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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, 1998**

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 )  
(Unaudited)

	<u>December 31,</u> <u>1998</u>	<u>June 30,</u> <u>1998</u>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 390,266	\$ 417,262
Accounts receivable, less allowances of \$13,000 and \$14,074	228,873	115,930
Inventory	124,945	144,320
Other assets and prepaids	16,780	10,180
<b>Total current assets</b>	<b>760,864</b>	<b>687,692</b>
Property and equipment, net	98,199	100,767
Investments and other non-current assets	79,882	76,654
	<b>\$ 938,945</b>	<b>\$ 865,113</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 123,970	\$ 90,544
Other accrued liabilities	80,051	61,381
Dividend payable	44,991	--
Income taxes payable	47,597	45,002
Current portion of long term obligations	5,258	5,973
<b>Total current liabilities</b>	<b>301,867</b>	<b>202,900</b>
Long term obligations	31,306	32,277
Minority interest in subsidiaries	7,477	7,622
<b>Shareholders' equity:</b>		
Ordinary shares ('000); S\$0.25 par value;		
Authorized: 200,000 shares		
Outstanding: 89,983 and 92,914 shares	9,231	9,678
Additional paid-in capital	161,577	158,532
Unrealized holding gains on quoted investments	7,558	13,719
Retained earnings	419,929	440,385
<b>Total shareholders' equity</b>	<b>598,295</b>	<b>622,314</b>
	<b>\$ 938,945</b>	<b>\$ 865,113</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>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
Sales, net	\$ 428,699	\$ 395,010	\$ 707,688	\$ 682,776
Cost of goods sold	<u>299,308</u>	<u>264,933</u>	<u>498,464</u>	<u>457,971</u>
<b>Gross profit</b>	<b><u>129,391</u></b>	<b><u>130,077</u></b>	<b><u>209,224</u></b>	<b><u>224,805</u></b>
Operating expenses:				
Selling, general and administrative	58,445	41,150	110,168	75,616
Research and development	11,681	11,985	22,027	20,966
Other charges	<u>--</u>	<u>60,300</u>	<u>--</u>	<u>60,300</u>
<b>Total operating expenses</b>	<b><u>70,126</u></b>	<b><u>113,435</u></b>	<b><u>132,195</u></b>	<b><u>156,882</u></b>
<b>Operating income</b>	<b><u>59,265</u></b>	<b><u>16,642</u></b>	<b><u>77,029</u></b>	<b><u>67,923</u></b>
Interest income and other, net	<u>6,094</u>	<u>6,276</u>	<u>11,711</u>	<u>29,750</u>
<b>Income before income taxes and minority interest</b>	<b><u>65,359</u></b>	<b><u>22,918</u></b>	<b><u>88,740</u></b>	<b><u>97,673</u></b>
Provision for income taxes	(4,889)	(8,332)	(6,993)	(13,960)
Minority interest in loss	<u>112</u>	<u>86</u>	<u>348</u>	<u>1,027</u>
<b>Net income</b>	<b><u>\$ 60,582</u></b>	<b><u>\$ 14,672</u></b>	<b><u>\$ 82,095</u></b>	<b><u>\$ 84,740</u></b>
Basic earnings per share:	\$ 0.66	\$ 0.16	\$ 0.89	\$ 0.95
Average ordinary shares outstanding ('000)	92,428	90,167	92,708	89,614
Diluted earnings per share:	\$ 0.64	\$ 0.15	\$ 0.86	\$ 0.89
Average ordinary shares and equivalents outstanding ('000)	95,137	95,031	95,052	94,730

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)

