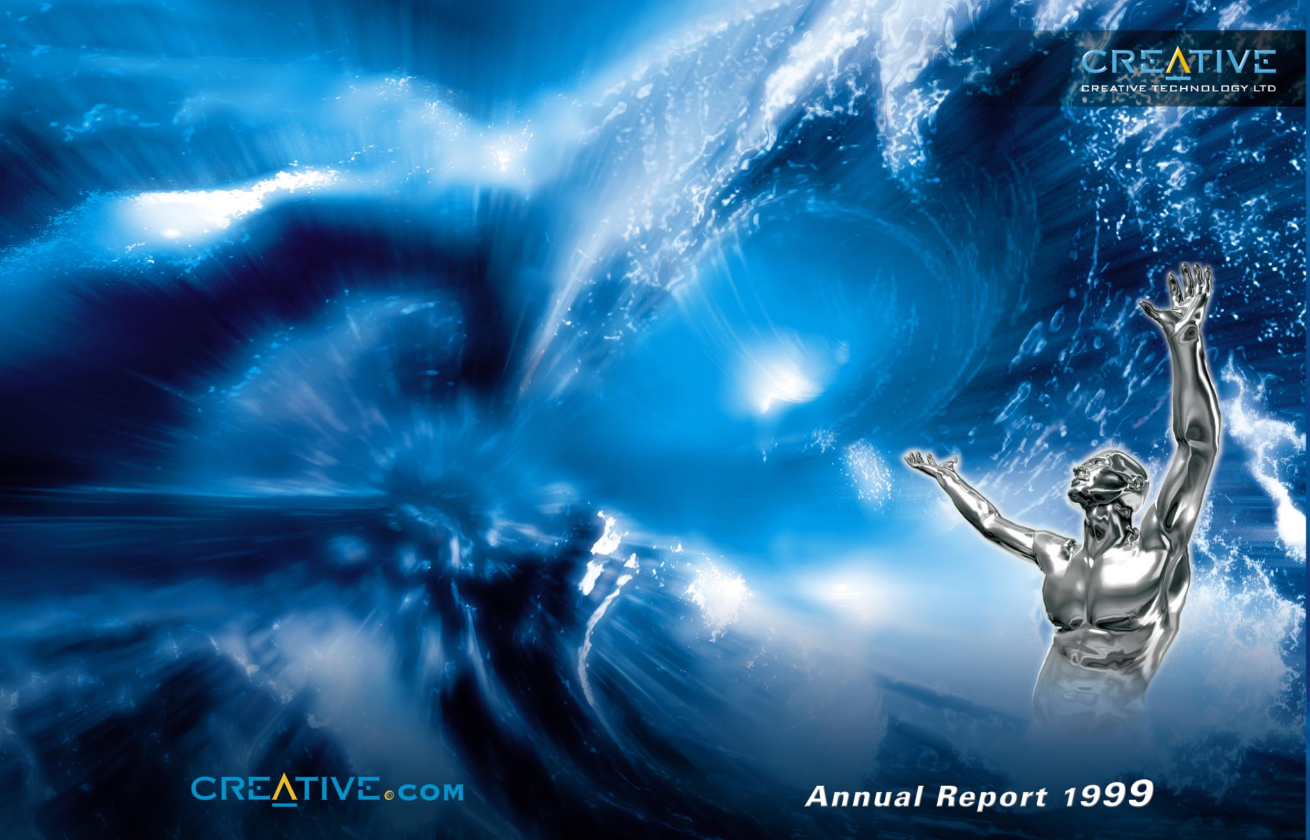


CREATIVE
CREATIVE TECHNOLOGY LTD

CREATIVE.COM

Annual Report 1999

CREATIVE.COM

THE DIFFERENCE WILL AMAZE YOU

Music Listening

Gaming

Music creation

Entertainment

LAVA!
lavamusic.com
Music in Motion

NOMAD WORLD
nomadworld.com
Digital Audio Anywhere

VoiceChat
creativechat.com
Live Chat Around The World

Shopping

hifi.com
hifi.com
The Authority For Home Entertainment & Hifi Products On-line

SI-direct.com
si-direct.com
The One-Stop Shop for System Intergrators

BLASTER SHOP
blastershop.com
Where Personal Digital Entertainment Is!

Technology

Environmental Audio™ by CREATIVE
env-audio.com
So Real It Has To Be Live!

