
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 Nine Months ended March 31, 2001

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>March 31, 2001</u> (Unaudited)	<u>June 30, 2000</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 144,140	\$ 285,757
Marketable securities	2,514	21,156
Accounts receivable, net	96,513	98,923
Inventory	193,409	230,616
Other assets and prepaids	19,572	34,942
Total current assets	<u>456,148</u>	<u>671,394</u>
Property and equipment, net	103,213	96,751
Investments	179,136	395,888
Other non-current assets	7,243	12,426
Total Assets	<u>\$ 745,740</u>	<u>\$ 1,176,459</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 67,879	\$ 183,299
Accrued liabilities	84,326	103,756
Income taxes payable	45,671	48,350
Other current liabilities	3,722	4,575
Total current liabilities	<u>201,598</u>	<u>339,980</u>
Long term obligations	26,640	27,051
Minority interest in subsidiaries	30,759	30,790
Shareholders' equity:		
Ordinary shares ('000); S\$0.25 par value;		
Authorized: 200,000 shares		
Outstanding: 78,594 and 80,325 shares	7,558	7,808
Additional paid-in capital	208,687	203,111
Unrealized holding gains on quoted investments	16,067	173,948
Deferred share compensation	(7,471)	(15,924)
Retained earnings	261,902	409,695
Total shareholders' equity	<u>486,743</u>	<u>778,638</u>
Total Liabilities and Shareholders' Equity	<u>\$ 745,740</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)

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>March 31,</u>		<u>March 31,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Sales, net	\$ 263,030	\$ 330,022	\$ 994,424	\$ 1,035,889
Cost of goods sold	<u>199,205</u>	<u>228,444</u>	<u>723,608</u>	<u>734,418</u>
Gross profit	<u>63,825</u>	<u>101,578</u>	<u>270,816</u>	<u>301,471</u>
Operating expenses:				
Selling, general and administrative	55,685	64,167	183,851	194,009
Research and development	11,380	16,538	41,591	43,968
Restructuring and other charges	<u>23,231</u>	<u>--</u>	<u>23,231</u>	<u>--</u>
Total operating expenses	<u>90,296</u>	<u>80,705</u>	<u>248,673</u>	<u>237,977</u>
Operating (loss) income	(26,471)	20,873	22,143	63,494
(Loss) gain from investments, net	(75,360)	70,632	(72,502)	84,232
Interest income and other, net	<u>1,090</u>	<u>(542)</u>	<u>2,233</u>	<u>4,232</u>
(Loss) income before income taxes and minority interest	(100,741)	90,963	(48,126)	151,958
Provision for income taxes	--	(2,327)	(8,409)	(7,468)
Minority interest in (income)	<u>(289)</u>	<u>(317)</u>	<u>(398)</u>	<u>(881)</u>
Net (loss) income	<u>\$ (101,030)</u>	<u>\$ 88,319</u>	<u>\$ (56,933)</u>	<u>\$ 143,609</u>
Basic (loss) earnings per share:	\$ (1.27)	\$ 1.09	\$ (0.72)	\$ 1.75
Weighted average ordinary shares outstanding ('000)	79,299	81,339	79,370	82,249
Diluted (loss) earnings per share:	\$ (1.27)	\$ 1.01	\$ (0.72)	\$ 1.66
Weighted average ordinary shares and equivalents Outstanding ('000)	79,299	87,697	79,370	86,281

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)

