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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 6-K**

REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF 1934

**Quarterly Report for the Three and Six Months ended December 31, 1999**

Commission File Number **0-20281**

**CREATIVE TECHNOLOGY LTD.**

(Exact name of Registrant as specified in its charter)

**SINGAPORE**

(Jurisdiction of incorporation or organization)

**31 International Business Park**

**Creative Resource**

**Singapore 609921**

(Address of principal executive offices)

Indicate by check mark whether the Registrant files or will file annual reports under cover of Form 20-F or 40-F.

Form 20-F            Form 40-F     

Indicate by check mark whether the Registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes            No     

If "Yes" is marked, indicate below the file number assigned to the Registrant in connection with Rule 12g3-2(b):82      N/A

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**PART I - FINANCIAL INFORMATION**  
**ITEM 1 FINANCIAL STATEMENTS**

**CREATIVE TECHNOLOGY LTD.**  
**CONSOLIDATED BALANCE SHEETS**

(In US\$'000, except per share data)

	<b>December 31, 1999</b>	<b>June 30, 1999</b>
	(Unaudited)	
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 253,182	\$ 318,990
Marketable securities	32,949	--
Accounts receivable, net	191,198	130,144
Inventory	176,783	148,028
Other assets and prepaids	18,673	12,709
<b>Total current assets</b>	<b>672,785</b>	<b>609,871</b>
Property and equipment, net	95,363	97,961
Investments	280,159	70,305
Other non-current assets	18,265	27,552
<b>Total Assets</b>	<b>\$ 1,066,572</b>	<b>\$ 805,689</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 183,046	\$ 101,666
Accrued liabilities	82,134	55,684
Income taxes payable	48,573	47,031
Other current liabilities	6,458	4,492
<b>Total current liabilities</b>	<b>320,211</b>	<b>208,873</b>
Long term obligations	27,307	28,642
Minority interest in subsidiaries	8,627	7,913
<b>Shareholders' equity:</b>		
Ordinary shares ('000); S\$0.25 par value;		
Authorized: 200,000 shares		
Outstanding: 81,060 and 83,971 shares	7,915	8,348
Additional paid-in capital	179,185	170,157
Unrealized holding gains on quoted investments	168,017	15,405
Deferred share compensation expense	(9,132)	(5,078)
Retained earnings	364,442	371,429
<b>Total shareholders' equity</b>	<b>710,427</b>	<b>560,261</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,066,572</b>	<b>\$ 805,689</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CREATIVE TECHNOLOGY LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In US\$' 000, except per share data)

(Unaudited)

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Sales, net	\$ 436,789	\$ 428,699	\$ 705,867	\$ 707,688
Cost of goods sold	<u>306,912</u>	<u>299,308</u>	<u>505,974</u>	<u>498,464</u>
<b>Gross profit</b>	<b><u>129,877</u></b>	<b><u>129,391</u></b>	<b><u>199,893</u></b>	<b><u>209,224</u></b>
Operating expenses:				
Selling, general and administrative	76,340	58,445	129,842	110,168
Research and development	<u>14,717</u>	<u>11,681</u>	<u>27,430</u>	<u>22,027</u>
<b>Total operating expenses</b>	<b><u>91,057</u></b>	<b><u>70,126</u></b>	<b><u>157,272</u></b>	<b><u>132,195</u></b>
<b>Operating income</b>	<b>38,820</b>	<b>59,265</b>	<b>42,621</b>	<b>77,029</b>
Interest income and other, net	<u>10,153</u>	<u>6,094</u>	<u>18,374</u>	<u>11,711</u>
<b>Income before income taxes and minority interest</b>	<b>48,973</b>	<b>65,359</b>	<b>60,995</b>	<b>88,740</b>
Provision for income taxes	(3,939)	(4,889)	(5,141)	(6,993)
Minority interest in (income) loss	<u>(554)</u>	<u>112</u>	<u>(564)</u>	<u>348</u>
<b>Net income</b>	<b><u>\$ 44,480</u></b>	<b><u>\$ 60,582</u></b>	<b><u>\$ 55,290</u></b>	<b><u>\$ 82,095</u></b>
Basic earnings per share:	\$ 0.54	\$ 0.66	\$ 0.67	\$ 0.89
Average ordinary shares outstanding ('000)	81,999	92,428	82,705	92,708
Diluted earnings per share:	\$ 0.52	\$ 0.64	\$ 0.65	\$ 0.86
Average ordinary shares and equivalents outstanding ('000)	86,291	95,137	85,573	95,052

The accompanying notes are an integral part of these consolidated financial statements.