	Six months ended December 31,	
	1998	1997
<b>Cash flows from operating activities:</b>		
Net income	\$ 82,095	\$ 84,740
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,571	15,008
In-process technology written off	--	60,300
Minority interest in loss	(348)	(1,027)
Equity share in results of unconsolidated investments	18	(285)
Realized net gain from sale of investments	(2,248)	(18,469)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(112,943)	(7,484)
Inventory	19,375	(48,128)
Other assets and prepaids	(6,462)	(874)
Accounts payable	33,426	(4,507)
Other accrued liabilities	18,670	(7,543)
Income taxes payable	2,595	8,059
<b>Net cash provided by operating activities</b>	<b>54,749</b>	<b>79,790</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures, net	(7,006)	(11,531)
Proceeds from sale of investments	12,809	19,264
Purchase of new subsidiaries (net of cash acquired)	--	(126,366)
Repurchase of shares	(57,560)	--
Increase in other investments and assets, net	(31,103)	(10,280)
<b>Net cash used in investing activities</b>	<b>(82,860)</b>	<b>(128,913)</b>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in minority shareholders' loan and equity balance	203	(1,451)
Proceeds from exercise of share options and warrants	2,598	12,174
Repayments of long-term obligations, net	(1,686)	(3,703)
<b>Net cash provided by financing activities</b>	<b>1,115</b>	<b>7,020</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(26,996)</b>	<b>(42,103)</b>
Cash and cash equivalents at beginning of year	417,262	417,943
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 390,266</b>	<b>\$ 375,840</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 915	\$ 857
Income taxes paid	\$ 4,398	\$ 5,959

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" or "Company") have been prepared on a consistent basis with the June 30, 1998 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 Annual Report on Form 20-F for the year ended June 30, 1998, filed with the Securities and Exchange Commission. The results of operations for the three month and six month periods ended December 31, 1998 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 principal 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, 1998</u>	<u>June 30, 1998</u>
Raw materials	\$ 80,102	\$ 89,383
Work in progress	11,333	17,058
Finished products	33,510	37,879
	<u>\$ 124,945</u>	<u>\$ 144,320</u>

**NOTE 3 - EARNINGS PER SHARE**

The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128), during the second quarter of the fiscal year 1998 and retroactively restated earnings per share data for all periods presented. SFAS 128 requires the Company to report both basic earnings per share and diluted earnings per share. Basic earnings per share is computed using the weighted average number of ordinary (common) shares outstanding during the period. Diluted earnings 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.

## 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 26% 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 - ACQUISITIONS

In November 1997, Creative paid \$14 million from existing cash resources for all the assets of the NetMedia division of OPTi Inc. and received warrants to purchase 200,000 shares of OPTi's common stock at a price of \$10 per share. The NetMedia Division is in the business of research, development and sales of audio chipsets. In December 1997, the Company completed the acquisition of Cambridge SoundWorks Inc. ("Cambridge") through a tender offer, the terms of which are included in a "Schedule 13E-3-- Transaction Statement" filed with the Securities and Exchange Commission. Cambridge manufactures home stereo, car stereo, home theater and computer speakers. The cost to the Company to acquire the remaining 76% of the outstanding shares of Cambridge that were not previously owned by Creative prior to the tender offer, was approximately \$35 million and was paid in cash. The Company purchased the initial 24% of the outstanding shares of Cambridge in March 1997. In December 1997, Creative acquired all outstanding shares of Ensoniq Corp. ("Ensoniq") for approximately \$77 million paid in cash. Ensoniq is a key innovator in the design and development of PCI audio microchip technology and has strong brand recognition associated with its line of electronic musical instruments.

Creative accounted for these acquisitions using the purchase method of accounting and accordingly has included the results of their operations from their respective acquisition dates. Excluding the \$60.3 million write-off of acquired in-process technology from these companies, the aggregate impact on the Company's results of operations from these acquisitions was not material.

The allocation of the Company's aggregate purchase price for the above three acquisitions to net tangible assets, in-process technology and identifiable intangible assets acquired was based on independent appraisals and is summarized below. The tangible assets acquired primarily comprised of inventory, accounts receivable and fixed assets. The intangible assets are to be amortized over their respective benefit periods, which range from one to five years.

	<u>US\$'000</u>
Net tangible assets	\$ 20,532
In-process technology	60,300
Intangible assets	<u>50,494</u>
<b>Total purchase price paid</b>	<b>131,326</b>
Net carrying value of initial equity interest in Cambridge	(4,662)
Cash acquired in transactions	<u>(298)</u>
<b>Net cash used for acquisitions of Cambridge, Ensoniq and NetMedia Division of OPTi during the six months ended December 31, 1997</b>	<b>\$ <u><u>126,366</u></u></b>