	Nine Months Ended March 31,	
	2001	2000
Cash flows from operating activities:		
Net (loss) income	\$ (56,933)	\$ 143,609
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	21,789	25,110
Deferred stock compensation amortization	2,554	2,395
Minority interest in income	397	881
Equity share in income of unconsolidated investments	(33)	(4)
Write-off of investments and other non-current assets	15,893	9,793
Loss (gain) from investments, net	72,541	(75,354)
Changes in assets and liabilities, net:		
Accounts receivable	2,410	(3,575)
Inventory	37,207	(31,183)
Marketable securities	18,642	(32,263)
Other assets and prepaids	18,397	(7,949)
Accounts payable	(115,420)	30,423
Accrued and other liabilities	(20,139)	27,797
Income taxes payable	(2,679)	3,804
Net cash (used in) provided by operating activities	(5,374)	93,484
Cash flows from investing activities:		
Capital expenditures, net	(22,633)	(11,193)
Proceeds from sale of quoted investments	86,439	115,660
Purchase of investments	(100,109)	(172,717)
Increase in other assets, net	(13,055)	(994)
Net cash used in investing activities	(49,358)	(69,244)
Cash flows from financing activities:		
Decrease in minority shareholders' loan and equity balance	(273)	(76)
Proceeds from exercise of ordinary share options	7,981	12,017
Repurchase of ordinary shares	(51,446)	(48,361)
Repayments of long-term obligations, net	(3,578)	(2,977)
Dividends paid to ordinary shareholders	(39,414)	(20,557)
Dividends paid to minority interest	(155)	-
Net cash used in financing activities	(86,885)	(59,954)
Net decrease in cash and cash equivalents	(141,617)	(35,714)
Cash and cash equivalents at beginning of year	285,757	318,990
Cash and cash equivalents at end of the period	\$ 144,140	\$ 283,276
Supplemental disclosure of cash flow information:		
Interest paid	\$ 145	\$ 332
Income taxes paid	\$ 11,089	\$ 3,663

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 nine months period ended March 31, 2001 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):

	March 31, 2001	June 30, 2000
Raw materials	\$ 99,460	\$ 136,803
Work in progress	13,536	27,293
Finished products	80,413	66,520
	\$ 193,409	\$ 230,616

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 earning per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted earning 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 March 31,		Nine months ended March 31,	
	2001	2000	2001	2000
Weighted average ordinary shares outstanding	79,299	81,339	79,370	82,249
Weighted average dilutive stock options outstanding	-	6,358	-	4,032
Weighted average ordinary shares and equivalent outstanding	79,299	87,697	79,370	86,281

For the three-month and nine-month period ended March 31, 2001, approximately 1.4 million and 2.6 million potentially dilutive shares were excluded from the determination of diluted net loss per share, as the effect of such shares on a weighted average basis is anti-dilutive.

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 (loss) income are as follows (in US\$'000):

	Three months ended March 31,		Nine months ended March 31,	
	2001	2000	2001	2000
Net (loss) income	\$ (101,030)	\$ 88,319	\$ (56,933)	\$ 143,609
Unrealized gain (loss) on quoted investments	10,749	(60,297)	(157,881)	92,315
Total comprehensive (loss) income	\$ (90,281)	\$ 28,022	\$ (214,814)	\$ 235,924

NOTE 6 - SHARE REPURCHASES

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

Quarter Ended:	Number of Shares Repurchased (in millions)	Average Price (US \$)
Year ended June 30, 1999	10.0	\$14
Year ended June 30, 2000	5.9	\$17
Quarter ended September 30, 2000	1.8	\$22
Quarter ended December 31, 2000	0.2	\$16
Quarter ended March 31, 2001	0.9	\$10
Total	18.8	\$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); 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 – RESTRUCTURING AND OTHER CHARGES

In March 2001, Creative announced a series of cost-cutting measures which included a worldwide workforce reduction of approximately 10%, closure of Creative’s manufacturing location in Pennsylvania and transferring these manufacturing activities to Creative’s other facilities, and sharp cutbacks in selected non-revenue generating Internet initiatives. As a result of these measures and other market changes, Creative in the third fiscal quarter of 2001 recorded restructuring and other charges of \$23.2 million which was included in operating expenses and an inventory charge of \$7.8 million which was charged to cost of goods sold. The \$23.2 million restructuring and other charges comprised \$4.8 million in employee separation costs, \$3.6 million in facility exit costs, fixed asset impairment write-downs of \$3.6 million and write-off of other assets acquired from Aureal amounting to \$11.2 million.

