

CREATIVE TECHNOLOGY LTD

SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2010 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2010

1 CONSOLIDATED INCOME STATEMENT

	GROUP		GROUP	
	Three months ended 31 December		Half year ended 31 December	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Sales, net	69,289	80,713	126,516	152,772
Cost of goods sold	51,529	60,174	94,721	114,404
Gross profit	17,760	20,539	31,795	38,368
Expenses:				
Selling, general and administrative	(15,988)	(16,114)	(30,160)	(30,917)
Research and development	(15,536)	(13,862)	(32,156)	(28,515)
Total expenses	(31,524)	(29,976)	(62,316)	(59,432)
Other income	190	155	357	374
Other gains, net	2,625	2,554	15,737	13,076
Share of losses of associated companies	(233)	(617)	(233)	(579)
Interest expense	(21)	(30)	(41)	(59)
Loss before income tax	(11,203)	(7,375)	(14,701)	(8,252)
Income tax credit	351	2,118	235	1,952
Net loss	(10,852)	(5,257)	(14,466)	(6,300)
Attributable to:				
Equity holders of the Company	(10,866)	(5,257)	(14,484)	(6,300)
Non-controlling interests	14	--	18	--
Loss per share for loss attributable to equity holders of the Company				
- Basic (US\$ per share)	(0.16)	(0.08)	(0.21)	(0.09)
- Diluted (US\$ per share)	(0.16)	(0.08)	(0.21)	(0.09)

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

	GROUP			
	Three months ended		Half year ended	
	31 December		31 December	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
Depreciation and amortization	(1,806)	(4,034)	(3,642)	(5,885)
Reversal of write-off/write-down for inventory obsolescence	256	1,533	318	4,182
Foreign exchange gain	2,559	146	15,770	5,917
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	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
Net loss	(10,852)	(5,257)	(14,466)	(6,300)
Other comprehensive income:				
Net fair value changes of financial assets, available-for-sale	1,348	2,755	6,511	6,687
Total comprehensive income for the period	<u>(9,504)</u>	<u>(2,502)</u>	<u>(7,955)</u>	<u>387</u>
Attributable to:				
Shareholders of the Company	(9,518)	(2,502)	(7,973)	387
Non-controlling interests	14	-	18	-
Total comprehensive income for the period	<u>(9,504)</u>	<u>(2,502)</u>	<u>(7,955)</u>	<u>387</u>

3 BALANCE SHEETS

	Group		Company	
	31 December 2010 US\$'000	30 June 2010 US\$'000	31 December 2010 US\$'000	30 June 2010 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	189,719	214,025	160,963	197,803
Trade receivables	31,415	28,999	5,670	4,355
Amounts due from subsidiaries	-	-	45,406	28,880
Inventories	47,875	46,120	27,238	25,502
Other current assets	24,508	20,990	5,680	4,306
	293,517	310,134	244,957	260,846
Non-current assets:				
Financial assets, available-for-sale	40,378	33,895	-	-
Other non-current receivables	542	582	-	-
Amounts due from subsidiaries	-	-	186,629	184,282
Investments in subsidiaries	-	-	45,390	45,390
Investments in associated companies	387	-	-	-
Property and equipment	29,748	29,411	1,184	1,394
Intangible assets	6,100	6,324	-	-
Other non-current assets	18,514	22,205	1,230	998
	95,669	92,417	234,433	232,064
Total assets	389,186	402,551	479,390	492,910
LIABILITIES				
Current liabilities:				
Trade payables	23,254	24,089	16,261	18,218
Amounts due to subsidiaries	-	-	27,846	23,238
Accrued liabilities and provisions	63,917	65,249	28,700	30,777
Current income tax liabilities	2,228	2,235	2,188	1,951
	89,399	91,573	74,995	74,184
Non-current liabilities:				
Amounts due to subsidiaries	-	-	21,048	21,044
Deferred income tax liabilities	21,202	21,202	-	-
	21,202	21,202	21,048	21,044
Total liabilities	110,601	112,775	96,043	95,228
NET ASSETS	278,585	289,776	383,347	397,682
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(18,897)	(19,122)	(18,897)	(19,122)
Fair value reserve	20,383	13,872	-	-
Other reserves	64,176	62,285	36,712	34,821
Retained earnings	(54,492)	(34,654)	98,779	115,230
	277,923	289,134	383,347	397,682
Non-controlling interests	662	642	-	-
Total equity	278,585	289,776	383,347	397,682

