

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

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)

Securities registered pursuant to Section 12(b) of the Act: **NONE**

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

Name of each exchange on which registered

Ordinary Shares (par value Singapore \$0.25)

**National Market System of National Association of Securities Dealers Automated
Quotation System and the Stock Exchange of Singapore Limited.**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Ordinary Shares (par value Singapore \$0.25) of Registrant outstanding at June 30, 1999 - 83,971,594.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period as the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement the registrant has elected to follow.

Item 17 _____

Item 18

TABLE OF CONTENTS

Securities and Exchange Commission

Item Numbers and Description

Page #

PART I

Item 1.	Description of Business	3
Item 2.	Description of Property	16
Item 3.	Legal Proceedings	16
Item 4.	Control of Registrant	17
Item 5.	Nature of Trading Market	18
Item 6.	Exchange Controls and Other Limitations Affecting Security Holders	19
Item 7.	Taxation	20
Item 8.	Selected Consolidated Financial Data	22
Item 9.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 9A.	Quantitative and Qualitative Disclosures about Market Risk	29
Item 10.	Directors and Officers of Registrant	30
Item 11.	Compensation of Directors and Officers	31
Item 12.	Options to Purchase Securities from Registrant or Subsidiaries	31
Item 13.	Interest of Management in Certain Transactions	32

PART II

Item 14.	Description of Securities to be Registered	33
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PART III

Item 15.	Defaults upon Senior Securities	33
Item 16.	Changes in Securities and Changes in Security for Registered Securities and Use of Proceeds	33

PART IV

Item 17.	Financial Statements	33
Item 18.	Financial Statements	33
Item 19.	Financial Statements and Exhibits	34
Signature		58
Glossary		59

ITEM 1: DESCRIPTION OF BUSINESS

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 statements using the words or phrases “will”, “we believe will”, “going to” and including any guidance on future products, future marketing efforts, future effects of Year 2000 issues, and future revenues, margins, expenses, and earnings) are forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward looking statements. Such risks and uncertainties include, among others: 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 currency fluctuations and credit shortages; reductions in the market value of products sold by Creative, including increases in supply or declines in demand or prices for CD-ROM or DVD drives, board and chip-level products, and software products; the short product cycles that characterize most of Creative’s 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; the increasing assertion of patents and other litigation claims affecting Creative and/or its suppliers, in areas including 3-D graphics and audio chip designs; Creative’s reliance on sole sources or near-sole sources for many of its chips and other key components and possible limitations on future availability of graphic chips, memory chips, and passive components used in Creative’s products; the timely ramp, delivery and market acceptance of new products, including Creative’s next generation audio, graphics accelerator, CD-ROM and DVD drives and communications products; the volatility of share prices for companies in Creative’s industry and the effect of those prices or other events beyond Creative’s control; the uncertainties inherent in identifying and correcting all Year 2000 issues in computer codes used by Creative and its suppliers and vendors; and other risk factors described herein. 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.

OVERVIEW

Creative Technology Ltd. (“Creative”) is one of the world’s leading providers of multimedia hardware products for use with personal computers or the “PC”. The hardware and software products that Creative develops, manufactures and markets are used in the PC home entertainment, education, music and productivity tools markets to enhance sound, graphics or other functions of a PC. Creative’s products are marketed through both the original equipment manufacturers (“OEM”) and retail channels under a variety of trademarks, including the “Blaster” family name. Creative has defined and set the standards for multimedia enhancements for the PC, with Sound Blaster® and Creative’s Environmental Audio™ technology having been established as de facto standards for the PC.

The corporate headquarters and primary manufacturing facilities of Creative are based in Singapore, with sales, distribution and research and development being carried out through a global network of subsidiaries located in North America, Europe, Asia and Africa. Creative presently employs approximately four thousand people worldwide. Creative’s ordinary shares are traded on the NASDAQ National Market and the Stock Exchange of Singapore (“SES”).

Creative’s current principal product offerings include:

- Sound Blaster sound cards and chipsets, including Sound Blaster Live! Platinum, Sound Blaster Live! X-Gamer, Sound Blaster Live! MP3+, Sound Blaster Live! Player and Sound Blaster PCI512. The Sound Blaster Live! Platinum is Creative’s most advanced audio card, producing up to 1,024 voices, it goes beyond the quality and performance available in most professional music equipment available today.
- PC speaker products include the Cambridge SoundWorks line of speakers such as the PCWorks FourPointSurround FPS2000 and the DeskTop Theater 5.1 DTT2500 Digital.
- 2D/3D graphic accelerator cards including the 3D Blaster Annihilator GeForce, 3D Blaster RIVA TNT2 Ultra and 3D Blaster RIVA TNT2.

- PC-DVD Encore™ Dxr3 provides a complete DVD solution with the latest DVD technology for the PC.
- Multimedia Upgrade Kits, which generally consist of a sound card, a CD-ROM or DVD-ROM drive, speaker subsystems, and bundled software applications.
- CDRewritable drives such as the Blaster CD-RW 6424 offer an ideal cost-effective solution for archiving files, storing large databases or compiling MP3 files.
- Communications products including modems, internet telephony and broadband internet access solutions such as ADSL G.LITE products.
- Personal Digital Entertainment products including the Creative NOMAD line of portable digital audio players capable of playing MP3 audio files downloaded from the Internet.
- Electronic musical instruments and other PC peripheral and software products.

Creative believes that its strengths in the PC market resulting from its "Blaster" and other brand names, its extensive global distribution network, and its technology and manufacturing expertise, place it in an excellent position to facilitate the sale of new and enhanced multimedia and Internet related products. Creative continues to invest in research and development activities to improve existing products and introduce new products for the multimedia and Internet market. In addition to internal research and development, Creative continually evaluates other companies' technologies, subsystems and product offerings in order to make equity investments in, or establish strategic alliances with, those entities that can provide Creative with complementary products and technologies to be integrated into or offered with its products. To achieve low per unit costs and meet rapid time to market demands, Creative has developed in-house expertise in software and hardware development, chip design and high-volume manufacturing.

CREATIVE'S PRINCIPAL PRODUCTS

Creative develops and markets a wide array of PC solutions that complement the diverse needs of its end-users. This includes offering a variety of products that appeal to the senses of sight and sound, as well as the need for effective PC to PC communication, including Internet. This focus, combined with an extensive channel strategy and strong retail presence, has enabled Creative to remain at the forefront of the industry. Creative's product lines include a wide array of multimedia products, such as sound cards and chipsets, Multimedia Upgrade Kits ("MMUK"), graphic accelerator cards, PC-DVD solutions, CD-RW and CD-ROM drives, speakers, communications products, electronic musical instruments, portable digital audio players and software.

Audio Products

Creative has improved the technology and features of its PC audio card offerings several times over the past several years. In November 1992, a 16-bit Sound Blaster audio card was introduced, which was followed by the Sound Blaster AWE32 in March 1994, and Sound Blaster AWE64 and AWE64 Gold cards in November 1996. Creative initiated the Sound Blaster PCI platform in 1998, seeking to set a new audio standard for the faster PCI BUS. Creative's Sound Blaster PCI128 and PCI64 provide 16-Bit, 48kHz, full-duplex CD quality audio, with a 128- and 64-voice wave-table synthesis respectively, and two and four speaker output for truly immersive 3D audio playback. Sound Blaster PCI 512 with its 512 voice wave-table provides highly immersive audio with the powerful combination of hardware acceleration, multi-speaker support, and the widest compatibility with a wide variety of games and multimedia titles.

In August 1998, Creative introduced Sound Blaster Live! PCI sound card. Sound Blaster Live! utilizes the EMU10K1 audio processor, the most powerful audio chip available today, allowing it to use virtually no CPU overhead. This translates into higher frame rates in games, more bandwidth for 3D audio and multi-channel support for numerous game titles. The EMU10K1 audio processor includes a powerful SoundFont® based synthesis engine with 512-voices of wave-table sound and is able to access up to 48 MIDI channels simultaneously. Sound Blaster Live! incorporates Environmental Audio™ to give a real life, three-dimensional sound effect. Environment Audio Extensions API, a powerful, easy-to-use sound design tool, allows developers to explore the art of creating compelling and immersive audio environments in games, Internet audio applications and interactive entertainment titles.

The Sound Blaster Live! Value, launched in September 1998, delivers the same quality and performance of the high-end Sound Blaster Live! for the mass market, without the extended Digital I/O and related high-end software found in Sound Blaster Live!

Released in September 1999, Sound Blaster Live! X-Gamer and Sound Blaster Live! MP3+, powered by the EMU10K1 chip, offer high quality performance and provide great value for PC gamers and MP3 enthusiasts with highly competitive bundled software.

Sound Blaster Live! Platinum, launched in September 1999, is the current flagship of the Sound Blaster family of sound cards and is designed to be the best digital audio solution for music, games and Internet entertainment. Besides having all the powerful features of the high end Sound Blaster Live!, the Sound Blaster Live! Platinum comes with the Live!Drive front panel that offers a comprehensive array of I/O connections, MP3 playback and encoding software, and a suite of high quality software including LAVA! (Live Audio Visual Animation), which is interactive music video software.

In addition to soundcards, Creative also produces a line of chipsets that provides the Sound Blaster technology on a chip for installation onto a PC motherboard by OEMs.

Multimedia Upgrade Kits

In a single package, the Creative MMUKs, which includes data storage, enable PC users to upgrade their desktop PCs at substantial savings in cost and convenience, compared to purchasing each component separately. The MMUKs are sold in various packages to meet the needs of the business, home and entertainment markets and include a combination of some or all the following products: sound cards, CD-ROM or DVD-ROM or CD-RW drives, speakers, accessories and software.

In March 1997, Creative started shipping its first generation PC-DVD drive kit followed by the second generation Encore Dxr2 kit in October 1997, Encore 5X in September 1998, and PC-DVD Encore 6X Dxr3 in March 1999. PC-DVD Encore 6X Dxr 3 kit, features Creative's latest decoder card and PC-DVD 6X drive. The current model of Creative's Dxr3 decoder card delivers impeccable image quality and enhanced processing of color video at higher resolutions. The decoder card features DynamicXtended Resolution™ (Dxr3) picture enhancement technology for playback of high-definition video with smoother full-screen video images. Video quality has been significantly enhanced with this revision, and coupled with the PC-DVD 6X drive offers the ultimate PC-DVD solution. PC-DVD Encore 6X Dxr3 delivers enormous storage capacity (up to 17 gigabytes of data), enhanced full-motion, and full-screen video plus Dolby Digital (AC-3).

In May 1999, Creative introduced Blaster CD-RW 4224, an easy-to-use solution for copying, distributing and saving music or database files to a recordable CD-R or CD-RW disk. The Blaster CD-RW 4224 stores up to 650MB of data or over 74 minutes of audio on a single CD-R or CD-RW disk, offering customers the perfect solution for archiving files, storing large databases or compiling MP3 files. Following the successful launch of the Blaster CD-RW 4224, Creative released the Blaster CD-RW 6424 in September 1999. The new model writes CD-Rs at 6x and CD-RWs at 4x, and reads CD-ROMs at up to 24x.

Graphics and Video Products

Graphic Accelerator Cards: Creative has continuously improved on the technology, memory and other features of its graphic accelerator card offerings, while maintaining competitive prices. The first generation product, 3D Blaster VL-Bus, was introduced in September 1995. In September 1997, Creative introduced its third generation 2D and 3D graphics accelerator PCI product, Graphics Blaster Exxtreme. This product was based on 3Dlabs' PERMEDIA® 2 processor for higher resolution and more colors at a faster refresh rate.

In February 1998, Creative began shipping powerful 3D Blaster Voodoo2 cards based on the Voodoo2 Graphics chipset from 3Dfx Interactive. This was followed by the launch of Graphics Blaster RIVA TNT and 3D Blaster Banshee in September 1998. Graphics Blaster RIVA TNT, based on NVIDIA Corporation's RIVA TNT technology, is available in AGP and PCI configurations, featuring 16MB of high speed SDRAM memory, it provides full support for AGP 2X, including front side band, for optimized texture handling performance. In March 1999, Creative introduced the 3D Blaster Savage4, using S3's Savage4 PRO graphics controller.

Following upon the success of Graphics Blaster RIVA TNT, Creative launched 3D Blaster RIVA TNT2 in 1999, the mainstream, high performance series of graphics cards which contain 128-bit architectures and a TwiN-Texel dual-pipeline 3D rendering engine to deliver powerful performance for exceptional game play. The high-end 3D Blaster RIVA TNT2 Ultra also supports exceedingly high resolutions and refresh rates with 32MB of high-performance Synchronous Memory and a 300 MHz DAC for pixel perfect color.

In October 1999, Creative announced the 3D Blaster Annihilator GeForce. This new addition to the popular 3D Blaster line delivers unparalleled processing performance for gamers. The 3D Blaster Annihilator GeForce is a 256-bit graphics card powered by NVIDIA's new GeForce 256 processor, a new type of graphics processor which offloads CPU-intensive tasks to the graphics card for improved performance. The entire 3D pipeline is handled by the card, with separate engines for transformation, lighting, setup and rendering for incredible performance and stunning detail. The GeForce can render each pixel in full 32-bit color, including complex texture effects like 8-tap anisotropic filtering, stencil, and dot-product bump-mapping without sacrificing performance.

Speakers

To provide a complete solution for music, gaming and movie enthusiasts, Creative offers a complete range of high quality subwoofer/satellite speaker systems for the PC. In December 1997, Creative acquired Cambridge Sound Works ("Cambridge"), a leading name in audio speakers. See Note 14 of "Notes to Consolidated Financial Statements." Creative and Cambridge joined their efforts to develop highly-acclaimed 3-piece MicroWorks™, SoundWorks® and PCWorks™. These were followed by the PCWorks FourPointSurround, FourPointSurround FPS 1000 and FPS2000 Digital, DeskTop Theater 5.1 and DeskTop Theater™ 5.1 DTT2500 Digital.

FourPointSurround FPS2000 consists of four high-output satellite speakers with 2-1/2" long-throw drivers and a high-output powered subwoofer in modern black casings. It offers true digital transfer from sound card to speakers with its new Digital DIN input for connection to the Sound Blaster Live! series products.

Launched in August 1999, DeskTop Theater™ 5.1 DTT2500 is a high-performance Dolby Digital home theater speaker system that delivers powerful Dolby Digital 5.1 multi-channel sound for movies from a PC-DVD or DVD player and enhances 3D positional audio in games or music. It comes complete with a center speaker, four surround satellite speakers, a powerful subwoofer and a decoder amplifier with a built-in 24-bit Digital-To-Analog Converter, SPDIF connection to Dolby Digital and analog stereo channels, and Creative's Digital DIN for use with Sound Blaster Live!

Communications and Other Products

Communications Products: In July 1997, Digicom Systems Inc. ("Digicom"), a Creative subsidiary, introduced Modem Blaster Flash 56 product line based on K56flex technology. The current model of this product line, the Modem Blaster V.90 allows users to add data, fax, and voice mail capabilities to Windows-based computer systems, and features a full duplex speaker phone, professional answering machine with multiple mailboxes, video conferencing interface and caller ID.

Portable Digital Audio Players: In April 1999, Creative introduced Creative NOMAD, a digital audio player and voice recorder. A compact, non-mechanical device encased in magnesium, NOMAD supports the MP3 audio standard and delivers skip-free, continuous CD-quality playback. With 64MB RAM, NOMAD provides up to 2 hours of digital-quality audio with adjustable bit rate encoding or 4 hours of voice-recording.

Desktop Video Conferencing (DVC): In July 1999, Creative launched the Video Blaster WebCam 3, an upgraded version of Video Blaster WebCam II. Sporting a sleek new design, the Video Blaster WebCam 3 connects to the PC via the Universal Serial Bus (USB) port. This allows users to capture images and video, send video e-mail, create a personal Web site, and video conference via the Internet. Delivering improved image quality, the Video Blaster WebCam 3 features a high resolution CMOS sensor with more than three times the resolution of the previous version of WebCam. Improved lens quality and advanced capture/compression hardware provide sharper images with better color fidelity. The Video Blaster WebCam 3 also features a snapshot button that allows easy capturing of still images. This next-generation desktop digital camera is optimized for use with Microsoft® Windows 98, and is Plug-and-Play compliant

Musical Instrument Products: E-mu Systems Inc. ("E-mu"), a Creative subsidiary, designs, manufactures and

markets electronic musical instruments, computer controlled sound and multimedia solutions, professional digital sampling systems and digital sampling players under the E-mu and Ensoniq brand names. Such products utilize E-mu's proprietary digital sampling, digital signal processing technology, and sound compression techniques.

MARKETING, SALES, CUSTOMER SUPPORT AND BACKLOG

Retail Sales

Creative markets its products in more than 50 countries in the Americas, Europe, Asia, Australia and Africa through a worldwide network of wholly-owned subsidiaries, related and third party distributors, and certain key retailers. The third party distributors and retailers are selected for their expertise in marketing and ability to place Creative's products in the major retail channels. See Note 15 of "Notes to Consolidated Financial Statements" for information relating to foreign and domestic operations and export sales.