## NOTE 6 - COMPREHENSIVE INCOME

Effective July 1, 1998, the Company 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. Examples of items to be included in comprehensive income, which are excluded from net income, include certain foreign currency translation adjustments and unrealized gain/loss on available-for-sale securities. 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>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
Net income	\$ 60,582	\$ 14,672	\$ 82,095	\$ 84,740
Unrealized gain (loss) on available-for-sale securities	376	(25,804)	(6,160)	(23,838)
<b>Total comprehensive income (loss)</b>	<b>\$ 60,958</b>	<b>\$ (11,132)</b>	<b>\$ 75,935</b>	<b>\$ 60,902</b>

## NOTE 7 - SHARE REPURCHASE

In November 1998, the Company obtained shareholders' approval to repurchase up to 9,300,000 of its Ordinary Shares for retirement. During the quarter ended December 31, 1998, 3.5 million shares were repurchased at an average price of \$16 and retired. In accordance with Singapore statutes, such repurchases are recorded as a reduction in distributable profits.

On December 30, 1998, at the annual general meeting (AGM), the shareholders approved a share repurchase program of up to 10% of the Company's issued share capital as at the date of the AGM. This authority conferred on the Directors shall continue in force unless revoked or varied by the Company in general meeting, or until the date that the next AGM of the Company is held or is required to be held, whichever is the earlier.

## NOTE 8 - DIVIDEND

In November 1998, Creative's Directors recommended two dividends totaling \$0.50 per each Ordinary Share of the Company for fiscal 1999. The two recommended dividends consisting of an Ordinary Dividend of \$0.25 and a Special Dividend of \$0.25 were approved by shareholders at the Annual General Meeting held on December 30, 1998. The dividends of approximately \$45 million were accrued in the financial statements for the period ended December 31, 1998 and subsequently paid on February 2, 1999 to shareholders on record as of January 18, 1999. Creative did not pay cash dividends on its Ordinary Shares in any previous fiscal year.

## NOTE 9 - CHANGES TO STOCK OPTION PLAN

As of October 1998, Creative is no longer subject to the listing rules of the Stock Exchange of Singapore but is required only to comply with the listing rules of NASDAQ, including rules governing share option plans. Since many of Creative's employees and shareholders are located in the United States of America, Creative has obtained shareholders' approval in December 1998 to replace the Existing Scheme with the Creative Technology (1999) Share Option Scheme ("1999 Scheme"), which is more in accord with US practice.

The following is a summary of the major differences between the Existing Scheme and the 1999 Scheme.

a) Eligibility

The 1999 Scheme allows Options to be granted to full-time employees of the Group as well as consultants and non-executive Directors.

b) Size of the Scheme

The total number of Scheme Shares that may be granted as Options is 7,500,000, provided that such amount shall be automatically increased on the first day (July 1) of each of the five financial years ending June 30, 2001, 2002, 2003, 2004 and 2005 by three percent of the issued share capital of the Company as at the last day of the immediately preceding financial year. Under the Existing Scheme, the total number of shares over which options may be granted is restricted to 15% of the issued share capital from time to time.

c) Maximum Number of Shares to be issued to a Participant

The maximum entitlement of a Participant in any financial year during the operation of the Scheme shall not exceed the lesser of (1) 1,500,000 Scheme Shares, or (2) 1.5% of the issued share capital of the Company as at the last day of the preceding financial year. Under the Existing Scheme, the maximum entitlement of a Participant is 25% of the total number of Shares available under the Scheme.

d) Subscription Price

The Subscription Price for Options granted under the 1999 Scheme may be less than the Fair Market Value of the Shares as of the Date of Grant. The Subscription Price under the Existing Scheme was required to be equal to or greater than the Fair Market Value of the shares determined based on an average closing price of the five trading days prior to the grant of the option.

e) Time of Grant

Under the 1999 Scheme, Options may be granted at any time. Under the Existing Scheme, Options may be only granted during certain periods following the release of financial reports.

f) Discretion as to Term, Exercisability and Minimum Exercise Price

The Committee of the 1999 Scheme may determine the individuals to receive Option grants, the number of Options to be granted, the exercise price and the vesting schedule of the Options. Grants under the Existing Scheme were subject to certain limitations, including limitations as to term, exercisability and minimum exercise price.

g) Option Exercise Period

Options issued under the Existing Scheme may be exercised from the first anniversary to the fifth anniversary of the date of grant. Under the 1999 Scheme, the Committee has the discretion to set the vesting schedule in the letter of offer.