Sound BLASTER Live!
sblive.com
The Ultimate Audio Solution

SoundFont
soundfont.com
Log on to Massive Sound Sample Selections

汉神
hansvision.com
The Complete Tool For Bilingual Reference & Translation

Partners

MediaRing.com
mediaring.com
Linking People Connecting Minds

sillusion.com
sillusion.com
Creating Enabling Technologies For 3D Content & The Internet

AudioTalk
audiotalk.com
Bringing Voice to the Internet

mindmaker Prody PARROT
mindmaker.com
The Developer of Artificial Intelligent Software & Intelligent Agents Like Prody Parrot

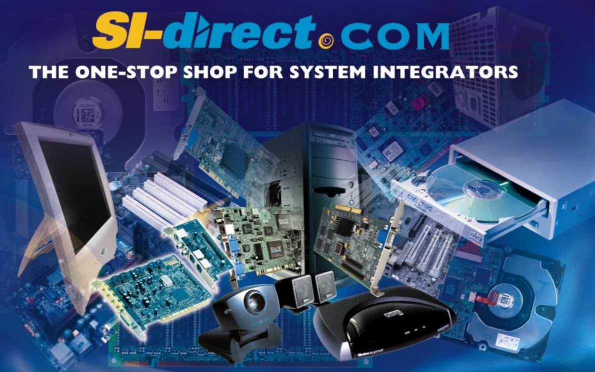
hifi.com

THE AUTHORITY FOR HOME ENTERTAINMENT & HIFI PRODUCTS ON-LINE

Hifi.com was created to provide its online customers the world's leading brands of consumer electronics for home entertainment. With extensive selections, valuable information and exceptional advice from the finest collection of audio/video/home electronics consultants ever gathered, Hifi.com can deliver the goods that best fit the consumers needs. Hifi.com - the only site you will ever need to go for your HIFI needs.

SI-direct.com

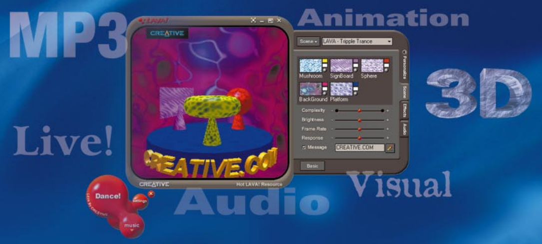
THE ONE-STOP SHOP FOR SYSTEM INTEGRATORS

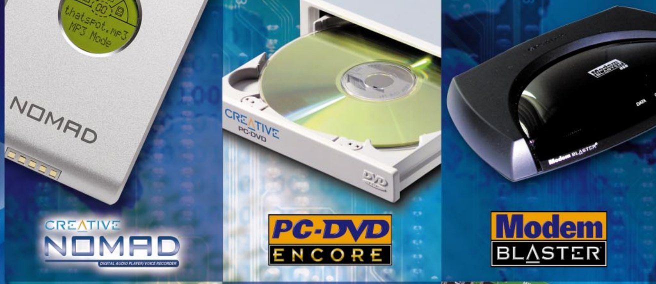


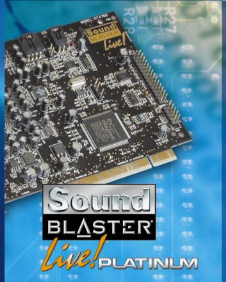
LAVA!™

WWW.LAVAMUSIC.COM

MUSIC IN MOTION - The "MTV" of Internet Music





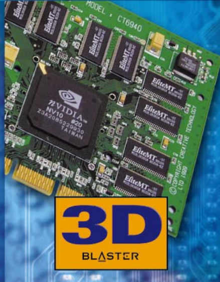


Creative's Mission

- Be the next wave of Broadband Internet leaders
- Leverage our dominant position in digital audio
- Provide a one-stop digital entertainment network for our 80 million users

CREATIVE

CREATIVE TECHNOLOGY LTD



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Dear Shareholders,

Fiscal 1999 was another challenging year for Creative - and also a year of significant achievements. The Company's performance was affected by lasting effects from economic weakness in Asia and Latin America, as well as by consolidation in the graphics market. There were also a number of significant product and technology transitions during the year.

In the face of these challenges and product transitions, Creative was still able to produce another year of good financial results. Creative reported net income of US$115 million, while at the same time improving our product offerings and market position in all key market segments.

