
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, 2000

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)

	<u>December 31, 2000</u> (Unaudited)	<u>June 30, 2000</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 169,042	\$ 285,757
Marketable securities	4,415	21,156
Accounts receivable, net	152,209	98,923
Inventory	273,532	230,616
Other assets and prepaids	27,114	34,942
Total current assets	<u>626,312</u>	<u>671,394</u>
Property and equipment, net	101,464	96,751
Investments	237,063	395,888
Other non-current assets	20,677	12,426
Total Assets	<u>\$ 985,516</u>	<u>\$ 1,176,459</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 195,718	\$ 183,299
Accrued liabilities	93,839	103,756
Income taxes payable	49,391	48,350
Other current liabilities	4,185	4,575
Total current liabilities	<u>343,133</u>	<u>339,980</u>
Long term obligations	28,278	27,051
Minority interest in subsidiaries	30,905	30,790
Shareholders' equity:		
Ordinary shares ('000); S\$0.25 par value;		
Authorized: 200,000 shares		
Outstanding: 79,178 and 80,325 shares	7,641	7,808
Additional paid-in capital	210,684	203,111
Unrealized holding gains on quoted investments	5,318	173,948
Deferred share compensation	(11,977)	(15,924)
Retained earnings	371,534	409,695
Total shareholders' equity	<u>583,200</u>	<u>778,638</u>
Total Liabilities and Shareholders' Equity	<u>\$ 985,516</u>	<u>\$ 1,176,459</u>

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)

	Three months ended		Six months ended	
	December 31,		December 31,	
	2000	1999	2000	1999
Sales, net	\$ 427,026	\$ 436,789	\$ 731,394	\$ 705,867
Cost of goods sold	<u>313,069</u>	<u>306,912</u>	<u>524,403</u>	<u>505,974</u>
Gross profit	<u>113,957</u>	<u>129,877</u>	<u>206,991</u>	<u>199,893</u>
Operating expenses:				
Selling, general and administrative	70,064	76,340	128,166	129,842
Research and development	<u>15,115</u>	<u>14,717</u>	<u>30,211</u>	<u>27,430</u>
Total operating expenses	<u>85,179</u>	<u>91,057</u>	<u>158,377</u>	<u>157,272</u>
Operating income	<u>28,778</u>	<u>38,820</u>	<u>48,614</u>	<u>42,621</u>
Gain from investments, net	507	9,235	2,858	13,600
Interest income and other, net	<u>2,055</u>	<u>918</u>	<u>1,143</u>	<u>4,774</u>
Income before income taxes and minority interest	<u>31,340</u>	<u>48,973</u>	<u>52,615</u>	<u>60,995</u>
Provision for income taxes	(4,624)	(3,939)	(8,409)	(5,141)
Minority interest in (income)	<u>(241)</u>	<u>(554)</u>	<u>(109)</u>	<u>(564)</u>
Net income	<u>\$ 26,475</u>	<u>\$ 44,480</u>	<u>\$ 44,097</u>	<u>\$ 55,290</u>
Basic earnings per share:	\$ 0.34	\$ 0.54	\$ 0.56	\$ 0.67
Weighted average ordinary shares outstanding ('000)	78,964	81,999	79,406	82,705
Diluted earnings per share:	\$ 0.33	\$ 0.52	\$ 0.53	\$ 0.65
Weighted average ordinary shares and equivalents outstanding ('000)	81,180	86,291	82,666	85,573