## **NOTE 10 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In June 1997, the FASB issued SFAS 131, "Disclosure About Segments Of An Enterprise And Related Information." SFAS 131 establishes standards for the way companies report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Adoption of this new standard is not expected to have a material effect on the financial statements. The disclosures prescribed by SFAS 131 will be effective for the Company's financial statements for the year ended June 30, 1999.

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 the Company's fiscal year ending June 30, 2000. Management believes that this Statement will not have a significant impact on the Company.

## **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**

Except for the historical information contained herein, the matters set forth herein (including any guidance on future products, future marketing efforts, future effects of Year 2000 software 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; Creative's reliance on sole sources for many of its chips and other key components; 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 1998 filed with the US Securities and Exchange Commission. The Company 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, 1998, 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.

	Unaudited data for quarters ended (in US\$'000 except per share data)							
	Dec 31 1998	Sep 30 1998	Jun 30 1998	Mar 31 1998	Dec 31 1997	Sep 30 1997	Jun 30 1997	Mar 31 1997
Sales, net	\$ 428,699	\$ 278,989	\$ 253,009	\$ 298,423	\$ 395,010	\$ 287,766	\$ 280,066	\$ 282,818
Cost of goods sold	<u>299,308</u>	<u>199,156</u>	<u>188,210</u>	<u>202,124</u>	<u>264,933</u>	<u>193,038</u>	<u>192,204</u>	<u>195,264</u>
<b>Gross profit</b>	<b>129,391</b>	<b>79,833</b>	<b>64,799</b>	<b>96,299</b>	<b>130,077</b>	<b>94,728</b>	<b>87,862</b>	<b>87,554</b>
Operating expenses:								
Selling, general and administrative	58,445	51,723	43,899	42,949	41,150	34,466	35,370	32,406
Research and development	11,681	10,346	10,615	10,142	11,985	8,981	10,094	7,459
Other charges (1)	<u>--</u>	<u>--</u>	<u>8,268</u>	<u>--</u>	<u>60,300</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Operating income</b>	<b>59,265</b>	<b>17,764</b>	<b>2,017</b>	<b>43,208</b>	<b>16,642</b>	<b>51,281</b>	<b>42,398</b>	<b>47,689</b>
Interest income and other, net (2)	<u>6,094</u>	<u>5,617</u>	<u>3,172</u>	<u>6,730</u>	<u>6,276</u>	<u>23,474</u>	<u>14,079</u>	<u>1,273</u>
<b>Income before income taxes and minority interest</b>	<b>65,359</b>	<b>23,381</b>	<b>5,189</b>	<b>49,938</b>	<b>22,918</b>	<b>74,755</b>	<b>56,477</b>	<b>48,962</b>
Provision for income taxes	(4,889)	(2,104)	(883)	(4,962)	(8,332)	(5,628)	(4,968)	(4,896)
Minority interest in loss (income)	<u>112</u>	<u>236</u>	<u>491</u>	<u>261</u>	<u>86</u>	<u>941</u>	<u>(282)</u>	<u>173</u>
<b>Net income</b>	<b>\$ <u>60,582</u></b>	<b>\$ <u>21,513</u></b>	<b>\$ <u>4,797</u></b>	<b>\$ <u>45,237</u></b>	<b>\$ <u>14,672</u></b>	<b>\$ <u>70,068</u></b>	<b>\$ <u>51,227</u></b>	<b>\$ <u>44,239</u></b>
Basic earnings per share	<u>\$ 0.66</u>	<u>\$ 0.23</u>	<u>\$ 0.05</u>	<u>\$ 0.50</u>	<u>\$ 0.16</u>	<u>\$ 0.79</u>	<u>\$ 0.58</u>	<u>\$ 0.50</u>
Average ordinary shares outstanding ('000)	<u>92,428</u>	<u>92,989</u>	<u>92,218</u>	<u>91,169</u>	<u>90,167</u>	<u>89,061</u>	<u>88,743</u>	<u>88,481</u>
Diluted earnings per share	<u>\$ 0.64</u>	<u>\$ 0.23</u>	<u>\$ 0.05</u>	<u>\$ 0.48</u>	<u>\$ 0.15</u>	<u>\$ 0.74</u>	<u>\$ 0.55</u>	<u>\$ 0.48</u>
Average ordinary shares and equivalents outstanding ('000)	<u>95,137</u>	<u>94,968</u>	<u>95,339</u>	<u>95,056</u>	<u>95,031</u>	<u>94,430</u>	<u>93,397</u>	<u>92,395</u>