Sales for fiscal 1999 were US$1.3 billion, an increase from US$1.2 billion for fiscal 1998. Gross profit as a percentage of sales was 27% in fiscal 1999 compared to 31% in fiscal 1998. Net income for fiscal 1999 was US$115 million compared to US$135 million in fiscal 1998. We also ended fiscal 1999 with a strong cash balance of US$319 million. This compares with US$417 million in fiscal 1998. The reduction, however, reflects the payment during fiscal 1999 of US$139 million for the repurchase of 10 million shares under the share buy-back program, and the payment during fiscal 1999 of US$45 million for dividends (consisting of an ordinary dividend of US$0.25 per share and a special dividend of US$0.25 per share).

During fiscal 1999 we continued to launch exciting, industry-leading new products and technologies in all of our major product categories, including audio, graphics, speakers, modems, PC-DVD, and Personal Digital Entertainment ("PDE").

In audio we successfully launched the Sound Blaster Live!™ sound card and a new, industry-leading set of application programming interfaces ("APIs") called Environmental Audio Extensions™ (EAX™) . Environmental Audio as delivered by the Sound Blaster Live!, has, during the past fiscal year, become firmly entrenched as the next generation audio platform for PCs. EAX is an audio API that is supported by virtually all leading PC games developers. EAX is slated to be included in substantial part in Microsoft's next-generation Direct Sound APIs, and is currently supported by a growing list of game titles.

Sound Blaster Live!'s debut during fiscal 1999 was greeted with a multitude of industry awards, including Best Sound Card and 1999 World Class Award by *PC World,* A-List by *PC Computing,* and The Family PC 100 Award by *Family PC*. Sound Blaster Live! and Live! Value audio cards have had tremendous strength in our retail markets and have received design wins from many of the major PC OEMs, for example, Dell, Compaq, Gateway and Micron. Creative was honored as the overall Number One winner as the most desired IT brand in the German marketplace.

During fiscal 1999 Creative also implemented a new business and technological model called Live!Ware. Live!Ware is a series of downloadable upgrades that take advantage of the re-programmability of Creative's custom EMU10K1 chip, which is the heart of Sound Blaster Live!. Live!Ware also leverages the tremendous and growing installed base of Sound Blaster Live! products. More than just simple software patches or fixes, Live!Ware updates provide genuine improvements in features and hardware performance for the Sound Blaster Live! family of products. Recent features have included improved 3D audio positioning, increased number of DirectSound3D streams, MP3 encoding, multi-speaker performance and new advanced effects such as occlusions and obstructions that prolong the life and competitiveness of the Sound Blaster Live!.

In fiscal 1999, Creative also launched its first PDE product, the Creative NOMAD Digital Audio Player and Voice Recorder. NOMAD is a portable digital audio player supporting MP3 playback. It has had an overwhelming reception from industry and consumers for its futuristic, sleek looks and advanced features. Creative has also launched NOMADWorld.com, which is targeted to be a premiere online destination devoted to Internet music and enhancing the digital audio experience for Creative NOMAD users.

Other major products launched in fiscal 1999 include: for speakers, multi-channel speakers such as the FourPointSurround FPS2000 and DeskTop Theater 5.1 DTT2500 Digital speakers; for graphics, 3D Blaster TNT2 series of graphics cards; for DVD, PC-DVD Encore 6X Dxr3; for CD-ROM drives, the Blaster CD-RW 4224; for video conferencing, Video Blaster WebCam 3; and for modems, the V.90 series of Modem Blasters.

To maintain our competitiveness and strengthen our leadership position in the industry, Creative has also continued to focus and invest our resources on the development of new products and technologies. Our success in this product and technology development front can be seen in the latest product range for fiscal 2000:

- **Sound Blaster Live! Platinum** is the current flagship of the Sound Blaster family of sound cards designed for 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, a feature only found in high-end professional systems, MP3 playback and encoding software, and a suite of high quality software including LAVA! (Live Audio Visual Animation) which brings a whole new dimension to Internet music.

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

- **Creative NOMAD** is 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 bitrate encoding or 4 hours of voice-recording.

- **DeskTop Theater 5.1 DTT2500 Digital** is a high-performance 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 compact satellite speakers, a powerful subwoofer and a decoder amplifier with built-in 24-bit Digital-To-Analog Converter, inputs for SPDIF (AC-3) Dolby Digital and analog stereo channels, and Creative's Digital DIN for use with Sound Blaster Live!.

- **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!.

- **3D Blaster Annihilator GeForce** is a giant leap in 3D graphics performance and quality, and able to provide very compelling "Toy Story"-like 3D animation in real-time. It is a 256-bit graphics card powered by NVIDIA's new GeForce 256 processor that 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.

