

CREATIVE TECHNOLOGY LTD

THIRD QUARTER ENDED 31 MARCH 2010 FINANCIAL STATEMENTS & DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 31 MARCH 2010

1 CONSOLIDATED INCOME STATEMENT

	GROUP			
	Three months ended		Nine months ended	
	31 March		31 March	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
Sales, net	63,291	83,089	216,063	380,014
Cost of goods sold	46,948	76,593	161,352	320,569
Gross profit	16,343	6,496	54,711	59,445
Expenses:				
Selling, general and administrative	(15,310)	(19,882)	(46,227)	(76,910)
Research and development	(14,083)	(14,616)	(42,598)	(47,669)
Restructuring charges	-	(11,168)	-	(11,168)
Total expenses	(29,393)	(45,666)	(88,825)	(135,747)
Other income	156	436	530	3,830
Other (losses) gains, net	(7,397)	(8,618)	5,679	(48,893)
Share of loss of associated companies	(435)	(97)	(1,014)	(1,692)
Interest expense	(28)	(34)	(87)	(112)
Loss before income tax	(20,754)	(47,483)	(29,006)	(123,169)
Income tax (expense) credit	(16)	(115)	1,936	(743)
Net loss	(20,770)	(47,598)	(27,070)	(123,912)
Attributable to:				
Equity holders of the Company	(20,773)	(47,598)	(27,073)	(123,911)
Minority interests	3	-	3	(1)
Loss per share for loss attributable to equity holders of the Company				
- Basic (US\$ per share)	(0.30)	(0.68)	(0.39)	(1.67)
- Diluted (US\$ per share)	(0.30)	(0.68)	(0.39)	(1.67)

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

	GROUP			
	Three months ended		Nine months ended	
	31 March		31 March	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
Depreciation and amortization	(2,142)	(2,165)	(8,027)	(5,553)
(Write-off/write-down for inventory obsolescence)/ Reversal of inventory write-off/write-down	(480)	(1,437)	3,702	(2,605)
Impairment in value of financial assets, available-for-sale	-	(15)	(81)	(12,376)
Foreign exchange loss	(7,740)	(9,065)	(1,823)	(37,144)
Gain on disposal of investments in associated companies	-	-	4,874	-

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			
	Three months ended		Nine months ended	
	31 March		31 March	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
Net loss	(20,770)	(47,598)	(27,070)	(123,912)
Other comprehensive income:				
Net fair value changes of financial assets, available- for-sale	6,200	(323)	12,887	(719)
Total comprehensive income for the period	<u>(14,570)</u>	<u>(47,921)</u>	<u>(14,183)</u>	<u>(124,631)</u>
Attributable to:				
Shareholders of the Company	(14,573)	(47,921)	(14,186)	(124,630)
Minority interest	3	-	3	(1)
Total comprehensive income for the period	<u>(14,570)</u>	<u>(47,921)</u>	<u>(14,183)</u>	<u>(124,631)</u>

3 BALANCE SHEETS

	GROUP		COMPANY	
	31 March 2010 US\$'000	30 June 2009 US\$'000	31 March 2010 US\$'000	30 June 2009 US\$'000
ASSETS				
Current assets:				
Cash and cash equivalents	231,286	250,551	210,171	218,472
Trade receivables	31,213	42,365	5,501	6,017
Amounts due from subsidiaries	-	-	23,518	43,379
Inventories	35,120	37,600	17,690	18,104
Other current assets	22,131	21,448	5,932	4,934
	319,750	351,964	262,812	290,906
Non-current assets:				
Financial assets, available-for-sale	40,559	27,753	-	-
Other non-current receivables	521	977	-	-
Amounts due from subsidiaries	-	-	194,041	186,395
Investments in associated companies	-	1,372	-	-
Investments in subsidiaries	-	-	45,390	45,390
Property and equipment	31,946	33,944	1,704	2,060
Intangible assets	6,432	6,719	-	-
Other non-current assets	24,712	31,693	881	768
	104,170	102,458	242,016	234,613
Total assets	423,920	454,422	504,828	525,519
LIABILITIES AND EQUITY				
Current liabilities:				
Trade payables	22,754	30,296	15,587	18,608
Amounts due to subsidiaries	-	-	22,674	17,174
Accrued liabilities and provisions	65,168	70,014	27,966	28,852
Current income tax liabilities	2,194	2,203	1,983	2,000
Current portion of long term obligations	-	10	-	10
	90,116	102,523	68,210	66,644
Non-current liabilities:				
Amounts due to subsidiaries	-	-	21,073	20,526
Deferred income tax liabilities	27,502	29,510	11,800	13,800
	27,502	29,510	32,873	34,326
Total liabilities	117,618	132,033	101,083	100,970
Equity:				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(21,454)	(21,475)	(21,454)	(21,475)
Fair value reserve	20,038	7,151	-	-
Other reserves	63,657	60,512	36,194	33,049
Retained earnings	(22,931)	9,072	122,252	146,222
	306,063	322,013	403,745	424,549
Minority interests	239	376	-	-
Total equity	306,302	322,389	403,745	424,549
Total liabilities and equity	423,920	454,422	504,828	525,519

