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**PART I - FINANCIAL INFORMATION**  
**ITEM 1 FINANCIAL STATEMENTS**

**CREATIVE TECHNOLOGY LTD.**  
**CONSOLIDATED BALANCE SHEETS**

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

	<u>March 31,</u> <u>1999</u>	<u>June 30,</u> <u>1998</u>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 348,531	\$ 417,262
Accounts receivable, less allowances of \$11,622 and \$14,074	163,757	115,930
Inventory	130,874	144,320
Other assets and prepaids	12,292	10,180
<b>Total current assets</b>	<b>655,454</b>	<b>687,692</b>
Property and equipment, net	98,694	100,767
Investments and other non-current assets	89,512	76,654
	<b>\$ 843,660</b>	<b>\$ 865,113</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 127,562	\$ 90,544
Other accrued liabilities	60,296	61,381
Income taxes payable	47,084	45,002
Current portion of long term obligations	6,602	5,973
<b>Total current liabilities</b>	<b>241,544</b>	<b>202,900</b>
Long term obligations	29,193	32,277
Minority interest in subsidiaries	7,594	7,622
<b>Shareholders' equity:</b>		
Ordinary shares ('000); S\$0.25 par value;		
Authorized: 200,000 shares		
Outstanding: 85,890 and 92,914 shares	8,628	9,678
Additional paid-in capital	163,254	158,532
Unrealized holding gains on quoted investments	8,180	13,719
Retained earnings	385,267	440,385
<b>Total shareholders' equity</b>	<b>565,329</b>	<b>622,314</b>
	<b>\$ 843,660</b>	<b>\$ 865,113</b>

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

**CREATIVE TECHNOLOGY LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

(Unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Sales, net	\$ 313,715	\$ 298,423	\$ 1,021,403	\$ 981,199
Cost of goods sold	<u>232,964</u>	<u>202,124</u>	<u>731,428</u>	<u>660,095</u>
<b>Gross profit</b>	<b><u>80,751</u></b>	<b><u>96,299</u></b>	<b><u>289,975</u></b>	<b><u>321,104</u></b>
Operating expenses:				
Selling, general and administrative	51,534	42,949	161,702	118,565
Research and development	11,825	10,142	33,852	31,108
Other charges	<u>    --</u>	<u>    --</u>	<u>    --</u>	<u>60,300</u>
<b>Total operating expenses</b>	<b><u>63,359</u></b>	<b><u>53,091</u></b>	<b><u>195,554</u></b>	<b><u>209,973</u></b>
<b>Operating income</b>	<b><u>17,392</u></b>	<b><u>43,208</u></b>	<b><u>94,421</u></b>	<b><u>111,131</u></b>
Interest income and other, net	<u>2,908</u>	<u>6,730</u>	<u>14,619</u>	<u>36,480</u>
<b>Income before income taxes and minority interest</b>	<b><u>20,300</u></b>	<b><u>49,938</u></b>	<b><u>109,040</u></b>	<b><u>147,611</u></b>
Provision for income taxes	(1,624)	(4,962)	(8,617)	(18,922)
Minority interest in (income)/ loss	<u>(425)</u>	<u>261</u>	<u>(77)</u>	<u>1,288</u>
<b>Net income</b>	<b><u>\$ 18,251</u></b>	<b><u>\$ 45,237</u></b>	<b><u>\$ 100,346</u></b>	<b><u>\$ 129,977</u></b>
Basic earnings per share:	\$ 0.21	\$ 0.50	\$ 1.10	\$ 1.44
Average ordinary shares outstanding ('000)	88,398	91,169	91,271	90,132
Diluted earnings per share:	\$ 0.20	\$ 0.48	\$ 1.07	\$ 1.37
Average ordinary shares and equivalents outstanding ('000)	90,835	95,056	93,646	94,839

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase/ (decrease) in cash and cash equivalents (in US\$'000)

(Unaudited)