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,	
	2000	1999
Cash flows from operating activities:		
Net income	\$ 44,097	\$ 55,290
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,721	17,385
Deferred stock compensation amortization	2,339	1,875
Minority interest in income	109	564
Equity share in (income) of unconsolidated investments	(33)	(4)
Write off of investment	--	9,793
(Gain) loss from investments, net	2,507	(10,984)
Changes in assets and liabilities, net:		
Accounts receivable	(53,286)	(61,054)
Inventory	(42,916)	(28,755)
Marketable securities	16,741	(32,949)
Other assets and prepaids	10,726	(3,653)
Accounts payable	12,419	81,380
Accrued and other liabilities	(7,065)	28,312
Income taxes payable	1,041	1,542
Net cash provided by operating activities	2,400	58,742
Cash flows from investing activities:		
Capital expenditures, net	(15,497)	(7,206)
Proceeds from sale of quoted investments	73,250	29,070
Purchase of investments	(85,562)	(84,769)
Increase in other assets, net	(13,051)	(994)
Net cash used in investing activities	(40,860)	(63,899)
Cash flows from financing activities:		
Increase in minority shareholders' loan and equity balance	6	150
Proceeds from exercise of ordinary share options	5,770	2,666
Repurchase of ordinary shares	(42,844)	(41,775)
Repayments of long-term obligations, net	(1,773)	(1,190)
Dividends paid	(39,414)	(20,502)
Net cash used in financing activities	(78,255)	(60,651)
Net decrease in cash and cash equivalents	(116,715)	(65,808)
Cash and cash equivalents at beginning of year	285,757	318,990
Cash and cash equivalents at end of the period	\$ 169,042	\$ 253,182
Supplemental disclosure of cash flow information:		
Interest paid	\$ 105	\$ 244
Income taxes paid	\$ 7,370	\$ 3,599

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") have been prepared on a consistent basis with the June 30, 2000 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 2000 annual report on Form 20-F filed with the Securities and Exchange Commission. The results of operations for the three and six months period ended December 31, 2000 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 substantial 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 or market. Cost is determined using standard cost, appropriately adjusted at balance sheet date to approximate weighted average basis. In the case of finished products and work-in-progress, cost includes materials, direct labor and an appropriate proportion of production overheads. The components of inventory are as follows (in US\$'000):

	<u>December 31, 2000</u>	<u>June 30, 2000</u>
Raw materials	\$ 172,124	\$ 136,803
Work in progress	8,790	27,293
Finished products	92,618	66,520
	<u>\$ 273,532</u>	<u>\$ 230,616</u>

NOTE 3 - EARNINGS PER SHARE

In accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128), Creative reports both basic earnings per share and diluted earnings per share. Basic earnings per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of ordinary and potentially dilutive ordinary equivalent shares outstanding during the period. Ordinary 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 ordinary equivalent shares to be purchased using proceeds received from the exercise of such equivalent shares. Other than the dilutive effect of stock options, there are no other financial instruments that would impact the weighted average number of ordinary shares outstanding used for computing diluted earnings per share. The potentially dilutive ordinary equivalent shares outstanding under the employee share purchase plan were not material.

Following is a reconciliation between the average number of ordinary shares outstanding and equivalent shares outstanding (in '000):

	Three months ended December 31,		Six months ended December 31,	
	2000	1999	2000	1999
Weighted average ordinary shares outstanding	78,964	81,999	79,406	82,705
Weighted average dilutive stock options outstanding	2,216	4,292	3,260	2,868
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average ordinary shares and equivalent outstanding	<u>81,180</u>	<u>86,291</u>	<u>82,666</u>	<u>85,573</u>

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 0% 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. Creative's Pioneer Certificate expired in March 2000. Creative has applied for a separate and new Pioneer Certificate covering a new range of products. If Creative is awarded this new Pioneer Certificate, profits from qualified products under the new Pioneer Certificate will be exempted from tax in Singapore. The Singapore corporate income tax rate of 24.5% will be applicable to the profits of products excluded from the new Pioneer Certificate.

NOTE 5 - COMPREHENSIVE INCOME

The components of total comprehensive income are as follows (in US\$'000):

	Three months ended December 31,		Six months ended December 31,	
	2000	1999	2000	1999
Net income	\$ 26,475	\$ 44,480	\$ 44,097	\$ 55,290
Unrealized (loss) gain on quoted investments	(147,020)	154,401	(168,630)	152,612
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive (loss) income	<u>\$ (120,545)</u>	<u>\$ 198,881</u>	<u>\$ (124,533)</u>	<u>\$ 207,902</u>

NOTE 6 - SHARE REPURCHASES

Details of Share Repurchases by Creative during the quarters since the commencement date of the program on November 6, 1998 are set out below:

