

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 months ended 31 March		Nine months ended 31 March	
	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	(13,011)	(20,773)	(27,495)	(27,073)
Non-controlling interests	35	3	53	3
Loss per share for loss attributable to equity holders of the Company				
- Basic (US\$ per share)	(0.19)	(0.30)	(0.39)	(0.39)
- Diluted (US\$ per share)	(0.19)	(0.30)	(0.39)	(0.39)

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

	GROUP			
	Three months ended 31 March		Nine months ended 31 March	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	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		Nine months ended 31 March	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	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	<u>(18,503)</u>	<u>(14,570)</u>	<u>(26,458)</u>	<u>(14,183)</u>
Attributable to:				
Shareholders of the Company	(18,538)	(14,573)	(26,511)	(14,186)
Non-controlling interests	35	3	53	3
Total comprehensive income for the period	<u>(18,503)</u>	<u>(14,570)</u>	<u>(26,458)</u>	<u>(14,183)</u>

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	21,915	24,089	16,062	18,218
Amounts due to subsidiaries	-	-	26,658	23,238
Accrued liabilities and provisions	61,144	65,249	28,976	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
EQUITY				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(18,897)	(19,122)	(18,897)	(19,122)
Fair value reserve	14,856	13,872	-	-
Other reserves	65,172	62,285	37,708	34,821
Retained earnings	(67,503)	(34,654)	84,173	115,230
	260,381	289,134	369,737	397,682
Non-controlling interests	317	642	-	-
Total equity	260,698	289,776	369,737	397,682

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Nine months ended 31 March	
	2011	2010
	US\$'000	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
	<u>(37,852)</u>	<u>(19,502)</u>
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	<u>(42,700)</u>	<u>(12,573)</u>
Interest received	291	463
Interest paid	--	(4)
Income tax (paid) refunded	(27)	149
Net cash used in operating activities	<u>(42,436)</u>	<u>(11,965)</u>
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	<u>(5,821)</u>	<u>190</u>
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	<u>(5,129)</u>	<u>(5,059)</u>
Net decrease in cash and cash equivalents	<u>(53,386)</u>	<u>(16,834)</u>
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	<u><u>177,322</u></u>	<u><u>231,286</u></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
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
FY2011					
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	2010
Balance at beginning of period	5,359,895	6,102,295
Issued for:		
- Employee Share Options Plan	-	-
- Employee Performance Share Plan	-	-
Balance at end of period	<u>5,359,895</u>	<u>6,102,295</u>

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>31 March</u> <u>2011</u> <u>US\$</u>	<u>30 June</u> <u>2010</u> <u>US\$</u>	<u>31 March</u> <u>2011</u> <u>US\$</u>	<u>30 June</u> <u>2010</u> <u>US\$</u>
Net asset value per ordinary share based on issued capital at the end of the period / financial year	3.74	4.16	5.31	5.72

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\$22.4 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