	Nine months ended March 31,	
	1999	1998
<b>Cash flows from operating activities:</b>		
Net income	\$ 100,346	\$ 129,977
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,916	37,644
In-process technology written off	--	60,300
Minority interest in income/ (loss)	77	(1,288)
Equity share in results of unconsolidated investments	18	(285)
Realized net gain from sale of investments	(2,486)	(18,469)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(47,827)	(2,050)
Inventory	13,446	(70,142)
Other assets and prepaids	(1,723)	305
Accounts payable	37,018	(28,692)
Other accrued liabilities	(1,085)	(33,926)
Income taxes payable	2,082	12,681
<b>Net cash provided by operating activities</b>	<b>128,782</b>	<b>86,055</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures, net	(12,327)	(28,728)
Proceeds from sale of investments	14,391	19,264
Purchase of new subsidiaries (net of cash acquired)	--	(126,366)
Repurchase of shares	(110,419)	--
Increase in other investments and assets, net	(45,226)	(15,420)
<b>Net cash used in investing activities</b>	<b>(153,581)</b>	<b>(151,250)</b>
<b>Cash flows from financing activities:</b>		
Decrease in minority shareholders' loan and equity balance	(105)	(1,127)
Proceeds from exercise of share options and warrants	3,672	17,010
(Repayments of)/proceeds from long-term obligations, net	(2,455)	6,706
Dividends paid	(45,044)	--
<b>Net cash (used in)/ provided by financing activities</b>	<b>(43,932)</b>	<b>22,589</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(68,731)</b>	<b>(42,606)</b>
Cash and cash equivalents at beginning of year	417,262	417,943
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 348,531</b>	<b>\$ 375,337</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 1,024	\$ 2,162
Income taxes paid	\$ 6,535	\$ 6,245

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

**CREATIVE TECHNOLOGY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**NOTE 1 - BASIS OF PRESENTATION**

In the opinion of management, the accompanying unaudited consolidated interim financial statements of Creative Technology Ltd. ("Creative") have been prepared on a consistent basis with the June 30, 1998 audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary to provide a fair presentation of the results for the interim periods presented. The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These consolidated interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes thereto included in Creative's 1998 Annual Report on Form 20-F filed with the Securities and Exchange Commission. The results of operations for the three month and nine month periods ended March 31, 1999 are not necessarily indicative of the results to be expected for the entire year. Creative generally operates on a thirteen week calendar closing on the Friday closest to the natural calendar quarter. For convenience, all quarters are described by their natural calendar dates. Creative conducts a principal portion of its business in United States dollars ("US\$" or "\$") and all amounts included in these interim financial statements and in the notes herein are in US\$, unless designated as Singapore dollars ("S\$").

**NOTE 2 - INVENTORIES**

Inventories are stated at the lower of cost (first-in, first-out) or market. The components of inventory are as follows (in US\$'000):

	<u>March 31,</u> <u>1999</u>	<u>June 30,</u> <u>1998</u>
Raw materials	\$ 82,817	\$ 89,383
Work in progress	11,809	17,058
Finished products	36,248	37,879
	<u>\$ 130,874</u>	<u>\$ 144,320</u>

**NOTE 3 - EARNINGS PER SHARE**

In accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128), Creative reports both basic earnings per share and diluted earnings per share. Basic earnings per share is computed using the weighted average number of ordinary (common) shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and potentially dilutive common equivalent shares outstanding during the period. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. In computing the diluted earnings per share, the treasury stock method is used to determine, based on average stock prices for the respective periods, the common equivalent shares to be purchased using funds received from the exercise of stock options. Other than the dilutive effect of common 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 4 - INCOME TAXES

Provision for income taxes for interim periods are based on estimated annual effective income tax rates. Income of foreign subsidiaries of Creative is subject to tax in the country in which the subsidiary is located. The effective income tax rate is based on the mix of income arising from various geographical regions, where the tax rates range from 26% to 50%; pioneer status income in Singapore, which is exempt from tax; and the utilization of non Singapore net operating losses. As a result, Creative's overall effective rate of tax is subject to changes based on the international source of income before tax.

## NOTE 5 - ACQUISITIONS

In November 1997, Creative paid \$14 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 Cambridge SoundWorks Inc. ("Cambridge") through a tender offer, the terms of which are included in a "Schedule 13E-3 -- Transaction Statement" filed with the Securities and Exchange Commission. Cambridge manufactures home stereo, home theater and computer speakers. The cost to Creative to acquire the remaining 76% of the outstanding shares of Cambridge that were not previously owned by Creative prior to the tender offer, was approximately \$35 million and was paid in cash. Creative purchased the initial 24% of the outstanding shares of Cambridge in March 1997. In December 1997, Creative acquired all outstanding shares of Ensoniq Corp. ("Ensoniq") for approximately \$77 million paid in cash. 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, the aggregate impact on Creative's results of operations from these acquisitions was not material.