<u>Quarter Ended:</u>	<u>Number of Shares Repurchased</u> (in millions)	<u>Average Price</u> (US \$)
December 31, 1998	3.5	\$16
March 31, 1999	4.3	\$12
June 30, 1999	2.2	\$13
September 30, 1999	1.6	\$10
December 31, 1999	1.7	\$15
March 31, 2000	0.4	\$17
June 30, 2000	2.2	\$25
September 30, 2000	1.8	\$22
December 31, 2000	0.2	\$16
Total	17.9	\$16

At the 2000 Annual General Meeting (“AGM”) held on November 8, 2000, the shareholders approved the share repurchase mandate allowing Creative to buy up to 10% of the issued share capital of Creative as at the date of the AGM. This amounts to approximately 7.9 million shares. This authority to repurchase shares shall continue in force unless revoked or revised by the shareholders in a general meeting, or until the date that the next AGM of Creative is held or is required to be held, whichever is the earlier.

In accordance with Singapore statutes, such repurchases are recorded as a reduction in retained earnings.

NOTE 7 – LEGAL PROCEEDINGS

During the course of its normal business operations, Creative and its subsidiaries are involved from time to time in a variety of intellectual property and other disputes, including claims against Creative alleging copyright infringement, patent infringement and other business torts. Currently such disputes exist with, among other entities, Bose Corporation (an action involving a patent claim by Bose and other claims and counterclaims by both sides in the District of Massachusetts and involving Creative and its Cambridge SoundWorks subsidiary), PhoneTel Communications, Inc. (an action involving patent claims by PhoneTel. against a number of companies, including Creative and its Broadxent subsidiary, in the Northern District of Texas); the Lemelson Foundation (an action involving patent claims by Lemelson against over 500 entities, including Creative); Photobit Corporation (a patent infringement action pending with the International Trade Commission); Seer Systems, Inc. (a breach of contract action in connection with a technology development scheme and convertible note pending in the state courts of California); and Sunonwealth Electric Machine Industry Co. (a patent infringement action pending in the Northern District of California). Creative also from time to time receives licensing inquiries and/or threats of potential future patent claims from a variety of entities, including IBM and Lucent. Creative believes it has valid defenses to the various claims and counterclaims asserted against it. However, should any of these plaintiffs prevail in their claims or counterclaims, Creative does not expect there to be any consequent material adverse effect on its financial position or results of operations.

NOTE 8 – PURCHASE OF ASSETS AND SETTLEMENT OF LITIGATION

On September 21, 2000, the U.S. Bankruptcy Court for the Northern District of California, Oakland Division approved the sale to Creative of substantially all of the remaining assets of Areal Semiconductor, Inc (“Areal”). In accordance with the terms of the sale, which was completed in November 2000, Creative paid \$28.0 million in cash, plus two new shares of Creative stock for every 100 outstanding shares of Areal stock, or 208,079 shares of Creative stock. The Creative shares were valued at \$3.24 million. The previous litigation claims between Areal and Creative were also resolved as a result of the purchase of assets from Areal, and as a result of this, the Company recorded a \$20.0 million charge against earnings for the fiscal year ended June 30, 2000. The balance of the amounts paid and related acquisition costs, together totaling approximately \$11.2 million, were attributed to the assets acquired which were recorded by the Company based on their estimated fair values.

NOTE 9 – DIVIDENDS

At the Annual General Meeting held on November 8, 2000, Creative’s shareholders approved an ordinary dividend of \$0.25 and a special dividend of \$0.25 for each outstanding ordinary share of Creative for the fiscal year ending June 30, 2001. Dividends of \$39.4 million were paid on December 15, 2000 to all shareholders of record as of November 29, 2000. Creative paid an ordinary dividend of \$0.25 in the previous fiscal year.

