

CREATIVE TECHNOLOGY LTD

FIRST QUARTER ENDED 30 SEPTEMBER 2010 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2010

1 CONSOLIDATED INCOME STATEMENT

	GROUP	
	Three months ended 30 September	
	2010	2009
	US\$'000	US\$'000
Sales, net	57,227	72,059
Cost of goods sold	43,192	54,230
Gross profit	14,035	17,829
Expenses:		
Selling, general and administrative	(14,172)	(14,803)
Research and development	(16,620)	(14,653)
Total expenses	(30,792)	(29,456)
Other income	167	219
Other gains (losses), net	13,112	10,522
Share of profit of associated companies	--	38
Interest expense	(20)	(29)
Loss before income tax	(3,498)	(877)
Income tax expense	(116)	(166)
Net loss	(3,614)	(1,043)
Attributable to:		
Equity holders of the Company	(3,618)	(1,043)
Non-controlling interests	4	--
Loss per share for loss attributable to equity holders of the Company		
- Basic (US\$ per share)	(0.05)	(0.02)
- Diluted (US\$ per share)	(0.05)	(0.02)

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

	GROUP	
	Three months ended	
	30 September	
	2010	2009
	US\$'000	US\$'000
Depreciation and amortization	(1,836)	(1,851)
Reversal of write-off/write-down for inventory obsolescence	62	2,649
Foreign exchange gain	13,211	5,771
Gain on disposal of investment in associated company	-	4,874

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP	
	Three months ended	
	30 September	
	2010	2009
	US\$'000	US\$'000
Net loss	(3,614)	(1,043)
Other comprehensive income:		
Net fair value changes of financial assets, available-for-sale	5,163	3,932
Total comprehensive income for the period	<u>1,549</u>	<u>2,889</u>
Attributable to:		
Shareholders of the Company	1,545	2,889
Non-controlling interests	4	-
Total comprehensive income for the period	<u>1,549</u>	<u>2,889</u>

3 BALANCE SHEETS

	Group		Company	
	30 September 2010 US\$'000	30 June 2010 US\$'000	30 September 2010 US\$'000	30 June 2010 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	200,965	214,025	178,537	197,803
Trade receivables	32,286	28,999	3,579	4,355
Amounts due from subsidiaries	-	-	43,100	28,880
Inventories	45,650	46,120	24,506	25,502
Other current assets	25,207	20,990	4,649	4,306
	304,108	310,134	254,371	260,846
Non-current assets:				
Financial assets, available-for-sale	39,174	33,895	-	-
Other non-current receivables	582	582	-	-
Amounts due from subsidiaries	-	-	186,162	184,282
Investments in subsidiaries	-	-	45,390	45,390
Property and equipment	27,994	29,411	1,233	1,394
Intangible assets	6,214	6,324	-	-
Other non-current assets	20,618	22,205	953	998
	94,582	92,417	233,738	232,064
Total assets	398,690	402,551	488,109	492,910
LIABILITIES				
Current liabilities:				
Trade payables	19,815	24,089	13,525	18,218
Amounts due to subsidiaries	-	-	25,587	23,238
Accrued liabilities and provisions	63,208	65,249	29,765	30,777
Current income tax liabilities	2,233	2,235	1,951	1,951
	85,256	91,573	70,828	74,184
Non-current liabilities:				
Amounts due to subsidiaries	-	-	21,047	21,044
Deferred income tax liabilities	21,202	21,202	-	-
	21,202	21,202	21,047	21,044
Total liabilities	106,458	112,775	91,875	95,228
NET ASSETS	292,232	289,776	396,234	397,682
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(19,122)	(19,122)	(19,122)	(19,122)
Fair value reserve	19,035	13,872	-	-
Other reserves	63,191	62,285	35,727	34,821
Retained earnings	(38,272)	(34,654)	112,876	115,230
	291,585	289,134	396,234	397,682
Non-controlling interests	647	642	-	-
Total equity	292,232	289,776	396,234	397,682

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Three months ended 30 September	
	2010	2009
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(3,614)	(1,043)
Adjustments for:		
Income tax expense	116	166
Depreciation of property and equipment	1,726	1,760
Amortisation of intangible assets	110	91
Employee share-based expenses	906	237
Share of loss of associated companies	--	(38)
Loss on disposal of property and equipment	12	45
Impairment loss of financial assets, available-for-sale	237	76
Net impairment loss of investments in associated companies	--	80
Gain on disposal of financial assets, available-for-sale	(8)	--
Gain on disposal of investments in associated companies	--	(4,874)
Foreign exchange gain	(10,870)	(4,893)
Dividend income	(68)	(65)
Interest income	(99)	(154)
Interest expense	20	29
	<u>(11,532)</u>	<u>(8,583)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	(3,287)	2,118
Inventories	470	(3,102)
Other assets and receivables	(2,630)	2,585
Trade payables	(4,274)	2,339
Accrued liabilities and provisions	(2,061)	(2,854)
Cash used in operations	<u>(23,314)</u>	<u>(7,497)</u>
Interest received	96	154
Interest paid	--	(1)
Income tax paid	(120)	(50)
Net cash used in operating activities	<u>(23,338)</u>	<u>(7,394)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(326)	(1,204)
Proceeds from sale of property and equipment	5	2
Proceeds from disposal of investments in associated companies	--	6,189
Proceeds from sale of financial assets, available-for-sale	8	--
Purchase of financial assets, available-for-sale	(353)	--
Dividend received	68	65
Net cash (used in) provided by investing activities	<u>(598)</u>	<u>5,052</u>
Cash flows from financing activities:		
Repayments of capital leases	--	(1)
Net cash used in financing activities	<u>--</u>	<u>(1)</u>
Net decrease in cash and cash equivalents	(23,936)	(2,343)
Cash and cash equivalents at beginning of financial year	214,025	250,551
Effects of currency translation on cash and cash equivalents	10,876	4,858
Cash and cash equivalents at end of the period	<u>200,965</u>	<u>253,066</u>