The allocation of 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 to be 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>
<b>Total purchase price paid</b>	<b>131,326</b>
Net carrying value of initial equity interest in Cambridge	(4,662)
Cash acquired in transactions	<u>(298)</u>
<b>Net cash used for acquisitions of Cambridge, Ensoniq and NetMedia Division of OPTi during the nine months ended March 31, 1998</b>	<b>\$ <u>126,366</u></b>

## NOTE 6 - 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. Examples of items to be included in comprehensive income, which are excluded from net income, include certain foreign currency translation adjustments and unrealized gain/loss on available-for-sale securities. The components of total comprehensive income are as follows (in US\$'000):

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Net income	\$ 18,251	\$ 45,237	\$ 100,346	\$ 129,977
Unrealized gain (loss) on available-for-sale securities	621	11,316	(5,539)	(12,522)
<b>Total comprehensive income</b>	<b>\$ 18,872</b>	<b>\$ 56,553</b>	<b>\$ 94,807</b>	<b>\$ 117,455</b>

## NOTE 7 - SHARE REPURCHASES

In November 1998, Creative obtained shareholders' approval to repurchase up to 9,300,000 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. During the quarter ended March 31, 1999, 4.3 million shares were repurchased under this mandate at an average price of \$12 and retired.

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 the company could repurchase. The June 11, 1999 mandate allows Creative to purchase 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. This authority to repurchase shares overcomes a prior limitation under Singapore Law and shall continue in force unless revoked or varied 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 8 - DIVIDEND

In November 1998, Creative's Directors recommended two dividends totaling \$0.50 per each 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 shareholders at the Annual General Meeting held on December 30, 1998. Dividends of approximately \$45 million were paid on February 2, 1999 to shareholders on record as of January 18, 1999. Creative did not pay cash dividends on its ordinary shares in any previous fiscal year.

## **NOTE 9 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In June 1997, the FASB issued SFAS 131, "Disclosure About Segments Of An Enterprise And Related Information." SFAS 131 establishes standards for the way companies report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Adoption of this new standard is not expected to have a material effect on the financial statements. The disclosures prescribed by SFAS 131 will be effective for the Creative's financial statements for the year ended June 30, 1999.

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

## **ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **SAFE HARBOR STATEMENTS UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Except for the historical information contained herein, the matters set forth herein (including any guidance on future products, future marketing efforts, future effects of Year 2000 software 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; 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 in Creative's filings with the Securities and Exchange Commission over the past 12 months including Creative's Annual Report on Form 20-F for fiscal 1998. Creative undertakes no obligation to publicly release the results of any revisions to such forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

## SELECTED CONSOLIDATED FINANCIAL DATA

The following is a summary of Creative's unaudited quarterly results for the eight quarters ended March 31, 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.