Creative's external sales, by geographical region, expressed as a percentages of total external sales are as follows:

	<u>Fiscal years ended June 30,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
The Americas	44%	50%	47%
Europe	37%	30%	27%
Asia Pacific	19%	20%	26%

Creative distributes its products in North America predominantly through Creative Labs Inc. ("Creative Labs") and through other wholly-owned subsidiaries including E-mu, Digicom, EcTiVA Inc. ("EcTiVA") and Cambridge. The distribution of products in Europe is carried out principally through Creative's wholly-owned European distribution center in Dublin, Ireland, where there are manufacturing, distribution and customer support operations. In order to focus its products more directly on satisfying local market needs, and to enhance and support existing distribution arrangements, Creative also utilizes wholly-owned sales and marketing agencies in several European countries including: UK, France, Germany, Belgium, Netherlands, Spain, Denmark, Sweden and Italy. In Asia, Creative distributes its products through its headquarters in Singapore and other affiliated companies in the following countries: Australia, China, Hong Kong, Japan, Malaysia, South Africa, South Korea and Taiwan.

Like other manufacturers of consumer products, Creative is exposed to the risk of product returns from distributors and retailers, either through customers exercising their contractual return rights or as a result of Creative's strategic interest in assisting customers to balance their inventories. For example, although Creative attempts to monitor and manage the volume of its sales to its distributors and retailers, large shipments made to these distributors and retailers to meet the anticipated high demand during the year-end holiday season can lead to overstocking, consequently resulting in returns following the holiday season. Also, Creative revises the configuration of its Multimedia Upgrade Kits on a regular basis to maintain a competitive product mix. However, introduction of new kits may give rise to a periodic increase in the level of returns of old model kits. Moreover, the risk of product returns may increase if the demand for Creative's products declines, or if competitors liquidate inventory at distressed prices. In the past, Creative has accepted returns from its direct retail channel customers that have overstocked certain of its products. Creative continually reviews its allowance for sales returns and believes that it has provided adequate allowances for projected returns. However, there can be no assurance that such allowances will be sufficient for actual returns in future periods. In addition, Creative provides price protection to its distributors, for which Creative also believes it has provided sufficient allowances. A significant decrease in the price of Creative's products could adversely affect Creative's operating results.

OEM Sales

Creative markets its sound cards and chipsets to OEMs, who incorporate them into PCs or PC motherboards built by them. In December 1997, Creative acquired ENSONIQ Corporation ("Ensoniq") (see Note 14 of "Notes to Consolidated Financial Statements"), a key innovator in the design and development of PCI audio microchip technology. This strategic acquisition has enabled Creative to extend its reach in the PCI audio segment of the PC OEM and PC motherboard markets. At present Creative's major OEM customers include: Acer Incorporated, Compaq Computer Corporation, Dell Computer Corporation, Epson, Fujitsu Ltd., Gateway 2000 Inc., Hewlett

Packard Co., Intel Corporation, IBM, Micron Electronics Inc., Packard Bell/NEC Corporation, Siemens and Toshiba.

Customer Support

Creative maintains customer support centers in the United States and Ireland to provide multilingual support to purchasers of Creative's products in the United States and Europe via telephone, fax and various on-line services. Support center representatives answer questions regarding product specifications, availability, installation and use. Product specifications, technical information and various levels of support are also available through Creative's World Wide Web site. In addition, Creative provides extensive programming support to developers of multimedia software used for the creation of Sound Blaster compatible software titles.

Backlog

Because Creative's customers typically expect quick deliveries, Creative seeks to ship products within a few weeks of receipt of orders and expects to operate without significant backlog, relying on bookings each quarter to comprise a predominant portion of its sales for that quarter. As a result, Creative does not believe that backlog is a reliable indicator of future sales.

LOCATION IN SINGAPORE

Creative's executive offices and a substantial portion of its research and development and manufacturing operations are located in Singapore and, therefore, its operations and the market price of its ordinary shares may be affected by economic and geopolitical conditions in Singapore and the Asia Pacific region.

MANUFACTURING

Central to Creative's pricing strategy is its ability to manufacture high volumes of low cost, high quality, sophisticated products at its facilities in Singapore and Malaysia, using modern surface mount technology ("SMT") assembly lines. To minimize component costs and enable Creative to fulfill its low pricing strategy, Creative relies extensively on in-house research and development and strict control of the manufacturing process. In order to balance manufacturing capacity requirements, Creative also currently utilizes, and expects to utilize in the future, a number of subcontractors in Singapore, Malaysia and Peoples Republic of China. These subcontractors assemble speakers and provide low-level board assembly functions during periods of peak demand. This flexibility between in-house and third party manufacturing, which Creative expects to maintain, allows Creative to lower its fixed manufacturing costs, thereby reducing per unit cost, while meeting rapid time-to-market demands.

STRATEGIC ALLIANCES

Creative has entered into, and intends to continue to establish, strategic alliances with companies that can provide Creative with technology, subsystems or complementary products that can be integrated into or offered with Creative's products. Creative believes these relationships help to shorten the product development cycle and broaden Creative's product lines. Some of the companies with which Creative has formed strategic alliances include: Microsoft Corporation for the planned incorporation of Creative's EAX audio effects processing technology into its DirectX Technology, Music Match for encoding/decoding MP3 format music for Nomad; MP3.com and Emusic.com to provide music content for Creative's MP3 products including Nomad and Sound Blaster Live! MP3+; and Progressive Networks' RealAudio to provide the ability to use streaming audio over the internet. In addition, Creative has entered into arrangements with Nvidia Corporation for the creation of products using their 2D/3D graphics technologies.

In September 1999, Creative announced a joint venture with Cable & Wireless Asia to provide Internet services in Singapore. The new joint venture company, which has received an Internet Access Services Provider (IASP) license from the Telecommunication Authority of Singapore, plans to offer IP-enabled and e-commerce solutions including Intranet/Extranet network management services as well as business portal services in Singapore.

RESEARCH AND DEVELOPMENT

Since its inception, Creative has maintained its research and development department ("R&D Department") primarily at its Singapore headquarters. As part of its overall policy of developing a broad range of multimedia technologies for the PC market in the shortest possible time, Creative has purchased a number of businesses, including Cambridge, Digicom, E-mu, Ensoniq and Silicon Engineering Inc. ("SEI"). The efforts of the R&D Department have been integral in Creative's development of its products and resulted in several new products recently, including Sound Blaster Live! MP3+ and Sound Blaster Live! Platinum, PC-DVD Encore 6X Dxr3, 2D/3D graphic accelerator cards including the 3D Blaster RIVA TNT2, 3D Blaster RIVA TNT2 Ultra, 3D Blaster Savage4 and the 3D Blaster Annihilator Ge-Force, a line of PC speakers including FPS2000 Digital and DeskTop Theater™ 5.1 DTT2500 Digital, and the Creative Nomad MP3 player.

Creative believes that, in order for it to grow and succeed in the global technology market, it needs to continue to place a significant emphasis on and investment in research and development for the enhancement and development of existing and new technologies to deliver new products to market in the shortest possible time. In fiscal 1999, 1998 and 1997, Creative spent \$46.7 million, \$41.7 million, and \$35.2 million, respectively, on research and development. Some of the technologies/products currently being developed by Creative include next generations of audio products, including enhancements to the Environmental Audio™ standard, digital signal processing, MP3, and digital speakers. In developing new products, Creative strives to design technologies, products and processes that secure greater consumer functionality, ease of use, lower cost of production, and better performance. In addition to in-house R&D efforts, Creative continues to license and purchase relevant technologies in the normal course of business. See "Item 1: Description of Business-- Strategic Alliances."

EMPLOYEES

As of June 30, 1999, Creative had about 4,300 full-time employees. The geographical distribution of these employees was 56% Asia, 33% Americas and 11% Europe, while the functional distribution was 49% manufacturing, 27% selling, marketing and customer support, 14% research and development, and 10% administrative and other. Creative believes that its future success will largely depend upon its ability to continue to attract, retain, train and motivate highly skilled and dedicated employees. None of Creative's employees is represented by a labor union and Creative has not experienced any work stoppages in the past. Creative believes that its employee relations are good.

RISK FACTORS

In addition to the other information and risks described elsewhere in this Report, Creative's business is subject to the following risks:

Product Technological Changes

The markets for Creative's products are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions and decreasing prices. Creative's success will depend upon its ability to enhance its existing products, to introduce new competitive products with features that meet changing customer requirements, and to control its inventory levels to avoid any significant impact from sudden price decreases. There can be no assurance that Creative will be successful in identifying, developing, enhancing, manufacturing and marketing new products, or avoiding significant losses due to rapid decreases in market prices of its products.

A significant portion of Creative's sales are derived from sound card and chipset sales to OEMs for inclusion in new PCs. Certain semiconductor companies are integrating basic audio capabilities in their multifunction silicon products. The integration of audio into the CPU and/or operating system could have a material impact on Creative's revenues and operating results.

New Product Cycles and Acceptance

Creative believes that each of its products is subject to a short product cycle, generally characterized by a steep decrease in profitability during the advanced stages of the cycle. As a result of its ongoing product development, Creative has introduced several new products and product lines over the past few years (see "Item 1: Description of Business-Creative's Principal Products"). The introduction of a new product or product line is a complex task, involving heavy expenditures in training, promotion, and channel development, and careful management of existing product inventories to avoid the cost associated with returns and slow moving channel inventory. There can be no assurance that Creative can successfully enter the various product markets that it identifies, or that sales of new products introduced will become significant or profitable in the face of competition. As new products are introduced, Creative attempts to monitor closely the inventory of products to be replaced, and to phase out their manufacture in a controlled manner. There can be no assurance that such product transitions will be executed without adversely affecting Creative's operating results.

Competition

Creative experiences and expects substantial competition from established and emerging PC audio, graphics, computer, communications, speakers, multimedia and semiconductor companies. Competitors for Creative's audio products, Sound Blaster boards and chipsets, include Aureal Semiconductor, Aztech Systems Ltd., Crystal Semiconductors, S3 Inc. (Diamond Multimedia), Digital Research, ESS Technology Inc., Hi-Val, IO Magic Corporation, Turtle Beach and Yamaha Corporation of America. Competition in the MMUK market, including DVD and CD-ROM and CD-RW drives, comes primarily from Acer Peripherals, S3 Inc., IO Magic Corporation, Compaq, Hewlett-Packard, Hi-Val, Micro Solutions, Pacific Digital and Memorex. In the graphics market, Creative's primary competitors include: ATI Technologies Inc., Digital Research, S3 Inc. and 3Dfx Interactive. In the audio and video communications market, Creative faces competition from Best Data Products, Ezonics Corporation, Intel, Logitech, Kodak, 3COM (US Robotics) Viking Components, and Zoom Telephonics. In the speaker market, major competitors include Altec Lansing, Labtec Enterprises, Boston Acoustics, InterAct Accessories, Harmon Kardon, Jenson and Yamaha. No assurance can be given that Creative will be able to compete successfully in the future with these existing or anticipated competitors or that competition will not have a material adverse effect on Creative's operating results. In particular, competitive pressures from existing or new competitors, who offer lower prices or introduce new products, could result in delayed or deferred purchasing decisions by potential customers and price reductions, both of which would adversely affect Creative's revenues and operating margins.

Acquisition of New Technologies

Creative frequently acquires other technologies through acquisition, license, or other means, often at substantial cost. Acquisitions may be necessary to remain competitive and not result in any direct improvements in operating results. Since technology acquisitions often include significant in-process research and development and goodwill, they can result in immediate and ongoing material charges to operating results. There can be no assurance that Creative will be successful in its efforts to integrate any technology or products acquired in the future. In addition, there can be no assurance that products or technologies developed by others will not render Creative's existing or future products or technologies noncompetitive or obsolete.

Product Shortages

Creative's sales are principally derived from its audio, multimedia upgrade kit ("MMUK"), graphic accelerator cards and speaker products. Creative purchases several components from third party vendors for inclusion in its products, sometimes from sole sources. Deliveries of these components have been subject to delays and shortages in the past, that could also occur in the future. Product shortages could have an adverse impact on Creative's operations.

Product Concentration

Sales of audio products represented approximately 38%, 45%, and 56%, while sales of MMUK represented 27%, 36% and 34%, of total sales for fiscal 1999, 1998, and 1997, respectively. Since 1998, Creative has experienced a substantial growth in sales of graphic and video products. Sales of graphic and video products represented approximately 20% in fiscal 1999, compared to 8% in fiscal 1998, and 2% in fiscal 1997. These product categories are expected to continue to account for a substantial portion of Creative's sales. A decline in demand or prices for these products, whether as a result of competition, technological change or otherwise, would have a material adverse effect on Creative's sales and profitability. See "Item 9: Management's Discussion And Analysis Of Financial Condition And Results Of Operations."

Fluctuations in Gross Margins

Creative's annual gross margin declined in fiscal 1999, compared to fiscal 1998 and fiscal 1997. The deterioration of annual gross margin was due to changes in Creative's product mix and decline in average selling prices of the audio products. See "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations."

There can be no assurance that Creative can maintain current levels of gross profit percentages in the future. Creative's future gross margins will depend on its ability to successfully introduce new, higher margin products to replace existing products, which are subject to declining gross margin percentages.

Currency Fluctuations

While Creative transacts business mainly in US dollars and most of its revenues are collected in US dollars, Creative also invoices its customers in European currencies. In addition, a substantial portion of Creative's costs are denominated in Singapore dollars and other Asian and European currencies. As a result, changes in the relation of these currencies to the US dollar will affect Creative's revenue, operating margins and net results arising from foreign exchange exposure. In fiscal 1999, several Asia Pacific currencies continue to depreciate in value compared to the US dollar due to local political and economic events. Creative's non US dollar revenue is mainly denominated in the Euro, Deutsche Mark, French Franc and British pound. In fiscal 1999, these currencies depreciated in value as compared to the US dollar due to the relative strength of US economy, the economic crisis in Russia and the uncertain political conditions in Yugoslavia. Nonetheless, Creative's operating results have not been materially impacted with foreign exchange losses, as most of Creative's net monetary assets and the majority of its transactions are denominated in US dollars. See the Foreign Exchange section in Note 1 of "Notes to Consolidated Financial Statements." In addition, the depreciation of the European currencies were not significant enough to materially impact Creative's results of operations and the financial position. However, due to the diminished demand for Creative's products in the Asian and Latin American regions, resulting from the political and economic turmoil, and the tight credit control policies implemented by Creative, the results of operations for fiscal 1999 and 1998 were adversely impacted. There can be no assurance that Creative's financial position or

results of operations will not be adversely impacted in the future due to fluctuations in exchange rates or economic turmoil in markets that Creative conducts business.

Seasonality -- Potential Fluctuations in Quarterly Results

Consistent with the PC peripheral market, due to seasonal buying patterns by customers, demand for Creative's products is generally stronger in the second half of the calendar year than the first half. In addition to the impact of customers' seasonal buying patterns, Creative's quarterly operating results may vary significantly, due to some of, but not limited to, the following factors: timing of significant orders; timing of new product introductions by Creative and its competitors; and timing variation of these factors in the various distribution channels through which Creative's products are sold. Due to short time lags between order and delivery of products, backlog at the beginning of each quarter represents only a small portion of the product sales anticipated in that quarter. Quarterly revenue, therefore, depends on the volume and timing of orders received during a quarter, which are difficult to forecast. There can be no assurance that Creative will be able to grow in revenue or sustain profitability on a quarterly or annual basis. Creative's expense levels are based, in part, on its expectations as to future revenues. If revenue levels are below expectations, operating results may be adversely affected.

Liquidity and Capital Resources

Creative has previously experienced a seasonal increase in demand for its products in its fiscal quarter ended December 31 and therefore expects a significant increase in working capital and cash requirements in the period approaching the Christmas 1999 season. Creative believes that success in its industry requires substantial capital in order to maintain the flexibility to take advantage of opportunities as they arise and to fund its current sales levels. Creative believes that its existing resources, including existing cash and cash equivalents, existing credit facilities and anticipated cash flows from operations, will be adequate to meet its projected working capital and other cash needs for at least the next twelve months. See "Item 9: Management's Discussion and Analysis of Operations of Creative- Liquidity and Capital Resources." To the extent that existing resources are not adequate, or Creative is unable to attract additional financing at favorable interest rates for its operational and other cash needs, Creative's operating results and financial position could be adversely affected.

Reliance on Significant Customers

During fiscal 1999, 1998, and 1997 one distributor accounted for 6%, 8%, and 11%, respectively, of Creative's total worldwide sales. A reduction or delay in orders from this distributor could have an adverse effect upon Creative's operating results and financial position. As of June 30, 1999 and 1998, this distributor accounted for greater than 10% of total accounts receivable. Though Creative records allowances for expected bad or doubtful accounts receivable balances, non-recoverability of this accounts receivable, or other significant accounts receivable, could have an adverse effect upon its operating results and financial position.