NOTE 10 – SUBSEQUENT EVENT

In March 2001, Creative announced a series of cost-cutting measures which include a workforce reduction of approximately 10% worldwide, the closure of Creative Malvern, Pennsylvania manufacturing location and consolidation of those manufacturing efforts to Creative’s Singapore facilities, and sharp cutbacks in selected non-revenue generating Internet initiatives. As a result of these measures, Creative expects to take a one-time restructuring charge of approximately \$15.0 million to \$20.0 million in the third fiscal quarter ending March 31, 2001.

Additionally, given the recent steep downturn in global equity markets and the resulting valuation outlook for privately held technology holdings, Creative intends to write-down approximately \$65.0 million against its investment portfolio in the third fiscal quarter ending March 31, 2001.

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

Safe Harbor Statements Under The Private Securities Litigation Reform Act of 1995

Creative's operating results have historically been, and may in the future, be affected by various risk factors, many of which are beyond Creative's control. Except for the historical information contained herein, the matters set forth herein (including statements using the words or phrases "will", "we believe will", "going to", "anticipate", "plan", or other similar words or phrases, and including any guidance on future products, future marketing efforts, and future revenues, margins, expenses, and earnings) are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this Form 6-K are cautioned not to place undue emphasis or reliance on these forward-looking statements, which reflect management's analysis, judgement, belief or expectation only as of the date hereof. These forward-looking statements are subject to certain assumptions, risks and uncertainties that could cause actual results to differ materially from those set forth or implied in the forward looking statements. Such assumptions, risks and uncertainties include, among others: the cost-cutting measures Creative plans to take will be sufficient, reduction or cancellation of sales orders for Creative's products or other unexpected or unplanned events that could cause Creative to miss its revenue guidance or negatively impact its margins; the timely development, ramp, shipment, delivery, and market acceptance of new products, including Creative's next generation audio, personal digital entertainment appliances, including the WebCam line of products and specifically, the NOMAD and NOMAD Jukebox line of products, CD-ROM, CD-RW and DVD drives, and communications 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; reductions in the market value of products sold by Creative, including increases in inventory or declines in demand or prices for storage devices, digital entertainment appliances, board and chip-level products, software, speakers, and other products; reductions in revenues and gross margins due to numerous factors, including declines in average selling prices of Creative's products, failure to reduce costs, divestments of low margin businesses, and increased inventories and pricing pressure from competitors; the short product cycles that characterize most of Creative's products; fluctuations in the value and liquidity of Creative's investee companies, including any losses that may result from the recent trend of increased volatility for technology stocks and potential price reductions of carrying values of our investee companies; 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 current and future currency fluctuations, including the exchange rate of the Euro; labor shortages or work stoppages; credit shortages; effects of restricted fuel availability and rising costs of fuel; Creative's reliance on sole sources for many of its chips and other key components; component shortages which may impact Creative's ability to meet customer demand; Creative's ability to protect its proprietary rights; the timing or completion of a subsidiary IPO and/or the valuation that would apply in the event of a consummation of a subsidiary IPO; the volatility of share prices for companies in Creative's industry and the effect of those prices or other events beyond Creative's control, including adverse changes in general economic conditions; and other risk factors described in Creative's filings with the Securities and Exchange Commission over the past twelve months, including without limitation, Creative's Annual Report on Form 20-F and the Form 6-K dated January 19, 2001. Creative urges you to consider all such factors. Creative 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, 2000, together with the percentage of sales represented by such results. Consistent with the PC peripherals 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, the 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. Creative's business is seasonal in nature and the quarterly results are not necessarily indicative of the results to be achieved for the complete year.

