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

	GRO	UP	GRO	UP	
				alf 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 Non-controlling interests	(10,866) 14	(5,257)	(14,484) 18	(6,300)	
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 31 December		Half year ended 31 December			
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 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				
		nths ended cember	•	Half year ended 31 December	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 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	(9,504)	(2,502)	(7,955)	387	
Attributable to: Shareholders of the Company Non-controlling interests	(9,518) 14	(2,502)	(7,973) 18	387	
Total comprehensive income for the period	(9,504)	(2,502)	(7,955)	387	

3 BALANCE SHEETS

	Group		Company		
	31 December 2010	30 June 2010	31 December 2010	30 June 2010	
	US\$'000	US\$'000	US\$'000	US\$'000	
ASSETS					
Current assets:	189,719	214.025	160.062	107 802	
Cash and cash equivalents		214,025	160,963	197,803	
Trade receivables Amounts due from subsidiaries	31,415	28,999	5,670	4,355	
Inventories	47,875	46,120	45,406 27,238	28,880 25,502	
Other current assets	24,508	20,990	5,680	4,306	
other current assets	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		24,007	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	
FOURTY					
EQUITY	266 752	044 750	266 752	266 752	
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	
Non controlling interests	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

Adjustments for: (235) (1,9) Income tax credit (235) (1,9) Depreciation of property and equipment 3,418 5,6 Amortisation of intangible assets 224 2 Employee share-based expenses 1,891 4 Share of losses of associated companies 233 5 Loss on disposal of property and equipment 15 5 Impairment loss of investments in associated companies - 6 Obered gain on disposal of investments in associated companies - (4,8) Gain on disposal of investments in associated companies - (4,8) Foreign exchange gain (1,388) (4,5) Dividend income (139) (0) Interest income (218) (3) Interest expense 44 (22,070) (10,9) Changes in working capital, net of effects from acquisition and disposal of subsidiaries (24,16) 5 Trade receivables (2,416) 5 (1,755) 7 Other assets and receivables (1,755) 7 (2,779) (7,8) Intrest received 219 <t< th=""><th></th><th>GROUE</th><th>þ</th></t<>		GROUE	þ
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Cash flows from financing activities: Proceeds from exercise of ordinary share options 225			648
Proceeds from exercise of ordinary share options 225	Net cash (used in) provided by investing activities	(4,737)	040
Proceeds from exercise of ordinary share options 225	Cash flows from financing activities:		
	-	225	21
Repayments of capital leases	Repayments of capital leases		
			(3)
	1 2		(4,930)
Net cash used in financing activities (5,129) (4,9	iver cash used in financing activities	(3,129)	(4,912)
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•	•		250,551
	1 6 6 5		4,554
Cash and cash equivalents at end of the period 189,719 243,4	•		
	Cash and cash equivalents at end of the period	109,/19	243,430

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
<u>FY2011</u>								
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
1								

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
<u>FY2011</u>					
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
Datance at 51 December 2009	200,755	(21,454)	33,477	132,707	411,545

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

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		COMPA	ANY
	31 December 2010 US\$	30 June 2010 US\$	31 December 2010 US\$	30 June 2010 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\$1.7 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