	Unaudited data for quarters ended (in US\$'000 except per share data)							
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	1999	1998	1998	1998	1998	1997	1997	1997
Sales, net	\$ 313,715	\$ 428,699	\$ 278,989	\$ 253,009	\$ 298,423	\$ 395,010	\$ 287,766	\$ 280,066
Cost of goods sold	<u>232,964</u>	<u>299,308</u>	<u>199,156</u>	<u>188,210</u>	<u>202,124</u>	<u>264,933</u>	<u>193,038</u>	<u>192,204</u>
<b>Gross profit</b>	<b>80,751</b>	<b>129,391</b>	<b>79,833</b>	<b>64,799</b>	<b>96,299</b>	<b>130,077</b>	<b>94,728</b>	<b>87,862</b>
Operating expenses:								
Selling, general and administrative	51,534	58,445	51,723	43,899	42,949	41,150	34,466	35,370
Research and development	11,825	11,681	10,346	10,615	10,142	11,985	8,981	10,094
Other charges (1)	<u>--</u>	<u>--</u>	<u>--</u>	<u>8,268</u>	<u>--</u>	<u>60,300</u>	<u>--</u>	<u>--</u>
<b>Operating income</b>	<b>17,392</b>	<b>59,265</b>	<b>17,764</b>	<b>2,017</b>	<b>43,208</b>	<b>16,642</b>	<b>51,281</b>	<b>42,398</b>
Interest income and other, net (2)	<u>2,908</u>	<u>6,094</u>	<u>5,617</u>	<u>3,172</u>	<u>6,730</u>	<u>6,276</u>	<u>23,474</u>	<u>14,079</u>
<b>Income before income taxes and minority interest</b>	<b>20,300</b>	<b>65,359</b>	<b>23,381</b>	<b>5,189</b>	<b>49,938</b>	<b>22,918</b>	<b>74,755</b>	<b>56,477</b>
Provision for income taxes	(1,624)	(4,889)	(2,104)	(883)	(4,962)	(8,332)	(5,628)	(4,968)
Minority interest in (income) loss	<u>(425)</u>	<u>112</u>	<u>236</u>	<u>491</u>	<u>261</u>	<u>86</u>	<u>941</u>	<u>(282)</u>
<b>Net income</b>	<b>\$ <u>18,251</u></b>	<b>\$ <u>60,582</u></b>	<b>\$ <u>21,513</u></b>	<b>\$ <u>4,797</u></b>	<b>\$ <u>45,237</u></b>	<b>\$ <u>14,672</u></b>	<b>\$ <u>70,068</u></b>	<b>\$ <u>51,227</u></b>
Basic earnings per share	<u>\$ 0.21</u>	<u>\$ 0.66</u>	<u>\$ 0.23</u>	<u>\$ 0.05</u>	<u>\$ 0.50</u>	<u>\$ 0.16</u>	<u>\$ 0.79</u>	<u>\$ 0.58</u>
Average ordinary shares outstanding ('000)	<u>88,398</u>	<u>92,428</u>	<u>92,989</u>	<u>92,218</u>	<u>91,169</u>	<u>90,167</u>	<u>89,061</u>	<u>88,743</u>
Diluted earnings per share	<u>\$ 0.20</u>	<u>\$ 0.64</u>	<u>\$ 0.23</u>	<u>\$ 0.05</u>	<u>\$ 0.48</u>	<u>\$ 0.15</u>	<u>\$ 0.74</u>	<u>\$ 0.55</u>
Average ordinary shares and equivalents outstanding ('000)	<u>90,835</u>	<u>95,137</u>	<u>94,968</u>	<u>95,339</u>	<u>95,056</u>	<u>95,031</u>	<u>94,430</u>	<u>93,397</u>

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

	<u>Mar 31</u>	<u>Dec 31</u>	<u>Sep 30</u>	<u>Jun 30</u>	<u>Mar 31</u>	<u>Dec 31</u>	<u>Sep 30</u>	<u>Jun 30</u>
	<u>1999</u>	<u>1998</u>	<u>1998</u>	<u>1998</u>	<u>1998</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>
Sales, net	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of goods sold	<u>74</u>	<u>70</u>	<u>71</u>	<u>74</u>	<u>68</u>	<u>67</u>	<u>67</u>	<u>69</u>
<b>Gross profit</b>	<b>26</b>	<b>30</b>	<b>29</b>	<b>26</b>	<b>32</b>	<b>33</b>	<b>33</b>	<b>31</b>
Operating Expenses:								
Selling, general and administrative	16	14	19	18	14	11	12	13
Research and development	4	3	4	4	3	3	3	3
Other charges (1)	<u>--</u>	<u>--</u>	<u>--</u>	<u>3</u>	<u>--</u>	<u>15</u>	<u>--</u>	<u>--</u>
<b>Operating income</b>	<b>6</b>	<b>13</b>	<b>6</b>	<b>1</b>	<b>15</b>	<b>4</b>	<b>18</b>	<b>15</b>
Interest income and other, net (2)	<u>1</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>8</u>	<u>5</u>
<b>Income before income taxes and minority interest</b>	<b>7</b>	<b>15</b>	<b>8</b>	<b>2</b>	<b>17</b>	<b>6</b>	<b>26</b>	<b>20</b>
Provision for income taxes	(1)	(1)	--	--	(2)	(2)	(2)	(2)
Minority interest in (income) loss	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Net income</b>	<b><u>6 %</u></b>	<b><u>14 %</u></b>	<b><u>8 %</u></b>	<b><u>2 %</u></b>	<b><u>15 %</u></b>	<b><u>4 %</u></b>	<b><u>24 %</u></b>	<b><u>18 %</u></b>

(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: \$2.2 million for quarter ended December 31, 1998; \$18.5 million for quarter ended September 30, 1997, and \$6.8 million for quarter ended June 30, 1997.