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Half year ended 31 December	
	2010	2009
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(14,466)	(6,300)
Adjustments for:		
Income tax credit	(235)	(1,952)
Depreciation of property and equipment	3,418	5,623
Amortisation of intangible assets	224	262
Employee share-based expenses	1,891	428
Share of losses of associated companies	233	579
Loss on disposal of property and equipment	15	52
Impairment loss of financial assets, available-for-sale	382	81
Net impairment loss of investments in associated companies	--	80
Gain on disposal of financial assets, available-for-sale	(9)	--
Deemed gain on dilution of subsidiaries	181	--
Gain on disposal of investments in associated companies	--	(4,874)
Foreign exchange gain	(13,388)	(4,567)
Dividend income	(139)	(65)
Interest income	(218)	(309)
Interest expense	41	59
	<u>(22,070)</u>	<u>(10,903)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(2,416)	563
Inventories	(1,755)	725
Other assets and receivables	170	5,117
Trade payables	(835)	(2,913)
Accrued liabilities and provisions	(1,373)	(451)
Cash used in operations	<u>(28,279)</u>	<u>(7,862)</u>
Interest received	219	312
Interest paid	--	(3)
Income tax refunded	222	150
Net cash used in operating activities	<u>(27,838)</u>	<u>(7,403)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(3,776)	(5,531)
Proceeds from sale of property and equipment	6	8
Proceeds from disposal of investments in associated companies	--	6,189
Proceeds from sale of financial assets, available-for-sale	9	--
Purchase of financial assets, available-for-sale	(354)	--
Purchase of investments in associated companies	(761)	(83)
Dividend received	139	65
Net cash (used in) provided by investing activities	<u>(4,737)</u>	<u>648</u>
Cash flows from financing activities:		
Proceeds from exercise of ordinary share options	225	21
Repayments of capital leases	--	(3)
Dividends paid to ordinary shareholders	(5,354)	(4,930)
Net cash used in financing activities	<u>(5,129)</u>	<u>(4,912)</u>
Net decrease in cash and cash equivalents	(37,704)	(11,667)
Cash and cash equivalents at beginning of financial year	214,025	250,551
Effects of currency translation on cash and cash equivalents	13,398	4,554
Cash and cash equivalents at end of the period	<u>189,719</u>	<u>243,438</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	Non- controlling Interests US\$'000	Total Equity US\$'000
FY2011								
Balance at 1 July 2010	266,753	(19,122)	13,872	62,285	(34,654)	289,134	642	289,776
Utilization of treasury shares for shares issued under employee options plans	-	225	-	(55)	-	170	-	170
Dividends paid	-	-	-	-	(5,354)	(5,354)	-	(5,354)
Employee share-based expense	-	-	-	1,946	-	1,946	-	1,946
Currency translation difference	-	-	-	-	-	-	2	2
Total comprehensive income (loss) for the period	-	-	6,511	-	(14,484)	(7,973)	18	(7,955)
Balance at 31 December 2010	266,753	(18,897)	20,383	64,176	(54,492)	277,923	662	278,585
FY2010								
Balance at 1 July 2009	266,753	(21,475)	7,151	60,512	9,072	322,013	376	322,389
Utilization of treasury shares for shares issued under employee options plans	-	21	-	-	-	21	-	21
Dividends paid	-	-	-	-	(4,930)	(4,930)	-	(4,930)
Employee share-based expense	-	-	-	428	-	428	-	428
Total comprehensive income (loss) 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

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
FY2011					
Balance at 1 July 2010	266,753	(19,122)	34,821	115,230	397,682
Utilization of treasury shares for shares issued under employee options plans	-	225	(55)	-	170
Dividends paid	-	-	-	(5,354)	(5,354)
Employee share-based expense	-	-	1,946	-	1,946
Total comprehensive loss for the period	-	-	-	(11,097)	(11,097)
Balance at 31 December 2010	266,753	(18,897)	36,712	98,779	383,347
FY2010					
Balance at 1 July 2009	266,753	(21,475)	33,049	146,222	424,549
Utilization of treasury shares for shares issued under employee options plans	-	21	-	-	21
Dividends paid	-	-	-	(4,930)	(4,930)
Employee share-based expense	-	-	428	-	428
Total comprehensive loss for the period	-	-	-	(8,525)	(8,525)
Balance at 31 December 2009	266,753	(21,454)	33,477	132,767	411,543

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

Issued and paid up capital

As at 31 December 2010, the Company's issued and paid up capital excluding treasury shares comprises 69,640,105 (30 June 2010: 69,574,655) ordinary shares.