Employee separation costs represent the costs of involuntary severance benefits for 380 positions. As of March 31, 2001, approximately one-half of these employees had separated from the Company. Facility exit costs primarily include lease termination and unutilized capacity costs. The accruals for employee separation costs and exit costs are included in accrued liabilities in the consolidated balance sheets.

The following table display the accruals established for employee separation and facility exit costs (in US\$'000):

	<u>Initial Charges</u>		<u>Amounts Paid</u>		<u>Accruals as of March 31, 2001</u>
Employee separation costs	\$ 4,807	\$	1,091	\$	3,716
Facility exit costs	3,622		414		3,208
Total	\$ 8,429	\$	1,505	\$	6,924

Fixed and other asset impairment write-downs are attributed to manufacturing and other equipment associated with the facilities being closed as well as certain other intangible assets which have been impaired as a result of recent changes in market conditions.

The \$7.8 million inventory charge primarily relates to digital video recorders and graphics which were written down to their estimated sales values as a result of management's decision to exit from these businesses.

NOTE 9 – INVESTMENT LOSSES

Resulting from a continued downturn in global equity markets, Creative experienced a steep decline in its investment portfolio during the quarter ended March 31, 2001, resulting in net investments losses of \$75.4 million. This includes a previously announced \$65.0 million write-down of privately held investments and a net \$10.4 million loss on quoted investments. Creative's results of operations for the nine months ended March 31, 2001 included \$124.7 million of losses from permanent write-downs of quoted and unquoted investments

NOTE 10 – 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.

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

Except for the historical information contained herein, the matters set forth herein (including all references to future financial performance, products and marketing efforts) are forward-looking statements within the meaning of the "safe harbor" provisions 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 of this press release. 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 may be insufficient or may fail to achieve the anticipated cost reduction benefits; further deterioration of the global stock market and overall reduction in demand for computer systems and related products in general, and Creative's products specifically; increased exposure to excess and obsolete inventory; higher overhead costs as a percentage of revenue; reduction or cancellation of sales orders for Creative 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; further 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 March 31, 2001, 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)							
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	2001	2000	2000	2000	2000	1999	1999	1999
Sales, net	\$ 263,030	\$ 427,026	\$ 304,368	\$ 307,715	\$ 330,022	\$ 436,789	\$ 269,078	\$ 275,134
Cost of goods sold	<u>199,205</u>	<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>
Gross profit	63,825	113,957	93,034	94,976	101,578	129,877	70,016	62,063
Operating expenses:								
Selling, general and administrative	55,685	70,064	58,102	59,724	64,167	76,340	53,502	47,966
Research and development	11,380	15,115	15,096	16,460	16,538	14,717	12,713	12,873
Restructuring and other charges (1)	<u>23,231</u>	<u>--</u>	<u>--</u>	<u>20,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Operating (loss) income	(26,471)	28,778	19,836	(1,208)	20,873	38,820	3,801	1,224
Net (loss) gain from investments	(75,360)	507	2,351	19,211	70,632	9,235	4,365	12,562
Interest income (expense) and other, net	<u>1,090</u>	<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>
(Loss) income before income taxes and minority interest	(100,741)	31,340	21,275	19,058	90,963	48,973	12,022	16,274
Provision for income taxes	--	(4,624)	(3,785)	(2,004)	(2,327)	(3,939)	(1,202)	(1,303)
Minority interest in (income) loss	<u>(289)</u>	<u>(241)</u>	<u>132</u>	<u>349</u>	<u>(317)</u>	<u>(554)</u>	<u>(10)</u>	<u>(235)</u>
Net (loss) income	\$ (101,030)	\$ 26,475	\$ 17,622	\$ 17,403	\$ 88,319	\$ 44,480	\$ 10,810	\$ 14,736
Basic (loss) earnings per share	\$ <u>(1.27)</u>	\$ <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>
Weighted average ordinary shares outstanding ('000)	<u>79,299</u>	<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>
Diluted (loss) earnings per share	\$ <u>(1.27)</u>	\$ <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>
Weighted average ordinary shares and equivalents outstanding ('000)	<u>79,299</u>	<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>