**CREATIVE TECHNOLOGY LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Increase (decrease) in cash and cash equivalents (in US\$'000)

(Unaudited)

	<b>Six Months Ended December 31,</b>	
	<b>1999</b>	<b>1998</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 55,290	\$ 82,095
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,260	20,571
Minority interest in income (loss)	564	(348)
Equity share in (income) loss of unconsolidated investments	(4)	18
Write off of investment	9,793	--
Realized net gain from sale of investments	(10,984)	(2,248)
Changes in assets and liabilities, net:		
Accounts receivable	(61,054)	(112,943)
Inventory	(28,755)	19,375
Marketable securities	(32,949)	--
Other assets and prepaids	(3,653)	(6,462)
Accounts payable	81,380	33,426
Accrued and other liabilities	28,312	17,902
Income taxes payable	1,542	2,595
<b>Net cash provided by operating activities</b>	<b>58,742</b>	<b>53,981</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures, net	(7,206)	(7,006)
Proceeds from sale of quoted investments	29,070	12,809
Purchase of investments, net	(84,769)	(31,236)
(Increase) decrease in other assets, net	(994)	133
<b>Net cash used in investing activities</b>	<b>(63,899)</b>	<b>(25,300)</b>
<b>Cash flows from financing activities:</b>		
Increase in minority shareholders' loan and equity balance	150	203
Proceeds from exercise of ordinary share options and warrants	2,666	2,598
Repurchase of ordinary shares	(41,775)	(57,560)
Repayments of long-term obligations, net	(1,190)	(918)
Dividends paid	(20,502)	--
<b>Net cash used in financing activities</b>	<b>(60,651)</b>	<b>(55,677)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(65,808)</b>	<b>(26,996)</b>
Cash and cash equivalents at beginning of year	318,990	417,262
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 253,182</b>	<b>\$ 390,266</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 244	\$ 915
Income taxes paid	\$ 3,599	\$ 4,398

The accompanying notes are an integral part of these consolidated financial statements.

**CREATIVE TECHNOLOGY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**NOTE 1 - BASIS OF PRESENTATION**

In the opinion of management, the accompanying unaudited consolidated interim financial statements of Creative Technology Ltd. ("Creative") have been prepared on a consistent basis with the June 30, 1999 audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary to provide a fair presentation of the results for the interim periods presented. The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These consolidated interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes thereto included in Creative's 1999 annual report on Form 20-F filed with the Securities and Exchange Commission. The results of operations for the three and six months period ended December 31, 1999 are not necessarily indicative of the results to be expected for the entire year. Creative generally operates on a thirteen week calendar closing on the Friday closest to the natural calendar quarter. For convenience, all quarters are described by their natural calendar dates. Creative conducts a substantial portion of its business in United States dollars ("US\$" or "\$") and all amounts included in these interim financial statements and in the notes herein are in US\$, unless designated as Singapore dollars ("S\$").

**NOTE 2 - INVENTORIES**

Inventories are stated at the lower of cost (first-in, first-out) or market. The components of inventory are as follows (in US\$'000):

	<u>December 31,</u> <u>1999</u>	<u>June 30,</u> <u>1999</u>
Raw materials	\$ 103,671	\$ 95,290
Work in progress	22,931	18,406
Finished products	50,181	34,332
	<u>\$ 176,783</u>	<u>\$ 148,028</u>

**NOTE 3 - EARNINGS PER SHARE**

In accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128), Creative reports both basic earnings per share and diluted earnings per share. Basic earning per share is computed using the weighted average number of ordinary (common) shares outstanding during the period. Diluted earning per share is computed using the weighted average number of common and potentially dilutive common equivalent shares outstanding during the period. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. In computing the diluted earnings per share, the treasury stock method is used to determine, based on average stock prices for the respective periods, the common equivalent shares to be purchased using funds received from the exercise of stock options. Other than the dilutive effect of common stock equivalents, Creative did not have any other financial instruments that would have an impact on the weighted average number of ordinary shares outstanding, used for computing diluted earnings per share.

