CREATIVE TECHNOLOGY LTD

THIRD QUARTER ENDED 31 MARCH 2011 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 31 MARCH 2011

1 CONSOLIDATED INCOME STATEMENT

	GROUP		GROUP		
	Three mont	ths ended	Nine months ended 31 March		
	31 Ma 2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000	
Sales, net	57,154	63,291	183,670	216,063	
Cost of goods sold	43,427	46,948	138,148	161,352	
Gross profit	13,727	16,343	45,522	54,711	
Expenses:					
Selling, general and administrative	(16,175)	(15,310)	(46,335)	(46,227)	
Research and development	(17,070)	(14,083)	(49,226)	(42,598)	
Total expenses	(33,245)	(29,393)	(95,561)	(88,825)	
Other income	78	156	435	530	
Other gains (losses), net	6,667	(7,397)	22,404	5,679	
Share of profits (losses) of associated companies	64	(435)	(169)	(1,014)	
Interest expense	(20)	(28)	(61)	(87)	
Loss before income tax	(12,729)	(20,754)	(27,430)	(29,006)	
Income tax (expense) credit	(247)	(16)	(12)	1,936	
Net loss	(12,976)	(20,770)	(27,442)	(27,070)	
Attributable to: Equity holders of the Company Non-controlling interests	(13,011) 35	(20,773) 3	(27,495) 53	(27,073) 3	
Loss per share for loss attributable to equity holders of the Company - Basic (US\$ per share) - Diluted (US\$ per share)	(0.19) (0.19)	(0.30) (0.30)	(0.39) (0.39)	(0.39) (0.39)	

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

	GROUP					
	Three months ended 31 March			nths ended March		
	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000		
Depreciation and amortization	(2,034)	(2,142)	(5,676)	(8,027)		
(Write-off/write-down for inventory obsolescence)/Reversal of write-off/write-down for inventory obsolescence	(1,634)	(480)	(1,316)	3,702		
Foreign exchange gain (loss)	4,252	(7,740)	20,023	(1,823)		
Gain on disposal of investments	2,159	-	2,349	4,874		

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP				
	Three months ended 31 March			ths ended arch	
	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000	
Net loss	(12,976)	(20,770)	(27,442)	(27,070)	
Other comprehensive income: Net fair value changes of financial assets, available- for-sale	(5,527)	6,200	984	12,887	
Total comprehensive income for the period	(18,503)	(14,570)	(26,458)	(14,183)	
Attributable to: Shareholders of the Company Non-controlling interests	(18,538) 35	(14,573)	(26,511) 53	(14,186)	
Total comprehensive income for the period	(18,503)	(14,570)	(26,458)	(14,183)	

3 BALANCE SHEETS

	Group)	Company		
	31 March 2011 US\$'000	30 June 2010 US\$'000	31 March 2011 US\$'000	30 June 2010 US\$'000	
ASSETS					
Current assets:					
Cash and cash equivalents	177,322	214,025	156,704	197,803	
Trade receivables	30,456	28,999	5,968	4,355	
Amounts due from subsidiaries	-	-	33,459	28,880	
Inventories	48,124	46,120	28,511	25,502	
Other current assets	22,535	20,990	6,480	4,306	
	278,437	310,134	231,122	260,846	
Non-current assets:					
Financial assets, available-for-sale	35,877	33,895	_	_	
Other non-current receivables	606	582	_	_	
Amounts due from subsidiaries	-	-	185,038	184,282	
Investments in subsidiaries	_	_	45,390	45,390	
Investments in associated companies	1,130	_	-	-	
Property and equipment	29,006	29,411	1,531	1,394	
Intangible assets	5,983	6,324	-	-	
Other non-current assets	16,144	22,205	1,487	998	
	88,746	92,417	233,446	232,064	
Total assets	367,183	402,551	464,568	492,910	
LIABILITIES Current liabilities: Trade payables Amounts due to subsidiaries Accrued liabilities and provisions	21,915 - 61,144	24,089 - 65,249	16,062 26,658 28,976	18,218 23,238 30,777	
Current income tax liabilities	2,224	2,235	1,987	1,951	
	85,283	91,573	73,683	74,184	
Non-current liabilities:					
Amounts due to subsidiaries	_	-	21,148	21,044	
Deferred income tax liabilities	21,202	21,202	-	-	
	21,202	21,202	21,148	21,044	
Total liabilities	106,485	112,775	94,831	95,228	
NET ASSETS	260,698	289,776	369,737	397,682	
NET ROBER	200,050	203,770	000,101	077,002	
EQUITY	266752	266 752	266.752	266.752	
Share capital	266,753	266,753	266,753	266,753	
Treasury shares	(18,897)	(19,122)	(18,897)	(19,122)	
Fair value reserve Other reserves	14,856	13,872	- 27 709	- 24 921	
	65,172	62,285	37,708	34,821	
Retained earnings	(67,503) 260,381	(34,654) 289,134	84,173 369,737	115,230 397,682	
Non-controlling interests	200,381	289,134	309,/3/	397,082	
Total equity	260,698	289,776	369,737	397,682	