Intellectual Property and Proprietary Rights

Creative's ability to compete successfully depends, in part, on its ability to protect its proprietary technology, which includes product design and manufacturing processes. Creative relies primarily upon its trade secrets program and copyrights to protect its technology, and has relatively few patents on its product design and manufacturing processes. Creative generally enters into confidentiality and/ or license agreements with its employees, distributors, customers and potential customers and limits access to and distribution of its software, documentation and other proprietary information. There can be no assurance that these protections will be adequate or that Creative's competitors will not independently develop technologies that are substantially equivalent or superior to Creative's technology, or that any steps taken by Creative will be adequate to deter misappropriation or independent third-party development of its technology. In addition, there can be no assurance that the protection provided to its proprietary technology by the laws and courts of foreign nations will be substantially similar to the remedies available under US laws or that third parties will not assert infringement claims against Creative. Further, there can be no assurance that third parties will not assert infringement claims against Creative with respect to current or future products or that any such assertion may not require Creative to enter into royalty arrangements or result in costly litigation. Creative receives such notifications from time to time from owners of technology inquiring about or claiming possible infringement of their proprietary rights. Creative and its wholly-owned subsidiary E-Mu are currently in two cases with Aural Semiconductor, Inc. wherein each party to the dispute is alleging infringement by the other of its patents. See "Item 3: Legal Proceedings."

Dependence on Key Personnel

Creative's success depends to a significant extent upon a number of key employees and senior management, including one of its founders, who is the Chief Executive Officer, Mr. Sim Wong Hoo. The loss of the service of one or more of these key employees, none of whom is bound by a written employment agreement, could have a material adverse effect on Creative. Creative believes that its future success will depend in large part upon its ability to attract and retain highly-skilled technical, managerial and marketing personnel. Competition for such personnel is intense. There can be no assurance that Creative will be successful in attracting and retaining the personnel it requires and that the existing management team will remain employed by the company.

Management of Expansion

The expansion of Creative's operations is likely to place a significant strain on Creative's managerial resources. Creative needs to implement additional operating, manufacturing and financial controls, improve coordination among engineering, manufacturing and finance functions, and hire additional personnel. As part of this process, Creative will need to install additional reporting and management information systems for production monitoring, inventory control and financial reporting. To the extent Creative is unable to attract additional management personnel in a timely fashion, or loses the services of existing management personnel, Creative's operating results and financial position could be adversely affected.

Control by Founding Shareholder

As of June 30, 1999, Mr. Sim Wong Hoo, one of Creative's founders, beneficially owned approximately 31% of Creative's outstanding ordinary shares. Consequently, being the largest shareholder, Mr. Sim may be able to influence election of Creative's directors, to determine the outcome of most corporate actions requiring shareholder approval, and otherwise to control the management and affairs of Creative.

Certain Provisions Relating to Changes in Control

Certain provisions of the Companies Act and the Singapore Code on Takeovers and Mergers could make it more difficult for a third party to acquire or discourage a third party from attempting to acquire control of Creative. Such provisions could limit the price that certain investors might be willing to pay in the future for ordinary shares of Creative. Certain of such provisions impose various procedural and other requirements, which could make it more difficult for shareholders to effect certain corporate actions. See "Item 6: Description of Securities Registered."

Possible Volatility of Ordinary Share Price

The quoted market price of Creative's ordinary shares may be significantly affected by such factors as the announcement of new products or technology, innovations by Creative or its competitors, quarter to quarter variations in Creative's results of operations and general market conditions or market conditions specific to particular industries. In particular, the stock prices for many technology companies, including Creative, have experienced wide fluctuations, which have often been unrelated to the operating performance of such companies. Such fluctuations may adversely affect the market price of the ordinary shares.

Enforceability of US Securities Laws

Creative's executive offices, and substantially all of its research and development and manufacturing operations, are located in Singapore and Malaysia. Because judgments of United States courts may not be enforceable in Singapore or Malaysia, purchasers of Creative securities may not be able to enforce judgments against Creative based upon allegations of violations of federal or state securities or other laws.

Limitation of Liability and Indemnification Matters

Article 135 of Creative's Articles of Association provides that each director and officer shall be indemnified against liability incurred by him in defending proceedings in respect of claims of negligence, default, breach of duty or breach of trust in which (i) judgment is granted in his favor, (ii) he is acquitted, or (iii) relief is granted to

him by the court in connection with any application under the Companies Act. Section 172 of the Companies Act prohibits a company from indemnifying its officers and directors for acts of negligence, default, breach of duty or breach of trust in relation to the Company, except to the extent permitted under Article 135 of Creative's Articles of Association, and any such indemnity is void and unenforceable. Creative has entered into Indemnification Agreements with its officers and directors. These Indemnification Agreements provide Creative's officers and directors with indemnification to the maximum extent permitted by the Companies Act. Creative has obtained a policy of directors' and officers' liability insurance that insures directors and officers against the cost of defense, settlement or payment of a judgment under certain circumstances.

Section 16 of Article III of the Bylaws of Creative Labs, Creative's primary US subsidiary, provides for mandatory indemnification of its officers and directors to the fullest extent permitted by Section 317 of the California General Corporation Law. Creative Labs has entered into Indemnification Agreements with its officers and directors (each of which directors is also a director of the Company). The Creative Labs Indemnification Agreements provide the Creative Labs officers and directors with further indemnification with respect to their capacity as officers or directors of Creative Labs and the Company.

Year 2000

The "Year 2000 issue" arises mainly because some systems – Information Technology (IT) and non-IT hardware and software systems – represent the year with only two digits instead of four. As a result, such systems may not properly handle or interpret dates beyond 1999, hence leading to errors in information or systems failures.

A Year 2000 team headed by the Director, Worldwide MIS reporting directly to the Executive Management of Creative has been in place since 1997 to address potential Year 2000 issues in Creative under a corporate-wide Year 2000 program. The Year 2000 team has representation from all subsidiaries and departments in the company. The Year 2000 program covers the following areas in Creative that can be impacted by Year 2000 problems:

- IT systems in use;
- Non-IT systems in use;
- Company's products; and,
- Third party relationships with Creative.

Creative's Year 2000 program is divided into five stages:

- Stage 1: Inventory all systems and third party relationships that are vulnerable to potential Year 2000 problems;
- Stage 2: Check for Year 2000 compliance of inventoried items;
- Stage 3: For non-compliant systems and third party relationships, determine their criticality to the business, recommend and take corrective actions;
- Stage 4: For critical systems and third party relationships, conduct Year 2000 testing; and
- Stage 5: Establish contingency plans for critical systems.

Most of Creative's products do not process dates or date information, but those which do, generally rely on the operating system software of the PC, on which Creative's product is being run, to process the date function. Creative has reviewed and tested its current products to ensure that all current hardware and software products designed and manufactured by Creative are Year 2000 compliant.

Creative's core IT business systems - hardware, operating systems, systems software, networking and applications software - have been tested and are fully Year 2000 compliant. Besides the core IT business systems, all IT and non-IT systems that are expected to have a material impact on Creative are now Year 2000 ready. Work on residual Year 2000 issues continues and is expected to complete in time before the end of year 1999. Despite the efforts to identify all systems that can be impacted by Year 2000 issues within the company, Creative is aware of the possibility of material non-compliance of its systems subsequently surfacing. Creative expects to address this through its contingency planning that is under way.

A failure of Creative's key suppliers, business partners and other third parties to adequately address their Year 2000 readiness could affect Creative's business. Creative shall continue to monitor the Year 2000 readiness of its key suppliers. As part of its contingency planning efforts, Creative is identifying alternate sources or strategies where necessary if significant exposures are identified. From the survey returns that Creative received to-date, no material third party relationships are assessed to be Year 2000 related risks.

Creative does not have a separate budget set aside relating to Year 2000 issues. As Creative is continually upgrading and improving its information technology systems and facilities, the costs of addressing Year 2000 issues are integrated into the budgets set aside for such improvements and upgrades. Creative therefore cannot provide an estimate as to cost, if any, it has incurred in addressing Year 2000 issues above and beyond those cost associated with its improvement and upgrade plan.

While Creative is devoting the necessary resources to resolve all significant Year 2000 issues in a timely manner, if such processing issues are not resolved in a timely manner, the Year 2000 issue could have a material impact on its operations and financial condition. The most likely worst case scenarios include:

- hardware or software failures that would prevent our engineers, application developers, procurement and manufacturing staff and research and development staff from effectively performing their duties;
- failure to supply necessary chips and other components by our third party vendors;
- corruption of data contained in our internal information systems; and
- the failure of infrastructure services provided by government agencies and other third parties, including public utilities and internet services.

Based on currently available information, Creative makes the following forward-looking statement: Creative does not believe that the costs of addressing the Year 2000 issue will be material to the company. This is based on the work done to date; the reliance, among other things, on the reliability of Year 2000 declarations made by material third parties and continued availability of key resources within Creative to address Year 2000 issues. Upon entering the Year 2000, a number of other risks and uncertainties could affect Creative, such as utilities failures and scarcity of resources should resolution of Year 2000 issues become necessary. While Creative continues to-date to believe that the Year 2000 matters as discussed will not have a material impact on its business, financial condition or results of operations, it remains uncertain whether or to what extent the company may be affected. There can be no guarantee that such conditions will not change. The estimated costs of and time frame related to this project are based on estimates of Creative's management, and there can be no assurance that actual costs will not differ materially from the current expectations. Nevertheless, Creative does not expect that the costs of addressing potential problems relating to the Year 2000 issue will have a material adverse impact on its financial position, results of operations or cash flows in future periods.

ITEM 2: DESCRIPTION OF PROPERTY

Creative's headquarters, and principal manufacturing, research and development, international sales and marketing, and engineering facilities are located in Singapore.

The following is a description of Creative's leased properties as of June 30, 1999:

<u>Location</u>	<u>Description of Properties</u>	<u>Area Sq. Ft.</u>	<u>Lease Expiration</u>
Singapore	Land for corporate headquarters building	267,863	2024
Malaysia	Warehouse, production and office	116,400	2001
Stillwater, Oklahoma, USA	Office, technical support and warehouse	38,720	2000
Fremont, California, USA	Warehouse and office	177,005	2006
Milpitas, California, USA	Office and R&D center	35,633	2001
Scotts Valley, California, USA	Office, R&D center, and warehouse	52,100	2003
Scotts Valley, California, USA	Two offices and R&D centers, and one warehouse	26,631	2001
Pennsylvania, USA	Office, R&D and warehouse	71,300	2003
Newton, Massachusetts, USA	Office, R&D center, and warehouse	66,300	2004
Westwood, Massachusetts, USA	Warehouse	99,000	2000

Creative also currently leases a number of smaller sales offices aggregating approximately 100,000 square feet in China, Malaysia, Taiwan, Japan, Hong Kong, United Kingdom, France, Germany, Italy, Belgium, Spain, Denmark, Sweden, Canada, South Africa and US. In addition to these facilities, Cambridge, a wholly-owned subsidiary of Creative, leases 26 retail stores aggregating 71,000 sq. ft in the following US States: California, Connecticut, Massachusetts and New Hampshire. Leases for these smaller sales offices are subject to lease agreements expiring between 1999 to 2008.

Creative Technology Centre Pte Ltd. (CTC), a Singapore company owned equally by Creative and Bukit Frontiers Pte Ltd., a company owned by Mr. Sim Wong Hoo, who is Chairman of the Board and Chief Executive Officer of Creative, owns the 663,000 square foot corporate headquarters building on a leased land in Singapore. See "Item 13: Interest Of Management In Certain Transactions." This facility is being utilized for offices, R&D, production and warehousing. In addition to the Singapore headquarters building, Creative also owns two office buildings totaling 90,000 square feet in Milpitas, California and a 100,000 square foot office, production, and warehouse facility on a five acre site in Dublin, Ireland.

All of Creative's properties are in good condition and suitable for the purposes for which they are used.

ITEM 3: LEGAL PROCEEDINGS

Creative, and its wholly-owned subsidiary E-Mu, are plaintiffs in a lawsuit filed in February 1998 in the United States District Court for the Northern District of California against Aureal Semiconductor, Inc. ("Aureal"). Creative's complaint asserts that Aureal has infringed one of Creative's patents through Aureal's manufacture, sale and use of its "Vortex" series of computer chip products. Aureal has answered Creative's complaint and filed counterclaims for interference with economic relationship, interference with economic relations, defamation/commercial disparagement and unfair competition. Aureal has also filed a separate lawsuit asserting its own affirmative claims alleging violation by Creative of an Aureal patent purporting to deal with certain 3D audio technologies. Creative believes that it has valid claims against Aureal, as well as meritorious defenses to all of Aureal's counterclaims and affirmative claims. As to the latter, Creative believes it has valid defenses of patent invalidity and, separately, of non-infringement. Should Aureal prevail in its counterclaims or affirmative claims, however, Creative does not expect there to be any consequent material adverse effect on its financial position or results of operations.

During the course of their 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 patent claims by Bose and other claims and counterclaims by both

sides in the District of Massachusetts and involving Creative and its Cambridge SoundWorks subsidiary) and 3DFX (involving, among other claims and counterclaims, disputed amounts allegedly owed to 3DFX by Creative's Creative Labs subsidiary and allegations by 3DFX of copyright infringement by Creative relating to Creative's "Unified " graphics driver). Creative also from time to time receives licensing inquiries and/or threats of potential future patent claims from a variety of entities, including Cirrus Logic, IBM and Lucent. Creative believes it has valid defenses to the various claims and counterclaims asserted against it. In any event, 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.

Except as set forth above, neither Creative nor any of its subsidiaries is engaged in any litigation or arbitration proceedings which might materially adversely affect the financial position of the Creative Group as a whole. However, litigation in general and intellectual property litigation in particular has a number of risks and uncertainties that are difficult to assess or predict and there can be no assurance that one or more adverse results in any of the matters described above or arising in the future will not have a material adverse impact on the Creative Group financial condition or results of operations.

ITEM 4: CONTROL OF REGISTRANT

The following table sets forth certain information regarding the ownership of Creative's ordinary shares by each person who is known by Creative to own beneficially more than 5% of its outstanding ordinary shares, and by all directors and executive officers as a group, as of August 27, 1999.

	<u>Shares Beneficially Owned</u>	
	<u>Number of Shares (1)</u>	<u>Percentage of Total Outstanding Shares (2)</u>
Sim Wong Hoo	25,984,602	31.3%
All executive officers and directors as a group	26,292,893	31.7%

- (1) Except as otherwise noted, each person named in the table has sole voting and investment power with respect to all ordinary shares listed as owned by such person. Shares beneficially owned include shares that may be acquired pursuant to the exercise of fully vested options that are exercisable within 60 days of August 27, 1999.
- (2) Percentage of Total Outstanding Shares is calculated separately for each person/group and assumes, for purposes of the calculation, that shares issuable upon exercise of options or warrants exercisable within 60 days of August 27, 1999 held by such person (but no other shareholders) have been issued as of such date.

ITEM 5: NATURE OF TRADING MARKET

Creative's Ordinary Shares have been traded on the NASDAQ National Market ("NASDAQ") since August 3, 1992, under the symbol "CREAF". Creative's Ordinary Shares have been traded on the SES since June 15, 1994. The following table refers to the high and low sale prices of Creative's Ordinary Shares as reported by NASDAQ and SES for each quarter for the last three fiscal years. These prices do not include retail markups, markdowns, or commissions.

	<u>NASDAQ (Price in US\$/Share)</u>		<u>SES (Price in Singapore \$/Share)</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
<u>Fiscal 1997</u>				
First Quarter	7.25	3.50	9.50	5.05
Second Quarter	11.75	5.38	14.80	7.75
Third Quarter	15.13	8.63	20.80	13.00
Fourth Quarter	20.25	9.13	29.70	13.10
<u>Fiscal 1998</u>				
First Quarter	28.00	16.50	42.50	23.70
Second Quarter	29.38	16.13	46.50	27.00
Third Quarter	25.31	15.13	41.60	26.50
Fourth Quarter	24.63	11.00	38.80	17.90
<u>Fiscal 1999</u>				
First Quarter	13.06	8.75	22.40	15.30
Second Quarter	18.56	8.12	30.30	14.10
Third Quarter	16.31	11.25	28.00	19.90
Fourth Quarter	15.25	11.38	25.30	20.10

As of August 27, 1999, there were approximately 7,664 shareholders of record of the Ordinary Shares, of which approximately 300 were registered in the US, and approximately 7,364 in Singapore. Because many of the US shares are held by brokers and other institutions on behalf of shareholders, Creative is unable to estimate the total number of shareholders represented by these US record holders.