Following is a reconciliation between the average number of ordinary shares outstanding and equivalent shares outstanding (in '000):

	<b>Three months ended December 31,</b>		<b>Six months ended December 31,</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Average ordinary shares outstanding	81,999	92,428	82,705	92,708
Stock options	4,292	2,709	2,868	2,344
<b>Average ordinary shares and equivalent outstanding</b>	<b>86,291</b>	<b>95,137</b>	<b>85,573</b>	<b>95,052</b>

#### **NOTE 4 - INCOME TAXES**

Provision for income taxes for interim periods are based on estimated annual effective income tax rates. Income of foreign subsidiaries of Creative is subject to tax in the country in which the subsidiary is located. The effective income tax rate is based on the mix of income arising from various geographical regions, where the tax rates range from 0% to 50%; pioneer status income in Singapore, which is exempt from tax; and the utilization of non Singapore net operating losses. As a result, Creative's overall effective rate of tax is subject to changes based on the international source of income before tax.

#### **NOTE 5 - COMPREHENSIVE INCOME**

Effective July 1, 1998, Creative adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income." SFAS 130 establishes standards for the reporting of comprehensive income and its components which, as defined, includes all changes in equity (net assets) during a period from non-owner sources. The components of total comprehensive income are as follows (in US\$'000):

	<b>Three months ended December 31,</b>		<b>Six months ended December 31,</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Net income	\$ 44,480	\$ 60,582	\$ 55,290	\$ 82,095
Unrealized gain (loss) on quoted investments	154,401	376	152,612	(6,160)
<b>Total comprehensive income</b>	<b>\$ 198,881</b>	<b>\$ 60,958</b>	<b>\$ 207,902</b>	<b>\$ 75,935</b>

## NOTE 6 - SHARE REPURCHASES

Details of Share repurchases by Creative during the quarters since the commencement date of the program on November 6, 1998 are set out below:

<u>Quarter Ended:</u>	<u>Number of Shares Repurchased</u> (in millions)	<u>Average Price</u>
December 31, 1998	3.5	\$16
March 31, 1999	4.3	\$12
June 30, 1999	2.2	\$13
September 30, 1999	1.6	\$10
December 31, 1999	1.7	\$15
<b>Total</b>	<b>13.3</b>	<b>\$14</b>

At the 1999 Annual General Meeting (“AGM”) held on November 9, 1999, the shareholders approved the share repurchase mandate allowing Creative to buy up to 10% of the issued share capital of Creative as at the date of the AGM. This amounts to approximately 8.2 million shares. This authority to repurchase shares shall continue in force unless revoked or revised by the shareholders in a general meeting, or until the date that the next AGM of Creative is held or is required to be held, whichever is the earlier.

In accordance with Singapore statutes, such repurchases are recorded as a reduction in distributable profits.

## NOTE 7 - DIVIDEND

At the Annual General Meeting held on November 9, 1999, Creative’s shareholders approved an ordinary dividend of \$0.25 per ordinary share of Creative for the fiscal year ending June 30, 2000. Dividends of \$20.5 million were paid on December 17, 1999 to all shareholders on record as of December 1, 1999. Creative paid an ordinary dividend of \$0.25 and a special dividend of \$0.25 in the previous fiscal year.

## NOTE 8- LEGAL PROCEEDINGS

There has been no material change in the case entitled Emu Systems and Creative Technology Ltd. v. Aural Semiconductor involving United States Patent No 5,342,990. Creative intends to appeal the jury’s verdict and various pre-trial rulings by the Court.

## NOTE 9- RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

## **ITEM 2   MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **SAFE HARBOR STATEMENTS UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