	Unaudited data for quarters ended (in US\$'000 except per share data)							
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
	2000	2000	2000	2000	1999	1999	1999	1999
Sales, net	\$ 427,026	\$ 304,368	\$ 307,715	\$ 330,022	\$ 436,789	\$ 269,078	\$ 275,134	\$ 313,715
Cost of goods sold	<u>313,069</u>	<u>211,334</u>	<u>212,739</u>	<u>228,444</u>	<u>306,912</u>	<u>199,062</u>	<u>213,071</u>	<u>232,964</u>
Gross profit	113,957	93,034	94,976	101,578	129,877	70,016	62,063	80,751
Operating expenses:								
Selling, general and administrative	70,064	58,102	59,724	64,167	76,340	53,502	47,966	51,534
Research and development	15,115	15,096	16,460	16,538	14,717	12,713	12,873	11,825
Other charges (1)	<u>--</u>	<u>--</u>	<u>20,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Operating income (loss)	28,778	19,836	(1,208)	20,873	38,820	3,801	1,224	17,392
Net gain from investments	507	2,351	19,211	70,632	9,235	4,365	12,562	239
Interest income (expense) and other, net	<u>2,055</u>	<u>(912)</u>	<u>1,055</u>	<u>(542)</u>	<u>918</u>	<u>3,856</u>	<u>2,488</u>	<u>2,669</u>
Income before income taxes and minority interest	31,340	21,275	19,058	90,963	48,973	12,022	16,274	20,300
Provision for income taxes	(4,624)	(3,785)	(2,004)	(2,327)	(3,939)	(1,202)	(1,303)	(1,624)
Minority interest in (income) loss	<u>(241)</u>	<u>132</u>	<u>349</u>	<u>(317)</u>	<u>(554)</u>	<u>(10)</u>	<u>(235)</u>	<u>(425)</u>
Net income	\$ <u>26,475</u>	\$ <u>17,622</u>	\$ <u>17,403</u>	\$ <u>88,319</u>	\$ <u>44,480</u>	\$ <u>10,810</u>	\$ <u>14,736</u>	\$ <u>18,251</u>
Basic earnings per share	<u>\$ 0.34</u>	<u>\$ 0.22</u>	<u>\$ 0.21</u>	<u>\$ 1.09</u>	<u>\$ 0.54</u>	<u>\$ 0.13</u>	<u>\$ 0.17</u>	<u>\$ 0.21</u>
Weighted average ordinary shares outstanding ('000)	<u>78,964</u>	<u>79,848</u>	<u>81,367</u>	<u>81,339</u>	<u>81,999</u>	<u>83,410</u>	<u>85,457</u>	<u>88,398</u>
Diluted earnings per share	<u>\$ 0.33</u>	<u>\$ 0.21</u>	<u>\$ 0.20</u>	<u>\$ 1.01</u>	<u>\$ 0.52</u>	<u>\$ 0.13</u>	<u>\$ 0.17</u>	<u>\$ 0.20</u>
Weighted average ordinary shares and equivalents outstanding ('000)	<u>81,180</u>	<u>84,151</u>	<u>87,605</u>	<u>87,697</u>	<u>86,291</u>	<u>84,855</u>	<u>88,026</u>	<u>90,835</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
	2000	2000	2000	2000	1999	1999	1999	1999
Sales, net	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of goods sold	<u>73</u>	<u>70</u>	<u>69</u>	<u>69</u>	<u>70</u>	<u>74</u>	<u>77</u>	<u>74</u>
Gross profit	27	30	31	31	30	26	23	26
Operating Expenses:								
Selling, general and administrative	16	19	19	20	18	20	17	16
Research and development	4	5	5	5	3	5	5	4
Other charges (1)	<u>--</u>	<u>--</u>	<u>7</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Operating income	7	6	--	6	9	1	1	6
Net gain from investments	--	1	6	22	2	2	4	--
Interest income (expense) and other, net	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1</u>	<u>1</u>	<u>1</u>
Income before income taxes and minority interest	7	7	6	28	11	4	6	7
Provision for income taxes	(1)	(1)	(1)	(1)	(1)	--	(1)	(1)
Minority interest in (income) loss	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net income	<u>6 %</u>	<u>6 %</u>	<u>5 %</u>	<u>27 %</u>	<u>10 %</u>	<u>4 %</u>	<u>5 %</u>	<u>6 %</u>

1. Other charges included in the results of operations for the quarter ended June 30, 2000 relate to the settlement of all outstanding litigation claims between Aureal and Creative. See Note 8 of "Notes to Consolidated Financial Statements."