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP		
	Nine months ended 31 March		
	2011 US\$'000	2010 US\$'000	
Cash flows from operating activities:	· · · · · · · · · · · · · · · · · · ·	,	
Net loss	(27,442)	(27,070)	
Adjustments for:			
Income tax expense (credit)	12	(1,936)	
Depreciation of property and equipment	5,335	7,657	
Amortisation of intangible assets	341	370	
Employee share-based expenses	2,887	3,145	
Share of losses of associated companies	169	1,014	
Loss on disposal of property and equipment	24	44	
Impairment loss of financial assets, available-for-sale	598	81	
Net impairment loss of investments in associated companies		80	
Gain on disposal of financial assets, available-for-sale	(2,131)		
Deemed gain on dilution of subsidiary	(218)		
Gain on disposal of investments in associated companies	·	(4,874)	
Foreign exchange (gain) loss	(16,673)	2,430	
Write-off non-controlling interests upon liquidation of subsidiary	(380)	,	
Dividend income	(139)	(65)	
Interest income	(296)	(465)	
Interest expense	61	87	
merest expense	(37,852)	(19,502)	
Changes in working capital, net of effects from acquisition and			
disposal of subsidiaries			
Trade receivables	(1,457)	11,152	
Inventories	(2,004)	2,480	
Other assets and receivables	4,953	5,755	
Trade payables	(2,174)	(7,542)	
Accrued liabilities and provisions	(4,166)	(4,916)	
Cash used in operations	(42,700)	(12,573)	
Interest received	291	463	
Interest paid		(4)	
Income tax (paid) refunded	(27)	149	
Net cash used in operating activities	(42,436)	(11,965)	
Cash flows from investing activities:			
Purchase of property and equipment	(4,964)	(5,717)	
Proceeds from sale of property and equipment	10	14	
Proceeds from disposal of investments in associated companies		6,189	
Proceeds from sale of financial assets, available-for-sale	2,652		
Purchase of financial assets, available-for-sale	(2,117)		
Purchase of investments in associated companies	(1,541)	(278)	
Purchase of intangible assets		(83)	
Dividend received	139	65	
Net cash (used in) provided by investing activities	(5,821)	190	
Cash flows from financing activities:			
Proceeds from exercise of ordinary share options	225	21	
Repayments of capital leases		(10)	
Dividends paid to equity holders of the Company	(5,354)	(4,930)	
Dividends paid to non-controlling interests		(140)	
Net cash used in financing activities	(5,129)	(5,059)	
Net decrease in cash and cash equivalents	(53,386)	(16,834)	
Cash and cash equivalents at beginning of financial year	214,025	250,551	
Effects of currency translation on cash and cash equivalents	16,683	(2,431)	
Cash and cash equivalents at end of the period	177,322	231,286	

5 STATEMENTS OF CHANGES IN EQUITY

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

	Share Capital US\$'000	Treasury Shares US\$'000	Fair Value Reserve US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
<u>FY2011</u>								
Balance at 1 July 2010	266,753	(19,122)	13,872	62,285	(34,654)	289,134	642	289,776
Utilization of treasury shares for shares issued								
under employee options plans	-	225	-	(55)	-	170	-	170
Dividends paid	-	-	-	-	(5,354)	(5,354)	-	(5,354)
Employee share-based expense	-	-	-	2,942	-	2,942	-	2,942
Currency translation difference	-	-	-	-	-	-	2	2
Write-off non-controlling interests upon								
liquidation of subsidiary	-	-	-	-	-	-	(380)	(380)
Total comprehensive income (loss) for the								
period	-	-	984	-	(27,495)	(26,511)	53	(26,458)
Balance at 31 March 2011	266,753	(18,897)	14,856	65,172	(67,503)	260,381	317	260,698
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)	(140)	(5,070)
Employee share-based expense	-	-	-	3,145	-	3,145	-	3,145
Total comprehensive income (loss) for the								
period	-	-	12,887	-	(27,073)	(14,186)	3	(14,183)
Balance at 31 March 2010	266,753	(21,454)	20,038	63,657	(22,931)	306,063	239	306,302