## RESULTS OF OPERATIONS

### Three Months Ended March 31, 1999 Compared to Three Months Ended March 31, 1998

Sales for the third quarter of fiscal 1999 (Q3/99) increased by \$15.3 million or 5%, compared to the same quarter in the prior year, due primarily to an increase in sales of graphics and speaker products. Audio product sales (Sound Blaster audio cards and chipsets) as a percentage of sales decreased by 35% to 28% in Q3/99 compared to Q3/98, when they represented 46% of sales. This decrease in sales was due to a decline in average selling prices. Sales of multimedia upgrade kits increased by \$1.6 million or 2% in Q3/99 and represented 33% of sales. This increase in sales was due to the increased availability of DVD drives from the additional manufacturing capacity and available supply of our vendors which allowed Creative to improve its multimedia upgrade kit sales. Sales of video and graphics products increased by 265% and represented 25% of sales in Q3/99, compared with Q3/98, when they represented 7% of sales. This was attributable to an increase in sales of Creative's new graphics products, which include Graphics Blaster RIVA TNT and 3D Blaster Banshee. Sales of other products increased in Q3/99 by 13%, compared with Q3/98, due primarily to an increase in speaker sales and represented 14% of sales, compared with 13% in Q3/98.

Gross profit decreased by \$15.5 million or by 16% in Q3/99, as compared to Q3/98. Gross profit, as a percentage of sales was 26% in Q3/99, as compared to 32% in the same period last year. This decrease in gross margin percentage was largely attributable to a decline in average selling prices of audio products, multimedia upgrade kits and graphics products. In addition both the multimedia upgrade kit and graphics products have lower margins, and their strong revenue contribution in this quarter pulled down the overall gross margin.

Q3/99 selling, general and administrative (SG&A) expenses increased by \$8.6 million over Q3/98, and represented 16% of sales, compared to 14% in Q3/98. This increase in expense reflects the extension of the marketing program for Sound Blaster Live! and the increase in marketing and advertising expenses incurred in launches of new products in the current quarter. Research and development expenses in Q3/99 were 4% of sales in Q3/99, as compared to 3% in Q3/98.

Net interest and other income decreased by \$3.8 million to \$2.9 million. The primary reason for this decrease was the unfavorable effect of foreign exchange rate movements in Q3/99. The foreign exchange loss was \$1.3 million in Q3/99 as compared to a gain of \$3.3 million in Q3/98.

Creative's Q3/99 provision for income taxes decreased by \$3.3 million over Q3/98. The decrease is primarily attributable to decreased profitability excluding other charges; the mix of income arising from various geographical regions, where the tax rates range from 26% to 50%; pioneer status income from Singapore, which is exempt from tax; and utilization of non-Singapore net operating losses.

#### **Nine Months Ended March 31, 1999 Compared to Nine Months Ended March 31, 1998**

Sales for the first nine months of fiscal 1999 increased by \$40 million or 4%, compared to the corresponding period in the prior fiscal year. This increase is primarily attributable to an increase in sales of graphics and speaker products. Audio product sales (Sound Blaster audio cards and chipsets) for the nine months ended March 31, 1999 decreased by 15% and represented 39% of sales, compared with 48% for the comparable period in the prior year. Multimedia upgrade kit sales decreased by 28% in the nine months ended March 31, 1999 and represented 26% of sales, compared to the corresponding period in the prior fiscal year, when they represented 38% of sales. These decreases in audio products and multimedia upgrade kit sales were primarily a result of a decline in average selling prices and a reduction of sales to Asian and Latin American customers resulting from macro-economic issues in those regions. Sales of video and graphics products increased by 366% and represented 21% of sales for the nine months ended March 31, 1999, compared with 5% for the corresponding period in fiscal year 1998. This revenue growth is primarily attributable to the sale of Creative's 3D Blaster and Graphics Blaster line of graphics cards which includes 3D Blaster Voodoo2, Graphics Blaster RIVA TNT, and 3D Blaster Banshee graphic accelerator cards. Sales of other products increased by 55% in the nine months ended March 31, 1999 and represented 14% of sales, compared with 9% in the corresponding period of fiscal year 1998. This increase was primarily attributable to an increase in speaker sales.

