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Dear Shareholders,

In my letter to you a year ago, I outlined our plan to transform Creative Technology – retaining its strong core businesses and its strengths in technology leadership, channel position, brand name recognition, and product line-up, but leveraging these into a whole new world of computer-based digital entertainment, enabled by the amazing growth of the Internet and high-speed broadband connectivity.

A year later, I am pleased to report that we have delivered on that transformation. You may have thought of Creative as a sound card company or, as we've grown over the years, as a pretty well-rounded multimedia hardware company. But we have transformed and developed into something quite different, and I'd like to introduce you to the new Creative. We are:

1) A Digital Entertainment product company. Our leadership position in digital audio allows us to have a natural and smooth migration to digital entertainment because all three pillars of digital entertainment – namely digital music, digital gaming and digital movies – are very dependent on good audio to enhance their user experience. We also leverage on our strong brand name and global channel access to lead the way into this new and exciting digital entertainment market, a market that could be potentially more than 10X our current market. Our leading products now include not only our winning multimedia desktop products, but also the new Personal Digital Entertainment (PDE) Internet Appliances, digital speakers and broadband communication devices. Combined, these products span the 5 segments of digital entertainment we are focussing on – Digital Music, Digital Gaming, Digital Video, Digital Photography and Digital Communication.

2) By any measure, a successful Value-added Venture Capital entity. It leverages on Creative's strong brand name, abundant technological resources, global market position and customer base of over 40 million users annually, to invest in and add value to strategic partner companies. By helping to make these companies successful, Creative benefits both operationally, as the partnerships contribute to our market leadership, and financially. We are happy to derive our returns from either the operational benefits or investment benefits or both.

3) When you take the above two business models and couple them with the various Internet initiatives within Creative such as Hifi.com, Lava.com and some B-to-B initiatives, you are actually investing in a New Economy Company. By leveraging on our clicks-and-mortar structure, such as providing free Internet application services, free content and free firmware/software upgrades to our users, we have raised barriers to entry into the new digital entertainment market for others. For example, selling a NOMAD Jukebox is not just building a box (which is already much more challenging than building a card), it is also about providing lifelong service to our users. Not many companies have this level of resources and those that do may not be as focused as we are, nor able to take calculated risks by running very fast and very lean. By the way, Creative is also profitable, which is a phenomenal attribute not found in most new economy companies today.

During fiscal 2000, we solidified our vision for the future and our strategy to provide technologies, products, and services that allow personal computers, with their enormous worldwide installed base, to be an optimal platform for digital entertainment.

To implement this strategy, we reoriented the company around four key areas:

Digital Entertainment Desktop Solutions – Creative's Desktop Solutions products are integrally connected to the desktop computer and make it an optimal platform for digital entertainment.

Products launched in this category during fiscal 2000 included the Sound Blaster Live! Platinum, Sound Blaster Live! MP3+, Sound Blaster Live! X-Gamer, Cambridge SoundWorks Desktop Theater 5.1 DTT2500 speaker system, SoundWorks Digital speakers, Blaster CD-RW 6424, Blaster CD-RW 8432, 3D Blaster Annihilator, 3D Blaster Annihilator 2, and Video Blaster WebCam 3.

Fiscal 2000 saw the shipment of our 100 millionth Sound Blaster and the licensing of Creative's Environmental Audio Experience (EAX) for inclusion in Microsoft's Direct X standard. We released Live!Ware 3.0, a free downloadable upgrade for owners of the Sound Blaster Live! family of cards, which added even more audio functionality to their Sound Blaster Live!.

During the year, Creative expanded into a number of new markets beyond the Wintel PC platform. For the first time, Creative offered Linux and Macintosh drivers for a number of its products, winning "Best of Show" at MacWorld 2000 for the Sound Blaster Live! Platinum. And this spring, we launched a speaker lineup for the hot Sony PlayStation2 platform – the PlayWorks PS2000 and the PlayWorks DTT2500 Digital speaker systems, both by Cambridge SoundWorks.

Personal Digital Entertainment Appliances – Creative's PDE Appliances leverage the processing power of the PC and its Internet connectivity to provide a more flexible, customizable and, in some cases, portable entertainment experience to consumers.

A year ago, this product category consisted only of the NOMAD portable digital audio player. Today, Creative has two more wearable digital audio players in the market – the NOMAD II and the NOMAD II MG – and we have just launched the revolutionary NOMAD Jukebox.

The NOMAD Jukebox – the size of a portable CD player but with a 6 gigabyte hard disk – can store over 100 music CDs or up to 2,000 songs in MP3 or Windows Media digital audio formats, allowing consumers to access their entire music collection anytime, anywhere.

We also introduced two portable web cameras – the Video Blaster WebCam Go and WebCam Go Plus – with all the functionality of our original, tethered WebCam product. But the WebCam Go can be disconnected from the PC and used as a digital still camera to take photos, which can be easily uploaded to a PC or web site or e-mailed to friends and family.

We introduced our first mass-market music product, the BlasterKey MP3, a piano-style keyboard with interactive teaching tools and the ability to record and share your music in MP3 format. And there are more Internet appliances to come.

Internet Applications & Services – Creative's Internet Applications and Services complement our desktop and appliance products, offering consumers an enriched entertainment experience.

Our LAVA! Interactive music video player made great strides this year. The LAVA! MusicVideo player is a powerful but easy-to-use software solution that delivers interactive music video entertainment on the Internet to the mass market. After its debut at Woodstock '99, a standalone player was launched in October 1999. LAVA! Producer, the first authoring tool from LAVA.com that enables artists to construct unique and stunning 3D Music Video scenes without the need for software programming skills, was launched in February 2000. Various online music partners have been signed up, including Emusic.com, Spin Records, Moonshine Records and ArtistOne.com.

In October 1999, Creative launched e-commerce channel Hifi.com, the ultimate online authority and provider of home entertainment products. This was followed by the addition of Herhifi.com, the first forum to merge women's lifestyle and entertainment needs so they can comfortably learn about, compare and buy consumer electronics and entertainment products. And most recently, we launched Hifi.com Asia in Singapore in August 2000, the first step of a planned expansion into other global markets.

We have continued to invest both expense dollars and venture capital in Creative's Internet infrastructure, with a view to expanding both our applications and services and our e-commerce efforts over time.

Value-Added Strategic Investment Fund — Creative's Value-Added Strategic Investment Fund invests in companies that Creative identifies as potential strategic partners. These are primarily companies where Creative can add value by leveraging on our brand name, our technologies, our access to global channels and our huge user base. In return, many of these companies provide technology, products, or services – and potential investment gains to us. Although the initial focus of these investments was in the Internet space, we have expanded the focus to include a balance of companies in Broadband Communications, Contract Manufacturing, and PDE Technologies, with Internet companies comprising only about a quarter of the portfolio.

The fund has now invested over $200 million in over 40 companies. Creative's value-added angle is proving sound: we realized $103 million of net gain from investments in fiscal 2000, plus unrealized gains of $174 million as of June 30, 2000.

I am most proud that we managed to accomplish all of the above while simultaneously achieving record annual revenue, increased net income, and strong operating results. It is a truly remarkable accomplishment to be able to achieve a transformation of this magnitude not only without diminution of profits, but while actually building our financial strength – and in a one-year timeframe!