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Nine months ended 31 March	
	2010	2009
	US\$'000	US\$'000
Cash flows from operating activities:		
Net loss	(27,073)	(123,912)
Adjustments for:		
Income tax (credit) expenses	(1,936)	743
Depreciation of property and equipment	7,657	5,526
Amortisation of intangible assets	370	27
Employee share option expense	527	1,002
Employee share-based expenses	2,618	--
Minority interest in loss	3	--
Share of loss of associated companies	1,014	1,692
Loss on disposal of property and equipment	44	(15)
Impairment loss of financial assets, available-for-sale	81	12,376
Net impairment loss of investments in associated companies	80	--
Gain on disposal of financial assets, available-for-sale	--	(344)
Gain on disposal of investments in subsidiaries	--	(39)
Gain on disposal of investments in associated companies	(4,874)	--
Foreign exchange loss	2,430	28,168
Dividend income	(65)	(96)
Interest income	(465)	(3,734)
Interest expense	87	112
	<u>(19,502)</u>	<u>(78,494)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	11,152	42,894
Inventories	2,480	61,011
Other assets and receivables	5,755	40,128
Trade payables	(7,542)	(45,444)
Accrued liabilities and provisions	(4,916)	(11,841)
Cash used in operations	(12,573)	8,254
Interest received	463	3,764
Interest paid	(4)	(109)
Income tax refunded (paid)	149	(2,618)
Net cash (used in) provided by operating activities	<u>(11,965)</u>	<u>9,291</u>
Cash flows from investing activities:		
Purchase of property and equipment	(5,717)	(2,780)
Proceeds from sale of property and equipment	14	281
Proceeds from disposal of investments in associated companies	6,189	--
Proceeds from sale of financial assets, available-for-sale	--	440
Cash outflow from sale of investments in subsidiaries	--	(270)
Purchase of new subsidiaries (net of cash acquired)	--	(600)
Purchase of financial assets, available-for-sale	--	(202)
Purchase of investments in associated companies	(278)	(667)
Purchase of intangible assets	(83)	--
Dividend received	65	96
Net cash provided by (used in) investing activities	<u>190</u>	<u>(3,702)</u>
Cash flows from financing activities:		
Proceeds from exercise of ordinary share options	21	10
Purchase of treasury shares	--	(22,719)
Repayments of borrowings	--	(100,000)
Repayments of capital leases	(10)	(19)
Dividends paid to equity holders of the Company	(4,930)	--
Dividends paid to minority interest	(140)	--
Net cash used in financing activities	<u>(5,059)</u>	<u>(122,728)</u>
Net decrease in cash and cash equivalents	(16,834)	(117,139)
Cash and cash equivalents at beginning of financial year	250,551	408,644
Effects of currency translation on cash and cash equivalents	(2,431)	(28,190)
Cash and cash equivalents at end of the period	<u>231,286</u>	<u>263,315</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	Minority Interests US\$'000	Total Equity US\$'000
FY2010								
Balance at 1 July 2009	266,753	(21,475)	7,151	60,512	9,072	322,013	376	322,389
Purchase of treasury shares	-	-	-	-	-	-	-	-
Utilization of treasury shares for shares issued under employee options plans	-	21	-	-	-	21	-	21
Dividends paid	-	-	-	-	(4,930)	(4,930)	(140)	(5,070)
Cancellation of treasury shares	-	-	-	-	-	-	-	-
Share option expense	-	-	-	527	-	527	-	527
Employee share-based expense	-	-	-	2,618	-	2,618	-	2,618
Total comprehensive income 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
FY2009								
Balance at 1 July 2008	300,100	(32,113)	3,377	59,286	146,945	477,595	379	477,974
Purchase of treasury shares	-	(22,719)	-	-	-	(22,719)	-	(22,719)
Utilization of treasury shares for shares issued under employee options plans	-	10	-	(4)	-	6	-	6
Cancellation of treasury shares	(33,347)	33,347	-	-	-	-	-	-
Share option expense	-	-	-	1,002	-	1,002	-	1,002
Total comprehensive loss for the period	-	-	(719)	-	(123,911)	(124,630)	(1)	(124,631)
Balance at 31 March 2009	266,753	(21,475)	2,658	60,284	23,034	331,254	378	331,632