#### **Safe Harbor Statements Under The Private Securities Litigation Reform Act of 1995**

Except for the historical information contained herein, the matters set forth herein (including statements using the words or phrases “will”, “we believe will”, “going to” and including any guidance on future products, future marketing efforts, future effects of Year 2000 issues, and future revenues, margins, expenses, and earnings) are forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward looking statements. Such risks and uncertainties include, among others: potential fluctuations in quarterly results due to the seasonality of Creative’s business and the difficulty of projecting such fluctuations; the vulnerability of certain markets to currency fluctuations and credit shortages; reductions in the market value of products sold by Creative, including increases in supply or declines in demand or prices for CD-ROM or DVD drives, board and chip-level products, and software products; the short product cycles that characterize most of Creative’s products; the increasing proliferation of sound functionality in new products from new and existing competitors and at the application software, chip and operating system levels; the increasing assertion of patents and other litigation claims affecting Creative and/or its suppliers, in areas including 3-D graphics and audio chip designs; Creative’s reliance on sole sources or near-sole sources for many of its chips and other key components and possible limitations on future availability of graphic chips, memory chips, and passive components used in Creative’s products; the timely ramp, delivery and market acceptance of new products, including Creative’s next generation audio, graphics accelerator, CD-ROM and DVD drives and communications products; the volatility of share prices for companies in Creative’s industry and the effect of those prices or other events beyond Creative’s control; the uncertainties inherent in identifying and correcting all Year 2000 issues in computer codes used by Creative and its suppliers and vendors; and other risk factors described in Creative’s Annual Report on Form 20-F for fiscal 1999 filed with the US Securities and Exchange Commission. Creative undertakes no obligation to publicly release the results of any revisions to such forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

## SELECTED CONSOLIDATED FINANCIAL DATA

The following is a summary of Creative's unaudited quarterly results for the eight quarters ended December 31, 1999, together with the percentage of sales represented by such results. Consistent with the PC peripheral market, due to consumer buying patterns, demand for Creative's products is generally stronger in the quarter ended December 31, compared to any other quarter of the fiscal year. In management's opinion, these results detailed below have been prepared on a basis consistent with the audited financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented when read in conjunction with the financial statements and notes thereto contained elsewhere herein. Creative's business is seasonal in nature and the quarterly results are not necessarily indicative of the results to be achieved for the complete year.

	Unaudited data for quarters ended (in US\$'000 except per share data)							
	Dec 31 1999	Sep 30 1999	Jun 30 1999	Mar 31 1999	Dec 31 1998	Sep 30 1998	Jun 30 1998	Mar 31 1998
Sales, net	\$ 436,789	\$ 269,078	\$ 275,134	\$ 313,715	\$ 428,699	\$ 278,989	\$ 253,009	\$ 298,423
Cost of goods sold	<u>306,912</u>	<u>199,062</u>	<u>213,071</u>	<u>232,964</u>	<u>299,308</u>	<u>199,156</u>	<u>188,210</u>	<u>202,124</u>
<b>Gross profit</b>	<b>129,877</b>	<b>70,016</b>	<b>62,063</b>	<b>80,751</b>	<b>129,391</b>	<b>79,833</b>	<b>64,799</b>	<b>96,299</b>
Operating expenses:								
Selling, general and administrative	76,340	53,502	47,966	51,534	58,445	51,723	43,899	42,949
Research and development	14,717	12,713	12,873	11,825	11,681	10,346	10,615	10,142
Other charges (1)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>8,268</u>	<u>--</u>
<b>Operating income</b>	<b>38,820</b>	<b>3,801</b>	<b>1,224</b>	<b>17,392</b>	<b>59,265</b>	<b>17,764</b>	<b>2,017</b>	<b>43,208</b>
Interest income and other, net (2)	<u>10,153</u>	<u>8,221</u>	<u>15,050</u>	<u>2,908</u>	<u>6,094</u>	<u>5,617</u>	<u>3,172</u>	<u>6,730</u>
<b>Income before income taxes and minority interest</b>	<b>48,973</b>	<b>12,022</b>	<b>16,274</b>	<b>20,300</b>	<b>65,359</b>	<b>23,381</b>	<b>5,189</b>	<b>49,938</b>
Provision for income taxes	(3,939)	(1,202)	(1,303)	(1,624)	(4,889)	(2,104)	(883)	(4,962)
Minority interest in (income) loss	<u>(554)</u>	<u>(10)</u>	<u>(235)</u>	<u>(425)</u>	<u>112</u>	<u>236</u>	<u>491</u>	<u>261</u>
<b>Net income</b>	<b>\$ 44,480</b>	<b>\$ 10,810</b>	<b>\$ 14,736</b>	<b>\$ 18,251</b>	<b>\$ 60,582</b>	<b>\$ 21,513</b>	<b>\$ 4,797</b>	<b>\$ 45,237</b>
Basic earnings per share	<u>\$ 0.54</u>	<u>\$ 0.13</u>	<u>\$ 0.17</u>	<u>\$ 0.21</u>	<u>\$ 0.66</u>	<u>\$ 0.23</u>	<u>\$ 0.05</u>	<u>\$ 0.50</u>
Average ordinary shares outstanding ('000)	<u>81,999</u>	<u>83,410</u>	<u>85,457</u>	<u>88,398</u>	<u>92,428</u>	<u>92,989</u>	<u>92,218</u>	<u>91,169</u>
Diluted earnings per share	<u>\$ 0.52</u>	<u>\$ 0.13</u>	<u>\$ 0.17</u>	<u>\$ 0.20</u>	<u>\$ 0.64</u>	<u>\$ 0.23</u>	<u>\$ 0.05</u>	<u>\$ 0.48</u>
Average ordinary shares and equivalents outstanding ('000)	<u>86,291</u>	<u>84,855</u>	<u>88,026</u>	<u>90,835</u>	<u>95,137</u>	<u>94,968</u>	<u>95,339</u>	<u>95,056</u>