- Sales for fiscal 2000 were $1.34 billion, an increase from $1.30 billion in fiscal 1999.
- Gross profit as a percentage of sales was 30% in fiscal 2000, up from 27% in fiscal 1999.
- Net income for fiscal 2000 was $161 million, compared to $115 million in fiscal 1999.
- We ended fiscal 2000 with a strong cash balance of $286 million. Although this was down from $319 million in fiscal 1999, the reduction reflects the utilization during fiscal 2000 of $102 million for the repurchase of 5.9 million shares under the share buy-back program, the payment of $21 million for the $0.25 per share ordinary dividend, and strategic investments of over $200 million.
- Total shareholders' equity, including the unrealized gain in investments, increased to $778 million at the end of fiscal 2000 from $560 million at the end of fiscal 1999. Excluding the share repurchase and dividend payment, the increase in total shareholders'equity would have been $341 million, an increase of 61%. This may be the best measure of what our transformation has accomplished.

As we look forward into fiscal 2001 and move toward our vision of enabling the computer platform for the best digital entertainment experience, we see two key trends paving the way.

The first is the phenomenal growth of downloadable digital music. This is drawing huge attention to the personal computer as the hub of entertainment in the home – something we've been predicting for two years. But it is no longer just *our* vision. Tens of millions of people are listening to music from their computers, and many people who aren't yet doing so have at least learned about it because of all the publicity surrounding MP3, Napster, and others. All this publicity means more sound cards and better sound cards, more speakers and better speakers will be in demand. And we are right on the spot to reap the benefits.

A new digital audio revolution has just started, and Creative is right in the middle of it. It covers all ages, both genders, and it is many times bigger than the multimedia market that the Sound Blaster kick-started ten years ago. People want the music of their choice to be easily accessible to them – and the PC, the Internet and portable digital audio devices are the way to go. Creative will deliver the power of convenience and choice to our users.

The NOMAD Jukebox is the first of the products that will exemplify the new economy company Creative has transformed into. With more and more people moving over to the PC to enjoy the digital music of their choice, many will want their whole collection of music to be mobile – anywhere, anytime – right in their hand. The NOMAD Jukebox will become the perfect solution.

But that's not all. We intend to push the paradigm shift further by moving into a whole new business model for Jukebox-type products. The next version of NOMAD Jukebox could easily come with twice the capacity, or store about 4,000 songs. With this storage capacity, we could pre-load the Jukebox at shipment with, say, 2,000 songs from major labels. These songs could be encrypted with business rules set by the content owners. For example, it could allow a free preview of any chosen song and the user could choose to purchase it by just pushing a button on the new Jukebox. Or a "pay-per-view" micropayment model could also be implemented. This would effectively deliver a virtual music store right to the palm of every targeted user. The "electronic wallet" in the Jukebox could be topped up via the Internet. With the PC, equipped with our high-end sound cards and connectivity to the Internet, many more new business models are possible.

Delivering the power of convenience and choice to consumers will reduce the incentive for them to choose the less noble ways of empowering themselves. I believe that the NOMAD Jukebox will help to mitigate the copyright problems that have plagued the industry. The potential for this type of product goes far beyond just selling a piece of hardware.

In August, Creative disclosed a very exciting two-year roadmap for our desktop audio products, but I believe downloadable digital audio is just the first piece of an entertainment revolution which will eventually see movies, television, personal video and photos, games, chat, and many more as yet-unimagined entertainment media streaming into your home and onto your PC over a broadband connection.

And this is the other key trend which I believe will drive Creative's business in fiscal 2001 and beyond. Broadband is the enabling framework of the digital entertainment revolution and a key facet of our strategy. The research group Dataquest predicts that between xDSL and cable, there will be over 25 million broadband connections worldwide by the end of 2003. Through our Broadxent subsidiary (previously known as Digicom), and in partnership with companies like Nortel and Lucent, Creative is providing the customer premises equipment (CPE) for user-installable ADSL in multiple markets. We have also made strategic investments in companies such as Centillium Communications, whose chipsets power both CPE and Central Office equipment. And we continue to seek new investments and partnerships in the broadband communications space, as it is the key to the new world of high-quality, interactive, personalized digital entertainment that our digital entertainment products and vision will enable.

I strongly encourage you to visit our web site, www.creative.com, where you can find both summary and detailed product information, the latest downloadable driver updates to add features and functionality to your Creative products, and links to our growing family of online destinations including Hifi.com, LAVA.com, and partner sites like PixAround.com and MediaRing.com.

We begin this new era of Creative with an exciting vision, unprecedented breadth, a strong market position, and a solid foundation for growth. I am deeply grateful to Creative's staff worldwide, many of whom performed beyond their normal scope of responsibility, for their hard work, flexibility, and speed in implementing the many changes the past year necessitated. I am very proud of our team that has executed such a dramatic transformation. A whole new future is opened to us.

Sim Wong Hoo
Chairman & Chief Executive Officer

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets out selected data from Creative's Consolidated Statements of Operations for the five years ended June 30, 2000. The data for the three years ended June 30, 2000 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				
	2000	1999	1998(1)	1997	1996
Sales, net	$ 1,343,604	$ 1,296,537	$ 1,234,208	$ 1,232,957	$ 1,308,061
Cost of goods sold	947,157	944,499	848,305	893,432	1,120,977
Gross profit	396,447	352,038	385,903	339,525	187,084
Operating expenses:					
Selling, general and administrative	253,733	209,668	162,464	135,644	148,351
Research and development	60,428	46,725	41,723	35,164	34,756
Other charges (2)	20,000	–	68,568	–	18,780
Operating income (loss)	62,286	95,645	113,148	168,717	(14,803)
Gain from investments, net	103,443	15,048	18,469	6,803	—
Interest income (expense) and other, net	5,287	14,621	21,183	11,579	(14,793)
Income (loss) before income taxes and minority interest	171,016	125,314	152,800	187,099	(29,596)
Provision for income taxes (3)	(9,472)	(9,920)	(19,805)	(20,073)	(8,767)
Minority interest in (income) loss	(532)	(312)	1,779	20	719
Net income (loss)	$ 161,012	$ 115,082	$ 134,774	$ 167,046	$ (37,644)
Basic earnings (loss) per share	$ 1.96	$ 1.28	$ 1.49	$ 1.89	$ (0.43)
Average ordinary shares outstanding ('000)	82,028	89,818	90,654	88,422	87,984
Diluted earnings (loss) per share	$ 1.86	$ 1.25	$ 1.42	$ 1.84	$ (0.43)
Average ordinary shares and equivalents outstanding ('000)	86,612	92,241	94,964	90,763	87,984

CONSOLIDATED BALANCE SHEET DATA (US$'000):

	As of June 30				
	2000	1999	1998(1)	1997	1996
Cash and cash equivalents	$ 285,757	$ 318,990	$ 417,262	$ 417,943	$ 196,181
Working capital	331,414	400,998	484,792	371,921	182,910
Total assets	1,176,459	805,689	865,113	814,818	582,043
Long-term debt, net of current maturities	27,051	28,642	32,277	33,711	6,690
Shareholders' equity	778,638	560,261	622,314	522,605	267,848

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 15 of "Notes to Consolidated Financial Statements."

(2) Included in the results of operations are other charges of: $20.0 million in fiscal 2000 relating to the settlement of all outstanding litigation claims between Aureal Semiconductor, Inc. ("Aureal") and Creative; $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 write-off of intangibles. See Notes 13, 14 and 15 of "Notes to Consolidated Financial Statements."