5(b) Statements of Changes in Equity of the Company

	Share Capital US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Retained Earnings US\$'000	Total Equity US\$'000
<u>FY2011</u>					
Balance at 1 July 2010	266,753	(19,122)	34,821	115,230	397,682
Utilization of treasury shares for shares issued					
under employee options plans	-	225	(55)	-	170
Dividends paid	-	-	-	(5,354)	(5,354)
Employee share-based expense	-	-	2,942	-	2,942
Total comprehensive loss for the period	-	-	-	(25,703)	(25,703)
Balance at 31 March 2011	266,753	(18,897)	37,708	84,173	369,737
FY2010					
Balance at 1 July 2009	266,753	(21,475)	33,049	146,222	424,549
Utilization of treasury shares for shares issued					
under employee options plans	-	21	-	-	21
Dividends paid	-	-	-	(4,930)	(4,930)
Employee share-based expense	_	-	3,145	-	3,145
Total comprehensive loss for the period	-	-	-	(19,040)	(19,040)
Balance at 31 March 2010	266,753	(21,454)	36,194	122,252	403,745

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

Issued and paid up capital

As at 31 March 2011, 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 third quarter of FY2011, the Company did not issue any treasury shares for cash upon the exercise of the options under the Company's Share Options Plan (Q3 FY2010: Nil).

As at 31 March 2011, there were 6,075,836 (31 March 2010: 6,850,488) 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 third 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 (Q3 FY2010: Nil).

As at 31 March 2011, there were 2,042,000 (31 March 2010: 2,793,600) 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 March		
2011 20		
5,359,895	6,102,295	
-	-	
-	-	
5,359,895	6,102,295	
	31 Ma 2011 5,359,895	

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

GROU	J P	COMPANY		
31 March 2011 US\$	30 June 2010 US\$	31 March 2011 US\$	30 June 2010 US\$	
3.74	4.16	5.31	5.72	
	31 March 2011 US\$	2011 2010 US\$ US\$	31 March 30 June 31 March 2011 2010 2011 US\$ US\$ US\$	

11 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the third quarter of FY2011 decreased by 10% compared to the same quarter in FY2010, and net sales for the cumulative nine months ended 31 March 2011 decreased by 15% compared to the same period in FY2010. Revenue was lower in the third quarter and cumulative nine months ended 31 March 2011 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 24% in the third quarter of FY2011 and 25% in the cumulative nine months period of FY2011 was consistent with the mix of products sold and comparable to the gross profit margin of 26% in the third quarter and 25% in the cumulative nine months period of FY2010.

Net Loss

Net loss for the third quarter of FY2011 was US\$13.0 million compared to US\$20.8 million in the third quarter of FY2010. Net loss for the cumulative nine months ended 31 March 2011 was US\$27.4 million compared to US\$27.1 million of the same period in FY2010.

Research and development expenses in the third quarter and the cumulative nine months period of FY2011 increased by 21% and 16%, respectively, compared to the third quarter and the cumulative nine months period 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\$6.7 million in the third quarter of FY2011 was mainly due to foreign exchange gains of US\$4.3 million and gains on disposal of investments of US\$2.2 million. Other gains of US\$20.4 million in the cumulative nine months period of FY2011 was mainly due to foreign exchange gains of US\$20.0 million and gains on disposal of investments of US\$2.3 million. Other losses of US\$7.4 million in the third quarter of FY2010 were mainly due to foreign exchange losses of US\$7.7 million. Other gains of US\$5.7 million for the cumulative nine months period of FY2010 comprised a US\$4.9 million gain on disposal of investment in an associated company, US\$1.7 million government grant to a subsidiary company and foreign exchange losses of US\$1.8 million.

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. In the third quarter and the cumulative nine months period of FY2011, the exchange gains were due mainly to the appreciation of these currencies against US dollar. In the third quarter of FY2010, the exchange loss was mainly due to the depreciation of Euro and British Pound against US dollar and for the cumulative nine months period of FY2010, the exchange loss from the depreciation of these currencies was offset partially by gains from appreciation of Singapore dollar.

BALANCE SHEETS

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.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$42.4 million in the cumulative nine months period of FY2011 (cumulative nine months period of FY2010: US\$12.0 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 cumulative nine months period 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 second quarter and first half year ended 31 December 2010.

13 PROSPECTS

For the current quarter, the overall market for the Group's current products remains challenging and the Group expects to report an operating loss.

In the current quarter, the Group will be taking steps to reduce operating expenses to bring them in line with the Group's revenue and gross margins. The Group will undertake a restructuring exercise, including worldwide headcount reductions as well as streamlining of certain businesses and product categories. With this restructuring exercise, the Group is expected to incur restructuring charges in the current quarter of about US\$8 million to US\$10 million and the Group is targeting to return to profitability by the end of this calendar year.

14 DIVIDEND

No dividends have been recommended in the third 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 27 APRIL 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 third quarter and cumulative nine months ended 31 March 2011 to be false or misleading.

On behalf of the Board of Directors

Sim Wong Hoo Chairman Lee Kheng Nam Director