Employee share options plan

During the second quarter of FY2011, the Company issued 65,450 treasury shares for cash upon the exercise of the options under the Company's Share Options Plan (Q2 FY2010: 6,237).

As at 31 December 2010, there were 6,128,647 (31 December 2009: 6,878,000) 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 second quarter of FY2011, 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 (Q2 FY2010: Nil).

As at 31 December 2010, there were 2,064,000 (31 December 2009: Nil) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

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

	Three months ended 31 December	
	2010	2009
Balance at beginning of period	5,425,345	6,108,532
Issued for:		
- Employee Share Options Plan	(65,450)	(6,237)
Balance at end of period	<u>5,359,895</u>	<u>6,102,295</u>

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 2010.

9 CHANGES IN ACCOUNTING POLICIES

None.

10 NET ASSET VALUE

	GROUP		COMPANY	
	31 December	30 June	31 December	30 June
	2010	2010	2010	2010
	US\$	US\$	US\$	US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	4.00	4.16	5.50	5.72

11 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the second quarter of FY2011 decreased by 14% compared to the same quarter in FY2010, and net sales for the first half year of FY2011 decreased by 17% compared to the same period in FY2010. Revenue was lower in the second quarter and first half year of FY2011 as the Group continues to be affected by the difficult market for its products, particularly for the personal digital entertainment products.

Gross Profit

Gross profit margin at 26% in the second quarter of FY2011 and 25% in the first half year of FY2011 was consistent with the mix of products sold and comparable to the gross profit margin of 25% in the second quarter and first half year of FY2010.

Net Loss

Net loss for the second quarter of FY2011 was US\$10.9 million compared to US\$5.3 million in the second quarter of FY2010. Net loss for the first half year of FY2011 was US\$14.5 million compared to US\$6.3 million in the first half year of FY2010.

Research and development expenses in the second quarter and first half year of FY2011 increased by 12% and 13%, respectively, compared to the second quarter and first half year of FY2010. There was an increase in research and development expenses as the Group needs to continue to invest in product research and development in areas that are strategic to the Group, cutting back research and development spending only in product areas that are not strategic to the Group.

Other gains of US\$2.6 million in the second quarter of FY2011 and US\$15.7 million in the first half year of FY2011 were mainly due to foreign exchange gains of US\$2.6 million and US\$15.8 million in the second quarter and first half year of FY2011. Other gains of US\$2.6 million in the second quarter of FY2010 comprised mainly of a US\$1.7 million government grant to a subsidiary company. 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.

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 Singapore dollar, Euro, British Pound and Japanese Yen. The exchange gain in the first quarter of FY2011 was mainly due to the significant appreciation of these currencies against the US dollar during the quarter. In the first

quarter of FY2010, these currencies had also appreciated, but the appreciation was not as significant compared to the first quarter of FY2011. In the second quarter of FY2011, the exchange gain was due mainly to the appreciation of Singapore dollar.

BALANCE SHEETS

The increase in financial assets, available-for-sale as at 31 December 2010 was mainly due to the fair value gain on revaluation of the investments. The decrease in other non-current assets was mainly due to the utilization of security deposit for the payment of the Group's headquarters office building rental. The increase in other current assets were mainly due to a \$1.1 million loan to an associated company and \$1.4 million increase in security deposits and advance payments.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$27.8 million in the first half year of FY2011 (first half year of FY2010: US\$7.4 million) was mainly due to the net operating loss for the period.

Net cash used in or provided by investing and financing activities in the first half year of FY2011 were not material.

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 2010.

13 PROSPECTS

The Group will continue to invest in product research and development, particularly for the Zii Platform. To support the marketing and sales of the new products and services, operating expenses may increase in the coming quarters, in line with the introduction of the new products and services. For the current quarter, the overall market for the Group's current products remain challenging and the Group expects to report an operating loss.

14 DIVIDEND

No dividends have been recommended in the second quarter of FY2011 and no dividends were recommended or declared for the same period last year.

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
26 JANUARY 2011

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 2010 to be false or misleading.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director