RESULTS OF OPERATIONS

Three Months Ended December 31, 2000 Compared to Three Months Ended December 31, 1999

Sales for the second quarter of fiscal 2001 (Q2/01) decreased by 2%, compared to the same quarter (Q2/00) in the prior fiscal year. Audio product sales (Sound Blaster audio cards and chipsets) decreased by 9% and represented 36% of total sales in Q2/01, compared to 38% in Q2/00. Creative's audio product sales were adversely affected by weak demand in the system integrator and OEM channels. Sales of multimedia upgrade kits (MMUK) including data storage products, decreased by 9% in Q2/01 and represented 21% of sales, compared to 23% in Q2/00. This decrease in sales was a result of lower sales of audio upgrade kits and stand alone CD-ROM drives, offset in part by an increase in sales of CD-RW and DVD drives. Sales of audio upgrade kits, which comprised a combination of sound cards and data storage drives, have been declining due to a shift in consumer demand towards stand-alone products. Sales of video and graphics products decreased by 43% and represented 9% of sales in Q2/01 compared with Q2/00, when they represented 16% of sales. This decline in sales was due to management's planned decision to reduce Creative's reliance on lower margin graphic products and focus more on those products which contribute positively towards overall gross margins. Sales of Personal Digital Entertainment ("PDE") products, which include digital audio players and digital cameras, increased by 167% to 13% of sales in Q2/01, compared to 5% of sales in Q2/00, primarily due to a successful launch of the NOMAD Jukebox product in fiscal year 2001. Sales of speakers increased by 13% and represented 12% of sales in Q2/01 compared with Q2/00, when they represented 10% of total sales. The improvement in speaker sales was primarily due to increased sales of new speaker products, which included PlayWorks PS2000 Digital and PlayWorks DTT2500 digital speakers. Sales of other products, which include accessories, music products, communication products and other miscellaneous items, increased by 14% and represented 9% of sales in Q2/01, compared to 8% in Q2/00, primarily due to increased sales of communication products.

Gross profit in Q2/01 declined by 12% compared to Q2/00. As a percentage of sales, gross profit for Q2/01 was 27% compared to 30% in Q2/00. Gross profit declined due to a reduction in sales of audio products that usually carry higher margins than other products. Compared to Q2/00 selling, general and administrative expenses declined by 8% in Q2/01, primarily due to management's cost cutting efforts. As a percentage of sales, selling, general and administrative expenses were 16% in Q2/01, compared to 18% in Q2/00. Creative's research and development expenses ("R&D") were at 4% of sales in Q2/01, compared to 3% of sales in Q2/00.

Included in the results of Q2/01 were net investment gains of \$0.5 million, which is comprised of a net gain of \$23.8 million from sales of investments and marketable securities, offset by a \$23.3 million write down of quoted investments. In Q2/00, Creative realized investment gains of \$9.2 million, which included gains from investments of \$19.0 million and a write-off of certain investments amounting to \$9.8 million. Interest and other income increased by \$1.1 million in Q2/01 compared to Q2/00, primarily due to lower foreign exchange losses in Q2/01.

Creative's provision for income taxes for the three months ended December 31, 2000 was 1% of sales. Tax provision as a percentage of income before taxes and minority interest and excluding net gains from investments increased to 15% in Q2/01 compared to 10% of sales in Q2/00. This increase was primarily due to additional provisions for tax liabilities arising upon the expiration of the Singapore pioneer status in March 2000, and changes in the mix of Creative's taxable income arising from various geographical regions, where the tax rates range from 0% to 50%. Creative has applied for a separate and new Pioneer Certificate covering a new range of products. If Creative is awarded this new Pioneer Certificate, profits from qualified products under the new Pioneer Certificate will be exempted from tax in Singapore. In the event that Creative fails to obtain the new Pioneer Certificate, future taxable income in Singapore shall be subjected to a statutory tax rate of 24.5%.

In March 2001, Creative announced a series of cost-cutting measures which include a workforce reduction of approximately 10% worldwide, the closure of Creative's Malvern, Pennsylvania manufacturing location and consolidation of those manufacturing efforts to Creative's Singapore facilities, and sharp cutbacks in selected non-revenue generating Internet initiatives. As a result of these measures, Creative expects to take a one-time restructuring charge of approximately \$15.0 to \$20.0 million in the third fiscal quarter ending March 31, 2001. Additionally, Creative plans to write-down approximately \$65.0 million against its investment portfolio in the third fiscal quarter ending March 31, 2001. See Note 10 of "Notes to Consolidated Financial Statements."