- **3D Blaster RIVA TNT2,** the mainstream, high performance series of graphics cards contain 128-bit architectures and a TwiN-Texel dual-pipeline 3D rendering engine to deliver powerful performance for exceptional gameplay. 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 colour.

- **PC-DVD Encore 6X Dxr3** is the latest offering in Creative's award-winning line of PC-DVD Encore solutions. It delivers enormous storage capacity, enhanced full-motion, full-screen video plus Dolby Digital (AC-3) audio. The Dxr3 card includes advanced video color processing utilizing an on-board 24-bit DAC and powerful filtering and scaling technology.

- **Blaster CD-RW 6424** CDRewritable drive allows consumers to copy, distribute and save music or database files to a recordable CD-R or CD-RW disk. The Blaster CD-RW 6424 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.

- **Creative Webcam "Freestyle"** is a unique PC camera that allows users to capture still images or full motion video in addition to video conferencing and video e-mail. Unlike other PC cameras, the Webcam can be unplugged from the PC and used to snap still frames and motion video. It offers solid VGA resolutions of 640x480 at a very attractive mass market price.

- **Video Blaster WebCam 3** is a high performance desktop digital camera enabling users to capture images and video, send video e-mail, create a personal Web site, and video conference via the Internet, and is available at an incredibly affordable price.

- **LAVA! (Live Audio Visual Animation)** is a groundbreaking interactive music technology that allows music such as MP3 songs to be accompanied by customized 3D-animation containing images such as interactive band logos or album art to form a very compelling and snazzy 3D music video collage. Creative's LAVA! technology allows for the easy creation of interactive 3D visual scenes that react and respond to specific audio frequency bands in real-time, making it possible for an instant music video to be created. This allows MP3 enthusiasts, musicians and artists to express their creativity in visual terms and to create a more immersive audio and visual experience.

The Creative.com Strategy

For the year ahead in fiscal 2000, business conditions remain challenging. The industry remains highly competitive with continuing rapid changes in markets, products and technology. We face these challenges with several major advantages, including our continuing and improving strength in the key areas of technology leadership, channel position, brand name recognition and product line-up. These strengths, as well as our strong financial position, will, we believe, position us well in fiscal 2000 to take advantage of the opportunities unfolding in a rapidly evolving, Internet-driven marketplace.

To reflect these rapid transformations and seize the opportunities of an Internet-transformed world, we have embarked on our **"Creative.com"** strategy. Our goal is to transform key portions of the Company to e-commerce, broadband and Internet models.

Successful Internet companies have the following three core strengths:

- Strong brand name
- Outstanding user experience
- Huge installed base

Many Internet companies work very hard and invest millions to build these core strengths. We believe that Creative already has these and other critical advantages in the Internet world: strong brand name recognition, highly desirable products, the ability to provide an outstanding user experience, an extremely popular web site, and a large and rapidly growing installed user base of more than 80 million Sound Blasters. Each year, we sell about 40 million units of our products to a customer base we estimate to total 25 million per year. We believe we can leverage on these strengths in the coming fiscal year, both in our Internet plans and in our traditional businesses.

For the Internet, our plans include several key elements: the first is the development of Internet e-commerce channels, both business-to-consumer and business-to-business, leveraging on our brand name and installed base of users to bring them to our e-commerce properties. An example is our plan to launch **hifi.com** in October 1999. Leveraging the strengths of our existing Cambridge SoundWorks business and products, we intend to make hifi.com the authority and number one Internet site for home entertainment and all kinds of hifi products on-line. We are also planning to launch an **SI-direct.com** Internet site to be our low cost high volume business-to-business e-commerce channel. We plan to use it for system integrator ("SI") customers to sell lower margin products such as CD-ROM drives and low end graphics cards - as well as for third party commodity products. We think this low-cost, low-risk channel has great promise for both Creative and for our customers.

A second key element of our Internet plans is the development of a group of Internet applications and sites that will leverage on our huge user base to offer new kinds of Internet services. An example is our **LAVAmusic.com** site, which is aimed at creating an active online community for experiencing LAVA! music videos for MP3 music.

A third element is our value-added Internet venture capital fund for investments in Internet companies that Creative identifies as strategic partners in our Internet initiatives. These are early stage companies where Creative can add value by leveraging on our brand name, our technologies, our access to global channels and our huge user base. We have, over the past six months, made more than ten such investments at a total cost of over US$30 million.