Unaudited data for quarters ended (as a percentage of sales)								
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
	1998	1998	1998	1998	1997	1997	1997	1997
Sales, net	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of goods sold	70	71	74	68	67	67	69	69
<b>Gross profit</b>	<b>30</b>	<b>29</b>	<b>26</b>	<b>32</b>	<b>33</b>	<b>33</b>	<b>31</b>	<b>31</b>
Operating Expenses:								
Selling, general and administrative	14	19	18	14	11	12	13	11
Research and development	3	4	4	3	3	3	3	3
Other charges (1)	--	--	3	--	15	--	--	--
<b>Operating income</b>	<b>13</b>	<b>6</b>	<b>1</b>	<b>15</b>	<b>4</b>	<b>18</b>	<b>15</b>	<b>17</b>
Interest income and other, net (2)	2	2	1	2	2	8	5	--
<b>Income before income taxes and minority interest</b>	<b>15</b>	<b>8</b>	<b>2</b>	<b>17</b>	<b>6</b>	<b>26</b>	<b>20</b>	<b>17</b>
Provision for income taxes	(1)	--	--	(2)	(2)	(2)	(2)	(1)
Minority interest in loss (income)	--	--	--	--	--	--	--	--
<b>Net income</b>	<b>14 %</b>	<b>8 %</b>	<b>2 %</b>	<b>15 %</b>	<b>4 %</b>	<b>24 %</b>	<b>18 %</b>	<b>16 %</b>

(1) Other charges included in the results of operations represent the following: for the quarter ended June 30, 1998, a charge for cessation of certain activities; and for the quarter ended December 31, 1997, the write-off of acquired in-process technology resulting from the acquisitions of Ensoniq Corporation, Cambridge SoundWorks Inc. and the NetMedia Division of OPTi Inc.

(2) Net interest and other income were inclusive of net gain from sale of investments: \$2.2 million for quarter ended December 31, 1998; \$18.5 million for quarter ended September 30, 1997, and \$6.8 million for quarter ended June 30, 1997.

## RESULTS OF OPERATIONS

### Three Months Ended December 31, 1998 Compared to Three Months Ended December 31, 1997

Sales for the second quarter of fiscal 1999 increased by \$33.7 million or 9%, compared to the same quarter in the prior year, due primarily to an increase in sales of graphics and speaker products. Audio product sales (Sound Blaster audio cards and chipsets) as a percentage of sales decreased by 12% to 40% in Q2/99 compared to Q2/98, when they represented 49% of sales. MMUK sales decreased by 39% in Q2/99 and represented 22% of sales, compared with Q2/98, when they represented 38%. These decreases in audio products and MMUK sales were primarily a result of a decline in average selling prices, and a reduction of sales to Asian and Latin American customers resulting from macro-economic issues in those regions. Sales of video and graphics products increased by 457% and represented 25% of total sales in Q2/99, compared with Q2/98, when they represented 5% of total sales. This was attributable to an increase in sales of Creative's graphics products arising from the launching of 3D Blaster Voodoo2 in February 1998; and Graphics Blaster RIVA TNT and 3D Blaster Banshee graphic accelerator cards in September 1998. Sales of other products increased in Q2/99 by 85%, compared with Q2/98,

due primarily to an increase in speaker sales and represented 13% of total sales, compared with 8% in Q2/98. Gross profit as a percentage of sales was 30% in Q2/99, as compared to 33% in Q2/98. This decrease in gross margin percentage was largely attributable to a decline in average selling prices of audio and MMUK products.

Q2/99 selling, general and administrative (SG&A) expenses increased by \$17.3 million over Q2/98, and represented 14% of sales, compared to 11% in Q2/98. This increase was primarily attributable to an increase in overhead expenses arising from the strategic acquisitions made at the end of the second quarter of fiscal 1998, and an increase in marketing and advertising expenses incurred in launching of new products. Research and development expenses in Q2/99 remained flat at 3% of sales in Q2/99, as compared to Q2/98. Included in operating expenses for Q2/98 was a \$60.3 million charge for the write off of acquired in-process technology resulting from acquisitions in that quarter. See "Notes To Consolidated Financial Statements - Note 5: Acquisitions."