On August 27, 1999, the closing price of Creative's Ordinary Shares on the NASDAQ National Market was \$9.81 and on the SES was S\$17.10.

ITEM 6: EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

Exchange Control

There are no exchange controls restrictions in Singapore.

Ownership and Voting Rights

Ownership and voting rights of non-resident security holders are not restricted by Singapore laws or by the Corporate Charter.

New Shares

New shares may only be issued with prior approval of Creative's shareholders in a general meeting of shareholders. Such approval, if granted, will lapse at the next Annual General Meeting. Unless otherwise determined by Creative in a general meeting, any new shares shall, before they are issued, be offered to existing shareholders in proportion, as nearly as may be, to the number of shares then held by them respectively. Subject to this and the provisions of the Companies Act, all new shares are under the control of the directors who may allot and issue the same with such rights and restrictions as they may think fit.

Disclosure of interest

Any person who has an interest in not less than 5% of the shares carrying rights to vote in all circumstances at general meetings of Creative is a substantial shareholder. The substantial shareholder is required under the Singapore Companies Act to notify Creative of the acquisition or cessation of the interest and all changes to the interest within two days of the relevant date. Creative may by notice require any shareholder to disclose the names of persons having beneficial interest in the shares held by him.

Takeovers

The Singapore Code on Takeovers and Mergers (the "Code") regulates the acquisition of shares of public companies. Any person acquiring an interest (either on his own or together with parties acting in concert with him) in 25% or more of the voting shares of Creative is obligated to extend a takeover offer for the remaining shares, in accordance with the provisions of the Code. Parties acting in concert include related and associated companies, directors (including their relatives), pension funds, discretionary funds and financial advisers (in respect of shares held by them and funds managed by them on a discretionary basis). A mandatory takeover offer is also required to be made if a person holding between 25% to 50% of the voting shares, in any 12 month period, acquires more than 3% additional shares or due to share repurchases by Creative, the voting rights of the person increase by more than 3%. However, the Singapore Securities Industrial Council can exempt a person from extending the mandatory takeover offer despite an increase in the person's voting rights by more than 3% in any 12 months period as a consequence of share repurchases by Creative. An offer for consideration other than cash must be accompanied by a cash alternative at not less than the highest price paid by the offeror or parties acting in concert with it within the preceding 12 months or the highest price paid by Creative for the repurchase of its own shares in the preceding 12 month period. As at October 1, 1999 Mr. Sim Wong Hoo holds 31.5% of the voting shares in Creative. His voting rights increased by 3.6% since Creative commenced its share repurchase scheme on November 19, 1999, which is within the 12 months period. Accordingly, Mr. Sim has obtained an exemption from the Singapore Securities Industrial Council on May 5, 1999 to make the mandatory takeover offer.

ITEM 7: TAXATION

This summary of Singapore and United States tax considerations is based on current law and is provided for general information. The discussion does not purport to deal with all aspects of taxation that might be relevant to particular shareholders in light of their investment or tax circumstances, or to certain types of shareholders (including insurance companies, tax-exempt organizations, regulated investment companies, financial institutions or broker-dealers, and shareholders that are not US Shareholders (as defined below)) subject to special treatment under the US federal income tax laws. Such shareholders should consult their own tax advisors regarding the tax consequences of any investment in the ordinary shares.

INCOME TAXATION UNDER SINGAPORE LAW

Under current provisions of the Singapore Income Tax Act, corporate profits are taxed at a rate of 26%. Under Singapore's taxation system, the tax paid by a company is deemed paid by its shareholders. Thus, the shareholders receive dividends net of the tax paid by Creative. Dividends received by either a resident or a non-resident of Singapore are not subject to withholding tax. Shareholders are taxed on the gross amount of dividends (i.e., the cash amount of the dividend plus the amount of corporate tax paid by Creative). The tax paid by Creative will be available to shareholders as a tax credit to offset the Singapore income tax liability on their overall income (including the gross amount of dividends). If the shareholder's marginal tax rate is equal to the corporate tax rate, there is no further Singapore tax to pay on the dividends. In the case of a resident shareholder, if the shareholder's marginal tax rate is lower than the corporate tax paid, the shareholder is entitled to claim a tax refund for the difference from the Inland Revenue Authority of Singapore; conversely, if the resident shareholder's marginal tax rate is higher than the corporate tax rate, the shareholder must pay the difference to the Inland Revenue Authority of Singapore. In the case of a non-resident shareholder, the shareholder is taxed on dividends at the corporate tax rate. Thus, the non-resident shareholder pays no further Singapore income tax on the net dividends received. Further, the non-resident shareholder will not receive any tax refund from the Inland Revenue Authority of Singapore. No tax treaty currently exists between the Republic of Singapore and the United States of America.

Creative was granted a Pioneer Certificate in 1990, under which income classified as pioneer status income is exempt from tax in Singapore, subject to certain conditions. Such status had the effect of reducing Creative's provision for income taxes by approximately \$26.4 million, \$43.3 million, and \$36.4 million, or \$0.29, \$0.46, and \$0.40 per share, for fiscal 1999, 1998, and 1997, respectively. The Pioneer Certificate will expire in the year 2000, subject to certain conditions. The corporate income tax rate in Singapore, which would otherwise be applicable for fiscal 1999, 1998 and 1997 is 26%. As a result, Creative may distribute all of its exempt profits earned during this tax exemption period as dividends free of Singapore tax to holders of ordinary shares whether the holders are residents or non-residents of Singapore.

Under current Singapore tax law there is no tax on capital gains, and, thus, any profits from the disposal of shares are not taxable in Singapore unless the vendor is regarded as carrying on a trade in shares in Singapore (in which case, the disposal profits would be taxable as trade profits rather than capital gains).

There is no stamp duty payable in respect of the holding and disposition of shares. No duty is payable on the acquisition of new shares. Where existing shares are acquired in Singapore, stamp duty is payable on the instrument of transfer of the shares at the rate of S\$2 for every S\$1,000 market value of the shares. The stamp duty is borne by the purchaser unless there is an agreement to the contrary. Where no instrument of transfer is executed or the transfer is registered through the Transfer Agent, no stamp duty is payable on the acquisition of existing shares. Stamp duty may be payable if the instrument of transfer is received in Singapore.

INCOME TAXATION UNDER UNITED STATES LAW

Shareholders that are (i) corporations or partnerships organized under the laws of the United States or any political subdivision thereof, (ii) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, (iii) a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons has authority to control all substantial decisions of the trust, (iv) United States citizens or (v) United States resident aliens (as defined in Section 7701(b) of the Internal Revenue Code of 1986, as amended) (together, "US Shareholders," and each a "US Shareholder") generally should report dividend income for United States income tax purposes in the amount of any cash dividend received from Creative to the extent paid out of the current or accumulated earnings and profits of Creative, as determined under current United States income tax principles. Such dividend income will generally be foreign source income subject to the separate limitation for "passive income" for purposes of the foreign tax credit limitation. Shareholders that are corporations will generally not be entitled to the dividends received deduction. If a US Shareholder receives a dividend payment in any currency other than US dollars, the amount of the dividend payment for Federal income tax purposes will be the US dollar value of the dividend payment (determined at the spot rate on the date of such payment) regardless of whether the payment is in fact converted into US dollars. In such case, US Shareholders may recognize ordinary income or loss as a result of currency fluctuations during the period between the date of a dividend payment and the date such dividend payment is converted into US dollars. US Shareholders generally should not be entitled to a foreign tax credit for corporate taxes paid by Creative, except that any domestic corporation which owns 10 percent or more of the voting stock of Creative should consult its tax advisor with respect to its ability to claim foreign tax credits with respect to such taxes. Additionally, US Shareholders will, upon the sale or exchange of ordinary shares, recognize gain or loss for United States income tax purposes in an amount equal to the difference between the amount realized and the US Shareholder's tax basis in such ordinary shares. Such gain or loss will be capital gain or loss if the ordinary shares were a capital asset in the hands of the US Shareholder and will be long-term capital gain or loss if such ordinary shares have been held for more than one year. If a US shareholder receives any currency other than US dollars on the sale of ordinary shares, such US Shareholder may recognize ordinary income or loss as a result of currency fluctuations between the date of such sale and the date such sale proceeds are converted into US dollars.

ESTATE TAXATION

In the case of an individual who is not domiciled in Singapore, Singapore estate tax is imposed on the value of all movable and immovable properties situated in Singapore, other than certain residential exemptions. Thus, an individual shareholder who is not domiciled in Singapore at the time of his or her death, will be subject to Singapore estate tax on the value of Singapore registered shares held by the individual upon the individual's death. Such a shareholder will be required to pay Singapore estate tax to the extent that the value of the shares (or any other assets subject to Singapore estate tax) exceeds S\$600,000. Any excess will be taxed at a rate equal to 5 percent on the first S\$10,000,000 of the individual's Singapore chargeable assets and thereafter at a rate equal to 10 percent. An individual shareholder that is a US citizen or resident (for US estate tax purposes) also will have the value of the shares included in the individual's gross estate for US estate tax purposes. An individual shareholder generally will be entitled to a tax credit against the shareholder's US estate tax if the individual shareholder actually pays Singapore estate tax; however, such tax credit is generally limited to the percentage of the US estate tax attributable to the inclusion of the value of the shares included in the shareholder's gross estate for US estate tax purposes. Individuals who are domiciled in Singapore should consult their own tax advisors regarding the Singapore estate tax consequences of their investment.

ITEM 8: SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets out selected data from Creative's Consolidated Statements of Operations for the five years ended June 30, 1999. The data for the three years ended June 30, 1999 is qualified by reference to, and should be read in conjunction with, the consolidated financial statements and related notes thereto included elsewhere in this Annual Report.

CONSOLIDATED STATEMENTS OF OPERATIONS DATA					
(US\$'000, EXCEPT PER SHARE DATA):					
	For the years ended June 30				
	1999	1998(1)	1997	1996	1995
Sales, net	\$ 1,296,537	\$ 1,234,208	\$ 1,232,957	\$ 1,308,061	\$ 1,202,337
Cost of goods sold	<u>944,499</u>	<u>848,305</u>	<u>893,432</u>	<u>1,120,977</u>	<u>923,612</u>
Gross profit	352,038	385,903	339,525	187,084	278,725
Operating expenses					
Selling, general and administrative	209,668	162,464	135,644	148,351	173,496
Research and development	46,725	41,723	35,164	34,756	41,037
Other charges (2)	<u>--</u>	<u>68,568</u>	<u>--</u>	<u>18,780</u>	<u>26,189</u>
Operating income (loss)	95,645	113,148	168,717	(14,803)	38,003
Interest income (expense) and other, net (3)	<u>29,669</u>	<u>39,652</u>	<u>18,382</u>	<u>(14,793)</u>	<u>(5,018)</u>
Income (loss) before income taxes and minority interest	125,314	152,800	187,099	(29,596)	32,985
Provision for income taxes (4)	(9,920)	(19,805)	(20,073)	(8,767)	(5,565)
Minority interest in (income) loss	<u>(312)</u>	<u>1,779</u>	<u>20</u>	<u>719</u>	<u>(916)</u>
Net income (loss)	\$ <u>115,082</u>	\$ <u>134,774</u>	\$ <u>167,046</u>	\$ <u>(37,644)</u>	\$ <u>26,504</u>
Basic earnings (loss) per share	<u>\$ 1.28</u>	<u>\$ 1.49</u>	<u>\$ 1.89</u>	<u>\$ (0.43)</u>	<u>\$ 0.30</u>
Average ordinary shares outstanding ('000)	<u>89,818</u>	<u>90,654</u>	<u>88,422</u>	<u>87,984</u>	<u>87,105</u>
Diluted earnings (loss) per share	<u>\$ 1.25</u>	<u>\$ 1.42</u>	<u>\$ 1.84</u>	<u>\$ (0.43)</u>	<u>\$ 0.30</u>
Average ordinary shares and equivalents outstanding ('000)	<u>92,241</u>	<u>94,964</u>	<u>90,763</u>	<u>87,984</u>	<u>89,422</u>

CONSOLIDATED BALANCE SHEETS DATA (US\$'000):

	As of June 30				
	1999	1998	1997	1996	1995
Cash and cash equivalents	\$ 318,990	\$ 417,262	\$ 417,943	\$ 196,181	\$ 127,428
Working capital	400,998	484,792	371,921	182,910	315,292
Total assets	805,689	865,113	814,818	582,043	661,235
Long-term debt, net of current maturities	28,642	32,277	33,711	6,690	101,893
Shareholders' equity	560,261	622,314	522,605	267,848	302,488

Notes:

- (1) Financial data for fiscal 1998 includes the results of Cambridge SoundWorks, Inc. ("Cambridge"), ENSONIQ Corporation ("Ensoniq"), Silicon Engineering, Inc. ("SEI"), and the NetMedia Division of OPTi Inc. acquired during fiscal 1998, from the date each acquisition was completed. See Note 14 of "Notes to Consolidated Financial Statements."
- (2) Included in the results of operations were other charges of: \$68.6 million in fiscal 1998 relating to a \$60.3 million write-off of acquired in-process technology and a charge of \$8.3 million for cessation of certain activities; \$18.8 million in fiscal 1996 relating to a \$12.0 million charge for closure costs associated with the termination of CD-ROM drive manufacturing operations, \$4.6 million for the settlement of certain litigation and \$2.2 million for additional amortization of intangibles; and \$26.2 million in fiscal 1995 for write-offs of intangibles and investments. See Note 12 and Note 14 of "Notes to Consolidated Financial Statements."
- (3) Net interest and other income were inclusive of net gains from sale of investments of \$15.0 million, \$18.5 million and \$6.8 million for fiscal 1999, 1998 and 1997, respectively.
- (4) As described in Note 9 of "Notes to Consolidated Financial Statements", Creative was granted a Pioneer Certificate in 1990 under which income classified as pioneer status income is exempt from tax in Singapore, subject to certain conditions. Such status had the effect of reducing Creative's provision for income taxes by approximately \$26.4 million, \$43.3 million, \$36.4 million, \$13.5 million and \$19.1 million, or \$0.29, \$0.46, \$0.40, \$0.15 and \$0.21 per share, for fiscal 1999, 1998, 1997, 1996 and 1995, respectively. The corporate income tax rate in Singapore, which would otherwise be applicable for the corresponding fiscal years would be 26%, 26%, 26%, 26% and 27%, respectively.

EXCHANGE RATES

Creative publishes its consolidated financial statements in US dollars, which is the principal currency in which it conducts its business. In this Annual Report, references to "US dollars" and "\$" are to United States currency and references to "Singapore dollars" and "\$S" are to Singapore currency. Except as otherwise stated herein, all monetary amounts in this Annual Report have been presented in US dollars. The following table sets forth, for the periods indicated, certain information concerning the currency exchange rate as expressed in US dollars per Singapore dollar as certified for customs purposes by the Federal Reserve Bank of New York ("Noon Buying Rate"):

<u>Fiscal years</u> <u>Ended June 30,</u>	<u>At</u> <u>Period-end</u>	<u>Average(1)</u>	<u>High</u>	<u>Low</u>
1995	0.7156	0.6889	0.7197	0.6557
1996	0.7085	0.7076	0.7176	0.6901
1997	0.6992	0.7049	0.7192	0.6887
1998	0.5938	0.6241	0.6999	0.5568
1999	0.5875	0.5890	0.6196	0.5634

- (1) The average of the Noon Buying Rates on the last day of each month during the relevant period. On August 27, 1999, each Singapore dollar equaled 0.5923 US dollars, as certified for customs purposes by the Federal Reserve Bank of New York.

ITEM 9: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected statements of operations data as a percentage of

	Years ended June 30		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Sales, net	100 %	100 %	100 %
Cost of goods sold	<u>73</u>	<u>69</u>	<u>72</u>
Gross profit	27	31	28
Operating expenses:			
Selling, general and administrative	16	13	11
Research and development	3	3	3
Other charges	<u>--</u>	<u>6</u>	<u>--</u>
Operating income	8	9	14
Interest income and other, net	<u>2</u>	<u>4</u>	<u>1</u>
Income before income taxes and minority interest	10	13	15
Provision for income taxes	(1)	(2)	(1)
Minority interest in (income) loss	<u>--</u>	<u>--</u>	<u>--</u>
Net income	<u>9 %</u>	<u>11 %</u>	<u>14 %</u>

sales:

Creative's external net sales, by product category, for the past three fiscal years were as follows:

	Percentage of External Net Sales for fiscal years ended June 30		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Audio products	38%	45 %	56 %
Multimedia Upgrade Kits	27%	36 %	34 %
Graphic & Video products	20%	8 %	2 %
Speakers/ Communication/ Other products	15%	11 %	8 %

YEAR ENDED JUNE 30, 1999 COMPARED TO YEAR ENDED JUNE 30, 1998

Net sales in fiscal 1999 increased by \$62.3 million or 5% compared to fiscal 1998. This increase in sales was primarily due to an increase in sales of graphics and speakers products. During fiscal 1999, audio sales (Sound Blaster audio cards and chipsets) decreased by 13%, compared to fiscal 1998, and represented 38% of total sales, compared to 45% in fiscal 1998. This decrease in sales was due to a decline in average selling prices in particular lower end audio cards. Sales of multimedia upgrade kits ("MMUK") decreased by 21% in fiscal 1999, and represented 27% of sales, compared to 36% in fiscal 1998. The reduction in MMUK sales is due mainly to declining average selling prices, adverse market conditions in Asia and Latin America and the shortage of DVD drives during the first two quarters of fiscal 1999. Nonetheless, sales recovered in the second half of fiscal 1999 due to increased availability of DVD drives from Creative's vendors. Sales of video and graphics products increased by 169% in fiscal 1999 and represented 20% of total sales, compared to fiscal 1998, when they represented 8% of total sales. This increase was primarily attributable to an increase in sales of Creative's new graphics cards that were introduced in fiscal 1999. Sales of other products including speakers increased by 45% to 15% of total sales in fiscal 1999, compared to 11% in fiscal 1998. Speaker sales represented 7% of sales in fiscal 1999, compared with 3% in fiscal 1998.