Six Months Ended December 31, 2000 Compared to Six Months Ended December 31, 1999

Sales for the first six months of fiscal 2001 increased by 4% compared with the first six months of the corresponding period in the prior fiscal year. Audio product sales (Sound Blaster audio cards and chipsets), as a percentage of total sales, declined to 39% of sales in the six-month period ended December 31, 2000, compared to 40% of sales in the comparable period in the prior fiscal year. Sales of audio products improved in the first three months of fiscal 2001 but declined in the last three months due to a weaker demand in the system integrator and OEM channels. MMUK sales, which also includes data storage products, were 23% of total sales in the six-month period ended December 31, 2000, compared with the six-month period ended December 31, 1999, when it represented 24% of total sales. Within MMUK, sales of audio upgrade kits and CD-ROM products declined but their impact on total sales was offset by an increase in sales of CD-RW and DVD-ROM drives. Sales of audio upgrade kits, which comprised a combination of sound cards and data storage drives, continued to decline due to a shift in consumer demand towards stand-alone products. Sales of video and graphics products decreased by 35% and represented 9% of total sales for the six-month period ended December 31, 2000, compared with 14% in the corresponding period of prior year. This decline in sales was due to management's efforts to focus more on higher margin products and less on lower margin graphic products. Sales of PDE products, which include digital audio players and digital cameras, increased by 204% to 10% of total sales in the six-month period ended December 31, 2000, compared with the period ended December 31, 1999, when they represented 3% of total sales. This increase was primarily due to the successful launch of the NOMAD Jukebox product in the fiscal year 2001. Sales of speakers increased by 6% in the first half of fiscal year 2001 compared to the first half of the prior fiscal year, primarily due to introduction of new models of multi-media speakers. As a percentage of total sales, speaker sales remained unchanged at 11%. Sales of other products, which includes accessories, music products, communication products and other miscellaneous items as a percentage of total sales remained unchanged at 8% of total sales in the six-month period ended December 31, 2000 compared with the corresponding period last year.

Gross profit for the six-month period ended December 31, 2000 remained flat at 28% of total sales, compared to the six-month period ended December 31, 1999. Compared to the comparable period in the prior fiscal year, gross margins increased in the first three months of fiscal year 2001 due to a larger sales contribution from higher margin audio products and reduced sales of lower margin graphics products. Margins declined in the second quarter mainly due to a reduction in the sales volume of audio products.

Selling, general and administrative expenses (SG&A) were 18% of sales for the six-month period ended December 31, 2000 and for the same period in the prior fiscal year. SG&A expenses for both periods included expenses incurred to launch and promote Creative's internet businesses. Research and development expenses for the six-month period ended December 31, 2000 were unchanged at 4% of sales, compared with the corresponding period in the prior fiscal year.

Results for the six-month period ended December 31, 2000, included net investment gains of \$2.9 million compared to \$13.6 million in comparable period in the prior fiscal year. Investment gains for the six-month period ended December 31, 2000, included net gains from the sale of investments and marketable securities of \$50.6 million which was reduced by losses from write-downs of quoted investments totaling \$47.7 million. Compared to the comparable period in the prior fiscal year, net gain from investments and marketable securities of \$13.6 million included gains from sale of investments and marketable securities of \$23.4 million and a write-off of certain investments amounting to \$9.8 million. Interest and other income decreased by \$3.6 million in the first half of fiscal 2001, compared to the first half of fiscal 2000, primarily due to higher foreign exchange losses incurred during the first quarter of fiscal 2001 and lower interest income resulting from lower average cash balances during the first six months of FY01, compared with FY00.