(3) 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 $18.3 million, $26.4 million, $43.3 million, $36.4 million, and $13.5 million, or $0.21, $0.29, $0.46, $0.40 and $0.15 per share, for fiscal 2000, 1999, 1998, 1997, and 1996, respectively. The corporate income tax rate in Singapore, which would otherwise be applicable for fiscal year 2000 is 25.5% and for 1996 to 1999 would be 26%. Creative's Pioneer Certificate expired in March 2000. Creative has applied for a separate and new Pioneer Certificate covering a new range of products. If Creative is awarded this new Pioneer Certificate, profits from qualified products under the new Pioneer Certificate will be exempted from tax in Singapore. The Singapore corporate income tax rate of 25.5% will be applicable to the profits of products excluded from the new Pioneer Certificate. If Creative is unable to obtain this Pioneer Certificate, the effective tax rate in Singapore would be 25.5%. See MD&A for further discussion.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Creative's operating results in the past, and may in the future, be affected by various risk factors, many of which are beyond Creative's control. Except for the historical information contained herein, the matters set forth herein (including statements using the words or phrases "will", "we believe will", "going to", "anticipate", "plan", or other similar words or phrases, and including any guidance on future products, future marketing efforts, and future revenues, margins, expenses, and earnings) are forward-looking statements that are subject to certain assumptions, risks and uncertainties that could cause actual results to differ materially from those set forth in the forward looking statements. Such assumptions, risks and uncertainties include, among others: potential fluctuations in the value and liquidity of Creative's investee companies; the timing or completion of a subsidiary IPO and/or the valuation that would apply in the event of a consummation of a subsidiary IPO; potential fluctuations in quarterly results due to the seasonality of Creative's business and the difficulty of projecting such fluctuations; the vulnerability of Creative's results of operations and cash flows to credit shortages and current and future fluctuations in currency exchange rates in general and current and future fluctuations in exchange rate of the Euro in particular; reductions in the market value of products sold by Creative, including increases in supply or declines in demand or prices for optical storage devices, 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 rights and other claims against or 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 of the quality required for use and possible limitations on future availability of graphic chips, memory chips, and passive components used in Creative's products; the timely development, ramp, delivery and market acceptance of new products, including Creative's next generation audio, graphics accelerator, CD-RW, CD-ROM and DVD drives, communications and personal digital entertainment 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 issues in computer codes used by Creative and its suppliers and vendors; and other risk factors described in Creative's Annual Report on Form 20-F for fiscal 2000 filed with the US Securities and Exchange Commission. You are urged to carefully consider these factors as well as other information contained in the Form F-20 and in Creative's other periodic reports and documents filed with the SEC. 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 statement of operations data as a percentage of sales:

	Years ended June 30		
	2000	1999	1998
Sales, net	100 %	100 %	100 %
Cost of goods sold	70	73	69
Gross profit	30	27	31
Operating expenses:			
Selling, general and administrative	19	16	13
Research and development	4	3	3
Other charges	2	–	6
Operating income	5	8	9
Gain from investments, net	8	1	2
Interest income and other, net	–	1	2
Income before income taxes and minority interest	13	10	13
Provision for income taxes	(1)	(1)	(2)
Minority interest in (income) loss	–	–	–
Net income	12 %	9 %	11 %

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

	Percentage of Net Sales for fiscal years ended June 30		
	2000	1999	1998
Audio products	39 %	38 %	45 %
Multimedia Upgrade Kits	23 %	27 %	36 %
Graphic & Video products	18 %	20 %	8 %
Speakers/ Communication/ Other products	20 %	15 %	11 %

YEAR ENDED JUNE 30, 2000 COMPARED TO YEAR ENDED JUNE 30, 1999

Net sales for the year ended June 30, 2000 increased by 4%, compared to the year ended June 30, 1999. Audio product sales (Sound Blaster audio cards and chipsets) increased by 6% and represented 39% of sales in fiscal year 2000, compared to 38% of sales in the prior fiscal year. This improvement was primarily due to an increase in sales of Sound Blaster Live! and Sound Blaster PCI sound cards. Sales of multimedia upgrade kits, including data storage, decreased by 13% in fiscal year 2000 and represented 23% of sales, compared to 27% of sales in the prior fiscal year. This reduction in sales was primarily due to a decline in sales of multimedia upgrade kits, DVD drives, and CD-ROM drives, offset in part by increased sales of CD-RW (Compact Disk ReWritable) drives. Sales of DVD drives declined primarily due to component shortages while the decline in sales of CD-ROM drives was primarily due to reductions in average selling prices. Sales of video and graphics products including digital cameras, decreased by 7% and represented 18% of sales in fiscal year 2000, compared with fiscal year 1999, when they represented 20% of sales. This decrease in sales was primarily attributable to component shortages for the high-end 3D Blaster products, and the phase out of low-end graphics and video cards. The decline in sales of video and graphics products was offset in part by an increase in sales of digital cameras. Sales of speakers increased by 65% and represented 11% of sales in fiscal 2000, compared with fiscal 1999, when they represented 7% of sales. This improvement in speaker sales was a result of strong growth in the sales of multimedia speakers as a result of broader market acceptance. Sales of other products, which included accessories, music products, digital music players, communication products and other miscellaneous items, increased by 18% and represented 9% of sales in fiscal 2000, compared to 8% of sales in the prior fiscal year. This increase in other product sales was primarily due to an increase in sales of digital music players and communication products.

Gross profit in fiscal 2000 improved by 13% compared to fiscal 1999. As a percentage of sales, gross margin for fiscal 2000 was 30% as compared to 27% in the prior year. This improvement in gross margin was primarily attributable to a favorable product mix, resulting from increased sales of higher margin products such as Sound Blaster Live!, Sound Blaster PCI and multimedia speakers. Although Creative has experienced sequential improvement in quarterly gross margin percentages in fiscal 2000, there can be no assurance that these improvements in the overall gross margin percentages will continue or that Creative can maintain such gross margin percentages in the future.

Selling, general and administrative expenses during fiscal 2000 increased to 19% of sales, compared to 16% of sales in fiscal 1999. This increase was primarily due to expenses incurred to develop and promote Creative's internet businesses which accounts for about 4% of sales. Creative's research and development ("R&D") expenses increased to 4% of sales in fiscal 2000, compared to 3% of sales in the prior year, primarily due to an increase in expenditures on the development of a new range of products.

Included in the results of fiscal 2000 were other charges of $20.0 million relating to the settlement of all outstanding litigation claims between Aureal and Creative, see Notes 13 and 14 of "Notes to Consolidated Financial Statements."

In fiscal 2000, Creative's net gain from investments was $103.4 million, compared to $15.0 million in fiscal 1999. This included $84.9 million net gain from investments and $18.5 million gain from an increase in the value of marketable equity securities. Net interest and other income decreased by $9.3 million to $5.3 million in fiscal 2000, compared to $14.6 million in the prior fiscal year. This decline was primarily a result of a reduction in interest income arising from a lower average cash balance during the period and an adverse impact of foreign currency exchange rate fluctuations.