Gross profit decreased by 9% in fiscal 1999 and represented 27% of sales, compared to 31% in fiscal 1998. This decrease in gross profit percentage was largely attributable to a decline in average selling prices of audio products and unfavorable product mix. In addition, the increase in overall revenue contribution of lower margin video and graphics products has led to a decline in the gross profit margin during fiscal 1999.

Selling, general and administrative expenses increased to 16% of sales in fiscal 1999, compared to 13% of sales in fiscal 1998. This increase was primarily due to a full year amortization of intangibles arising from acquisitions in fiscal 1998 (see Note 14 of "Notes to Consolidated Financial Statements"), marketing programs for Sound Blaster Live! and an increase in marketing and advertising expenses incurred in launching other new products. Research and development expenses in fiscal 1999 remained flat at 3% of sales, compared to the prior year.

Included in the results of fiscal 1998 were other charges of \$68.6 million. This related to three acquisitions recorded under the purchase method of accounting, resulting in an aggregate write off of acquired in-process technology of \$60.3 million (see Note 14 of "Notes to Consolidated Financial Statements") and a one-time charge of \$8.3 million for the cessation of certain activities.

Net interest and other income for Creative decreased by 25% in fiscal 1999 as compared to fiscal 1998. Included in the net interest and other income for fiscal 1999 and 1998 were net gains from investments of \$15.0 million and \$18.5 million, respectively. Interest and other income for fiscal 1999 decreased by \$6.5 million compared to fiscal 1998, due to a decline in interest income resulting from a lower average cash balance.

Creative's effective tax rate decreased from 13% in fiscal 1998 to 8% in fiscal 1999. The decrease is primarily attributable to decreased profitability; the mix of income arising from various geographical regions, where the tax rates range from 0% to 50%; pioneer status income from Singapore, which is exempt from tax; and utilization of non-Singapore net operating losses. The pioneer status had the effect of reducing Creative's provision for income taxes by approximately \$26.4 million or \$0.29 per share and \$43.3 million or \$0.46 per share, for fiscal 1999 and 1998, respectively. The Pioneer Certificate will expire in the year 2000, subject to certain conditions. See Note 9 of "Notes to Consolidated Financial Statements."

YEAR ENDED JUNE 30, 1998 COMPARED TO YEAR ENDED JUNE 30, 1997

Net sales in fiscal 1998 were flat, compared to fiscal 1997. During fiscal 1998, audio sales (Sound Blaster audio cards and chipsets) decreased by 19%, compared to fiscal 1997, and represented 45% of total sales, compared to 56% in fiscal 1997. This decrease was primarily attributable to declining average selling prices, a reduction in low-end audio product sales, and reduced sales to Asian customers due to the macro-economic issues in that region. Sales of Multimedia Upgrade Kits ("MMUK") increased by 4% in fiscal 1998 and represented 36% of total sales, compared to fiscal 1997, when they represented 34% of total sales. The increase in MMUK sales was primarily attributable to an increase in sales volume as well as a favorable MMUK component mix. MMUK sold in fiscal 1998 included speakers and higher priced DVD drives, AWE64 and AWE64 Gold cards, compared with lower priced CD-ROM drives and Sound Blaster 16 or AWE32 audio cards in MMUK sold in fiscal 1997. This increase in MMUK sales was partly offset by a decrease in sales experienced in the latter half of fiscal 1998, compared with the same period in the prior fiscal year, due to declining average selling prices and a reduction of sales to Asian customers. Sales of video and graphics products increased by 232% in fiscal 1998 and represented 8% of total sales, compared to fiscal 1997, when they represented 2% of total sales. This increase was primarily attributable to the introduction of Graphics Blaster Exxtreme and 3D Blaster Voodoo2 graphic accelerator cards in fiscal 1998. Sales of other products increased by 48% in fiscal 1998 due primarily to an increase in speaker sales. Sales of other products represented 11% of total sales in fiscal 1998, compared to 8% of total sales in fiscal 1997.

Gross profit increased by 14% in fiscal 1998 and represented 31% of sales, compared to 28% in fiscal 1997. This improvement in profitability was primarily attributable to a favorable product mix, resulting from increased sales of higher margin products such as speakers, AWE64 and AWE64 Gold cards, lower material component costs, and improved production efficiencies. In the fourth quarter of fiscal 1998 Creative's gross margin decreased to 26%, primarily due to an unfavorable product mix with a reduction in revenue from the higher margin audio products and a decline in average selling prices of audio and graphic products. There can be no assurance that improvements in the overall gross margin percentages experienced in fiscal 1998 will continue or that Creative can maintain such gross margin percentages in the future.

Selling, general and administrative expenses increased to 13% of sales in fiscal 1998, compared to 11% of sales in fiscal 1997. This increase was primarily due to an increase in amortization of intangibles attributable to the new acquisitions in fiscal 1998 (see Note 14 of "Notes to Consolidated Financial Statements") and increased marketing and advertising expenses aimed at leveraging Creative's brand image and generating demand for its products. Research and development expenses in fiscal 1998 remained flat at 3% of sales, compared to the prior year.

Included in the results of fiscal 1998 were other charges of \$68.6 million. This related to three acquisitions recorded under the purchase method of accounting, resulting in an aggregate write off of acquired in-process technology of \$60.3 million (see Note 14 of "Notes to Consolidated Financial Statements") and a one-time charge of \$8.3 million for the cessation of certain activities.

Included in the results of fiscal 1998 and 1997 were net gains from sale of investments of \$18.5 million and \$6.8 million, respectively. Net interest and other income improved by \$9.6 million in fiscal 1998, compared to the prior year, which was primarily attributable to an increase in interest income earned from higher average cash balances in fiscal 1998.

In fiscal 1998, Creative's effective tax rate increased from 10.7% in fiscal 1997 to 13%. Creative's effective tax rate is based on the mix of income arising from various geographical regions, where the tax rates range from 26% to 50%; pioneer status income in Singapore, which is exempt from tax; and the utilization of non Singapore net operating losses. The pioneer status had the effect of reducing Creative's provision for income taxes by approximately \$43.3 million or \$0.46 per share and \$36.4 million or \$0.40 per share, for fiscal 1998 and 1997, respectively. The Pioneer Certificate will expire in the year 2000, subject to certain conditions. See Note 9 of "Notes to Consolidated Financial Statements."

QUARTERLY RESULTS

The following is a summary of Creative's unaudited quarterly results for the eight quarters ended June 30, 1999, together with the percentage of sales represented by such results. Consistent with the PC peripheral 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, these 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)							
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
	1999	1999	1998	1998	1998	1998	1997	1997
Sales, net	\$ 275,134	\$ 313,715	\$ 428,699	\$ 278,989	\$ 253,009	\$ 298,423	\$ 395,010	\$ 287,766
Cost of goods sold	213,071	232,964	299,308	199,156	188,210	202,124	264,933	193,038
Gross profit	62,063	80,751	129,391	79,833	64,799	96,299	130,077	94,728
Operating expenses:								
Selling, general and administrative	47,966	51,534	58,445	51,723	43,899	42,949	41,150	34,466
Research and development	12,873	11,825	11,681	10,346	10,615	10,142	11,985	8,981
Other charges (1)	—	—	—	—	8,268	—	60,300	—
Operating income	1,224	17,392	59,265	17,764	2,017	43,208	16,642	51,281
Interest income and other, net (2)	15,050	2,908	6,094	5,617	3,172	6,730	6,276	23,474
Income before income taxes and minority interest	16,274	20,300	65,359	23,381	5,189	49,938	22,918	74,755
Provision for income taxes	(1,303)	(1,624)	(4,889)	(2,104)	(883)	(4,962)	(8,332)	(5,628)
Minority interest in (income) loss	(235)	(425)	112	236	491	261	86	941
Net income	\$ 14,736	\$ 18,251	\$ 60,582	\$ 21,513	\$ 4,797	\$ 45,237	\$ 14,672	\$ 70,068
Basic earnings per share	\$ 0.17	\$ 0.21	\$ 0.66	\$ 0.23	\$ 0.05	\$ 0.50	\$ 0.16	\$ 0.79
Average ordinary shares outstanding ('000)	85,457	88,398	92,428	92,989	92,218	91,169	90,167	89,061
Diluted earnings per share	\$ 0.17	\$ 0.20	\$ 0.64	\$ 0.23	\$ 0.05	\$ 0.48	\$ 0.15	\$ 0.74
Average ordinary shares and equivalents outstanding ('000)	88,026	90,835	95,137	94,968	95,339	95,056	95,031	94,430

	Unaudited data for quarters ended (as a percentage of sales)							
	Jun 30 1999	Mar 31 1999	Dec 31 1998	Sep 30 1998	Jun 30 1998	Mar 31 1998	Dec 31 1997	Sep 30 1997
Sales, net	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of goods sold	77	74	70	71	74	68	67	67
Gross profit	23	26	30	29	26	32	33	33
Operating Expenses:								
Selling, general and administrative	17	16	14	19	18	14	11	12
Research and development	5	4	3	4	4	3	3	3
Other charges (1)	--	--	--	--	3	--	15	--
Operating income	1	6	13	6	1	15	4	18
Interest income and other, net (2)	5	1	2	2	1	2	2	8
Income before income taxes and minority interest	6	7	15	8	2	17	6	26
Provision for income taxes	(1)	(1)	(1)	--	--	(2)	(2)	(2)
Minority interest in (income) loss	--	--	--	--	--	--	--	--
Net income	5 %	6 %	14 %	8 %	2 %	15 %	4 %	24 %

- (1) Other charges included in the results of operations represent the following: for the quarter ended June 30, 1998, a charge for cessation of certain activities; and for the quarter ended December 31, 1997, the write-off of acquired in-process technology resulting from the acquisitions of Ensoniq Corporation, Cambridge SoundWorks, Inc. and the NetMedia Division of OPTi Inc.
- (2) Net interest and other income were inclusive of net gain from sale of investments of: \$12.6 million for quarter ended June 30, 1999, \$0.2 million for quarter ended March 31, 1999, \$2.2 million for quarter ended December 31, 1998 and \$18.5 million for quarter ended September 30, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents at June 30, 1999 were \$319.0 million, a decrease of \$98.3 million compared to the balance at June 30, 1998.

Operating Activities: Net cash generated from operating activities during fiscal 1999 was \$124.1 million, compared with \$114.9 million in fiscal 1998. Cash from operating activities for fiscal 1999 was primarily generated from net income of \$115.1 million, net adjustments of \$22.4 million for non-cash items including depreciation and amortization of \$37.3 million and realized net gain from sale of investments of \$15.0 million, and net increase in accounts payable, other accrued liabilities and income taxes payable of \$7.5 million. This was offset by the increase in other assets, prepaids and accounts receivable by \$17.2 million and cash used to build the inventory position of \$3.7 million.

Cash from operating activities for fiscal 1998 was primarily generated from net income of \$134.8 million, adjustments to non-cash items including depreciation and amortization of \$34.6 million and write-off of acquired in-process technology of \$60.3 million, and decreases in accounts receivable and other assets and prepaids of \$26.7 million. This was offset by cash used to build the inventory position of Creative by \$49.4 million, reduce accounts payable and other accrued liabilities by \$87.8 million and other net cash flows of \$4.3 million.

Investing Activities: Net cash used for investing activities during fiscal 1999 was \$38.4 million, compared with \$132.0 million in fiscal 1998. During fiscal 1999, Creative used \$16.5 million for the purchase of property and

equipment and \$64.4 million for the increase in other investments and assets. Sale of investments generated \$42.5 million cash in fiscal 1999.

Cash used in investing activities during fiscal 1998, included capital expenditures of \$18.1 million and purchase of new subsidiaries of \$126.4 million and increase in investments and other assets of \$20.7 million. Sale of investments provided \$33.2 million cash in fiscal 1998.

Financing Activities: During fiscal 1999, \$184.0 million was used for financing activities, compared with \$16.4 million provided in fiscal 1998. Cash used in financing included \$139.0 million to purchase and retire 10 million of its ordinary shares (See Note 6 of “Notes to Consolidated Financial Statements”), \$45.0 million used to pay dividends (See Note 7 of “Notes to Consolidated Financial Statements”), \$5.2 million to reduce long-term obligations and minority shareholders’ loan and equity balance. This was offset by a \$5.2 million cash inflow from the exercise of share options.

Cash provided by financing activities in fiscal 1998 was primarily from the issuance of ordinary shares to employees through Creative's share option plans for \$19.2 million, offset by a net \$2.8 million used to reduce other long-term obligations.

As of June 30, 1999, in addition to cash reserves and excluding the term loan, Creative had unutilized credit facilities totaling approximately \$94.6 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 its existing product range. Creative generally satisfies its working capital needs from internally generated cash flows. Management believes that Creative has adequate resources to meet its projected working capital and other cash needs for at least the next twelve months.

ITEM 9A: QUANTITATIVE AND QUALITATIVE DISCLOSURES **ABOUT MARKET RISK**

Interest Rate Risk: As of June 30, 1999, Creative’s cash and investment portfolio includes fixed-income securities. These securities are subject to interest rate risk and will decline in value if interest rate increases. Due to the short duration of Creative’s investment portfolio, an immediate 10% increase in interest rates would not have a material effect on the fair market value of Creative’s portfolio.

Foreign Currency Exchange Risk: Creative’s sales are substantially denominated in US dollars which lowers its foreign exchange risk. However, Creative enters into forward exchange contracts to hedge certain intercompany 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. The effect of an immediate 10% change in exchange rates on the forward contracts would not have a material impact on Creative’s future operating results or cash flows.

ITEM 10: DIRECTORS AND OFFICERS OF REGISTRANT

Creative's Directors and Executive Officers as of October 1, 1999 were as follows:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Sim Wong Hoo (1)(2)(3)	44	Chairman of the Board and Chief Executive Officer (Creative Technology Ltd.)
Tan Lip-Bu (1)(2)	39	Director
Tang Chun Choy (3)	51	Director
Lee Kheng Nam (1)(2)(3)	51	Director
Ng Keh Long	40	Chief Financial Officer

- (1) Member of Compensation Committee
- (2) Member of Option Committee for each of Creative's Employees' Share Option Scheme and Creative Technology (1999) Share Option Scheme (as defined in Item 12 below).
- (3) Member of Audit Committee

Sim Wong Hoo founded Creative in Singapore in 1981 and has been its Chairman of the Board and Chief Executive Officer since its inception.

Tan Lip-Bu became a Director of Creative in 1990. He is the Founder and Chairman of Walden International Investment Group, a leading US-based international venture capital firm with over US\$900 million funds under management. Mr. Tan is a director of several private and public companies in the United States and Asia Pacific with which the Walden International Investment Group is associated.

Tang Chun Choy became a Director of Creative in 1990. Mr. Tang is a Managing Director of the Walden International Investment Group which manages funds in excess of US\$900 million. Prior to joining Walden in 1989, Mr. Tang was the General Manager of Chemical Bank in Singapore. Mr. Tang also holds directorships in National Computer Board and National Science and Technology Board in Singapore as well as various companies in which the Walden Group has made investments.

Lee Kheng Nam became a Director of Creative in 1991. Mr. Lee is the President of Vertex Group, the corporate venture capital investment management subsidiary of the Singapore Technologies group. Since 1983, he has been responsible for strategic investments in new technologies and venture capital investments at the Singapore Technologies group, a technology-based multinational conglomerate, headquarters in Singapore. Mr. Lee holds directorships in several companies in the United States, China and Singapore in which the Vertex Group has made investments.

Ng Keh Long joined the Company in April 1993 as Financial Controller and held various financial positions until May 1996, when he was appointed as Vice President, Corporate Treasurer and Acting Chief Financial Officer. In 1998, he was appointed as Chief Financial Officer. Prior to joining Creative, he was a Senior Manager with Price Waterhouse, where he gained more than ten years' experience in finance, accounting and auditing. Mr. Ng is a member of the Institute of Certified Public Accountants in Singapore.