Finally, the fourth element of our Internet Plan is to focus on broadband. We believe the next wave of the Internet will be driven by broadband products and broadband Internet applications. We will be introducing ADSL G.LITE modems and other broadband communication devices during fiscal 2000. In addition, broadband will bring about a whole new generation of highly compelling Internet applications, products and services, many of which play directly to our strengths. Many such broadband applications will be entertainment oriented and will drive demand for complementary hardware such as PDE devices, high end audio cards, multi-channel speakers and 3D graphics cards. We believe that we are well positioned to take advantage of this opportunity.

In closing, I would like to thank our shareholders for their continued support during the past year. I would also like to extend my thanks to the management and staff of Creative, whose hard work and dedication have been fundamental to the Company's progress and to our great hopes for the future.

Sim Wong Hoo
Chairman & Chief Executive Officer
Creative Technology Ltd

OVERVIEW

Creative Technology Ltd. ("Creative") is the world's leading provider of multimedia hardware and software 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 an extensive, 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, which goes beyond the quality and performance available in many 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.

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	944,499	848,305	893,432	1,120,977	923,612
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)	–	68,568	–	18,780	26,189
Operating income (loss)	**95,645**	**113,148**	**168,717**	**(14,803)**	**38,003**
Interest income (expense) and other, net (3)	29,669	39,652	18,382	(14,793)	(5,018)
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	(312)	1,779	20	719	(916)
Net income (loss)	**$ 115,082**	**$ 134,774**	**$ 167,046**	**$ (37,644)**	**$ 26,504**
Basic earnings (loss) per share	$ 1.28	$ 1.49	$ 1.89	$ (0.43)	$ 0.30
Average ordinary shares outstanding ('000)	89,818	90,654	88,422	87,984	87,105
Diluted earnings (loss) per share	$ 1.25	$ 1.42	$ 1.84	$ (0.43)	$ 0.30
Average ordinary shares and equivalents outstanding ('000)	92,241	94,964	90,763	87,984	89,422

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 gain from sale of investments: $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.

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 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 in Creative's Annual Report on Form 20F for fiscal 1999 filed with the US Securities and Exchange Commission. 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.

RESULTS OF OPERATIONS

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

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

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		
	1999	**1998**	**1997**
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 graphic 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 1999	**Mar 31 1999**	**Dec 31 1998**	**Sep 30 1998**	**Jun 30 1998**	**Mar 31 1998**	**Dec 31 1997**	**Sep 30 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

QUARTERLY RESULTS (Cont'd)

	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.

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 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 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.

YEAR 2000 (Cont'd)

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.

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

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

	June 30 1999	June 30 1998
ASSETS		
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**
LIABILITIES AND SHAREHOLDERS' EQUITY		
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.

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

	Years ended June 30		
	1999	**1998**	**1997**
Sales, net	$ 1,296,537	$ 1,234,208	$ 1,232,957
Cost of goods sold	944,499	848,305	893,432
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)	–	68,568	–
Operating income	**95,645**	**113,148**	**168,717**
Interest income and other, net	29,669	39,652	18,382
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	(312)	1,779	20
Net income	**$ 115,082**	**$ 134,774**	**$ 167,046**
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.

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.

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

	Ordinary Shares ('000)	Ordinary Share Capital	Additional Paid In Capital	Unrealized Holding Gains on Quoted Investments	Deferred share compensation expense	Retained Earnings	Total
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
Acquistion 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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		
	1999	**1998**	**1997**
Average ordinary shares outstanding	89,818	90,654	88,422
Stock options	2,423	4,310	2,341
Average ordinary shares and equivalent outstanding	**92,241**	**94,964**	**90,763**

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)

	Estimated Useful Life	As of June 30 1999	As of June 30 1998
Inventory:			
Raw materials		$ 95,290	$ 89,383
Work in progress		18,406	17,058
Finished products		34,332	37,879
Total inventory		**$ 148,028**	**$ 144,320**
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
		185,766	**173,587**
Accumulated depreciation and amortization		(87,805)	(72,820)
Net property and equipment		**$ 97,961**	**$ 100,767**
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		**$ 55,684**	**$ 61,381**

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):

	Operating Leases
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	**$ 70,416**

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):

	Years ended June 30		
	1999	1998	1997
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	**$ 116,768**	**$ 78,150**	**$ 237,389**

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 expenses are recorded as 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.

NOTE 8 – STOCK OPTION PLANS (Cont'd)

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.

NOTE 8 – STOCK OPTION PLANS (Cont'd)

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.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	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
	7,117	3.51	9.14	1,996	7.60

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:

	Fiscal 1999	Fiscal 1998	Fiscal 1997
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

NOTE 8 – STOCK OPTION PLANS (Cont'd)

	Years ended June 30		
	1999	1998	1997
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.