Creative's provision for income taxes for fiscal 2000 remained flat at 1% of sales as compared to the prior fiscal year. The provision for income taxes as a percentage of income before taxes and minority interest excluding net gain from investments increased from 9% in fiscal 1999, to 14% in fiscal 2000. The increase was primarily due to a change in the mix of taxable income arising from various geographical regions, where the tax rates range from 0% to 50%. Creative's Pioneer Certificate expired in March 2000. Creative has applied for a separate and new Pioneer Certificate covering a new range of products. If Creative is awarded this new Pioneer Certificate, profits from qualified products under the new Pioneer Certificate will be exempted from tax in Singapore. The Singapore corporate income tax rate of 25.5% will be applicable to the profits of products excluded from the new Pioneer Certificate. In the event that Creative fails to obtain the new Pioneer Certificate, future taxable income in Singapore shall be subjected to a statutory tax rate of 25.5%. There can be no assurance Creative will be awarded a new Pioneer Certificate, or, if awarded, the rate may be higher than historical experience.

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 was 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 15 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 15 of "Notes to Consolidated Financial Statements") and a one-time charge of $8.3 million for the cessation of certain activities.

For fiscal 1999, net gain from investments was $15.0 million, compared to $18.5 million in 1998. 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.

QUARTERLY RESULTS

The following is a summary of Creative's unaudited quarterly results for the eight quarters ended June 30, 2000, 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, the results detailed below have been prepared on a basis consistent with the audited financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented when read in conjunction with the financial statements and notes thereto contained elsewhere herein. Creative's business is seasonal in nature and the quarterly results are not necessarily indicative of the results to be achieved for the complete year.

	Unaudited data for quarters ended (in US$'000 except per share data)							
	Jun 30 2000	Mar 31 2000	Dec 31 1999	Sep 30 1999	Jun 30 1999	Mar 31 1999	Dec 31 1998	Sep 30 1998
Sales, net	$ 307,715	$ 330,022	$ 436,789	$ 269,078	$ 275,134	$ 313,715	$ 428,699	$ 278,989
Cost of goods sold	212,739	228,444	306,912	199,062	213,071	232,964	299,308	199,156
Gross profit	94,976	101,578	129,877	70,016	62,063	80,751	129,391	79,833
Operating expenses:								
Selling, general and administrative	59,724	64,167	76,340	53,502	47,966	51,534	58,445	51,723
Research and development	16,460	16,538	14,717	12,713	12,873	11,825	11,681	10,346
Other charges (1)	20,000	–	–	–	–	–	–	–
Operating (loss) income	(1,208)	20,873	38,820	3,801	1,224	17,392	59,265	17,764
Net gain from investments	19,211	70,632	9,235	4,365	12,562	239	2,247	–
Interest income (expense) and other, net	1,055	(542)	918	3,856	2,488	2,669	3,847	5,617
Income before income taxes and minority interest	19,058	90,963	48,973	12,022	16,274	20,300	65,359	23,381
Provision for income taxes	(2,004)	(2,327)	(3,939)	(1,202)	(1,303)	(1,624)	(4,889)	(2,104)
Minority interest in (income) loss	349	(317)	(554)	(10)	(235)	(425)	112	236
Net income	$ 17,403	$ 88,319	$ 44,480	$ 10,810	$ 14,736	$ 18,251	$ 60,582	$ 21,513
Basic earnings per share	$ 0.21	$ 1.09	$ 0.54	$ 0.13	$ 0.17	$ 0.21	$ 0.66	$ 0.23
Average ordinary shares outstanding ('000)	81,367	81,339	81,999	83,410	85,457	88,398	92,428	92,989
Diluted earnings per share	$ 0.20	$ 1.01	$ 0.52	$ 0.13	$ 0.17	$ 0.20	$ 0.64	$ 0.23
Average ordinary shares and equivalents outstanding ('000)	87,605	87,697	86,291	84,855	88,026	90,835	95,137	94,968

QUARTERLY RESULTS (Cont'd)

	Unaudited data for quarters ended (as a percentage of sales)							
	Jun 30 2000	Mar 31 2000	Dec 31 1999	Sep 30 1999	Jun 30 1999	Mar 31 1999	Dec 31 1998	Sep 30 1998
Sales, net	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of goods sold	69	69	70	74	77	74	70	71
Gross profit	31	31	30	26	23	26	30	29
Operating Expenses:								
Selling, general and administrative	19	20	18	20	17	16	14	19
Research and development	5	5	3	5	5	4	3	4
Other charges (1)	7	–	–	–	–	–	–	–
Operating income	–	6	9	1	1	6	13	6
Net gain from investments	6	22	2	2	4	–	1	–
Interest income (expense) and other, net	–	–	–	1	1	1	1	2
Income before income taxes and minority interest	6	28	11	4	6	7	15	8
Provision for income taxes	(1)	(1)	(1)	–	(1)	(1)	(1)	–
Minority interest in (income) loss	–	–	–	–	–	–	–	–
Net income	5 %	27 %	10 %	4 %	5 %	6 %	14 %	8 %

(1) Other charges included in the results of operations for the quarter ended June 30, 2000 relate to the settlement of all outstanding litigation claims between Aureal and Creative. See Notes 13 and 14 of "Notes to Consolidated Financial Statements."

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents at June 30, 2000 were $285.8 million, a decrease of $33.2 million compared to the balance at June 30, 1999.

Operating Activities: Net cash generated from operating activities during fiscal 2000 was $160.2 million, compared with $124.1 million in fiscal 1999. Cash from operating activities for fiscal 2000 was primarily generated from net income of $161.0 million, partially offset by net adjustments of $44.3 million for non-cash items including depreciation and amortization of $35.6 million, amortization of deferred share compensation of $4.6 million, investment write off of $9.8 million, and net gain from investments of $94.7 million. Also included in cash generated from operating activities were net increases in accounts payable, other accrued liabilities and income taxes payable amounting to $131.2 million, decreases in other assets, prepaids and accounts receivable of $16.0 million, offset by an increase in inventory of $82.6 million due to stockpiling to safeguard against component shortages. In addition, $21.1 million was used to purchase marketable securities during fiscal 2000.

Cash from operating activities for fiscal 1999 was primarily generated from net income of $115.1 million, 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 a net increase in accounts payable, other accrued liabilities and income tax payable of $7.5 million. This was offset by increases in other assets, prepaids and accounts receivable of $17.2 million and cash used to build the inventory position of $3.7 million.

Investing Activities: Net cash used for investing activities during fiscal 2000 was $104.3 million, compared with $38.4 million in fiscal 1999. The balance in fiscal 2000 includes the purchase of investments of $228.2 million and the acquisition of capital and other assets amounting to $22.6 million. The cash used in investing activities was offset in part by the proceeds from sale of quoted investments amounting to $146.5 million.

Cash used in investing activities during fiscal 1999, included capital expenditures and other assets of $16.3 million and purchase of investments amounting to $64.6 million. The sale of investments provided $42.5 million cash in fiscal 1999.

Financing Activities: During fiscal 2000, $89.1 million was used for financing activities, compared with $184.0 million provided in fiscal 1999. Cash used in financing included $102.2 million to purchase and retire 5.9 million of Creative's ordinary shares (See Note 6 of "Notes to Consolidated Financial Statements"), $20.6 million for dividend payment (See Note 7 of "Notes to Consolidated Financial Statements"), and $5.7 million to repay long-term obligations and minority shareholders' loan and equity balance. The cash used in financing activities was offset by cash generated from exercises of Creative's stock options amounting to $16.9 million and proceeds from the issuance of preference shares to minority shareholders by one of Creative's subsidiaries amounting to $22.5 million.