Directors may be elected by the shareholders at a General Meeting or appointed by the Board of Directors. Each director holds office until the next Annual General Meeting or until his successor has been elected and qualified.

Creative has proposed to pay each of its three non-executive Directors S\$40,000 (\$23,700) for fees and reimbursement of any expenses incurred in connection with attendance at Board, Board committee or general meetings of Creative.

ITEM 11: COMPENSATION OF DIRECTORS AND OFFICERS

The following table sets forth the aggregate base salary, fees and bonuses paid, or proposed by Creative, for services rendered by all executive officers and directors for fiscal 1999.

<u>Number of Persons in Group</u>	<u>Base Salary/ Fees</u>	<u>Bonuses</u>
All executive officers as a group (2 persons)	\$ 288,000	\$ 68,000
All executive officers and directors as a group (5 persons)	\$ 358,000	\$ 68,000

ITEM 12: OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

STOCK OPTION PLANS

In 1992, Creative adopted two Flexible Share Incentive Plans (“Old Plans”), under which a total of 16 million ordinary shares were reserved for issuance. Pursuant to the registration of Creative’s ordinary shares on the Stock Exchange of Singapore on June 15, 1994, Creative restricted further grants under these plans. As of June 30, 1999, all options under the Old Plans were expired.

In December 1994, Creative adopted the new Creative Technology Employees’ Share Option Scheme (the “New Plan”). Options granted under this plan were in accordance with Section 422(a) of the US Internal Revenue Code of 1986, as amended. The New Plan was substantially more restrictive than the Old Plans. On November 13, 1996, at a special meeting (Extraordinary General Meeting), shareholders approved certain changes to the New Plan to make it less restrictive. Under the amended New Plan, the total number of shares that could be granted was increased to an overall maximum of 15% of the issued share capital of Creative.

The amended New Plan also provided for incentive stock options (ISO’s) to be granted to employees of Creative on a quarterly basis, at the average market price established on the five days closing immediately prior to the date of grant. The options vested at the rate of 25% at the end of each anniversary of the grant date and were exercisable over a period not exceeding five years from the date of grant.

On November 18, 1996, the Board of Directors offered all employees with stock options (both from the Old and New Plans), the opportunity to cancel four existing options in exchange for a grant of three new options at an exercise price of \$5.90 (or S\$8.52), the fair market value of Creative’s ordinary shares on the date of the offer. The resulting new options have a vesting schedule equal to that of the old options plus one year. As of November 18, 1996, approximately 4.8 million options were eligible for exchange, of which 2.6 million options were actually exchanged for 1.9 million new options.

At June 30, 1999 options to purchase 2.0 million ordinary shares were exercisable at prices ranging from \$3.28 to \$21.45 under the New Plan with expiration dates up to August 2003. In December 1998, the New plan was replaced and future grants under this plan were restricted.

As of October 6, 1998, Creative is no longer subject to the listing rules of the stock exchange of Singapore but is required only to comply with the listing rules of NASDAQ, including rules governing stock option plans. Since many of Creative employees and shareholders are located in the United States of America, Creative has obtained shareholders' approval on December 30, 1998 to replace the New Plan with the Creative Technology (1999) Share Option Scheme ("1999 Scheme"), which is more in accordance with US practice. The 1999 Scheme allows options to be granted to full-time employees as well as consultants and non-executive directors. The total number of shares that may be granted as options is 7.5 million provided that such amount shall be automatically increased on the first day (July 1) of each of the five financial years ending June 30, 2001, 2002, 2003, 2004 and 2005 by three percent of the issued share capital of Creative as at the last day of the immediate preceding financial year. The exercise price of options granted under the 1999 Scheme may be less than the fair market value of the shares as of the date of grant and the options expire after the tenth anniversary of the date of grant.

In fiscal 1999, Creative granted 2.9 million options under the 1999 Scheme at a weighted average exercise price of \$10.10. Options were granted at exercise prices that were below fair market value, resulting in a deferred compensation charge of \$5.1 million which is being amortized to expense over the vesting period of the underlying options. Amortization of deferred compensation expense for fiscal 1999 was not material. These options expire in February 2009.

In the event of any change in the ordinary shares subject to the Option Plans, through merger, reorganization or other similar change in the corporate structure of the Company, the Option Plans provide that each outstanding option will be assumed or an equivalent option be substituted by the successor corporation.

Unless terminated sooner, the Old Plan, New Plan and 1999 Scheme will terminate in May 2002, December 2004 and December 2008 respectively. The Board has authority to amend or terminate the Option Plans, provided that generally no such action may impair the rights of the holder of any outstanding options, without the written consent of such holder.

As of June 30, 1999 options aggregating 164,000 ordinary shares have been granted to the current executive officers of Creative under the Option Plans at a weighted average exercise price of S\$8.34 (\$4.92) per share.

ITEM 13: INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

Creative's corporate headquarters building in Singapore, is owned by Creative Technology Centre Pte Ltd. (CTC), a Singapore company owned equally by Creative and Bukit Frontiers Pte Ltd., a company owned by Mr. Sim Wong Hoo, who is chairman of the board and chief executive officer. As of June 30, 1999, Bukit Frontiers Pte Ltd. extended loans and contributed equity into CTC totaling S\$12.5 million (\$7.4 million) and S\$0.5 million (\$0.4 million), respectively. On March 13, 1996, CTC entered into an agreement with two banks for an eight year term loan facility for S\$60.0 million (\$35.3 million) to finance the construction of the headquarters building (see Note 10 of "Notes to Consolidated Financial Statements"). At June 30, 1999, S\$51.9 million (\$30.5 million) was outstanding under this loan.

In October 1997, Creative announced that it will invest up to \$4.0 million for a limited partnership interest in a newly-formed venture capital fund, Walden Media and Information Technology Fund, L.P, a California limited partnership. This partnership is managed by its General Partner, Walden Media, LLC, a California limited liability company in which Mr. Tan Lip-Bu, a director of the Company, has a substantial interest. As of September 1, 1999, Creative has invested \$3.4 million in this fund. In addition, Creative also invested \$0.9 million as of September 1, 1999 in InfoTech Ventures Ltd., a Singapore venture capital fund company. This fund is managed by WIIG (Singapore) Pte Ltd., which is a member of the Walden International Investment Group, a group of venture capital funds and management entities in which two directors of the Company, Mr. Tan Lip-Bu and Mr. Tang Chun Choy, have substantial interests. Creative believes that participation in these venture capital funds will provide new technology and investment opportunities and the investments are on normal commercial terms and not prejudicial to the interests of Creative's shareholders.

ITEM 14: DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable.

ITEM 15: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 16: CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 17: FINANCIAL STATEMENTS

Not applicable.

ITEM 18: FINANCIAL STATEMENTS

The financial statements filed as part of this Annual Report are contained on pages F-1 through F-20 hereof.

ITEM 19: FINANCIAL STATEMENTS AND EXHIBITS

	<u>Page</u>
(a) INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	
Report of Independent Accountants	F-1
Consolidated Balance Sheets at June 30, 1999 and 1998	F-2
Consolidated Statements of Operations for the years ended June 30, 1999, 1998 and 1997	F-3
Consolidated Statements of Cash Flows for the years ended June 30, 1999, 1998 and 1997	F-4
Consolidated Statements of Shareholders' Equity for the years ended June 30, 1999, 1998 and 1997	F-5
Notes to Consolidated Financial Statements	F-6
(b) SUPPLEMENTAL SCHEDULES	
Report of Independent Accountants	S-1
Schedule II - Allowance for Doubtful Accounts and Sales Returns	S-2
(c) EXHIBITS	
Exhibit 23.1- Consent of PricewaterhouseCoopers, Independent Accountants	E-1

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CREATIVE TECHNOLOGY LTD.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of Creative Technology Ltd. and its subsidiaries at June 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of Creative's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers
Singapore
August 6, 1999

CREATIVE TECHNOLOGY LTD.
CONSOLIDATED BALANCE SHEETS

(In US\$'000, except per share data)

	June 30 1999	June 30 1998
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 318,990	\$ 417,262
Accounts receivable, less allowances of \$12,721 and \$14,074	130,144	115,930
Inventory	148,028	144,320
Other assets and prepaids	12,709	10,180
Total current assets	609,871	687,692
Property and equipment, net	97,961	100,767
Investments and other non-current assets	97,857	76,654
Total Assets	\$ 805,689	\$ 865,113
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 101,666	\$ 90,544
Other accrued liabilities	55,684	61,381
Income taxes payable	47,031	45,002
Current portion of long term obligations	4,492	5,973
Total current liabilities	208,873	202,900
Long term obligations	28,642	32,277
Minority interest in subsidiaries	7,913	7,622
Commitments and contingencies (Notes 4, 11 and 13)		
Shareholders' equity:		
Ordinary shares ('000); S\$0.25 par value;		
Authorized: 200,000 shares		
Outstanding: 83,971 and 92,914 shares	8,348	9,678
Additional paid-in capital	170,157	158,532
Unrealized holding gains on quoted investments	15,405	13,719
Deferred share compensation expense	(5,078)	--
Retained earnings	371,429	440,385
Total shareholders' equity	560,261	622,314
	\$ 805,689	\$ 865,113

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)

	Years ended June 30		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Sales, net	\$ 1,296,537	\$ 1,234,208	\$ 1,232,957
Cost of goods sold	<u>944,499</u>	<u>848,305</u>	<u>893,432</u>
Gross profit	352,038	385,903	339,525
Operating expenses:			
Selling, general and administrative	209,668	162,464	135,644
Research and development	46,725	41,723	35,164
Other charges (Notes 12 and 14)	<u>--</u>	<u>68,568</u>	<u>--</u>
Operating income	95,645	113,148	168,717
Interest income and other, net	<u>29,669</u>	<u>39,652</u>	<u>18,382</u>
Income before income taxes and minority interest	125,314	152,800	187,099
Provision for income taxes	(9,920)	(19,805)	(20,073)
Minority interest in (income) loss	<u>(312)</u>	<u>1,779</u>	<u>20</u>
Net income	\$ <u>115,082</u>	\$ <u>134,774</u>	\$ <u>167,046</u>
Basic earnings per share	\$ 1.28	\$ 1.49	\$ 1.89
Average ordinary shares outstanding ('000)	89,818	90,654	88,422
Diluted earnings per share	\$ 1.25	\$ 1.42	\$ 1.84
Average ordinary shares and equivalents outstanding ('000)	92,241	94,964	90,763

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)

	Years ended June 30		
	1999	1998	1997
Cash flows from operating activities:			
Net income	\$ 115,082	\$ 134,774	\$ 167,046
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	37,265	34,629	17,189
Write off of acquired in-process technology	--	60,300	--
Minority interest in income (loss)	312	(1,779)	(20)
Equity share in income of unconsolidated investments	(106)	(278)	(619)
Realized net gain from sale of investments	(15,048)	(18,469)	(6,803)
Other charges for write down of intangibles	--	3,175	--
Changes in assets and liabilities, net of effects of acquisitions (Note 14):			
Accounts receivable	(14,214)	18,901	(14,367)
Inventory	(3,708)	(49,407)	96,640
Other assets and prepaids	(2,961)	7,853	3,097
Accounts payable	11,122	(51,727)	14,368
Other accrued liabilities	(5,697)	(36,078)	27,704
Income taxes payable	2,029	13,020	17,686
Net cash provided by operating activities	124,076	114,914	321,921
Cash flows from investing activities:			
Capital expenditures, net	(16,424)	(18,127)	(37,435)
Proceeds from sale of quoted investments	42,502	33,202	7,163
Purchase of new subsidiaries (net of cash acquired)	--	(126,366)	--
Increase in other investments and assets, net	(64,445)	(20,717)	(5,535)
Net cash used in investing activities	(38,367)	(132,008)	(35,807)
Cash flows from financing activities:			
(Decrease)/increase in minority shareholders' loan and equity balance	(21)	(1,471)	3,636
Proceeds from exercise of ordinary share options and warrants	5,202	19,218	5,021
Repurchase of ordinary shares	(138,994)	--	--
Repayments of long-term obligations, net	(5,124)	(1,334)	(73,009)
Dividends paid	(45,044)	--	--
Net cash (used in) provided by financing activities	(183,981)	16,413	(64,352)
Net (decrease) increase in cash and cash equivalents	(98,272)	(681)	221,762
Cash and cash equivalents at beginning of year	417,262	417,943	196,181
Cash and cash equivalents at end of year	\$ 318,990	\$ 417,262	\$ 417,943
Supplemental disclosure of cash flow information:			
Interest paid	\$ 1,686	\$ 2,959	\$ 2,048
Income taxes paid	\$ 7,891	\$ 6,785	\$ 2,387

The accompanying notes are an integral part of these consolidated financial statements.

CREATIVE TECHNOLOGY LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In US\$'000, except share data)

	<u>Ordinary Shares ('000)</u>	<u>Ordinary Share Capital</u>	<u>Additional Paid In Capital</u>	<u>Unrealized Holding Gains on Quoted Investments</u>	<u>Deferred share compensation expense</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at June 30, 1996	88,212	\$ 8,933	\$ 121,500	\$ --	\$ --	\$ 137,415	\$ 267,848
Share option exercises	720	127	4,894	--	--	--	5,021
Tax benefit from exercise of non qualified stock options	--	--	12,347	--	--	--	12,347
Unrealized holding gains on quoted investments	--	--	--	70,343	--	--	70,343
Net income	--	--	--	--	--	167,046	167,046
Balance at June 30, 1997	88,932	9,060	138,741	70,343	--	304,461	522,605
Share options and warrants exercises	3,061	475	18,600	--	--	--	19,075
Acquisition of SEI	921	143	1,191	--	--	1,150	2,484
Decrease in unrealized holding gains on quoted investments	--	--	--	(56,624)	--	--	(56,624)
Net income	--	--	--	--	--	134,774	134,774
Balance at June 30, 1998	92,914	9,678	158,532	13,719	--	440,385	622,314
Share options exercises	921	137	5,065	--	--	--	5,202
Acquisition of SEI-- Shares issued from the escrow account	102	15	--	--	--	--	15
Repurchase of ordinary shares	(9,966)	(1,482)	1,482	--	--	(138,994)	(138,994)
Dividends paid	--	--	--	--	--	(45,044)	(45,044)
Unrealized holding gains on quoted investments	--	--	--	1,686	--	--	1,686
Deferred share compensation	--	--	5,078	--	(5,078)	--	--
Net income	--	--	--	--	--	115,082	115,082
Balance at June 30, 1999	83,971	\$ 8,348	\$ 170,157	\$ 15,405	\$ (5,078)	\$ 371,429	\$ 560,261

The accompanying notes are an integral part of these consolidated financial statements.

CREATIVE TECHNOLOGY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements include the accounts of Creative Technology Ltd and Creative's subsidiaries under its effective control from their respective dates of acquisition, after elimination of intercompany transactions and balances. The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Creative conducts a substantial portion of its business in United States dollars ("US\$ or \$"). All dollar amounts included in the financial statements and in the notes herein are United States dollars unless designated as Singapore dollars ("S\$"). Creative's fiscal year-end is June 30. 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.

Foreign exchange

The functional currency of Creative and its subsidiaries is the US dollar and accordingly, gains and losses resulting from the translation of accounts designated in currencies other than the functional currency are reflected in the determination of net income (loss). Included in interest and other expenses for fiscal 1999, 1998 and 1997, are exchange gains (losses) of (\$2.3 million), \$2.2 million, and \$1.3 million, respectively.

At June 30, 1999, monetary assets and liabilities of Creative are denominated in the following currencies:

	Approximate Percentage of \$ Balance Denominated in:		
	US\$	S\$	Other Currencies
Cash and cash equivalents	96%	1%	3%
Accounts receivable, less allowances	72%	1%	27%
Total current liabilities	74%	19%	7%
Long-term obligations	6%	94%	--

The exchange rate for the S\$ utilized in translating the balance sheet at June 30, 1999, expressed in US\$ per one S\$ was 0.5882.

Cash equivalents

Cash equivalents consist of highly liquid investment instruments with maturities of three months or less. All deposits are in short term deposit and money market accounts with various banks. This diversification of risk is consistent with Creative's policy to maintain liquidity and ensure the safety of principal. Included in cash equivalents as of June 30, 1999 and 1998, are fixed deposits of \$243.2 million and \$384.0 million, respectively.

Fair value of financial instruments

Creative measures its financial assets and liabilities in accordance with generally accepted accounting principles. For certain of Creative's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities. The amounts shown for long term obligations also approximate fair value because current interest rates charged to Creative for debts of similar maturities are substantially the same.

Inventory

Inventory is stated at the lower of cost (first-in-first-out) or market.