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
FY2010					
Balance at 1 July 2009	266,753	(21,475)	33,049	146,222	424,549
Shares issued under employee options plans	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-
Utilization of treasury shares for shares issued under employee options plans	-	21	-	-	21
Dividends paid	-	-	-	(4,930)	(4,930)
Cancellation of treasury shares	-	-	-	-	-
Share option expense	-	-	527	-	527
Employee share-based expense	-	-	2,618	-	2,618
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
FY2009					
Balance at 1 July 2008	300,100	(32,113)	31,823	135,148	434,958
Purchase of treasury shares	-	(22,719)	-	-	(22,719)
Utilization of treasury shares for shares issued under employee options plans	-	10	(4)	-	6
Cancellation of treasury shares	(33,347)	33,347	-	-	-
Dividends paid	-	-	-	-	-
Share option expense	-	-	1,001	-	1,001
Total comprehensive loss for the period	-	-	-	(61,013)	(61,013)
Balance at 31 March 2009	266,753	(21,475)	32,820	74,135	352,233

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

Issued and paid up capital

As at 31 March 2010, the Company's issued and paid up capital excluding treasury shares comprises 68,897,705 (30 June 2009: 68,891,468) ordinary shares.

Employee share options plans

During the third quarter of FY2010, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Option Plan (Q3 FY2009: Nil).

As at 31 March 2010, there were 6,850,488 (31 March 2009: 9,457,270) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plans.

Employee performance share plan

On 31 March 2010, the Company granted 2,793,600 shares pursuant to the employee performance share plan, to the eligible directors and employees of the Company and its subsidiaries. 735,600 shares vested immediately on the date of grant and 2,058,000 shares will vest over the next 4 years from the date of grant.

Treasury shares

During the third quarter of FY2010, the Company did not re-issue any treasury shares pursuant to the Employee Share Options Plans (Q3 FY2009: Nil).

As at 31 March 2010, 6,102,295 (31 March 2009: 6,108,532) shares were held as treasury shares.

During the third quarter of FY2010, the Company did not buy back or cancel any ordinary shares. In the third quarter of FY2009, the Company bought back 1,306,200 ordinary shares at an average price of US\$2.74 per share and held them as treasury shares. No treasury shares were cancelled in the third quarter of FY2009.

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 2009.

9 CHANGES IN ACCOUNTING POLICIES

With effect from 1 July 2009, the Group adopted the following new/amended FRS which are relevant to the Group's operations:

FRS 1(R)	Presentation of Financial Statements
FRS 107	Improving Disclosures about Financial Statements

The adoption of the above FRS does not have any significant impact on the financial statements.

