## CREATIVE TECHNOLOGY LTD

## SECOND QUARTER AND HALF YEAR ENDED 31 DECEMBER 2010 <br> 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 |  |
|  | $\begin{gathered} 2010 \\ \text { US\$'000 } \end{gathered}$ | $\begin{gathered} 2009 \\ \text { US\$'000 } \\ \hline \end{gathered}$ | $\begin{gathered} 2010 \\ \text { US\$'000 } \\ \hline \end{gathered}$ | $\begin{gathered} 2009 \\ \text { US\$'000 } \end{gathered}$ |
| 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 | $(10,852)$ | $(5,257)$ | $\underline{(14,466)}$ | $(6,300)$ |
| 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 31 December |  | Half year ended 31 December |  |
|  | $\begin{gathered} 2010 \\ \text { US\$'000 } \end{gathered}$ | $\begin{gathered} 2009 \\ \text { US\$'000 } \end{gathered}$ | $\begin{gathered} 2010 \\ \text { US\$'000 } \end{gathered}$ | $\begin{aligned} & 2009 \\ & \text { US\$'000 } \end{aligned}$ |
| 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 31 December |  | Half year ended 31 December |  |
|  | $\begin{gathered} 2010 \\ \text { US\$'000 } \end{gathered}$ | $\begin{gathered} 2009 \\ \text { US\$’000 } \end{gathered}$ | $\begin{gathered} 2010 \\ \text { US\$’000 } \end{gathered}$ | $\begin{gathered} 2009 \\ \text { US\$’000 } \end{gathered}$ |
| Net loss | $(10,852)$ | $(5,257)$ | $(14,466)$ | $(6,300)$ |
| Other comprehensive income: <br> 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 | $(9,518)$ | $(2,502)$ | $(7,973)$ | 387 |
| Non-controlling interests | 14 | - | 18 | - |
| Total comprehensive income for the period | $(9,504)$ | $(2,502)$ | $(7,955)$ | 387 |

## 3 BALANCE SHEETS

|  | Group |  | Company |  |
| :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline 31 \text { December } \\ 2010 \\ \text { US\$'000 } \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { 30 June } \\ 2010 \\ \text { US } \$ \mathbf{\prime} 000 \\ \hline \end{gathered}$ | $\begin{gathered} \hline 31 \text { December } \\ 2010 \\ \text { US } \$^{\prime} 000 \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { 30 June } \\ 2010 \\ \text { US \$ } 000 \\ \hline \end{gathered}$ |
| 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 |  |
| :---: | :---: | :---: |
|  | $\begin{aligned} & \hline \text { Half year ende } \\ & 2010 \\ & \text { US\$'000 } \\ & \hline \end{aligned}$ | $\begin{gathered} \hline \text { cember } \\ 2009 \\ \text { US } \$^{\prime} 000 \\ \hline \end{gathered}$ |
| 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 |
|  | $(22,070)$ | $(10,903)$ |
| 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 | $(28,279)$ | $(7,862)$ |
| Interest received | 219 | 312 |
| Interest paid | -- | (3) |
| Income tax refunded | 222 | 150 |
| Net cash used in operating activities | $(27,838)$ | $(7,403)$ |
| 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 | $(4,737)$ | 648 |
| 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 | $(5,129)$ | $(4,912)$ |
| 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 | 189,719 | 243,438 |

## 5 STATEMENTS OF CHANGES IN EQUITY

## 5(a) Statements of Changes in Equity for the Group

|  | Share <br> Capital <br> US\$'000 | Treasury Shares US ${ }^{\prime}$ '000 | Fair Value <br> Reserve <br> US\$'000 | Other <br> Reserves <br> US\$'000 | Retained <br> Earnings <br> US\$'000 | $\begin{gathered} \text { Total } \\ \text { US\$'000 } \end{gathered}$ | Noncontrolling 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

## FY2011

Balance at 1 July 2010
Utilization of treasury shares for shares issued
under employee options plans

| Share <br> Capital <br> US\$'000 | Treasury <br> Shares <br> US\$'000 | Other <br> Reserves US\$'000 | Retained Earnings US\$'000 | Total Equity US\$'000 |
| :---: | :---: | :---: | :---: | :---: |
| 266,753 | $(19,122)$ | 34,821 | 115,230 | 397,682 |
| - | 225 | (55) | - | 170 |
| - | - | - | $(5,354)$ | $(5,354)$ |
| - | - | 1,946 | - | 1,946 |
| - | - | - | $(11,097)$ | $(11,097)$ |
| 266,753 | $(18,897)$ | 36,712 | 98,779 | 383,347 |

## FY2010

Balance at 1 July 2009
Utilization of treasury shares for shares issued under employee options plans

266,753 (21,475
33,049
146,222
424,549
-
Dividends paid

-     -         - 

$\begin{array}{ll}- & - \\ - & -\end{array}$

132,767 $\qquad$
Balance at 31 December 2009
$266,753 \longrightarrow(21,454)$
33,477

## 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: <br> - 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 |  | COMPANY |  |
| :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline 31 \text { December } \\ 2010 \\ \text { US\$ } \\ \hline \end{gathered}$ | 30 June 2010 US\$ | $\begin{gathered} \hline 31 \text { December } \\ 2010 \\ \text { US\$ } \end{gathered}$ | 30 June 2010 <br> 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