Net interest and other income as a percentage of sales remained unchanged at 2% in Q2/99 as compared to Q2/98. Included in net interest and other income for Q2/99 was a \$2.2 million realized gain from sale of investments.

Creative's Q2/99 provision for income taxes decreased by \$3.4 million over Q2/98. The decrease is primarily attributable to decreased profitability excluding other charges; the mix of income arising from various geographical regions, where the tax rates range from 26% to 50%; pioneer status income from Singapore, which is exempt from tax; and utilization of non-Singapore net operating losses.

#### **Six Months Ended December 31, 1998 Compared to Six Months Ended December 31, 1997**

Sales for the first six months of fiscal 1999 increased by \$24.9 million or 4%, compared to the corresponding period in the prior fiscal year. This increase is primarily attributable to an increase in sales of graphics and speaker products. Audio product sales (Sound Blaster audio cards and chipsets) for the six months ended December 31, 1998 decreased by 7% and represented 44% of total sales, compared with 49% for the comparable period in the prior year. MMUK sales decreased by 39% in the six months ended December 31, 1998 and represented 23% of total sales, compared with the corresponding period in FY98, when they represented 39% of total sales. These decreases in audio products and MMUK sales were primarily a result of a decline in average selling prices, and a reduction of sales to Asian and Latin American customers resulting from macro-economic issues in those regions. Sales of video and graphics products increased by 456% and represented 19% of total sales for the six months ended December 31, 1998, compared with 4% for the corresponding period in FY98. This revenue growth is primarily attributable to the sales of Creative's new line of graphics cards: 3D Blaster Voodoo2, Graphics Blaster RIVA TNT and 3D Blaster Banshee graphic accelerator cards. Sales of other products increased by 87% in the six months ended December 31, 1998 and represented 14% of total sales, compared with 8% in the corresponding period of FY98. This increase was primarily attributable to an increase in speaker sales.

Gross profit for the six months ended December 31, 1998 declined by \$15.6 million or 7% to 30% of sales, as compared to 33% of sales for the corresponding period in FY98. This decrease in gross margin percentage was largely attributable to a decline in average selling prices of audio and MMUK products.

Selling, general and administrative expenses (SG&A) increased by \$34.6 million to 16% of sales during the six months ended December 31, 1998, compared to 11% of sales for the same period in FY98. This increase was primarily attributable to an increase in overhead expenses arising from the strategic acquisitions made at the end of the second quarter of fiscal 1998, and an increase in marketing and advertising expenses incurred in launching new products. Research and development expenses for the six months ended December 31, 1998 remained flat at 3% of sales, compared with the same period in FY98. Included in operating expenses for the six months ended December 31, 1997, was a \$60.3 million charge in Q2/98 for the write off of acquired in-process technology resulting from acquisitions in that quarter. See "Notes To Consolidated Financial Statements - Note 5: Acquisitions."

Net interest and other income for the six months ended December 31, 1998, decreased by \$18.0 million, compared

with the same period in FY98. Included in the net interest and other income for the six months ended December 31, 1998, was a gain of \$2.2 million from the sale of investments, compared to a gain of \$18.5 million during the same period in FY98. Other items, primarily net interest income, for the six months ended December 31, 1998 decreased by \$1.8 million to \$9.5 million, as compared to the corresponding period in FY98, primarily due to lower average cash balances during the first six months of FY99, compared with FY98.

Creative's provision for income taxes for the six months ended December 31, 1998 decreased by \$7.0 million over the corresponding period in FY98. The decrease is primarily attributable to decreased profitability; the mix of income arising from various geographical regions, where the tax rates range from 26% to 50%; pioneer status income from Singapore, which is exempt from tax; and utilization of non-Singapore net operating losses.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents as of December 31, 1998 decreased by \$27.0 million to \$ 390.3 million, compared to the balance at June 30, 1998. This decrease primarily resulted from \$57.6 million of cash used to repurchase 3.5 million of the Company's Ordinary Shares (see "Notes to the Consolidated Financial Statements - Note 7: Share Repurchase") and \$38.1 million of cash used for capital expenditures and purchase of other investments and assets. During the six month period ended December 31, 1998, \$54.7 million of cash was generated from operating activities; \$1.1 million from financing activities, primarily attributable to the exercise of stock options; and \$12.8 million proceeds from investments disposed. As of December 31, 1998, in addition to the cash reserves, Creative had unutilized credit facilities totaling approximately \$106.1 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 the Company's existing product range.