Cash used for financing activities in fiscal 1999 included $139.0 million to purchase and retire 10 million of Creative's ordinary shares, $45.0 million to pay dividends, $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.

On September 21, 2000, the U.S. Bankruptcy Court for the Northern District of California, Oakland Division approved the sale to Creative of substantially all of the assets of Aureal Semiconductor, Inc. The sale includes settlement of all outstanding litigation claims between Aureal and Creative. Creative will pay $28.0 million in cash, plus two new shares of Creative stock for every 100 outstanding shares of Aureal stock, or 208,079 shares of Creative.

As of June 30, 2000, one of Creative's subsidiaries had firm commitments for capital expenditure amounting to approximately $17.9 million, which primarily relates to the set up of new manufacturing facilities in Malaysia.

As of June 30, 2000, in addition to cash reserves and excluding the term loan, Creative had unutilized credit facilities totaling approximately $99.1 million for overdrafts, guarantees and letters of credit. Creative continually reviews and evaluates investment opportunities, including potential acquisitions of, and investments in, companies that can provide Creative with technologies, subsystems or complementary products that can be integrated into or offered with 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.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of Creative Technology Ltd. and its subsidiaries at June 30, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States. 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 auditing standards generally accepted in the United States, 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 3, 2000 except as to Note 14 which is as of October 4, 2000.

CONSOLIDATED BALANCE SHEETS

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

	June 30 2000	June 30 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 285,757	$ 318,990
Marketable securities	21,156	–
Accounts receivable, less allowances of $37,197 and $12,721	98,923	130,144
Inventory	230,616	148,028
Other assets and prepaids	34,942	12,709
Total current assets	671,394	609,871
Property and equipment, net	96,751	97,961
Investments	395,888	70,305
Other non-current assets	12,426	27,552
Total Assets	$ 1,176,459	$ 805,689
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 183,299	$ 101,666
Accrued liabilities	103,756	55,684
Income taxes payable	48,350	47,031
Other current liabilities	4,575	4,492
Total current liabilities	339,980	208,873
Long term obligations	27,051	28,642
Minority interest in subsidiaries	30,790	7,913
Commitments and contingencies (Notes 4, 12 and 14)		
Shareholders' equity:		
Ordinary shares ('000); S$0.25 par value;		
Authorized: 200,000 shares		
Outstanding: 80,325 and 83,971 shares	7,808	8,348
Additional paid-in capital	203,111	170,157
Unrealized holding gains on quoted investments	173,948	15,405
Deferred share compensation	(15,924)	(5,078)
Retained earnings	409,695	371,429
Total shareholders' equity	778,638	560,261
Total Liabilities and Shareholders' Equity	$ 1,176,459	$ 805,689

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Years ended June 30		
	2000	1999	1998
Sales, net	$ 1,343,604	$ 1,296,537	$ 1,234,208
Cost of goods sold	947,157	944,499	848,305
Gross profit	396,447	352,038	385,903
Operating expenses:			
Selling, general and administrative	253,733	209,668	162,464
Research and development	60,428	46,725	41,723
Other charges (Notes 13, 14 and 15)	20,000	–	68,568
Operating income	62,286	95,645	113,148
Gain from investments, net	103,443	15,048	18,469
Interest income and other, net	5,287	14,621	21,183
Income before income taxes and minority interest	171,016	125,314	152,800
Provision for income taxes	(9,472)	(9,920)	(19,805)
Minority interest in (income) loss	(532)	(312)	1,779
Net income	$ 161,012	$ 115,082	$ 134,774
Basic earnings per share	$ 1.96	$ 1.28	$ 1.49
Average ordinary shares outstanding ('000)	82,028	89,818	90,654
Diluted earnings per share	$ 1.86	$ 1.25	$ 1.42
Average ordinary shares and equivalents outstanding ('000)	86,612	92,241	94,964

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Years ended June 30		
	2000	1999	1998
Cash flows from operating activities:			
Net income	$ 161,012	$ 115,082	$ 134,774
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	35,582	37,265	34,629
Deferred share compensation amortization	4,615	–	–
Write off of acquired in-process technology	–	–	60,300
Minority interest in income (loss)	532	312	(1,779)
Equity share in income of unconsolidated investments	(74)	(106)	(278)
Write off of investment and other non-current assets	9,793	–	–
Gain from investments, net	(94,712)	(15,048)	(18,469)
Other charges for write down of intangibles	–	–	3,175
Changes in assets and liabilities, net of effects of acquisitions (Note 15):			
Accounts receivable	31,221	(14,214)	18,901
Inventory	(82,588)	(3,708)	(49,407)
Marketable securities	(21,156)	–	–
Other assets and prepaids	(15,252)	(2,961)	7,853
Accounts payable	81,633	11,122	(51,727)
Accrued and other liabilities	48,259	(5,697)	(36,078)
Income taxes payable	1,319	2,029	13,020
Net cash provided by operating activities	160,184	124,076	114,914
Cash flows from investing activities:			
Capital expenditures, net	(21,588)	(16,424)	(18,127)
Proceeds from sale of quoted investments	146,504	42,502	33,202
Purchase of new subsidiaries (net of cash acquired)	–	–	(126,366)
Purchase of investments	(228,273)	(64,578)	(21,368)
(Increase) decrease in other assets, net	(994)	133	651
Net cash used in investing activities	(104,351)	(38,367)	(132,008)
Cash flows from financing activities:			
Decrease in minority shareholders' loan and equity balance	(114)	(21)	(1,471)
Proceeds from issuance of preference shares to minority shareholders	22,459	–	–
Proceeds from exercise of ordinary share options	16,953	5,202	19,218
Repurchase of ordinary shares	(102,189)	(138,994)	–
Repayments of long-term obligations, net	(5,618)	(5,124)	(1,334)
Dividends paid	(20,557)	(45,044)	–
Net cash (used in) provided by financing activities	(89,066)	(183,981)	16,413
Net decrease in cash and cash equivalents	(33,233)	(98,272)	(681)
Cash and cash equivalents at beginning of year	318,990	417,262	417,943
Cash and cash equivalents at end of year	$ 285,757	$ 318,990	$ 417,262
Supplemental disclosure of cash flow information:			
Interest paid	$ 361	$ 1,686	$ 2,959
Income taxes paid	$ 4,209	$ 7,832	$ 6,785

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In US$'000, except share data)

	Ordinary Shares ('000)	Ordinary Share Capital	Additional Paid In Capital	Unrealised Holding Gains on Quoted Investments	Deferred Share Compensation	Retained Earnings	Total
Balance at June 30, 1997	88,932	$ 9,060	$ 138,741	$ 70,343	$ –	$ 304,461	$ 522,605
Share option and warrant exercise	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 option exercise	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
Share issued under employee options and share purchase plans	2,271	333	16,620	–	–	–	16,953
Repurchase of ordinary shares	(5,917)	(873)	873	–	–	(102,189)	(102,189)
Dividends paid	–	–	–	–	–	(20,557)	(20,557)
Unrealized holding gains on quoted investments	–	–	–	158,543	–	–	158,543
Deferred share compensation	–	–	15,461	–	(15,461)	–	–
Amortization of deferred share compensation	–	–	–	–	4,615	–	4,615
Net income	–	–	–	–	–	161,012	161,012
Balance at June 30, 2000	80,325	$ 7,808	$ 203,111	$ 173,948	$ (15,924)	$ 409,695	$ 778,638

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 the 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 fiscals 2000, 1999 and 1998, are exchange (losses) gains of ($7.0 million), ($2.3 million) and $2.2 million, respectively.