NOTE 9 – INCOME TAXES (Cont'd)

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**

NOTE 9 – INCOME TAXES (Cont'd)

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 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 later, Creative believes it had 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 operation.

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 in materially adverse manner affect the financial position of the Creative Group as a whole, and the directors of Creative are not aware of any legal or arbitration proceedings pending or threatened, or any facts likely to give rise to any proceedings, which might in a materially adverse manner 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 result 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 operation.

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.

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

NOTE 14 – ACQUISITIONS AND INVESTMENTS (Cont'd)

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 1998	1997
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**

NOTE 15 – SEGMENT REPORTING (Cont'd)

	Years ended June 30		
	1999	**1998**	**1997**
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	**$ 1,296,537**	**$ 1,234,208**	**$ 1,232,957**

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.

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.

	NASDAQ (Price in US$/Share)		SES (Price in Singapore $/Share)	
	High	**Low**	**High**	**Low**
Fiscal 1997				
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
Fiscal 1998				
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
Fiscal 1999				
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 in 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.

BOARD OF DIRECTORS

Sim Wong Hoo,	Chairman
Tan Lip-Bu,	Director
Tang Chun Choy,	Director
Lee Kheng Nam,	Director

CORPORATE HEADQUARTERS

31 International Business Park
Creative Resource
Singapore 609921
Tel: 65-895-4000

US HEADQUARTERS

1901 McCarthy Boulevard
Milpitas CA 95035 USA
Tel: 1-408-428-6600

EUROPE HEADQUARTERS

Unit 3, The Pavillions
Ruscombe, Berkshire, RG10 9NN UK
Tel: 44-118-9344-322

CORPORATE COUNSEL

Arfat Selvam & Gunasingham
30 Raffles Place
#12-00 Caltex House
Singapore 048622
&
Venture Law Group
2800 Sand Hill Road
Menlo Park CA 94025 USA

COMPANY SECRETARY

Ng Keh Long
31 International Business Park
Creative Resource
Singapore 609921

REGISTRAR / TRANSFER AGENT

Lim Associates Pte Ltd
10 Collyer Quay
#19-08 Ocean Building
Singapore 049315
&
ChaseMellon Shareholder Services
235 Montgomery Street
23rd Floor
San Francisco CA 94104 USA

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers
6 Battery Road
#32-00
Singapore 049909
&
PricewaterhouseCoopers LLP
Ten Almaden Boulevard
San Jose CA 95113 USA

Worldwide Corporate Headquarters

Creative Technology Ltd
31 International Business Park,
Creative Resource, Singapore 609921
Tel: +65-895 4000 Fax: +65-895 4999
Creative Zone at http://www.creaf.com

US Headquarters

Creative Labs, Inc.
1901 McCarthy Boulevard,
Milpitas, CA 95035
Tel: +1-408-428 6600 Fax: +1-408-428 6611

European Headquarters

Creative Labs (UK) Ltd
Unit 3, The Pavilions,
Ruscombe Business Park, Ruscombe,
Berkshire, RG10 9NN, UK
Tel: +44-118-9344 322 Fax: +44-118-9320 271

INSIDE USA

Operations Center
5555 Auto Mall Parkway,
Fremont, CA94538
Tel: +1-510-492 5000

Creative Labs Customer Response Center
1523 Cimarron Plaza,
Stillwater, Oklahoma 74075
Tel: +1-405-742 6600 Fax: +1-405-742 6644

Cambridge Soundworks, Inc.
311 Needham Street,
Newton Upper Falls, MA 02464
Tel: +1-617-332 5936 Fax: +1-617-367 9229
Website: www.hifi.com

Digicom Systems, Inc.
188 Topaz Street, Milpitas, CA 95035
Tel: +1-408-719 5100 Fax: +1-408-262 1390

Ectiva Inc.
188 Topaz Street, Milpitas CA 95035
Tel: +1-408-262 1277 Fax: +1-408-262 1390
Website: www.ectiva.com

E-mu Systems, Inc.
1600 Green Hills Road P O Box 660015,
Scotts Valley, CA 95067-0015
Tel: +1-408-438 1921 Fax: +1-408-438 8612
Website: www.emu.com

Ensoniq Corporation
155 Great Valley Parkway,
P O Box 3035 Malvern, PA 19355-0735
Tel: +1-610-647 3930 Fax: +1-610-647 8908
Website: www.ensoniq.com