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 1997, the FASB issued SFAS 131, "Disclosure About Segments Of An Enterprise And Related Information." SFAS 131 establishes standards for the way companies report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Adoption of this new standard is not expected to have a material effect on the financial statements. The disclosures prescribed by SFAS 131 will be effective for the Company's financial statements for the year ended June 30, 1999.

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 the Company's fiscal year ending June 30, 2000. Management believes that this Statement will not have a significant impact on the Company.

## **YEAR 2000**

A Year 2000 team headed by the Director, Worldwide MIS reporting directly to the Executive Management of the Company has been in place since 1997 to address potential Year 2000 issues in the Company under a corporate-wide Year 2000 program. The Year 2000 team has representation from all major subsidiaries and departments in the Company. The Year 2000 program covers the following areas in the Company that can be impacted by potential Year 2000 problems:

- Information Technology (IT) systems in use;
- Non-IT systems in use;
- Company's products; and,
- Third party relationships with the Company.

The Year 2000 program in the Company is divided into five stages :

- Stage 1: Inventorise all systems and third party relationships which are vulnerable to potential Year 2000 problems;
- Stage 2: Check for Year 2000 compliance of inventorised items;
- Stage 3: For non-compliant systems and third party relationships, determine their criticality to the business and recommend and take corrective actions;
- Stage 4: For critical systems and third party relationships, conduct Year 2000 testing; and
- Stage 5: Establish contingency plans for critical systems.

Most of the Company's products do not process dates or date information, but those which do generally rely on the operating system software of the PC, on which the Company's product is being run, to process the date function. The Company has reviewed and tested its current products to ensure that all current hardware and software products designed and manufactured by the Company are Year 2000 compliant.

The Company's core IT business systems - hardware, operating systems, systems software, networking and applications software - have been tested and are fully Year 2000 compliant. In the areas of the other IT and non-IT systems, the Company is monitoring and confirming with vendors of their Year 2000 compliance. The Company is also reviewing its facilities and infrastructure. To-date, no material non-compliance has been identified. However, the Company does not rule out the possibility of material non-compliance of its IT and non-IT systems to subsequently surface.

The Company has surveyed its suppliers with whom it has material relationships on their Year 2000 readiness. To-date, most have replied and of these, all have indicated that they do not expect to be impacted by potential Year 2000 problems although a number are still less than 50% complete in their Year 2000 efforts. The Company will continue to monitor the progress of all its material suppliers with respect to their Year 2000 initiatives. This applies to other material third parties as well as third party providers of telecommunications, utilities, transportation and other service providers.

Based on currently available information compiled by the Company, the Company makes the following forward looking statement: The Company does not believe that the costs of addressing the Year 2000 issue will be material to the Company. This is based on the work done to date; the reliance, among other things, on the reliability of Year 2000 declarations made by material third parties and continued availability of key resources within the Company to address Year 2000 issues. There can be no guarantee that such conditions will not change. The Company expects to have all its core IT business systems and its other major systems to be Year 2000 compliant by June 1999. All other systems are expected to be Year 2000 compliant by end of year 1999. The estimated costs of and time frame related to this project are based on estimates of the Company's management, and there can be no assurance that actual costs will not differ materially from the current expectations. Nevertheless, the Company does not expect that the costs of addressing potential problems relating to the Year 2000 issue will have a material adverse impact on the Company's financial position, results of operations or cash flows in future periods. While

the Company is devoting the necessary resources to resolve all significant Year 2000 issues in a timely manner, if such processing issues are not resolved in a timely manner, the Year 2000 issue could have a material impact on the operations and financial condition of the Company. The most likely worst case scenarios include:

- hardware or software failures that would prevent our engineers, application developers, procurement and manufacturing staff and research and development staff from effectively performing their duties;
- failure to supply necessary chips and other components by our third party vendors;
- corruption of data contained in our internal information systems; and
- the failure of infrastructure services provided by government agencies and other third parties, including public utilities and internet services.