At June 30, 2000, monetary assets and liabilities of Creative are denominated in the following currencies:

	Approximate Percentage of $ Balance Denominated in:			
	US$	S$	EURO	Other Currencies
Cash and cash equivalents	90 %	3 %	2 %	5 %
Accounts receivable, less allowances	55 %	2 %	31 %	12 %
Total current liabilities	68 %	23 %	2 %	7 %
Long-term obligations	–	100 %	–	–

The exchange rates for the S$ and Euro utilized in translating the balance sheet at June 30, 2000, expressed in US$ per one S$ and Euro was 0.5790 and 0.9500.

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, 2000 and 1999, are fixed rate deposits of $205.0 million and $243.2 million, respectively.

Marketable Securities

Creative determines the appropriate classification of marketable securities at the time of acquisition and evaluates such designation at each balance sheet date. For all periods presented, Creative has classified marketable securities as trading securities, and accordingly such securities are stated at their market values based on the last transacted prices at each balance sheet date. The resulting net unrealized gains or losses on marketable securities are included in earnings in the period they are incurred.

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

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

Inventory
Inventory is stated at the lower of cost or market. Cost is determined using standard cost, appropriately adjusted at balance sheet date to approximate weighted average basis. In the case of finished products and work-in-progress, cost includes materials, direct labor and an appropriate proportion of production overheads.

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, 2000 and 1999, included in other assets and prepaids were prepaid royalties of $2.4 million and $3.1 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 less accumulated depreciation. 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. No depreciation is provided on freehold land and construction in progress.

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

Investments

Creative holds equity investments in various companies pursuant to which it has acquired anywhere from less than 1% 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. Non quoted investments of less than 20% in an entity are carried at cost. 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, and records write-downs to such investments when necessary.

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. Such investments are reported at fair value with the unrealized gains and losses included as a separate component of shareholders' equity. Unrealized losses are charged against income when a decline in fair value is determined to be other than temporary. Realized gains and losses upon the sale or disposition of such investments are based on the average cost of the specific investments sold.

A summary of investments is as follows (in US$'000):

	As of June 30	
	2000	1999
Non quoted investments	$ 106,519	$ 35,150
Quoted investments	289,369	35,155
Total investments	$ 395,888	$ 70,305

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 assets, such excess is written off. At each of June 30, 2000 and 1999, amounts capitalized in connection with these acquisitions was $66.5 million and their related accumulated amortization totaled $56.3 million and $43.5 million, respectively.

Revenue recognition

Creative recognizes revenue from product sales when title transfers to the customer which, depending on the sales terms, occurs when products are shipped to or are received by the customers. 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.

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

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 fair value 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 is effective for fiscal years beginning after June 15, 2000 and cannot be applied retroactively. Creative does not believe that the adoption of SFAS 133 will have a material impact on its consolidated financial statements.

In December 1999, the Securities and Exchange Commission's ("SEC") staff issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. SAB No. 101 must be implemented by Creative no later than the fourth quarter of fiscal 2001 effective as of the first quarter of 2001. Creative does not believe that adoption of SAB 101 will have a significant impact on the consolidated financial statements.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - an interpretation of APB Opinion No. 25" ("FIN 44"). Among other issues, FIN 44 clarifies (a) the definition of employee for purposes of applying Opinion No. 25, (b) the criteria for determining whether a plan qualifies as a non-compensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. Creative currently complies with the provisions of FIN 44.

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		
	2000	1999	1998
Average ordinary shares outstanding	82,028	89,818	90,654
Stock options	4,584	2,423	4,310
Average ordinary shares and equivalent outstanding	86,612	92,241	94,964

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 stock options, Creative did not have any other financial instruments that would have a material impact on the weighted average number of ordinary shares outstanding, used for computing diluted earnings per share. The potentially dilutive ordinary equivalent shares outstanding under the employee share purchase plan were not material and therefore, were not included for diluted earnings per share computation.

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

	Estimated Useful Life	As of June 30 2000	1999
Inventory:			
Raw materials		$ 136,803	$ 95,290
Work in progress		27,293	18,406
Finished products		66,520	34,332
Total inventory		$ 230,616	$ 148,028
Property and equipment:			
Land and buildings	25 years	$ 69,630	$ 69,385
Construction in progress	–	428	–
Machinery and equipment	3 - 6 years	57,827	55,212
Furniture and fixtures	3 - 8 years	53,748	47,906
Leasehold improvements	Term of lease	12,582	13,263
		194,215	185,766
Accumulated depreciation		(97,464)	(87,805)
Net property and equipment		$ 96,751	$ 97,961
Other accrued liabilities:			
Marketing accruals		$ 28,986	$ 20,644
Payroll accruals		18,763	13,705
Royalty accruals		5,147	3,882
Litigation accruals		20,000	–
Other accruals		30,860	17,453
Total other accrued liabilities		$ 103,756	$ 55,684

NOTE 4 – LEASES AND COMMITMENTS

Creative leases the use of land and certain of its facilities and equipment 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, 2000, were as follows (in US$'000):

	Operating Leases
Fiscal years ended June 30,	
2001	$ 15,331
2002	10,351
2003	7,516
2004	6,366
2005	4,995
Thereafter	29,780
Total minimum lease payments	$ 74,339

Rental expense under all operating leases was $8.4 million, $7.4 million and $10.5 million for fiscal 2000, 1999 and 1998, respectively.

In fiscal 2000, one of Creative's subsidiaries had firm commitments for capital expenditure amounting to approximately $17.9 million, which primarily relates to the set up of new manufacturing facilities in Malaysia.

During the year, guarantees of $5.0 million were given to third parties in respect of trade balances of an investee company and $0.4 million given to foreign revenue authorities in relation to payment of customs duty.

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		
	2000	1999	1998
Net Income	$ 161,012	$ 115,082	$ 134,774
Unrealized holding gains/(losses) on available-for-sale securities during the period	158,543	1,686	(56,624)
Total comprehensive income	$ 319,555	$ 116,768	$ 78,150

NOTE 6 – SHARE REPURCHASES

In November 1998, Creative obtained shareholders' approval to repurchase up to 9.3 million of its ordinary shares for retirement. On December 30, 1998, at the Annual General Meeting ("AGM"), the shareholders voted to extend the repurchase mandate by allowing Creative to purchase up to 10% of the Company's issued share capital as of the date of the AGM. 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. At the 1999 Annual General Meeting held on November 9, 1999, the shareholders approved the extension of the share repurchase mandate allowing Creative to buy up to 10% of the issued share capital of Creative as at the date of the AGM. This authority to repurchase shares shall continue in force unless revoked or revised by the shareholders in a general meeting, or until the date that the next AGM of Creative is held or is required to be held, whichever is the earlier.

Details of Share repurchases by Creative during the fiscal years since the commencement of the program on November 6, 1998 are set out below:

	Years ended June 30,	Number of Shares Repurchased (in millions)	Average Price
	1999	10.0	$ 14
	2000	5.9	$ 17
Total		15.9	$ 15

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

NOTE 7 – DIVIDENDS

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.

At the Annual General Meeting held on November 9, 1999, Creative's shareholders approved an Ordinary Dividend of $0.25 per ordinary share of Creative for the fiscal year ending June 30, 2000. Dividends of $20.6 million were paid on December 17, 1999 to all shareholders on record as of December 1, 1999.

