)	(76,710)
Balance at 31 December 2008	266,753	(17,891)	2,981	60,110	70,632	382,585	378	382,963

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
FY2010					
Balance at 1 July 2009	266,753	(21,475)	33,049	146,222	424,549
Shares issued under employee options plans	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-
Utilization of treasury shares for shares issued under employee options plans	-	21	-	-	21
Dividends paid	-	-	-	(4,930)	(4,930)
Cancellation of treasury shares	-	-	-	-	-
Share option expense	-	-	428	-	428
Total comprehensive income for the period	-	-	-	(8,525)	(8,525)
Balance at 31 December 2009	266,753	(21,454)	33,477	132,767	411,543
FY2009					
Balance at 1 July 2008	300,100	(32,113)	31,823	135,148	434,958
Purchase of treasury shares	-	(19,135)	-	-	(19,135)
Utilization of treasury shares for shares issued under employee options plans	-	10	(4)	-	6
Cancellation of treasury shares	(33,347)	33,347	-	-	-
Dividends paid	-	-	-	-	-
Share option expense	-	-	828	-	828
Total comprehensive income for the period	-	-	-	(38,187)	(38,187)
Balance at 31 December 2008	266,753	(17,891)	32,647	96,961	378,470

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

Issued and paid up capital

As at 31 December 2009, the Company's issued and paid up capital excluding treasury shares comprises 68,897,705 (30 June 2009: 68,891,468) ordinary shares.

Employee share options plans

During the second quarter of FY2010, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Option Plan (Q2/FY2009: Nil).

As at 31 December 2009, there were 6,878,000 (31 December 2008: 9,699,197) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plans.

Treasury shares

During the second quarter of FY2010, the Company re-issued 6,237 treasury shares pursuant to the Employee Share Options Plans (Q2/FY2009: Nil).

As at 31 December 2009, 6,102,295 (31 December 2008: 4,802,332) shares were held as treasury shares.

During the second quarter of FY2010, the Company did not buy back or cancel any ordinary shares. In the second quarter of FY2009, the Company bought back 4,650,000 ordinary shares at an average price of US\$2.44 per share and held them as treasury shares. 5,000,000 treasury shares were cancelled in the second quarter of FY2009.

6 AUDIT

The figures have not been audited or reviewed by our auditors.

7 AUDITORS' REPORT

Not applicable.

8 ACCOUNTING POLICIES

Except as disclosed in Item 9 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 2009.

9 CHANGES IN ACCOUNTING POLICIES

With effect from 1 July 2009, the Group adopted the following new/amended FRS which are relevant to the Group's operations:

FRS 1(R)	Presentation of Financial Statements
FRS 107	Improving Disclosures about Financial Statements

The adoption of the above FRS does not have any significant impact on the financial statements.

10 NET ASSET VALUE

	GROUP		COMPANY	
	31 December	30 June	31 December	30 June
	2009	2009	2009	2009
	US\$	US\$	US\$	US\$
Net asset value per ordinary share based on issued capital at the end of the financial year	4.62	4.68	5.97	6.16

11 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the second quarter of FY2010 decreased by 48% compared to the same quarter in FY2009, and net sales for the first half year of FY2010 decreased by 49% compared to the same period in FY2009. The decrease in net sales was mainly due to lower revenues from digital audio players. The lower sales were primarily due to the impact of the global economic downturn and the Group's decision to consolidate certain businesses in order to focus on specific markets that provide best opportunities to improve business going forward.

Gross Profit

Gross profit was 25% in the second quarter and the first half year of FY2010 compared to 14% in the second quarter of FY2009 and 18% in the first half year of FY2009. Gross profit margin in the second quarter and the first half year of FY2010 at 25% was consistent with the mix of products sold. Gross profit margin in the second quarter and the first half year of FY2009 was negatively impacted by economy downturn which resulted in inventory write down and a higher percentage of sales coming from digital audio players which have lower gross profit margin.

Net Loss

Net loss for the second quarter of FY2010 was US\$5.3 million compared to US\$35.5 million in the second quarter of FY2009. Net loss for the first half year of FY2010 was US\$6.3 million compared to US\$76.3 million in the first half year of FY2009.

Following the restructuring efforts in the previous year to reduce operating costs, and in line with the decrease in sales, selling, general and administrative expenses in the second quarter and first half year of FY2010 decreased by 41% and 46%, respectively, compared to the second quarter and first half year of FY2009.

Research and development expenses in the second quarter and first half year of FY2010 decreased by 10% and 14%, respectively, compared to the second quarter and first half year of FY2009. There were smaller reductions in research and development expenses as the Group needs to continue to invest in product development in areas that are strategic to the Group, cutting back development spending only in product areas that are not strategic going forward.

Other gains of US\$2.6 million in the second quarter of FY2010 comprised mainly of US\$1.7 million government grant to a subsidiary company (this entity was an associated company in the previous financial year). Other gains of US\$13.1 million in the first half year of FY2010 comprised mainly of a US\$4.9 million gain on disposal of investment in an associated company, foreign exchange gains of US\$5.9 million and a US\$1.7 million government grant to a subsidiary company.

The government grant was given previously in respect of certain fixed assets used for a project and was recorded as a deferred revenue. In the second quarter of FY2010, following the completion of the project which the grant was given, the subsidiary company accelerated the depreciation of the related fixed assets that are no longer in use and recorded an additional depreciation charge of US\$1.7 million. Correspondingly, the balance of US\$1.7 million in the deferred revenue account was recognized as other gains in the income statement.

Other losses of US\$15.9 million in the second quarter of FY2009 comprised mainly of an exchange loss of US\$12.7 million and a US\$3.5 million impairment in value of financial assets, available-for-sale. Other losses of US\$40.3 million in the first half year of FY2009 comprised mainly of an exchange loss of US\$28.1 million and US\$12.4 million impairment in value of financial assets, available-for-sale following the onset of the global financial crisis.

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 mainly due to the cash and cash equivalent balances held by the Group. Besides US dollar, cash and cash equivalents were held mainly in Euro, Singapore dollar, British Pound and Japanese Yen. In the second quarter of FY2010, there were no major exchange differences. In the first quarter of FY2010, these currencies appreciated against US dollar while they declined significantly against the US dollar in both the second quarter and first half year of FY2009.

Income tax was a credit of US\$2.1 million in the second quarter of FY2010 and US\$2.0 million in the first half year of FY2010. Tax credit of US\$2.1 million in the second quarter of FY2010 was mainly due to US\$2.0 million write back of deferred tax liability pertaining to offshore interest income remitted to Singapore in the quarter. Such interest income remitted during this period is not taxable now due to a tax concession granted by the Singapore tax authorities.

BALANCE SHEETS

The increased in financial assets, available-for-sale as at 31 December 2009 was due to the fair value gain on revaluation of the investments. There were no other material fluctuations in the other major components of the Balance Sheets.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In the first half year of FY2009, the Group repaid the remaining balance of the US\$100 million syndicated term loan.

12 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group as compared to the prospect statement disclosed in the announcement of results for the first quarter ended 30 September 2009.

13 PROSPECTS

Going forward the Group will need to continue to invest in product development, particularly for the Zii Platform. The Group will also intensify its focus on marketing the Zii Platform. As a result, operating expenses may increase in the coming quarters. The overall market for the Group's current products remains difficult and unpredictable and the Group expects to report an operating loss in the current quarter.

14 DIVIDEND

No dividends have been recommended in the second quarter of FY2010 and no dividends were recommended or declared for the same period last year.

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
3 FEBRUARY 2010

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 2009 to be false or misleading.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director