ShareVision Technology, Inc.
1901 McCarthy Boulevard,
Milpitas, CA 95035
Tel: +1-408-428 6600 Fax: +1-408-428 9871

Silicon Engineering, Inc.
269 Mt. Hermon Road, Suite 207
Scotts Valley, CA 95066
Tel: +1-408-438 5330 Fax: +1-408-438 8509
Website: www.sei.com

INSIDE ASIA

China

Creative Future Computer Ltd
Creative Park, No.165, Hai Dian Road,
Hai Dian District, Beijing 100080,
People's Republic of China
Tel: +86-10-6251 0488 Fax: +86-20-6251 0062

Hong Kong

Creative Labs (HK) Limited
Room 1504, 15/F, Silvercord Tower 2
30 Canton Road, Tsimshatsui, Hong Kong
Tel: +852-2331 2738 Fax: +852-2331 2151

Japan

Creative Media K.K.
Kanda Eight Bldg.,
3F, 4-6-7 Soto-Kanda Chiyoda-ku,
Tokyo 101, Japan
Tel: +81-3-3256 5577 Fax: +81-3-3256 5221

Data Stream K.K.
Cortile 3F 1-30-14 Takadanobaba
Shinjuku-ku, Tokyo 169, Japan
Tel: +81-3-5273 5251 Fax: +81-3-5273 5259

Malaysia

Creative Labs Sdn Bhd
Megan Phileo Promenade
Jalan Tun Razak
50450 Kuala Lumpur, Malaysia
Tel: +60-3-264 7199 Fax: +60-3-264 7198

Cubic Electronics Sdn Bhd
No.8706, Lot 13-17, Kawasan MIEL,
Batu Berendam FTZ Phase III,
75350 Melaka, Malaysia
Tel: +60-6-281 1188 Fax: +60-6-281 2030

Taiwan

Avidtek Co., Ltd.
15F, No. 163, Sec. 1, Keelung Road,
Taipei, Taiwan, R.O.C.
Tel: +886-2-2748 2988 Fax: +886-2-2748 2989

INSIDE AFRICA

South Africa

Creative Labs (Pty) Ltd
145 Western Service Road,
Woodmead, P O Box 76761,
Wendywood 2144,
Republic of South Africa
Tel: +27-11-805 0188 Fax: +27-11-805 0190

INSIDE EUROPE

European Operations and Technical Centre
Creative Labs (Ireland) Ltd.
Ballycoolin Business Park,
Blanchardstown, Dublin 15, Ireland
Tel: +353-1-820 6444 Fax: +353-1-820 9557

Benelux

Creative Labs N.V.
Carlton Building, Desguinlei 6 bus 8,
2018 Antwerpen, Belgium
Tel: +32-3-241 0960 Fax: +32-3-216 2566

Denmark

Creative Labs A/S
V¢lundsvej 6A, DK-3400 Hiller¢d, Denmark.
Tel: +45-48-244 322 Fax: +45-48-244 323

France

Creative Labs, SA
Les Manèges, 12 avenue du Général de Gaulle
78000 Versailles, France
Tel: +33-1-3920 8600 Fax: +33-1-3920 8606

Germany

Creative Labs, GmbH
Feringastrasse 6,
85774 München-Unterfohring, Germany
Tel: +49-89-992 8710 Fax: +49-89-9928 7122

Italy

Creative Labs Srl
Strada 4 Palazzo A/3, Assago Milanofiori,
20090 Assago (MI), Italy
Tel: +39-2-822 8161 Fax: +39-2-5750 0768

Poland

Creative Labs
Ul. Sobieskiego 110 m 3,
00764 Warsaw, Poland
Tel: +48-22-646 5216 Fax: +48-22-646 5215

Portugal

Creative Labs
Centro de Escritorios de Negocios
Av. 5 de Outubro, 10-1, Sala 15
1050 Lisboa, Portugal
Tel: +351-1-314 9695 Fax: +351-1-353 4194

Spain

Creative Labs, S.L.
Constitución 1-3, 4th floor,
Edificio Diagonal II, 08960 Sant Just Desvern,
Barcelona, Spain
Tel: +34-93-499 0926 Fax: +34-93-499 0811

Sweden

Creative Labs (Sweden)
Spånga Center, Box 129,
Stormbyvägen 2-4,
163 29 Spånga, Sweden
Tel: +46-8-795 7830 Fax: +46-8-795 7835