Creative's provision for income taxes for the six-month period ended December 31, 2000 was 1% of sales. Tax provision as a percentage of income before taxes and minority interest excluding net gains from sale of investments increased from 11% for the first six months of fiscal year 2000 to 17% for the first six months of fiscal year 2001. This increase was primarily due to additional provisions for tax liabilities arising upon the expiration of the Singapore pioneer status in March 2000, and changes in the mix of taxable income arising from various geographical regions, where the tax rates range from 0% to 50%. Creative has applied for a separate and new Pioneer Certificate covering a new range of products. If Creative is awarded this new Pioneer Certificate, profits from qualified

products under the new Pioneer Certificate will be exempted from tax in Singapore. In the event that Creative fails to obtain the new Pioneer Certificate, future taxable income in Singapore shall be subjected to a statutory tax rate of 24.5%.

In March 2001, Creative announced a series of cost-cutting measures which include a workforce reduction of approximately 10% worldwide, the closure of Creative's Malvern, Pennsylvania manufacturing location and consolidation of those manufacturing efforts to Creative's Singapore facilities, and sharp cutbacks in selected non-revenue generating Internet initiatives. As a result of these measures, Creative expects to take a one-time restructuring charge of approximately \$15.0 to \$20.0 million in the third fiscal quarter ending March 31, 2001. Additionally, Creative plans to write-down approximately \$65.0 million against its investment portfolio in the third fiscal quarter ending March 31, 2001. See Note 10 of "Notes to Consolidated Financial Statements."

LIQUIDITY AND CAPITAL RESOURCES

Compared to the balance at June 30, 2000, cash and cash equivalents as of December 31, 2000 decreased by \$116.7 million to \$169.0 million. This decrease primarily resulted from cash usage of \$12.3 million to purchase investments net of proceeds from sale of investments, \$ 42.9 million increase in inventory mainly to support PDE products, \$53.3 million increase in accounts receivable, \$42.8 million to purchase 2.0 million of the Company's Ordinary Shares, and \$39.4 million of dividends paid, all of which partially offset by net income of \$44.1 million for the first six months ended December 31, 2000. See "Notes to the Consolidated Financial Statements - Note 6: Share Repurchases and Note 9: Dividends." During the six-month period ended December 31, 2000, \$2.4 million of cash was provided by operating activities; \$40.9 million was used in investment activities, and \$78.2 million was used in financing activities.

As of December 31, 2000, in addition to the cash reserves, Creative had unutilized credit facilities totaling approximately \$98.1 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 Creative's existing product range. Further, Creative from time to time evaluates various alternatives with regard to its businesses, including those of its subsidiaries. Such alternatives may include third party financing and/or offerings to the public. 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 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 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000 and cannot be applied retroactively. There was no material impact from the adoption of this statement on Creative's consolidated financial statements.

In December 1999, the Securities and Exchange Commission's ("SEC") staff issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Creative adopted SAB No. 101 effective from the first quarter of fiscal year 2001. There was no material impact from the adoption of this statement on Creative's consolidated financial statements.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Equity Price Risks: Creative is exposed to equity price risk on its quoted investments. An aggregate 10% permanent reduction in prices of quoted investment would have an impact of \$8.3 million on Creative's results of operations. Creative's results of operations for the first half of fiscal year 2001 included \$47.7 million of losses from permanent write-downs of quoted investments.

Interest Rate Risk: Changes in interest rates could impact Creative's anticipated interest income on its cash equivalents and interest expense on its debt. Due to the short duration of Creative cash deposits and terms of its debt, an immediate 10% increase in interest rates would not have a material adverse impact on Creative's future operating results and cash flows.

Foreign Currency Exchange Risk: Creative transacts business mainly in US dollars and most of its revenues are collected in US dollars, however Creative also invoices certain customers in European and Asian currencies. In the first half of fiscal 2001, Creative experienced unfavorable exchange rates resulting in a loss of \$3.5 million. Creative occasionally enters into short-term forward exchange contracts to hedge certain account receivables exposures denominated in foreign currencies. These forward exchange contracts are denominated in the same currency as the underlying transactions. Creative does not use derivative financial instruments for trading or speculative purposes.

SIGNATURE

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

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Ng Keh Long
Chief Financial Officer
Date: March 29, 2001