NOTE 8 – EMPLOYEE SHARE PURCHASE AND STOCK OPTION PLANS

Creative Employee share purchase plan

As approved by the shareholders in November 1999, Creative has adopted the 1999 Employee Share Purchase Plan that permits substantially all employees to purchase Ordinary Shares of Creative. Participating employees may purchase ordinary shares through regular payroll deductions accumulated during each offering period at a purchase price of 85% of the lower of the fair market value on the offering date or on the purchase date. Each offering period consists of four six months purchase periods, except for the first purchase period in the first offering period which was four months. A total of 1.0 million Ordinary Shares were reserved for issuance under this plan. In addition, on each July 1, the aggregate number of Ordinary Shares reserved for issuance under the plan shall be increased automatically by 1% of the total number of outstanding Ordinary Shares of Creative on the immediately preceding June 30; provided that the aggregate shares reserved under this plan shall not exceed 5.0 million shares.

Creative 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 had 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, 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.

NOTE 8 – EMPLOYEE SHARE PURCHASE AND STOCK OPTION PLANS (Cont'd)

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 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 fiscal 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 fiscal year. The Option Committee has the discretion to decide the vesting schedule in the letter of offer. If it is not specifically stated in the letter of offer, 1/4 of the total amount of the grant vest on the first anniversary of the grant date and 1/48 of the total amount of the grant on the last day of each calendar month thereafter. The exercise price of options granted under the 1999 Scheme may be less than the fair market value of the shares as of the date of grant and the options expire after the tenth anniversary of the date of grant.

In fiscal 1999, Creative granted 2.9 million options under the 1999 Scheme at a weighted average exercise price of $10.14, which was below fair market value, resulting in deferred share compensation of $5.1 million which is being amortized over the vesting period of the underlying options.

In fiscal 2000, Creative granted 4.3 million options under the 1999 Scheme at a weighted average exercise price of $9.14, which was below fair market value, resulting in deferred share compensation of $6.3 million which is being amortized over the vesting period of the underlying options.

Effective April 2000, unvested stock options to purchase 0.2 million shares of Creative's ordinary stock granted under the New Plan and 1999 Scheme to employees of a subsidiary were cancelled in exchange for the right to receive options granted by the subsidiary. The employees are allowed to retain outstanding options vested on March 31, 2000. In May 2000, the subsidiary adopted a separate stock option plan and employees were then granted options under this plan. See "Subsidiary Stock Option Plan" below for additional information.

NOTE 8 – EMPLOYEE SHARE PURCHASE AND STOCK OPTION PLANS (Cont'd)

Creative Employee Share Purchase and Stock Option Plans
A summary of options granted to employees and non-employee directors under Creative's stock option plans is presented below:

	Options Outstanding	
	Number of Shares ('000)	Weighted Average Exercise Price ($)
Balance as of June 30, 1997	7,421	6.21
Granted – at fair market value	924	19.93
Exercised	(2,680)	5.49
Canceled	(523)	15.21
Balance as of June 30, 1998	5,142	8.14
Granted – at fair market value	324	9.64
– below fair market value	2,879	10.14
Exercised	(921)	5.58
Canceled	(307)	12.94
Balance as of June 30, 1999	7,117	9.14
Granted – at fair market value	697	11.81
– below fair market value	4,346	9.14
Exercised	(2,214)	7.17
Canceled	(1,052)	12.54
Balance as of June 30, 2000	8,894	9.44

The total number of options exercisable at June 30, 2000, 1999 and 1998 under the New Plan and 1999 Scheme were 2,594,000, 1,996,000 and 1,626,000, respectively.

NOTE 8 – EMPLOYEE SHARE PURCHASE AND STOCK OPTION PLANS (Cont'd)

Summary of outstanding options under Creative's employee stock option plans

The following table summarizes option information for Creative's employee stock option plans (New Plan and 1999 Scheme) as at June 30, 2000.

	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	736	1.41	4.79	500	4.77
$5.00 to $7.99	715	1.41	5.83	533	5.84
$8.00 to $10.99	6,611	8.76	9.18	1,341	9.22
$11.00 to $14.99	117	1.83	12.73	78	12.68
$15.00 to $22.00	715	7.20	19.61	142	19.98
	8,894	7.35	9.44	2,594	8.36

Subsidiary Stock Option Plan

The total number of shares that may be granted as options under the subsidiary 2000 Stock Option Plan ("2000 Plan") is 8 million shares provided that such amounts shall be automatically increased on the first day (July 1) of each of the five fiscal years ending June 30, 2001, 2002, 2003, 2004 and 2005 by the lesser of (i) three hundred thousand shares or (ii) one percent of the issued share capital of the Company as at the last day of the immediately preceding fiscal year. The exercise price of options granted under the 2000 Plan 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 December 1999, the subsidiary agreed to issue options to certain key executives to acquire 1.2 million shares at an exercise price of $1.00 per share. The options were granted in May 2000, vest over four years and are exercisable for 10 years.

In May 2000, the subsidiary granted options to its employees to acquire 2.1 million shares at an exercise price of $2.50 per share. These options vest over four years and are exercisable for 10 years. In May 2000, the subsidiary also granted options to certain employees of Creative to acquire 0.47 million shares at an exercise price of $2.50 per share and 0.06 million shares at $1.00 per share. The options vest over four years effective from April 1, 2000 and are exercisable for 5 years.

NOTE 8 – EMPLOYEE SHARE PURCHASE AND STOCK OPTION PLANS (Cont'd)

Because the exercise prices for the aforementioned grants are below the deemed fair value per ordinary share of $4.50, the grants give rise to a deferred share compensation expense of approximately $9.2 million. The compensation expense is being amortized over the four-year vesting period of the underlying options and for the year ended June 30, 2000, the subsidiary recorded an amortization expense of $0.6 million. Future amortization of deferred share compensation expense is subject to changes due to the impact of future grants and cancellation of options, if any.

A summary of options granted to employees, consultants and directors under the subsidiary's stock option plan is presented below:

	Options Outstanding	
	Number of Shares ('000)	Weighted Average Exercise Price ($)
Options granted	3,901	1.99
Options cancelled	(60)	2.50
Balance as of June 30, 2000	3,841	1.98

The following table summarizes option information for the subsidiary employee stock option plans as at June 30, 2000:

Range of Exercise Price	Number Outstanding ('000)	Weighted Average Remaining Contractual Life (years)	Number Exercisable ('000)
$1.00	1,320	9.20	–
$2.50	2,521	9.20	–
	3,841	9.20	–

NOTE 8 – EMPLOYEE SHARE PURCHASE AND STOCK OPTION PLANS (Cont'd)

Creative and Subsidiary Pro Forma Disclosures

The fair value of the purchase rights under the Creative employee share purchase plan and stock option plan is estimated using the Black-Scholes model based on the following assumptions:

	Fiscal 2000	Fiscal 1999	Fiscal 1998
Volatility	60%	70%	70%
Risk-free interest rates			
Share purchase plan	6.22% to 6.81%	–	–
Stock options	5.20% to 6.65%	4.70% to 5.27%	5.31% to 6.30%
Dividend yield	1.0%	2.0%	–
Expected lives:			
Share purchase plan	6 months	–	–
Stock options	0.01 years after vest date	0.01 years after vest date	0.01 years after vest date