Unaudited data for quarters ended (as a percentage of sales)

	<u>Mar 31</u>	<u>Dec 31</u>	<u>Sep 30</u>	<u>Jun 30</u>	<u>Mar 31</u>	<u>Dec 31</u>	<u>Sep 30</u>	<u>Jun 30</u>
	<u>2001</u>	<u>2000</u>	<u>2000</u>	<u>2000</u>	<u>2000</u>	<u>1999</u>	<u>1999</u>	<u>1999</u>
Sales, net	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of goods sold	<u>76</u>	<u>73</u>	<u>70</u>	<u>69</u>	<u>69</u>	<u>70</u>	<u>74</u>	<u>77</u>
Gross profit	24	27	30	31	31	30	26	23
Operating Expenses:								
Selling, general and administrative	21	16	19	19	20	18	20	17
Research and development	4	4	5	5	5	3	5	5
Restructuring and other charges (1)	<u>9</u>	<u>--</u>	<u>--</u>	<u>7</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Operating (loss) income	(10)	7	6	--	6	9	1	1
Net (loss) gain from investments	(29)	--	1	6	22	2	2	4
Interest income (expense) and other, net	<u>1</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1</u>	<u>1</u>
(Loss) income before income taxes and minority interest	(38)	7	7	6	28	11	4	6
Provision for income taxes	--	(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 (loss) income	<u>(38) %</u>	<u>6 %</u>	<u>6 %</u>	<u>5 %</u>	<u>27 %</u>	<u>10 %</u>	<u>4 %</u>	<u>5 %</u>

1. Restructuring and other charges for the quarter ended March 31, 2001 includes \$8.4 million in restructuring charges, fixed assets impairment write-downs of \$3.6 million and write-off of other assets acquired from Aureal amounting to \$11.2 million. For the quarter ended June 30, 2000, other charges of \$20.0 million relates 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 March 31, 2001 Compared to Three Months Ended March 31, 2000

Sales for the third quarter of fiscal 2001 (Q3/01) decreased by 20% compared to the same quarter (Q3/00) in the prior fiscal year, primarily due to decline in sales of multi-media upgrade kits (MMUK) and graphics products. Audio products (Sound Blaster audio cards and chipsets) sales decreased by 4% in Q3/01 compared with Q3/00, primarily due to a weaker demand in the system integrator and OEM channels. Audio products sales as a percentage of total sales increased to 47% in Q3/01 compared to 39% in Q3/00. Sales of MMUK including data storage products, decreased by 23% in Q3/01 and represented 19% of sales, compared to 20% of sales in Q3/00. This decrease in sales was a result of lower sales of audio upgrade kits and stand alone CD-ROM and CD-RW drives, offset in part by an increase in sales of DVD drives. Sales of audio upgrade kits, which comprised a combination of sound cards and data storage drives, have been declining due to the continued downturn in the PC business. Sales of video and graphics products decreased by 88% and represented 3% of sales in Q3/01 compared with Q3/00, when they represented 16% of sales. This decline in sales was due to management's decision to reduce Creative's reliance on lower margin graphics products. Sales of Personal Digital Entertainment ("PDE") products, which include digital audio players and digital cameras, increased by 24% to 7% of sales in Q3/01, compared to 5% of sales in Q3/00, primarily due to sales of the NOMAD Jukebox product in fiscal year 2001. Sales of speakers decreased by 8% in Q3/01 compared with Q3/00. This decline was caused by a weaker demand for lower end multimedia speakers in system integrator and OEM channels, which was partially offset by increased sales of high-end multi-point surround speakers in the retail channels. Sale of speakers as a percentage of total sales was 13% in Q3/01 compared to 11% in Q3/00. Sales of other products, which include accessories, music products, communication products and other miscellaneous items, decreased by 2% in Q3/01 compared to Q3/00. As a percentage of sales, other products were 11% of sales in Q3/01 compared to 9% in Q3/00.