License agreements

Creative has entered into certain license agreements requiring prepayment of royalties for a certain term, or a guaranteed minimum royalty regardless of actual sales over the term of the agreement. Creative has adopted a policy of capitalizing and amortizing prepaid royalties. Amortization of prepaid balances and accrual of guaranteed minimum commitments commence with the product introduction and are at rates based on the greater of the straight line basis over the term of the agreement or the ratio of the actual revenues achieved to the revenues anticipated to be earned during the term of the agreement. At June 30, 1999 and 1998, included in other assets and prepaids were prepaid royalties of \$3.1 million and \$2.3 million, respectively. Management regularly reviews the net realizable value of its prepaid royalties and adjusts recorded amounts to reflect changes in estimated utilization.

Property and equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the remaining facility lease term or the estimated useful lives of the improvements.

Intangible assets

Intangible assets are stated at cost and relate principally to the acquisition of new subsidiaries accounted for under the purchase method. Under this method, the purchase price has been allocated to the assets acquired, liabilities assumed and in-process technology based on their estimated fair market values at the dates of acquisition. Amortization is computed using the straight-line method over the estimated useful lives of the assets, ranging from one to seven years. Creative regularly reviews the net realizable value of its intangible assets and various assumptions underlying the expected sales revenue and net cash flow to be derived from such intangibles. Where projected cash flow is not sufficient to recover the net value of the intangible, a provision for impairment is recorded. At June 30, 1999 and 1998, amounts capitalized in connection with these acquisitions were \$66.5 million and \$98.3 million and their related accumulated amortization totaled \$43.5 million and \$57.3 million, respectively.

Investments

Creative has made equity investments in various companies pursuant to which it has acquired anywhere from 2% to 100% of the issuer's outstanding capital stock. Investments in which Creative acquires more than 50% of the outstanding capital stock of an entity, or which are under the effective control of Creative, are treated as investments in subsidiaries, and the balance sheets and results of operations of these subsidiaries are fully consolidated after making allowance for any minority interests. Companies in which Creative's investment totals between 20% and 50% of such company's capital stock are treated as associated companies and recorded on an equity basis, whereby Creative adjusts its cost of investments to recognize its share of all post acquisition results of operations. In accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities", investments of less than 20% in an entity are classified as available-for-sale and therefore are reported at fair value with the unrealized gains and losses included as a separate component of shareholders' equity. Realized gains and losses upon the sale or disposition of such investments are based on average cost of the specific investments sold. Management determines the appropriate classification of securities at the time of purchase and reevaluates the classification at each reporting date. For non-quoted investments, management regularly reviews the assumptions underlying related sales, net income and cash flow forecasts and other factors used in assessing the carrying values of such investments.

Revenue recognition

Creative generally sells its product FOB (Free On Board) Creative's warehouse. As a result, revenue is recognized upon delivery of the products to a third-party shipper, freight forwarder or customer, which is when title to the product transfers to the purchaser. Allowances are established and regularly reviewed by management to reflect an estimate of future sales returns from customers and expected price adjustments for sales to distributors.

Research and development

Research and development costs are charged to operations as incurred.

Income taxes

Deferred tax assets and liabilities, net of valuation allowances, are established for the expected future tax consequences of events resulting from the differences between the financial reporting and income tax bases of Creative's assets and liabilities and from tax credit carry forwards. No provision has been made for the undistributed earnings of Creative's subsidiaries outside of Singapore since it is Creative's intention to reinvest these earnings in those subsidiaries. Reinvested earnings of such subsidiaries have been immaterial to date.

Concentrations of credit risk

Financial instruments that potentially subject Creative to significant concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. Creative limits the amount of credit exposure to any one financial institution. Creative sells its products to original equipment manufacturers, distributors and key retailers. Creative believes that the concentration of credit risk in its trade receivables is substantially mitigated due to performance of ongoing credit evaluations of its customers' financial condition, use of short collection terms, use of letters of credit in certain circumstances, procurement of credit insurance coverage and the geographical dispersion of sales. Creative maintains an allowance for doubtful accounts based upon the expected collectibility of all accounts receivable.

Stock-based compensation

Creative accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. Accordingly, compensation expense for stock option is measured as the excess, if any, of the market price of Creative's stock at the date of the grant over the stock option exercise price. In addition, Creative provides pro forma disclosures as required under SFAS 123, "Accounting for Stock-Based Compensation." See Note 8.

Recently issued 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 will be effective for Creative's fiscal year ending June 30, 2000. Management believes that this Statement will not have a significant impact on the Company.

NOTE 2--NET INCOME (LOSS) PER SHARE

The Company adopted SFAS 128, "Earnings per Share" during the second quarter of the fiscal year 1998 and retroactively restated net income (loss) per share data for all periods presented. SFAS 128 requires the Company to report 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. The following is a reconciliation between the average number of ordinary shares outstanding and equivalent shares outstanding (in '000):

	As of June 30		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Average ordinary shares outstanding	89,818	90,654	88,422
Stock options	2,423	4,310	2,341
Average ordinary shares and equivalent outstanding	<u>92,241</u>	<u>94,964</u>	<u>90,763</u>

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 funds received from the exercise of stock options. Other than the dilutive effect of ordinary stock equivalents, Creative did not have any other financial instruments that would have an impact on the weighted average number of ordinary shares outstanding, used for computing diluted earnings per share.

NOTE 3—BALANCE SHEET DETAIL (in US\$'000)

	As of June 30	
	<u>1999</u>	<u>1998</u>
Inventory:		
Raw materials	\$ 95,290	\$ 89,383
Work in progress	18,406	17,058
Finished products	34,332	37,879
Total inventory	<u>\$ 148,028</u>	<u>\$ 144,320</u>

	<u>Estimated Useful Life</u>		
Property and equipment:			
Land and buildings	25 years	\$ 69,385	\$ 63,727
Machinery and equipment	3 - 6 years	55,212	54,369
Furniture and fixtures	3 - 8 years	47,906	42,937
Leasehold improvements	Term of lease	13,263	12,554
		<u>185,766</u>	<u>173,587</u>
Accumulated depreciation and amortization		<u>(87,805)</u>	<u>(72,820)</u>
Net property and equipment		<u>\$ 97,961</u>	<u>\$ 100,767</u>

Other accrued liabilities:			
Marketing accruals		\$ 20,644	\$ 26,360
Payroll accruals		13,705	10,221
Royalty accruals		3,882	4,367
Other accruals		17,453	20,433
Total other accrued liabilities		<u>\$ 55,684</u>	<u>\$ 61,381</u>

NOTE 4--LEASES AND COMMITMENTS

Creative leases the use of land and certain of its facilities and equipment are under non-cancelable operating lease arrangements. The land and facility leases expire at various dates through 2024 and provide for fixed rental rates during the terms of the leases.

Minimum future lease payments for non-cancelable leases as of June 30, 1999, were as follows (in US\$'000):

	<u>Operating Leases</u>
Fiscal years ended June 30,	
2000	\$ 9,724
2001	8,446
2002	7,369
2003	5,860
2004	5,022
Thereafter	33,995
Total minimum lease payments	<u>\$ 70,416</u>

Rental expense under all operating leases was \$7.4 million, \$10.5 million and \$8.2 million for fiscal 1999, 1998, and 1997, respectively.

NOTE 5 - COMPREHENSIVE INCOME

Effective July 1, 1998, Creative adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income." SFAS 130 establishes standards for the reporting of comprehensive income and its components which, as defined, includes all changes in equity (net assets) during a period from non-owner sources. The components of total comprehensive income are as follows (in US\$'000):

	<u>Years ended June 30</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net Income	\$ 115,082	\$ 134,774	\$ 167,046
Unrealized holding gains/(loss) on available-for-sale securities during the period	1,686	(56,624)	70,343
Total comprehensive income	<u>\$ 116,768</u>	<u>\$ 78,150</u>	<u>\$ 237,389</u>

NOTE 6 - SHARE REPURCHASES

In November 1998, Creative obtained shareholders' approval to repurchase up to 9.3 million of its ordinary shares for retirement. Pursuant to this approval, 3.5 million shares at an average price of \$16 were repurchased and retired during the quarter ended December 31, 1998.

On December 30, 1998, at the Annual General Meeting ("AGM"), the shareholders again approved a share repurchase mandate to allow the repurchase by Creative of up to 10% of Creative's issued share capital as of the date of the AGM. This share repurchase mandate replaced the previous mandate approved by the shareholders. A total of 5.0 million shares at an average price of \$12 were repurchased and retired under this mandate.

On June 11, 1999, at an Extraordinary General Meeting ("EGM"), the shareholders approved a new share repurchase mandate to overcome a prior limitation that was found to exist under Singapore law on the number of shares Creative could repurchase. The June 11, 1999 mandate allows Creative to repurchase the full amount of shares that were authorized for repurchase under the December 30, 1998 share repurchase mandate approved at the

AGM and that were outstanding as of June 10, 1999. Under this new mandate, Creative purchased and retired 1.5 million shares at an average price of \$13 as at June 30, 1999. This authority to repurchase shares overcomes a prior limitation under Singapore Law and shall continue in force unless revoked or revised by the shareholders in 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 distributable profits.

NOTE 7 - DIVIDEND

In November 1998, Creative's Directors recommended two dividends totaling \$0.50 per ordinary share of Creative for fiscal 1999. The two recommended dividends, consisting of an Ordinary Dividend of \$0.25 and a Special Dividend of \$0.25, were approved by the shareholders at the Annual General Meeting held on December 30, 1998. Dividends of approximately \$45.0 million were paid on February 2, 1999 to shareholders of record as of January 18, 1999. Creative did not pay cash dividends on its ordinary shares in any previous fiscal years.

NOTE 8--STOCK OPTION PLANS

Employee stock option plans

In 1992, Creative adopted two Flexible Share Incentive Plans ("Old Plans"), under which a total of 16 million Ordinary Shares were reserved for issuance. Pursuant to the registration of Creative's Ordinary Shares on the Stock Exchange of Singapore on June 15, 1994, Creative restricted further grants under these plans. At June 30, 1999, all options under the Old Plans were expired.

In December 1994, Creative adopted the new Creative Technology Employees' Share Option Scheme (the "New Plan"). Options granted under this plan were in accordance with Section 422(a) of the US Internal Revenue Code of 1986, as amended. The New Plan was substantially more restrictive than the Old Plans. On November 13, 1996, at a special meeting (Extraordinary General Meeting), shareholders approved certain changes to the New Plan to make it less restrictive. Under the amended New Plan, the total number of shares that could be granted was increased to an overall maximum of 15% of the issued share capital of Creative. The amended New Plan also provided for incentive stock options (ISO's) to be granted to employees of Creative on a quarterly basis, at the average market price established on the five days closing immediately prior to the date of grant. The options vested at the rate of 25% at the end of each anniversary of the grant date and were exercisable over a period not exceeding five years from the date of grant.

On November 18, 1996, the Board of Directors offered all employees with stock options (from both the Old and New Plans), the opportunity to cancel four existing options in exchange for a grant of three new options at an exercise price of \$5.90 (or S\$8.52), the fair market value of Creative's Ordinary Shares on the date of the offer. The resulting new options have a vesting schedule equal to that of the old options plus one year. As of November 18, 1996, approximately 4.8 million options were eligible for exchange, of which 2.6 million options were actually exchanged for 1.9 million new options.

As of October 6, 1998, Creative is no longer subject to the listing rules of the stock exchange of Singapore but is required only to comply with the listing rules of NASDAQ, including rules governing stock option plans. Since many of Creative employees and shareholders are located in the United States of America, Creative has obtained shareholders' approval on December 30, 1998 to replace the New Plan with the Creative Technology (1999) Share Option Scheme ("1999 Scheme"), which is more in accordance with US practice. The 1999 Scheme allows options to be granted to full-time employees as well as consultants and non-executive directors. The total number of shares that may be granted as options is 7.5 million provided that such amount shall be automatically increased on the first day (July 1) of each of the five financial years ending June 30, 2001, 2002, 2003, 2004 and 2005 by three percent of the issued share capital of Creative as at the last day of the immediate preceding financial year. The exercise price of options granted under the 1999 Scheme may be less than the fair market value of the shares as of the date of grant and the options expire after the tenth anniversary of the date of grant.

In fiscal 1999, Creative granted 2.9 million options at weighted average exercise price of \$10.10 which is below fair market value, resulting in a deferred compensation charge of \$5.1 million which is being amortized to expense over the vesting period of the underlying options. Amortization of deferred compensation expense for fiscal 1999

was not material.

A summary of Creative's stock option plans is presented below:

	Options Outstanding	
	Number of Shares ('000)	Weighted Average Exercise Price (\$)
Balance as of June 30, 1996	4,367	10.09
Granted	7,332	6.03
Exercised	(640)	7.30
Canceled	(3,638)	10.31
Balance as of June 30, 1997	7,421	6.21
Granted	924	19.93
Exercised	(2,680)	5.49
Canceled	(523)	15.21
Balance as of June 30, 1998	5,142	8.14
Granted	3,203	10.09
Exercised	(921)	5.58
Canceled	(307)	12.94
Balance as of June 30, 1999	7,117	9.14

The total number of options exercisable at June 30, 1999, 1998 and 1997 under the New Plan and 1999 Scheme were 1,996,000, 1,626,000 and 304,000, respectively.

Directors stock option plan

In conjunction with the closing of Creative's Initial Public Offering in August 1992, Creative granted options outside the Old Plans to three non executive directors at an exercise price of \$4.50 per share. The options vested over a four year period, with the first 25% vested on the date of the closing of the Offering. During fiscal 1999, 1998, and 1997, nil, 30,000, and 80,000 options were exercised, respectively. As of June 30, 1999, there were no options outstanding.

Summary of outstanding options under the employees' stock option plans

The following table summarizes option information for the employees' stock option plans (New Plan and 1999 Scheme) as at June 30, 1999.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding ('000)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)	Number Exercisable ('000)	Weighted Average Exercise Price (\$)
\$3.00 to \$4.99	1,405	2.40	4.85	686	4.80
\$5.00 to \$7.99	1,570	2.40	5.79	934	5.77
\$8.00 to \$10.99	3,218	4.57	10.09	14	8.50
\$11.00 to \$14.99	243	2.80	12.88	122	12.93
\$15.00 to \$22.00	681	3.61	19.93	240	19.99
	<u>7,117</u>	<u>3.51</u>	<u>9.14</u>	<u>1,996</u>	<u>7.60</u>

Pro Forma Disclosures

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions used for grants during the fiscal years ended June 30, 1999, 1998 and 1997:

	<u>Fiscal 1999</u>	<u>Fiscal 1998</u>	<u>Fiscal 1997</u>
Volatility	70%	70%	70%
Risk-free interest rates	4.70% to 5.27%	5.31% to 6.30%	5.42% to 6.57%
Dividend yield	2.0%	0.0%	0.0%
Expected lives	0.01 years after vest date	0.01 years after vest date	0.01 years after vest date

<u>Years ended June 30</u>		
<u>1999</u>	<u>1998</u>	<u>1997</u>

Weighted average fair value of options granted during the year at exercise prices:

At market	\$	5.95	\$	11.41	\$	3.18
Below market	\$	6.09	\$	--	\$	--

Had compensation cost for Creative's stock option plans been determined based on the fair value of the options at the grant dates using the Black-Scholes model, Creative's net income and net income per share for the years ended June 30, 1999, 1998 and 1997 would have been as follows:

In US\$'000, except for per share data	Years ended June 30		
	1999	1998	1997
Net income :			
As reported	\$ 115,082	\$ 134,774	\$ 167,046
Pro forma	\$ 108,230	\$ 128,472	\$ 162,216
Diluted earnings per share:			
As reported	\$ 1.25	\$ 1.42	\$ 1.84
Pro forma	\$ 1.19	\$ 1.36	\$ 1.81

The pro forma effects on net income for 1999, 1998 and 1997 are not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to July 1, 1995.

NOTE 9--INCOME TAXES:

Creative was granted a Pioneer Certificate in 1990 under the Singapore Economic Expansion Incentives (Relief from Income Tax) Act, Cap. 86 for the design and manufacture of digital computer video, audio and multimedia products, including personal computers and related components, chipsets and software but not including interest income. The Pioneer Certificate exempted income derived from such activities ("Pioneer Income") from tax in Singapore, subject to certain conditions until the year 2000. Such status had the effect of reducing Creative's provision for income taxes by approximately \$26.4 million, \$43.3 million, and \$36.4 million, or \$0.29, \$0.46, and \$0.40 per share, for fiscal 1999, 1998 and 1997, respectively. The corporate income tax rate in Singapore, which would otherwise be applicable for Creative's fiscal 1999, 1998 and 1997, is 26%. Any income of a foreign subsidiary of Creative is subject to tax in the country in which the subsidiary is located and, as a result, the effective rate of tax is subject to changes as a result of the international source of income before tax.