Gross profit for the nine months ended March 31, 1999 declined by \$31.1 million or 10% to 28% of sales, as compared to 33% of sales for the corresponding period in fiscal year 1998. This decrease in gross margin percentage was largely attributable to a decline in average selling prices of audio products and multimedia upgrade kits. The gross margin was also impacted by the increase in sales of graphics products which have lower margins.

Selling, general and administrative expenses (SG&A) increased by \$43.1 million to 16% of sales during the nine months ended March 31, 1999, compared to 12% of sales for the same period in the fiscal year 1998. This increase was primarily attributable to an increase in overhead expenses arising from the strategic acquisitions made at the end of the second quarter of fiscal 1998, and an increase in marketing and advertising expenses incurred in launching new products. Research and development expenses for the nine months ended March 31, 1999 remained flat at 3% of sales, compared with the same period in fiscal year 1998. Included in operating expenses for the nine months ended March 31, 1998, was a \$60.3 million charge in Q2/98 for the write off of acquired in-process technology resulting from acquisitions in that quarter. See "Notes to Consolidated Financial Statements - Note 5: Acquisitions."

Net interest and other income for the nine months ended March 31, 1999, decreased by \$21.9 million, compared with the same period in the prior year. Included in the net interest and other income for the nine months ended March 31, 1999, was a gain of \$2.5 million from the sale of investments, compared to a gain of \$18.5 million during the same period in the prior year. Interest income for the nine months ended March 31, 1999 decreased by \$1.9 million to \$14.6 million, as compared to the corresponding period in the fiscal year 1998 when it was \$16.5 million. This was primarily due to lower average cash balances during the first nine months of the fiscal year 1999, compared with the same period in the prior fiscal year. Net other income decreased by \$3.7 million during the nine months ended March 31, 1999, as compared to the corresponding period in prior fiscal year. The primary reason for this decrease was the unfavorable effect of foreign exchange rate movements in Q3/99, as compared to the favorable effect during the corresponding period in fiscal year 1998.

Creative's provision for income taxes for the nine months ended March 31, 1999 decreased by \$10.3 million over the corresponding period in fiscal year 1998. The decrease is primarily attributable to decreased profitability; the mix of income arising from various geographical regions, where the tax rates range from 26% to 50%; pioneer status income from Singapore, which is exempt from tax; and utilization of non-Singapore net operating losses.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents as of March 31, 1999 decreased by \$68.7 million to \$348.5 million, compared to the balance at June 30, 1998. This decrease primarily resulted from \$110.4 million of cash used to repurchase 7.8 million of Creative's ordinary shares (see "Notes to the Consolidated Financial Statements - Note 7: Share Repurchase"); the payment of \$45.0 million dividends to shareholders and \$57.6 million of cash used for capital expenditures and purchase of other investments and assets. During the nine month period ended March 31, 1999, \$128.8 million of cash was generated from operating activities; \$1.1 million from financing activities, primarily attributable to the exercise of stock options; and \$14.4 million proceeds from investments disposed. As of March 31, 1999, in addition to the cash reserves, Creative had unutilized credit facilities totaling approximately \$92.0 million for overdrafts, guarantees and letters of credit. Creative continually reviews and evaluates investment opportunities, including potential acquisitions of and investments in companies that can provide Creative with technologies, subsystems or complementary products that can be integrated into or offered with Creative's existing product range.

Management believes that Creative has adequate resources to meet its projected working capital and other cash needs for at least the next twelve months.

To date, inflation has not had a significant impact on Creative's operating results.

## **LITIGATION AFFECTING AUDIO CHIP SUPPLY, SECURING OF ALTERNATIVE SOURCES**

In May, 1999 a Federal District Court jury sitting in Texas returned a verdict against one of Creative's audio chip suppliers finding that the parts from that supplier violate three US patents. That supplier, which had been Creative's majority source for the parts in question, has since sought protection from its creditors under Singapore law. Creative believes it has alternative sources for the component at issue, that its shipments of audio product will not be materially impacted by these events, and that this issue will not cause any material adverse impact on Creative's financial condition. However, there can be no assurance that such alternative supplies will be available in reasonable quantities or on reasonable terms or that the litigation in question will not in some other way adversely effect Creative or its financial results.