Gross profit in Q3/01 declined by 37% compared to Q3/00. As a percentage of sales, gross profit for Q3/01 was 24% compared to 31% in Q3/00. Gross profit was negatively impacted by a \$7.8 million restructuring charge applied to cost of goods sold and the reductions in the margin of audio and speakers products. See Note 8 of "Notes to Consolidated Financial Statements."

Selling, general and administrative expenses declined by 13% in Q3/01 compared to Q3/00, primarily due to management's cost cutting efforts. As a percentage of sales, selling, general and administrative expenses were 21% in Q3/01, compared to 20% in Q3/00. Creative's research and development expenses ("R&D") were at 4% of sales in Q3/01, compared to 5% of sales in Q3/00.

Included in the results of Q3/01 were restructuring and other charges totaling \$23.2 million. This included a restructuring charge of \$8.4 million, \$3.6 million write-downs of fixed assets and write-off of other assets acquired from Aureal amounting to \$11.2 million. See Note 8 of "Notes to Consolidated Financial Statements." Upon completion of these restructuring initiatives, Creative expects to achieve quarterly savings of approximately \$5.0 million in operating expenses. However, these savings may not be achieved or sustained and they may need to be reevaluated in the future.

Net investment losses of \$75.4 million in Q3/01 comprised a write-down of unquoted and quoted investments totaling \$65.0 million and \$12.0 million, offset partially by a net gain of \$1.6 million from sales of investments and marketable securities. In Q3/00, Creative's net gain from investments was \$70.6 million, which primarily resulted from sales of quoted investments. Compared to a net other loss of \$0.5 million in Q3/00, Creative had a net other income of \$1.1 million in Q3/01, primarily due to lower foreign exchange losses during Q3/01. See Note 9 of "Notes to Consolidated Financial Statements."

Creative did not record additional provisions for income taxes in Q3/01 due to operating losses incurred during the quarter. In Q3/00, the tax provision as a percentage of income before taxes and minority interest excluding net gain from sale of investments was 11%. Creative's tax provision depends on the mix of its taxable income arising from various geographical regions, where the tax rates range from 0% to 50%. Creative's Pioneer status in Singapore 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. 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%.

Nine Months Ended March 31, 2001 Compared to Nine Months Ended March 31, 2000

Sales for the first nine months of fiscal year 2001 decreased by 4% compared with the first nine months of the corresponding period in the prior fiscal year. Audio product sales (Sound Blaster audio cards and chipsets) declined marginally by 1% in the nine-month period ended March 31, 2001, compared to the comparable period in the prior fiscal year. As a percentage of total sales, audio product sales increased to 41% in the nine-month period ended March 31, 2001, compared to 39% in the same period in the prior fiscal year. Sales of audio products improved in the first three months of fiscal 2001 but declined in the last six months due to a weaker demand in the system integrator and OEM channels. MMUK sales, which also includes data storage products, declined by 6% and remained unchanged at 22% of total sales in the nine-month period ended March 31, 2001, compared with the nine-month period ended March 31, 2000. Within MMUK, sales of audio upgrade kits and CD-ROM products declined but their impact on total sales was partially 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 have been declining due to the continued downturn in the PC business. Sales of video and graphics products decreased by 53% and represented 7% of total sales for the nine-month period ended March 31, 2001, compared with 15% in the corresponding period of the prior year. This decline in sales was due to management's decision to reduce its reliance on lower margin graphic products. Sales of PDE products, which include digital audio players and digital cameras, increased by 133% to 9% of total sales during the nine-month period ended March 31, 2001, compared with the nine-month period ended March 31, 2000, when they represented 4% of total sales. This increase was primarily due to increased sales of digital cameras and sales of NOMAD Jukebox introduced in the first quarter of fiscal year 2001. Sales of speakers increased by 1% in the first nine months of fiscal year 2001 compared to the corresponding period 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, improved to 10% in the nine-month period ended March 31, 2001 compared with 9% in the corresponding period in the prior fiscal year.