The Singapore and other components of income before income taxes are as follows (in US\$'000):

	Years ended June 30		
	1999	1998	1997
Singapore	\$ 106,644	\$ 187,033	\$ 152,943
Other countries	18,670	(34,233)	34,156
Income before income taxes and minority interest	\$ 125,314	\$ 152,800	\$ 187,099

The provision for income taxes consists of (in US\$'000):

	Years ended June 30		
	1999	1998	1997
Singapore	\$ 1,346	\$ 4,750	\$ 3,386
Other countries	8,574	15,055	16,687
Provision for income taxes	\$ 9,920	\$ 19,805	\$ 20,073

Creative's effective tax provision for fiscal 1999, 1998 and 1997 reconciles to the amount computed by applying the Singapore statutory rate of 26% to income before income taxes and minority interest, as follows (in US\$'000):

	Years ended June 30		
	1999	1998	1997
Income tax at Singapore statutory rate	\$ 32,582	\$ 39,728	\$ 48,646
Tax exempt income			
Singapore	(26,446)	(43,311)	(36,379)
Others	(2,952)	-	-
Non-deductible expenses and write off	2,319	19,264	1,458
Change in valuation allowances	2,603	(2,117)	595
Unutilized non-Singapore net operating losses and temporary differences at other than the statutory rate, and other	1,814	6,241	5,753
Provision for income taxes	\$ 9,920	\$ 19,805	\$ 20,073

Deferred tax assets at June 30, 1999 and 1998 consist of the following (in US\$' 000):

	As of June 30	
	1999	1998
Non-deductible reserves	\$ 13,313	\$ 13,964
Net operating loss carryforwards	14,333	12,110
Other	2,617	1,586
Total deferred tax assets	30,263	27,660
Valuation allowance for deferred tax assets	(30,263)	(27,660)
	\$ --	\$ --

Creative has United States tax deductions not included in the net operating loss carryforwards described above aggregating approximately \$34.9 million at June 30, 1999, as a result of the exercise of employee stock options, the tax benefit of which has not been realized. The tax benefit of the deductions, when realized, will be accounted for as a credit to additional paid-in capital rather than a reduction of the income tax provision.

In fiscal 1997, Creative recognized realized net income tax benefits of approximately \$12.3 million relating to the exercise of non qualified stock options by US employees, which was accounted for as an increase to additional paid-in capital in accordance with US GAAP.

At June 30, 1999, Creative had Irish and US net operating loss carryforwards of approximately \$43.6 million and \$22.2 million, respectively. The Irish net operating losses have an indefinite carryforward period while the US net operating losses expire in 2005 to 2013. The utilization of these net operating losses by Creative is subject to certain conditions.

A full valuation allowance has been recorded for Creative's deferred tax assets at June 30, 1999 and 1998 as management believes sufficient uncertainty exists regarding the realizability of these assets.

In 1997, The United States Internal Revenue Service (IRS) completed its audit of the federal income tax returns for fiscal 1993 and 1994 of Creative Holdings, Inc., the US holding company for Creative's US subsidiaries. No adjustments were made to Creative's tax liability in either year.

NOTE 10--CREDIT FACILITIES AND LONG TERM OBLIGATIONS

On March 13, 1996, Creative Technology Centre Pte Ltd (CTC), a Singapore subsidiary of Creative, entered into an agreement with two banks for an eight year term loan facility for S\$60.0 million (\$35.3 million) to finance the construction of Creative's headquarters building in Singapore. The loan is repayable in nineteen quarterly installments comprising of eighteen installments of S\$1.5 million (\$0.9 million) and a final installment for the remaining S\$31.0 million (\$18.2 million). The repayment commenced on July 5, 1998. The interest on the outstanding loan balance is payable at the banks' cost of funds plus 1.25%. The average interest rate charged for fiscal 1999 was 5.33%. The loan is secured by a first mortgage on the building and by way of a fixed and floating charge over all assets of CTC. At June 30, 1999, S\$51.9 million (\$30.5 million) was outstanding.

A portion of the construction of the headquarters building is also being financed in equal parts by Creative and Bukit Frontiers Pte Ltd., a company owned by one of Creative's officers, who is also a director. At June 30, 1999, loans extended and equity contributed by Bukit Frontiers Pte Ltd. totaled S\$12.5 million (\$7.4 million) and S\$0.5 million (\$0.4 million), respectively.

Creative has various other credit facilities relating to overdrafts, letters of credit and bank guarantees with several banks totaling approximately \$109.0 million at June 30, 1999. Within these credit facilities, sub-limits have been set on how Creative may utilize the overall credit facilities. At June 30, 1999, \$12.1 million in letters of credit and \$2.3 million in bank guarantees were drawn under these facilities. These facilities bear interest at approximately the banks' prime rates.

NOTE 11--LICENSE AGREEMENTS

Creative has entered into license agreements with certain software developers under which it has the right to include, modify and distribute software products in support of its sales. Typically, royalties are payable on a per unit basis in relation to sales volume, although certain agreements may include one time payments or guaranteed minimum commitments. Creative periodically reviews these arrangements in accordance with its stated accounting policies. At June 30, 1999, Creative has committed to pay \$1.4 million in respect of future minimum royalty obligations over a term of up to 5 years.

NOTE 12--OTHER CHARGES

Included in the results of operations for fiscal 1998 were other charges of \$68.6 million relating to a \$60.3 million write-off of acquired in-process technology (see Note 14 of Notes to Consolidated Financial Statements) and a one-time write off of \$8.3 million for cessation of certain activities.

NOTE 13--LITIGATION

Creative, and its wholly-owned subsidiary E-Mu, are plaintiffs in a lawsuit filed in February 1998 in the United States District Court for the Northern District of California against Areal Semiconductor, Inc. ("Areal"). Creative's complaint asserts that Areal has infringed one of Creative's patents through Areal's manufacture, sale and use of its "Vortex" series of computer chip products. Areal has answered Creative's complaint and filed counterclaims for interference with economic relationship, interference with economic relations, defamation/commercial disparagement and unfair competition. Areal has also filed a separate lawsuit asserting its own affirmative claims alleging violation by Creative of an Areal patent purporting to deal with certain 3D audio technologies. Creative believes that it has valid claims against Areal, as well as meritorious defenses to all of Areal's counterclaims and affirmative claims. As to the latter, Creative believes it has valid defenses of patent invalidity and, separately, of non-infringement. Should Areal prevail in its counterclaims or affirmative claims, however, Creative does not expect there to be any consequent material adverse effect on its financial position or results of operations.

During the course of their 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 patent claims by Bose and other claims and counterclaims by both sides in the District of Massachusetts and involving Creative and its Cambridge SoundWorks subsidiary) and

3DFX (involving, among other claims and counterclaims, disputed amounts allegedly owed to 3DFX by Creative's Creative Labs subsidiary and allegations by 3DFX of copyright infringement by Creative relating to Creative's "Unified " graphics driver). Creative also from time to time receives licensing inquiries and/or threats of potential future patent claims from a variety of entities, including Cirrus Logic, IBM and Lucent. Creative believes it has valid defenses to the various claims and counterclaims asserted against it. In any event, 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 operation.

Except as set forth above, neither Creative nor any of its subsidiaries is engaged in any litigation or arbitration proceedings which might materially adversely affect the financial position of the Creative Group as a whole. However, litigation in general and intellectual property litigation in particular has a number of risks and uncertainties that are difficult to assess or predict and there can be no assurance that one or more adverse results in any of the matters described above or arising in the future will not have a material adverse impact on the Creative Group financial condition or results of operations.

NOTE 14--ACQUISITIONS AND INVESTMENTS:

Acquisitions

In November 1997, Creative paid \$14.0 million from existing cash resources for all the assets of the NetMedia Division of OPTi Inc. and received warrants to purchase 200,000 shares of OPTi's common stock at a price of \$10 per share. The NetMedia Division is in the business of research, development and sales of audio chipsets. In December 1997, Creative completed the acquisition of the remaining 76% of the outstanding shares of Cambridge SoundWorks, Inc. ("Cambridge") through a tender offer for cash in the amount of approximately \$35.0 million. Cambridge manufactures home stereo, car stereo, home theater and computer speakers. Creative purchased the initial 24% of the outstanding shares of Cambridge in March 1997. In December 1997, Creative acquired for cash all outstanding shares of Ensoniq for approximately \$77.0 million. Ensoniq is a key innovator in the design and development of PCI audio microchip technology and has strong brand recognition associated with its line of electronic musical instruments.

Creative accounted for these acquisitions using the purchase method of accounting and accordingly has included the results of their operations from their respective acquisition dates. Excluding the \$60.3 million write-off of acquired in-process technology from these companies required by US GAAP, the aggregate impact on Creative's results of operations from these acquisitions was not material.

The allocation of Creative's aggregate purchase price for the above three acquisitions to net tangible assets, in-process technology and identifiable intangible assets acquired was based on independent appraisals and is summarized below. The tangible assets acquired primarily comprised inventory, accounts receivable and fixed assets. The intangible assets are amortized over their respective benefit periods, which range from one to five years.

	<u>US\$'000</u>
Net tangible assets	\$ 20,532
In-process technology	60,300
Intangible assets	<u>50,494</u>
	131,326
Net carrying value of initial equity interest in Cambridge	(4,662)
Cash acquired in transactions	<u>(298)</u>
Net cash used for acquisitions of Cambridge, Ensoniq, and NetMedia Division of OPTi during fiscal year 1998	\$ <u><u>126,366</u></u>

The following unaudited pro forma information has been prepared assuming that the above acquisitions had taken place at the beginning of the earliest periods presented. The amount of the aggregate purchase price allocated to in-process research and development has been excluded from the pro forma information as it is a non-recurring item. The pro forma financial information is not necessarily indicative of the combined results that would have occurred had the acquisitions taken place at the beginning of the earliest period, nor is it necessarily indicative of results that may occur in the future.

In US\$'000, except for per share data	Unaudited Pro Forma for the	
	years ended June 30	
	<u>1998</u>	<u>1997</u>
Sales, net	\$ 1,287,095	\$ 1,337,003
Net income	\$ 192,179	\$ 140,839
Basic earnings per share	\$ 2.12	\$ 1.59
Diluted earnings per share	\$ 2.02	\$ 1.55

On May 22, 1998, Creative acquired all the outstanding shares of Silicon Engineering, Inc. ("SEI"), a privately-held company based in Scotts Valley, California. SEI designs and develops integrated circuits for the multimedia, storage and communications markets. The consideration for this acquisition was the issuance of 921,271 Ordinary Shares of Creative plus an additional 102,314 shares that were issued in fiscal 1999, upon expiration of the contingency period. The acquisition has been accounted for as a pooling of interests. However due to its immateriality, results of operations have been included from the date of acquisition rather than restating prior periods in accordance with pooling of interests accounting.

Investments

In accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115), Creative carried its available-for-sale quoted investments at their fair market value, which resulted in unrealized gains of \$15.4 million and \$13.7 million being included in shareholders' equity in fiscal 1999 and 1998, respectively. Included in the results of operations for fiscal 1999 and 1998, are realized net gains from the sale of quoted investments of \$15.0 million and \$18.5 million, respectively.

Trade receivables include amounts due from one investee company amounted to \$2.4 million, and \$2.5 million at June 30, 1999 and 1998, respectively, and are included in other assets.

NOTE 15--SEGMENT REPORTING:

Creative operates primarily in one industry segment and provides advanced multimedia solutions for personal computers. Creative has manufacturing plants in Singapore and Malaysia with the European distribution center located in Dublin, Ireland and the Americas distribution center located in Milpitas, California. Creative focuses its worldwide sales and marketing efforts predominantly through sales offices in North America, Europe and the Asia Pacific region.

The following is a summary of operations by geographical regions (in US\$'000):

	Years ended June 30		
	1999	1998	1997
External net sales:			
Asia Pacific	\$ 242,602	\$ 255,072	\$ 354,677
The Americas	568,099	612,842	580,211
Europe	485,836	366,294	298,069
Consolidated	\$ 1,296,537	\$ 1,234,208	\$ 1,232,957

	Years ended June 30		
	1999	1998	1997
Operating income (loss):			
Asia Pacific	\$ 81,576	\$ 153,714	\$ 136,330
The Americas	(6,674)	(51,659)	13,764
Europe	20,743	11,093	18,623
Consolidated	\$ 95,645	\$ 113,148	\$ 168,717

	As of June 30	
	1999	1998
Identifiable assets:		
Asia Pacific	\$ 519,314	\$ 596,327
The Americas	183,559	190,841
Europe	102,816	77,945
Consolidated	805,689	865,113

Long-lived assets are based on the physical location of the assets at the end of each of the fiscal years. Geographic revenue information for the three years ended June 30, 1999 is based on the location of the selling entity.

	As of June 30	
	1999	1998
Identifiable assets:		
Singapore	\$ 421,827	\$ 518,913
United States of America	183,559	190,841
Ireland	98,480	73,307
Rest of World	101,823	82,052
Consolidated	\$ 805,689	\$ 865,113

	Years ended June 30		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Revenue by geographic region:			
Singapore	\$ 199,841	\$ 222,382	\$ 309,036
United States of America	568,099	612,842	580,211
Ireland	485,836	366,294	298,069
Rest of the world	42,761	32,690	45,641
Consolidated	<u><u>\$ 1,296,537</u></u>	<u><u>\$ 1,234,208</u></u>	<u><u>\$ 1,232,957</u></u>

Major customers: In fiscal 1999 and 1998, no customer accounted for more than 10% of net revenues. In fiscal 1997, sales to one distributor represented 11% of the net revenues. As of June 30, 1999 and 1998, one customer accounted for greater than 10% of total accounts receivable.

REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE

**To the Board of Directors of
Creative Technology Ltd.**

Our audits of the consolidated financial statements referred to in our report dated August 6, 1999, appearing on page F-1 of this Annual Report on Form 20-F included an audit of the Financial Statement Schedule listed in Item 19(b) of this Form 20-F. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers
Singapore.
August 6, 1999

CREATIVE TECHNOLOGY LTD.
ALLOWANCE FOR DOUBTFUL ACCOUNTS AND SALES RETURNS
(in US\$'000)

	<u>Years ended June 30,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Balance at beginning of period	\$ 14,074	\$ 21,726	\$ 19,869
Additions charged to consolidated statement of operations	31,615	47,418	46,288
Deductions from allowance	(32,968)	(55,070)	(44,431)
Balance at end of period	<u>\$ 12,721</u>	<u>\$ 14,074</u>	<u>\$ 21,726</u>

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (SEC Registration Numbers 33-56622, 33-78462 and 33-87348) of Creative Technology Ltd. of our report dated August 6, 1999 relating to the financial statements, which appears in this Annual Report on Form 20-F. We also consent to the incorporation by reference of our report dated August 6, 1999 relating to the Financial Statement Schedule, which appears in this Form 20-F.

PricewaterhouseCoopers
Singapore
October 25, 1999

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CREATIVE TECHNOLOGY LTD

[S] Ng Keh Long

.....
Ng Keh Long
Chief Financial Officer
Date: October 25, 1999

GLOSSARY

“AGP”	Accelerated graphic port.
“Audio Board”	A printed circuit board which fits into a slot inside a computer and performs the playback of complex sounds through external speakers.
“CD-ROM”	Compact Disc Read-Only Memory. Typically a 5.25” polycarbonate disc that can be read by a computer via a CD-ROM Drive.
“CD-RW”	CD-ReWritable disk, a type of CD disk that enables you to write onto it in multiple sessions.
“CD-R”	Compact Disk-Recordable drive, a type of disk drive that can create CD-ROMs and audio CDs.
“Compression”	Encoding of data to reduce data storage file size.
“Digital Audio”	Binary data used to produce computer-based audio.
“DVD”	Digital Video Disk. A video and audio solution that gives the user access to up to 17 giga-bytes of media-rich content from a single CD-sized Disc.
“DXR”	Dynamic extended resolution . A picture enhancement technology for improved video image quality.
“Full-Duplex”	Transmission of data in two directions simultaneously.
“MIDI”	Musical Instrument Digital Interface. A specification that allows for the communication between synthesizers and computers.
“MPEG”	Moving Picture Expert Group is a video data standard for all forms of digital video distribution.
“MP3”	The file extension for MPEG, audio layer 3. Layer 3 is one of three coding schemes (layer 1, layer 2 and layer 3) for the compression of audio signals.
“Multimedia”	Any combination of media, including text, audio, and video.
“PCI”	Peripheral Component Interconnect is a bus that connects directly to the processor.
“SDRAM”	Synchronous dynamic random access memory.
“SPDIF”	Sony Phillips digital Interface.
“Soundfonts”	A collection of sampled sounds collected onto CD and provided as an upgrade, or extension of existing sound libraries.
“Wave-Table”	A method of audio reproduction which uses samples of real instruments to create authentic sounds.
“8/16/32 bit processing”	Size of a data record that is processed at one time.