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

Reference is made to Part I, Item 9A, Quantitative and Qualitative Disclosures about Market Risk, in the Registrant's Annual Report on Form 20-F for the year ended June 30, 1998.

## **PART II - OTHER INFORMATION**

### **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

#### **Annual General Meeting:**

At the Annual General Meeting (AGM) of shareholders held on December 30, 1998, the following resolutions, set forth in detail in the Proxy Statement and Circular to Shareholders dated December 4, 1998 filed with Securities and Exchange Commission and incorporated herein by reference, were approved:

#### **RESOLUTIONS:**

	<b><u>Votes For</u></b>	<b><u>Votes Against</u></b>
	<b><u>By Show of Hands*</u></b>	
<b><u>RESOLUTION 1</u></b> To receive and adopt the Company's Financial Statements, including the Directors' Report, Audited Accounts and Auditors' Report for the fiscal year ended June 30, 1998:	18	1
<b><u>RESOLUTION 2</u></b> To re-elect Mr. Tang Chun Choy as Director:	17	1
<b><u>RESOLUTION 3</u></b> To approve Directors' fee of S\$120,000:	15	1
<b><u>RESOLUTION 4</u></b> To approve the re-appointment of Price Waterhouse as the Company's independent public accountants for fiscal year 1999 and to authorize the Directors to fix their remuneration:	15	1
<b><u>RESOLUTION 5</u></b> To approve the Ordinary Dividend (tax exempt in Singapore) of US\$0.25 per Ordinary Share for the year ending June 30, 1999:	20	1
<b><u>RESOLUTION 6</u></b> To approve the Special Dividend (tax exempt in Singapore) of US\$0.25 per Ordinary Share for the year ending June 30, 1999:	19	1
<b><u>RESOLUTION 7</u></b> To approve the issuance of Ordinary Shares of up to 25% of the issued capital for the time being from the 1998 AGM Date to the 1999 AGM Date pursuant to Section 161 of the Singapore Companies Act:	18	2
<b><u>RESOLUTION 8</u></b> To approve issuance of Ordinary Shares upon exercise of existing employee share options previously granted under the Flexible Share Incentive Plans and the Creative Technology Employees' Share Option Scheme from the 1998 AGM Date to the 1999 AGM Date:	19	2
<b><u>RESOLUTION 9</u></b> To approve the repurchase of Ordinary Shares of up to 10% of the issued Ordinary Share Capital of the Company as of the date of the resolution:	21	2

**Extraordinary General Meeting:**

At the Extraordinary General Meeting of shareholders held on December 30, 1998, the following resolutions, set forth in detail in the Circular to Shareholders dated December 4, 1998 filed with Securities and Exchange Commission and incorporated herein by reference, were approved:

**AS SPECIAL RESOLUTIONS:**

	<u>Votes For</u>	<u>Votes Against</u>
	<u>By poll of shares *</u>	
<b><u>RESOLUTION 1</u></b>		
To approve the amendments to Article 5(3) and Article 5(5) of the Articles of Association:	45,742,016	2,571,382

Total of 172,524 shares abstained from voting on Resolution 1.

**AS ORDINARY RESOLUTION:**

<b><u>RESOLUTION 2</u></b>		
To approve the Creative Technology (1999) Share Option Scheme (“1999 Scheme”) in place of the Creative Technology Employees’ Share Option Scheme and to authorize the Directors to implement and administer the 1999 Scheme:	33,941,395	14,429,247

Total of 97,930 shares abstained from voting on Resolution 2.

\* Under the Company’s Memorandum and Articles of Association, which are in accordance with the (Singapore) Companies Act, voting at meetings is based on either a show of hands or on a poll of shares held. If the former voting method is used, any shareholder present has the right to request for a poll of shares being voted. At the AGM held on December 30, 1998, voting was based on a show of hands and no shareholder present requested a poll of shares. At the EGM held on December 30, 1998, voting was based on a poll of shares.

## **SIGNATURES**

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*

.....  
**Ng Keh Long**  
**Chief Financial Officer.**  
**Date: March 30, 1999.**