ASSOCIATED COMPANIES

Australia/New Zealand

Creative Pacific Pty. Ltd.
32-34 Dickson Avenue, Artarmon,
NSW 2064 Australia
Tel: +61-2-9906 8887 Fax: +61-2-9906 5577

South Korea

Creative Technology Korea Ltd
5th FL, 32-11, 3ka Chungjung ro,
Seodacmun-ku, Seoul, Republic of Korea
Tel: +82-2-3149 4920 Fax: +82-2-365 4044

Awards & Accolades

AUDIO

Sound Blaster Live!
World Class Award
PC World (USA) Jun 99

Sound Blaster Live!
Frontline Award
Game Developers' Conference (USA) Jun 99

Sound Blaster Live!
WinList
Windows Magazine (USA) Mar 99

Sound Blaster Live!
MVP Award
PC Computing (China) Mar 99

Sound Blaster AWE64 Gold
Best Buy
PC Advisor (UK) Apr 99

Sound Blaster Live! Value
Sound Card of the Year
c/net Gamecenter (USA) Feb 99

Sound Blaster Live!
9 out of 10
PC Review (UK) Apr 99

Sound Blaster Live!
Reader's Choice
Computer Currents (USA) Jan 99

Sound Blaster Live!
Drool Award
Gamers Depot (USA) Nov 98

Sound Blaster Live!
Editor's Choice
PC Gamer (USA) Nov 98

Sound Blaster Live!
PC Format Gold Award
PC Format (UK) Mar 99

Sound Blaster Live!
10 out of 10 Kick Ass Award
Maximum PC (USA) Oct 98

Sound Blaster Live!
Platinum Award
PC Answers (UK) Dec 98

Sound Blaster Live!
Best Buy
PC World (USA) Oct 98

GRAPHICS

3D Blaster RIVA TNT2 Ultra
Best Buy
PC World (S'pore) Jun 99

3D Blaster RIVA TNT2 Ultra
Drool Award
Gamers Depot (USA) Jun 99

Graphics Blaster RIVA TNT
Best Buy
PC World (USA) Jun 99

Graphics Blaster RIVA TNT
Top 10 Graphics Board
PC World (USA) May 99

Graphics Blaster RIVA TNT
PC Professionale VIP
PC Professionale (Italy) Jan 99

3D Blaster Savage4
4-Star Review
c/net Gamecenter (S'pore) Jun 99

December 1, 1998
Creative Labs
Graphics Blaster RIVA TNT

Graphics Blaster RIVA TNT
Editor's Choice
PC Magazine (USA) Dec 98

PC-DVD

PC-DVD Encore 6X
Editor's Choice
PC Gamer (Turkey) Jul 99

PC-DVD Encore 5X
WinList
Windows Magazine (USA) Apr 99

PC-DVD Encore 5X
Editor's Choice
PC Magazine (USA) Mar 99

PC-DVD Encore 5X
Product of the Year
PC World (Italy) Feb 99

PC-DVD RAM
WinList
Windows Magazine (USA) Mar 99

PC-DVD Encore Dxr2
World Class Award
PC World (USA) Jun 98

PC-DVD Encore Dxr2
GameWorthy Award
c/net Gamecenter (USA) Feb 98

SPEAKERS

Cambridge SoundWorks
FourPointSurround FPS2000 Digital
97.5/100
3D SoundSurge (USA) Jun 99

Cambridge SoundWorks
FourPointSurround FPS2000 Digital
Editor's Choice
PC Gamer (USA) Jun 99

Cambridge SoundWorks
FourPointSurround FPS2000 Digital
5-Star Gameworthy
c/net Gamecenter (USA) May 99

Cambridge SoundWorks
FourPointSurround FPS2000 Digital
Drool Award
Gamers Depot (USA) Apr 99

Cambridge SoundWorks
Desktop Theater 5.1
Recommended
PC Gameworld (USA) May 99

Cambridge SoundWorks
Desktop Theater 5.1
Editor's Choice
PC Gamer (USA) Jan 99

Cambridge SoundWorks
PCWorks FourPointSurround FPS1000
World Class Award
PC World (USA) Jun 99

Cambridge SoundWorks
PCWorks
Recommended Review
PC Review (UK) Nov 98

CORPORATE

#37, The Most Influential Companies
PC Magazine (USA) Sep 98

'Most Desired Brand', 'Overall Winner' and 'Top 10 in IT Landscape',
Brand Awareness 1999 International
PC-Welt (Germany) 1999

#48, The Information Technology 100
Business Week (HK) Nov 98