**Unaudited data for quarters ended (as a percentage of sales)**

	<u>Dec 31</u> <u>1999</u>	<u>Sep 30</u> <u>1999</u>	<u>Jun 30</u> <u>1999</u>	<u>Mar 31</u> <u>1999</u>	<u>Dec 31</u> <u>1998</u>	<u>Sep 30</u> <u>1998</u>	<u>Jun 30</u> <u>1998</u>	<u>Mar 31</u> <u>1998</u>
Sales, net	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of goods sold	<u>70</u>	<u>74</u>	<u>77</u>	<u>74</u>	<u>70</u>	<u>71</u>	<u>74</u>	<u>68</u>
<b>Gross profit</b>	<b>30</b>	<b>26</b>	<b>23</b>	<b>26</b>	<b>30</b>	<b>29</b>	<b>26</b>	<b>32</b>
Operating Expenses:								
Selling, general and administrative	18	20	17	16	14	19	18	14
Research and development	3	5	5	4	3	4	4	3
Other charges (1)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>3</u>	<u>--</u>
<b>Operating income</b>	<b>9</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>13</b>	<b>6</b>	<b>1</b>	<b>15</b>
Interest income and other, net (2)	<u>2</u>	<u>3</u>	<u>5</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>2</u>
<b>Income before income taxes and minority interest</b>	<b>11</b>	<b>4</b>	<b>6</b>	<b>7</b>	<b>15</b>	<b>8</b>	<b>2</b>	<b>17</b>
Provision for income taxes	(1)	--	(1)	(1)	(1)	--	--	(2)
Minority interest in (income) loss	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Net income</b>	<b><u>10 %</u></b>	<b><u>4 %</u></b>	<b><u>5 %</u></b>	<b><u>6 %</u></b>	<b><u>14 %</u></b>	<b><u>8 %</u></b>	<b><u>2 %</u></b>	<b><u>15 %</u></b>

- Results of operations for the quarter ended June 30, 1998, included a one-time other charge for cessation of certain activities.
- Net interest and other income were inclusive of investments gain of: \$19.0 million for quarter ended December 31, 1999, \$4.4 million for quarter ended September 30, 1999, \$12.6 million for quarter ended June 30, 1999, \$0.2 million for quarter ended March 31, 1999, and \$2.2 million for quarter ended December 31, 1998. Other income for quarter ended December 31, 1999, included a write off of certain investments of \$9.8 million.

## **RESULTS OF OPERATIONS**

### **Three Months Ended December 31, 1999 Compared to Three Months Ended December 31, 1998**

Sales for the second quarter of fiscal 2000 (Q2/00) increased by 2%, compared to the same quarter (Q2/99) in the prior year. Audio product sales (Sound Blaster audio cards and chipsets) decreased by 2% and represented 39% of total sales in Q2/00, compared to 40% in Q2/99. This decrease in sales was due to a decline in average selling prices and a reduction in sales of low-end sound cards. Sales of multimedia upgrade kits including data storage, increased by 10% in Q2/00 and represented 23% of sales, compared to 22% in Q2/99. This increase in sales was due primarily to an increase in sales of CD-RW (Compact Disk ReWritable) drives, offset in part by a decline in average selling prices. Sales of video and graphics products including digital cameras, decreased by 21% and represented 19% of sales in Q2/00, compared with Q2/99, when they represented 25% of sales. This decrease in sales was attributable to a reduction in sales of low-end 2D graphics cards, offset in part by an increase in sales of digital cameras. Sales of speakers increased by 60% and represented 10% of sales in Q2/00 compared with Q2/99, when it represented 6% of sales. The improvement in speaker sales was a result of strong growth in the sales of multi-media speakers. Sales of other products, which includes accessories, music products, communication products and other miscellaneous items, increased by 26% and represented 9% of sales in Q2/00, compared to 7% in Q2/99.