## **EFFECTS OF RECENT ACCOUNTING PRONOUNCEMENTS**

In June 1997, the FASB issued SFAS 131, "Disclosure About Segments Of An Enterprise And Related Information." SFAS 131 establishes standards for the way companies report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Adoption of this new standard is not expected to have a material effect on the financial statements. The disclosures prescribed by SFAS 131 will be effective for Creative's financial statements for the year ended June 30, 1999.

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 Creative.

## **YEAR 2000**

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 under a corporate-wide Year 2000 program. The Year 2000 team has representation from all major subsidiaries and departments of Creative. The Year 2000 program at Creative covers the following areas that can be impacted by potential Year 2000 problems:

- Information Technology (IT) systems in use;
- Non-IT systems in use;
- Creative's products; and,
- Third party relationships with Creative.

The Year 2000 program at Creative 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 and 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 that 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, Creative believes, are fully Year 2000 compliant. As for other IT and non-IT systems, almost all purchased third party systems have been verified with vendors of their Year 2000 compliance. Those systems that are built in-house have also been verified for their Year 2000 readiness. All material systems found not compliant have either been fixed or are being fixed or replaced. Creative is also reviewing its facilities and infrastructure. To-date, no material non-compliance has been identified. However, Creative does not rule out the possibility of material non-compliance of its IT and non-IT systems to subsequently surface.

Creative has surveyed its suppliers with whom it has material relationships on their Year 2000 readiness. To-date, most have replied and of these, all have indicated that they do not expect to be impacted by potential Year 2000 problems although a number are still less than 50% complete in their Year 2000 efforts. Creative will continue to monitor the progress of all its material suppliers with respect to their Year 2000 initiatives. A re-survey of material suppliers will be performed in the third calendar quarter of 1999. Contingency plans for non-compliant suppliers will be drawn up thereafter. To-date no other material third party relationships are assessed to be at Year 2000 related risks.

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 Creative. 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. There can be no guarantee that such conditions will not change. Most of Creative's major IT and non-IT systems, which have been inventoried to identify those that might possibly be impacted by the Year 2000 problems, are now Year 2000 compliant. Work on other Y2K issues is in progress and is currently expected to be completed by the end of year 1999. 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 and/or time frame 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. While Creative is devoting what it believes are 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.

### **ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Reference is made to Part I, Item 9A, Quantitative and Qualitative Disclosures about Market Risk, in the Registrant's annual report on Form 20-F for the year ended June 30, 1998.

## **PART II – OTHER INFORMATION**

### **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

#### **Extraordinary General Meeting:**

At the Extraordinary General Meeting (EGM) of shareholders held on June 11, 1999, the following resolutions, set forth in detail in the Proxy Statement and Circular to Shareholders dated May 19, 1999 filed with Securities and Exchange Commission and incorporated herein by reference, were approved:

#### **RESOLUTIONS:**

	<b><u>Votes For</u></b>	<b><u>Votes Against</u></b>
	<b><u>By Show of Hands*</u></b>	
<b><u>RESOLUTION 1</u></b>		
To approve amendments to Articles of Association	13	2
	<b><u>Votes For</u></b>	
	<b><u>By Poll of Shares*</u></b>	
<b><u>RESOLUTION 2</u></b>		
To approve New Share Repurchase Mandate	22,935,798	248,769

Total of 26,029,205 shares abstained from voting on Resolution 2.

\* Under the Company's Memorandum and Articles of Association, which are in accordance with the (Singapore) Companies Act, voting at meetings is based on either a show of hands or on a poll of shares held. If the former voting method is used, any shareholder present has the right to request for a poll of shares being voted. At the EGM held on June 11, 1999, voting on Resolution 1 was based on a show of hands and no shareholder present requested a poll of shares.

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **CREATIVE TECHNOLOGY LTD**

*[S] Ng Keh Long*

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**Ng Keh Long**  
**Chief Financial Officer.**  
**Date: June 29, 1999**