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
FY2011								
Balance at 1 July 2010	266,753	(19,122)	13,872	62,285	(34,654)	289,134	642	289,776
Employee share-based expense	-	-	-	906	-	906	-	906
Currency translation difference	-	-	-	-	-	-	1	1
Total comprehensive income (loss) for the period	-	-	5,163	-	(3,618)	1,545	4	1,549
Balance at 30 September 2010	266,753	(19,122)	19,035	63,191	(38,272)	291,585	647	292,232
FY2010								
Balance at 1 July 2009	266,753	(21,475)	7,151	60,512	9,072	322,013	376	322,389
Employee share-based expense	-	-	-	237	-	237	-	237
Total comprehensive income (loss) for the period	-	-	3,932	-	(1,043)	2,889	-	2,889
Balance at 30 September 2009	266,753	(21,475)	11,083	60,749	8,029	325,139	376	325,515

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
FY2011					
Balance at 1 July 2010	266,753	(19,122)	34,821	115,230	397,682
Employee share-based expense	-	-	906	-	906
Total comprehensive loss for the period	-	-	-	(2,354)	(2,354)
Balance at 30 September 2010	266,753	(19,122)	35,727	112,876	396,234
FY2010					
Balance at 1 July 2009	266,753	(21,475)	33,049	146,222	424,549
Employee share-based expense	-	-	237	-	237
Total comprehensive loss for the period	-	-	-	(1,354)	(1,354)
Balance at 30 September 2009	266,753	(21,475)	33,286	144,868	423,432

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

Issued and paid up capital

As at 30 September 2010, the Company's issued and paid up capital excluding treasury shares comprises 69,574,655 (30 June 2010: 69,574,655) ordinary shares.

Employee share options plan

During the first quarter of FY2011, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q1 FY2010: Nil).

As at 30 September 2010, there were 6,550,240 (30 September 2009: 6,986,895) 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 first 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 (Q1 FY2010: Nil).

As at 30 September 2010, there were 2,088,000 (30 September 2009: Nil) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

There were no movement of treasury shares during the first quarter of FY2011 and FY2010.

	Three months ended 30 September	
	2010	2009
Balance at beginning and end of period	5,425,345	6,108,532

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

	<u>GROUP</u>		<u>COMPANY</u>	
	<u>30 September</u>	<u>30 June</u>	<u>30 September</u>	<u>30 June</u>
	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2010</u>
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Net asset value per ordinary share based on issued capital at the end of the period / financial year	4.20	4.16	5.69	5.72

11 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the first quarter of FY2011 decreased by 21% compared to the same quarter in FY2010. Revenue was lower in the first quarter of FY2011 as the Group continue to be affected by the difficult market for its products, particularly for the personal digital entertainment products.

Gross Profit

Gross profit margin was 25% in the first quarter of FY2011 and FY2010. Gross profit margin at 25% was consistent with the mix of products sold.

Net Loss

Net loss for the first quarter of FY2011 was US\$3.6 million compared to US\$1.0 million in the first quarter of FY2010.

Research and development expenses in the first quarter of FY2011 increased by 13% compared to the first quarter 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\$13.1 million in the first quarter of FY2011 were mainly due to a US\$13.2 million of foreign exchange gains. Other gains of US\$10.5 million in FY2010 comprised mainly of a US\$4.9 million gain on disposal of investment in an associated company and foreign exchange gains of US\$5.8 million. In the first quarter of FY2010, the Group has disposed its entire interest in an associated company, Qala Singapore Pte Ltd, an internet service provider, for a cash consideration of US\$6.2 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. The exchange gain in the first quarter of FY2011 was mainly due to the significant appreciation of these currencies against the US dollar during the quarter. In the first quarter of FY2010, these currencies had also appreciated against the US dollar, but the appreciation was not as significant compared to the first quarter of FY2011.

BALANCE SHEETS

The increase in financial assets, available-for-sale as at 30 September 2010 was due to the fair value gain on revaluation of the investments. The increase in other current assets were mainly due to a US\$2.3 million deposit paid to a vendor by a subsidiary, QMax Communications Pte Ltd, pertaining to its investments in a WiMax Wireless Broadband network in Singapore.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$23.3 million in the first quarter of FY2011 (first quarter of FY2010: US\$7.4 million) was mainly due to the net operating loss for the period.

Net cash used in or provided by investing and financing activities in the first quarter 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 fourth quarter and full year ended 30 June 2010.

13 PROSPECTS

The Group will continue to invest in product research and development, particularly for the Zii Platform. To support the marketing and sales of the new products and services, operating expenses may increase in the coming quarters, in line with the introduction of the new products and services. For the current quarter, the overall market for the Group's current products remain difficult and the Group expects to report an operating loss.

14 DIVIDEND

No dividends have been recommended in the first 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 OCTOBER 2010

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 first quarter ended 30 September 2010 to be false or misleading.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director