Gross profit percentage at 30% of sales in Q2/00 was same as Q2/99. Q2/00 selling, general and administrative expenses increased by 31% to 18% of sales, compared to 14% in Q2/99. This increase was primarily a result of expenses incurred to launch and promote Creative's new internet businesses. Creative's research and development expenses ("R&D") were flat at 3% of sales in Q2/00, compared to Q2/99.

Compared to Q2/99, net interest and other income in Q2/00 increased by 67%. Included in the other income for Q2/00 was a net gain from investments and marketable securities of \$9.2 million, which included gains from investments of \$19.0 million and a write-off of certain investments amounting to \$9.8 million. Creative's gain from sale of investments in Q2/99 was \$2.2 million. Interest and other income decreased by \$2.9 million in Q2/00 compared to Q2/99 due to lower interest income contribution resulting from lower average cash balances in Q2/00.

Creative's provision for income taxes for the three months ended December 31, 1999 decreased by 19%, compared to the corresponding period in FY99, mainly due to a decline in taxable income. Creative's effective tax rate increased from 7% in Q2/99 to 8% in Q2/00. The increase in effective rate was due to a change in a mix of taxable income arising from various geographical regions, where the tax rates range from 0% to 50%.

### **Six Months Ended December 31, 1999 Compared to Six Months Ended December 31, 1998**

Sales for the first six months of fiscal 2000 were consistent with the corresponding period in the prior fiscal year. Audio product sales (Sound Blaster audio cards and chipsets) for the six months ended December 31, 2000, decreased by 11% and represented 40% of total sales, compared with 44% for the comparable period in the prior year. This decrease in sales of audio product was a result of decline in average selling prices. MMUK sales, including data storage, increased to 24% of sales in the six months ended December 31, 1999, compared with 23% for the corresponding period in the previous fiscal year. Sales of upgrade kits declined but their impact on MMUK sales was offset by an increase in sales of CD-RW drives. Sales of video and graphics products including digital cameras, decreased by 8% and represented 17% of total sales for the six months ended December 31, 1999, compared with 19% for the corresponding period in FY99. This decrease in sales was due to a decline in average selling prices and a reduction in sales of low-end 2D graphics cards, offset in part by an increase in sales of digital cameras. Sales of speakers increased by 81% to 11% of sales compared to 6% for the comparable period in the prior fiscal year. The improvement in speaker sales was due to a strong growth in sales of multi-media speakers. Sales of other products, which includes accessories, music products, communication products and other miscellaneous items increased by 14% in the six months ended December 31, 1999 and represented 9% of total sales, compared with 8% in the corresponding period of FY99. This improvement in sales was largely due to increased sales of communication products.

Gross profit for the six months ended December 31, 1999 declined by 4% to 28% of sales, as compared to 30% of sales for the corresponding period in FY99. This decrease in gross margin percentage was largely attributable to a decline in average selling prices of Creative's principal products.

Selling, general and administrative expenses (SG&A) were 18% of sales for the six month period ended December 31, 1999, compared to 16% for the same period in FY99. This increase was primarily a result of expenses incurred to launch and promote Creative's new internet businesses. Research and development expenses for the six months ended December 31, 1999 were 4% of sales, compared with 3% in the same period in FY99.

Net interest and other income for the six months period ended December 31, 1999, increased by 57%, compared with the same period in FY99. Included in the other income for the six months ended December 31, 1999, was a net gain from investments and marketable securities of \$13.6 million, which included gains from sales of investments of \$23.4 million and a write-off of certain investments amounting to \$9.8 million. Creative's gain from sale of investments for the first six months of FY99, was \$2.2 million. Other items, primarily net interest income, for the six months period ended December 31, 1999 decreased by 50%, compared to the corresponding period in FY99, primarily due to lower average cash balances during the first six months of FY00, compared with FY99.