10 NET ASSET VALUE

	GROUP		COMPANY	
	31 March 2010 US\$	30 June 2009 US\$	31 March 2010 US\$	30 June 2009 US\$
	Net asset value per ordinary share based on issued capital at the end of the financial period/year	4.44	4.68	5.86

11 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the third quarter of FY2010 decreased by 24% compared to the same quarter in FY2009, and net sales for the cumulative nine months ended 31 March 2010 decreased by 43% compared to the same period in FY2009. The decrease in net sales was mainly due to lower revenues from digital audio players, and following the global economic downturn, the Group's decision to consolidate certain businesses in order to focus on specific markets that provide best opportunities to improve business going forward.

Gross Profit

Gross profit was 26% in the third quarter of FY2010 and 25% in the cumulative nine months period of FY2010 compared to 8% in the third quarter of FY2009 and 16% in the cumulative nine months period of FY2009. Gross profit margin in the third quarter and the cumulative nine months period of FY2010 at 26% and 25%, respectively, was consistent with the mix of products sold. Gross profit margin in the third quarter and the cumulative nine months period of FY2009 was lower due mainly to a higher percentage of sales coming from digital audio players which have lower gross profit margin. Gross profit margin for FY2009 was also negatively impacted by sales and price reductions at the beginning of the economic downturn in early FY2009.

Net Loss

Net loss for the third quarter of FY2010 was US\$20.8 million compared to US\$47.6 million in the third quarter of FY2009. Net loss for the cumulative nine months ended 31 March 2010 was US\$27.1 million compared to US\$123.9 million of the same period in FY2009.

Following the restructuring efforts in the previous year to reduce operating costs, and in line with the decrease in sales, selling, general and administrative expenses in the third quarter and the cumulative nine months period of FY2010 decreased by 23% and 40%, respectively, compared to the third quarter and cumulative nine months period of FY2009.

Research and development expenses in the third quarter and the cumulative nine months period of FY2010 decreased by 4% and 11%, respectively, compared to the third quarter and the cumulative nine months period of FY2009. There were smaller reductions 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 going forward.

Restructuring charges of US\$11.2 million in the third quarter and the cumulative nine months period of FY2009 were related to severance payments and costs associated with headcount reductions, primarily in the Company's global field organizations and facilities costs from consolidated of certain international offices.

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 (this entity was an associated company in the previous financial year) and foreign exchange losses of US\$1.8 million.

Other losses of US\$8.6 million in the third quarter of FY2009 were mainly due to foreign exchange losses of US\$9.1 million. Other losses of US\$48.9 million for the cumulative nine months period of FY2009 comprised mainly of foreign exchange losses of US\$37.1 million and US\$12.4 million impairment in value of financial assets, available-for-sale following the onset of the global financial crisis.

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 Euro, Singapore dollar, British Pound and Japanese Yen. In the third quarter of FY2010, there was a significant depreciation of Euro and British Pound against US dollar. In the second quarter of FY2010, there were no major exchange differences while in the first quarter of FY2010, these currencies appreciated against US dollar. In the third quarter and cumulative nine months period of FY2009, these currencies declined significantly against the US dollar.

Income tax was a credit of US\$1.9 million for the cumulative nine months period of FY2010 due mainly to a US\$2.0 million write back of deferred tax liability pertaining to offshore interest income remitted to Singapore in the second quarter of FY2010. The interest income remitted is not taxable now due to a tax concession granted by the Singapore tax authorities.

BALANCE SHEETS

The increased in financial assets, available-for-sale as at 31 March 2010 was due to the fair value gain on revaluation of the investments. In line with the significant reduction in sales, trade receivables and trade payables balances have decreased.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In the cumulative nine months period of FY2009, the Group repaid the remaining balance of the US\$100 million syndicated term loan.

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 2009.

13 PROSPECTS

Going forward the Group will continue to invest more in product research and development, particularly for the Zii Platform. As a result, operating expenses may increase in the coming quarters. The overall market for the Group's current products remains difficult and the Group expects to report an operating loss in the current quarter.

14 DIVIDEND

No dividends have been recommended in the third quarter of FY2010 and no dividends were recommended or declared for the same period last year.

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
5 MAY 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 third quarter and cumulative nine months period ended 31 March 2010 to be false or misleading.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director