Gross profit for the nine-month period ended March 31, 2001 declined by 10% to 27% of sales, compared to 29% during the nine-month period ended March 31, 2000. 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 graphic products. Margins were affected in the second quarter of fiscal year 2001 by reductions in sales of higher margin audio products. In the third quarter of fiscal year 2001, gross margins were negatively impacted by a \$7.8 million restructuring charge applied to cost of goods sold and the reductions in the margin of audio and speakers products. See Note 8 of "Notes to Consolidated Financial Statements."

Selling, general and administrative expenses (SG&A) declined by 5% and were flat at 19% of sales for the nine-month period ended March 31, 2001, compared to the same period in the prior fiscal year. SG&A expenses declined due to management's cost cutting efforts and reduction in expenses incurred on non-revenue generating Internet activities. Research and development expenses for the nine-month period ended March 31, 2001 were unchanged at 4% of sales, compared with the corresponding period in the prior fiscal year.

Included in the results of the first nine months of fiscal 2001 were other charges of \$23.2 million. This comprised restructuring charges totaling \$8.4 million, \$3.6 million write-downs of fixed assets and write-off of other assets acquired from Aureal amounting to \$11.2 million. See Note 8 of "Notes to Consolidated Financial Statements."

Compared to net gain from investments of \$84.2 million in the nine-month period ended March 31, 2000, results for the nine-month period ended March 31, 2001 included net investment losses of \$72.5 million. This loss included write-down of unquoted and quoted investments totaling \$65.0 million and \$59.7 million, offset by net gains from sales of investments and marketable securities of \$52.2 million. See Note 9 of "Notes to Consolidated Financial Statements." Interest and other income decreased by \$2.0 million in the first nine months of fiscal year 2001, compared to the same period in fiscal year 2000, primarily due to lower interest income resulting from lower average cash balances during the first nine months of fiscal year 2001.

Creative's provision for income taxes for the nine-month period ended March 31, 2001 was 1% of sales. The tax provision as a percentage of income before taxes and minority interest excluding net loss or gain from sale of investments increased from 11% for the first nine months of fiscal year 2000 to 34% for the first nine months of fiscal year 2001. This increase was primarily due to a higher expected tax rate in Singapore due to 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%.

LIQUIDITY AND CAPITAL RESOURCES

During the nine-month period ended March 31, 2001, Creative used \$141.6 million of its cash which includes \$5.4 million used in operating activities, \$49.3 million used in investing activities, and \$86.9 million used in financing activities. Compared to the balance of \$285.8 million at June 30, 2000, cash and cash equivalents decreased to \$144.1 million as of March 31, 2001. This decrease in cash primarily resulted from a \$138.2 million reduction in accounts payable, accrued liabilities and income taxes payable, \$100.1 million of cash used to purchase certain strategic investments, \$51.4 million of cash used to purchase 2.9 million of the Company's Ordinary Shares and \$39.4 million of cash used to pay dividends to Creative's stockholders. See Note 10 of "Notes to Consolidated Financial Statements." The cash usage was partially offset by \$86.4 million of cash generated from sale of quoted investments and \$76.7 million from reductions in inventory, marketable equity securities, accounts receivable and other assets and prepaids.

As of March 31, 2001, in addition to the cash reserves, Creative had unutilized credit facilities totaling approximately \$111.7 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.

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 \$7.7 million on Creative's results of operations. Creative's results of operations for the nine months ended March 31, 2001 included \$124.7 million of losses from permanent write-downs of quoted and unquoted 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. For the nine months ended March 31, 2001, Creative experienced unfavorable exchange rates resulting in a loss of \$3.6 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: June 29, 2001