Creative's provision for income taxes for the six months ended December 31, 1999 decreased by 26%, compared to the corresponding period in FY99. The decrease was primarily attributable to decrease in taxable income and the mix of income arising from various geographical regions, where the tax rates range from 0% to 50%.

## **LIQUIDITY AND CAPITAL RESOURCES**

Compared to the balance at June 30, 1999, cash and cash equivalents as of December 31, 1999 decreased by \$65.8 million to \$253.2 million. During the six month period ended December 31, 1999, operating activities generated net cash of \$58.7 million, which included \$32.9 million cash used to purchase marketable securities. Net cash used in investing activities was \$63.9 million, which included \$84.8 million used in strategic investments and \$29.1 million generated from sale of certain quoted investments. Creative used \$60.7 million on financing activities, which included \$41.8 million used to purchase and retire of 3.3 million of Creative's ordinary shares and \$20.5 million used to pay a dividend. See "Notes to the Consolidated Financial Statements - Note 6: Share Repurchases and Note 7: Dividend."

As of December 31, 1999, in addition to the cash reserves, Creative had unutilized credit facilities totaling approximately \$98.6 million for overdrafts, guarantees and letters of credit. Creative continually reviews and evaluates investment opportunities, including potential acquisitions of and investments in companies that can provide Creative with technologies, subsystems or complementary products that can be integrated into or offered with Creative's existing product range. Further, Creative from time to time evaluates various alternatives with regard to its businesses, including those of its subsidiaries. Such alternatives may include third party financing and/or offerings to the public. Management believes that Creative has adequate resources to meet its projected working capital and other cash needs for at least the next twelve months. To date, inflation has not had a significant impact on Creative's operating results.

## **EFFECTS OF RECENT ACCOUNTING PRONOUNCEMENTS**

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS 133 will be effective for Creative's fiscal year ending June 30, 2000. Management believes that this Statement will not have a significant impact on Creative.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the Securities and Exchange Commission. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. SAB 101 is effective for the fiscal quarter beginning September 30, 2000, however earlier adoption is permitted. Creative has not yet determined the impact, if any, that adoption will have on its consolidated financial statements.

## **YEAR 2000**

Beginning in 1997, Creative, including all of our subsidiaries, took steps designed to ensure that our products, information technology and facilities computer systems were Year 2000 compliant. To date, we have not experienced material Year 2000 issues with regard to our internal systems or with regard to any third party systems. Our expenditures relating to Year 2000 compliance have not been material. Despite the fact that the Year 2000 has commenced and we have experienced no problems to date, we cannot assure that the risks posed by Year 2000 issues will not adversely affect our business in the future, either as a result of unanticipated difficulties related to our own systems or to third parties.

## **ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Equity Price Risks:** Creative is exposed to equity price risk on its investments in marketable equity securities and quoted investments. An aggregate 10% reduction in market prices of Creative's investments in marketable equity securities, based on a sensitivity analysis of the balance as of December 31, 1999, would have a \$3.3 million adverse effect on Creative's quarterly results of operations and financial position. An aggregate 10% reduction in prices of quoted investment would not have a significant unfavorable impact on Creative's financial position or its results of operations.

**Interest Rate Risk:** Changes in interest rates could impact Creative's anticipated interest income on its cash equivalents and interest expense on its debt. Due to the short duration of Creative cash deposits and terms of its debt, an immediate 10% increase in interest rates would not have a material adverse impact on Creative's future operating results and cash flows.

**Foreign Currency Exchange Risk:** Creative's sales are substantially denominated in US dollars, which lowers its foreign exchange risk. However, Creative from time to time enters into forward exchange contracts to hedge certain accounts receivable exposures denominated in foreign currencies. These forward exchange contracts are denominated in the same currency as the underlying transactions. Creative does not use derivative financial instruments for trading or speculative purposes. The effect of an immediate 10% change in exchange rates on the forward contracts would not have a material impact on Creative's future operating results or cash flows.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CREATIVE TECHNOLOGY LTD.**

*[S] Ng Keh Long*

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**Ng Keh Long**  
**Chief Financial Officer**  
**Date: March 28, 2000**