	Years ended June 30		
	2000	1999	1998
Weighted average fair value of stock options granted:			
Stock options:			
At market	$ 5.02	$ 5.95	$ 11.41
Below market	$ 4.71	$ 6.09	$ –

The fair value of the purchase rights under the subsidiary stock option plan is estimated using the Black-Scholes model based on the following assumptions:

	Fiscal 2000
Volatility	–
Risk-free interest rates	5.99% to 6.40%
Dividend yield	–
Expected lives	4 years

NOTE 8 – EMPLOYEE SHARE PURCHASE AND STOCK OPTION PLANS (Cont'd)

Had compensation cost for Creative's employee share purchase and stock option plans, and the subsidiary's stock option plan been determined based on the fair value at the grant dates using the Black-Scholes model, Creative's net income and net income per share would have been as follows:

In US$'000, except for per share data	Years ended June 30		
	2000	1999	1998
Net income:			
As reported	$ 161,012	$ 115,082	$ 134,774
Pro forma	$ 151,450	$ 108,230	$ 128,472
Diluted earnings per share:			
As reported	$ 1.86	$ 1.25	$ 1.42
Pro forma	$ 1.78	$ 1.19	$ 1.36

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. Creative's Pioneer Certificate expired in March 2000. Creative has applied for a separate and new Pioneer Certificate covering a new range of products. If Creative is awarded this new Pioneer Certificate, profits from qualified products under the new Pioneer Certificate will be exempted from tax in Singapore. The Singapore corporate income tax rate of 25.5% will be applicable to the profits of products excluded from the new Pioneer Certificate.

The Pioneer tax status had the effect of reducing Creative's provision for income taxes by approximately $18.3 million, $26.4 million and $43.3 million, or $0.21, $0.29 and $0.46 per share, for fiscal 2000, 1999 and 1998, respectively. The corporate income tax rate in Singapore, which would otherwise be applicable for Creative's fiscal 2000 is 25.5%, 1999 and 1998, 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		
	2000	1999	1998
Singapore	$ 96,577	$ 106,644	$ 187,033
Other countries	74,439	18,670	(34,233)
Income before income taxes and minority interest	$ 171,016	$ 125,314	$ 152,800

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

	Years ended June 30		
	2000	1999	1998
Singapore	$ 7,376	$ 1,346	$ 4,750
Other countries	2,096	8,574	15,055
Provision for income taxes	$ 9,472	$ 9,920	$ 19,805

Creative's effective tax provision for fiscal 2000, 1999 and 1998 reconciles to the amount computed by applying the Singapore statutory rate of 25.5% for 2000 and 26% for 1999 and 1998 to income before income taxes and minority interest, as follows (in US$'000):

	Years ended June 30		
	2000	1999	1998
Income tax at Singapore statutory rate	$ 43,609	$ 32,582	$ 39,728
Tax exempt income			
Singapore	(18,316)	(26,446)	(43,311)
Others	(28,511)	(2,952)	–
Non-deductible expenses and write off	3,245	2,319	19,264
Change in valuation allowances	5,135	2,603	(2,117)
Unutilized non-Singapore net operating losses and temporary differences at other than the statutory rate, and other	4,310	1,814	6,241
Provision for income taxes	$ 9,472	$ 9,920	$ 19,805

NOTE 9 – INCOME TAXES (Cont'd)

Deferred tax assets at June 30, 2000 and 1999 consisted of the following (in US$'000):

	As of June 30	
	2000	1999
Non-deductible reserves	$ 22,346	$ 13,313
Net operating loss carryforwards	10,444	14,333
Other	2,608	2,617
Total deferred tax assets	35,398	30,263
Valuation allowance for deferred tax assets	(35,398)	(30,263)
	$ –	$ –

Creative has United States tax deductions not included in the net operating loss carryforwards described above aggregating approximately $38.5 million at June 30, 2000, 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.

At June 30, 2000, Creative had Irish and US net operating loss carryforwards of approximately $33.0 million and $15.2 million, respectively. The Irish net operating losses have an indefinite carryforward period while the US net operating losses expire in 2005 to 2019. 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, 2000 and 1999 as management believes sufficient uncertainty exists regarding the realizability of these assets.

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 ($34.7 million) to finance the construction of Creative's headquarters building in Singapore. The loan is repayable in nineteen quarterly instalments comprising of eighteen instalments of S$1.5 million ($0.9 million) and a final instalment for the remaining S$31.0 million ($17.9 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 2000 was 3.98%. 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, 2000, S$45.9 million ($26.6 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, 2000, loans extended and equity contributed by Bukit Frontiers Pte Ltd. totaled S$12.5 million ($7.2 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 $103.2 million at June 30, 2000. Within these credit facilities, sub-limits have been set on how Creative may utilize the overall credit facilities. At June 30, 2000, $3.5 million in letters of credit and $0.6 million in bank guarantees were drawn under these facilities. These facilities bear interest at approximately the banks' prime rates.

NOTE 11 – ISSUANCE OF CONVERTIBLE PREFERENCE SHARES

In May 2000, a wholly-owned subsidiary issued 5.0 million convertible preference shares at $4.50 per share, their then deemed fair value, resulting in net proceeds to the subsidiary of approximately $22.5 million. Subsequent to the issuance, Creative continued to own approximately 89% of the outstanding shares of the subsidiary on a fully converted basis.

NOTE 12 – 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, 2000, Creative has committed to pay $0.8 million in respect of future minimum royalty obligations over terms of up to 5 years.

NOTE 13 – OTHER CHARGES

Included in the results of operations for fiscal 2000 were the purchase of substantially of all of the assets of Aureal Semiconductor, Inc. and the settlement of all outstanding litigation claims between Aureal and Creative (see Note 14 of "Notes to Consolidated Financial Statements"); and in fiscal 1998 were other charges of $68.6 million relating to a $60.3 million write-off of acquired in-process technology (see Note 15 of "Notes to Consolidated Financial Statements") and a one-time write off of $8.3 million for cessation of certain activities.

NOTE 14 – LITIGATION

On September 21, 2000, the U.S. Bankruptcy Court for the Northern District of California, Oakland Division approved the sale to Creative of substantially all of the assets of Aureal Semiconductor, Inc. The sale includes settlement of all outstanding litigation claims between Aureal and Creative. Creative will pay $28.0 million in cash, plus two new shares of Creative stock for every 100 outstanding shares of Aureal stock, or 208,079 shares of Creative stock. The Creative shares were valued at approximately $4.35 million, based on the fair market value of Creative stock on September 21, 2000. As a result of the settlement of outstanding litigation with Aureal, Creative recorded as a pre-tax charge of $20.0 million against fiscal 2000 earnings. Since the litigation was ongoing at June 30, 2000 and the settlement was reached after release of Creative's fiscal 2000 earnings, but before distribution of Creative's financial statements, the generally accepted accounting principles in the United States require that this charge be reflected in Creative's fiscal 2000 financial statements.

During the course of its normal business operations, Creative and its subsidiaries are involved from time to time in a variety of intellectual property and other disputes, including claims against Creative alleging copyright infringement, patent infringement and other business torts. Currently such disputes exist with, among other entities, Bose Corporation (an action involving 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), Phonetel Communications, Inc. (an action involving patent claims by Phonetel against a number of companies, including Creative, in the Northern District of Texas); and the Lemelson Foundation (an action involving patent claims by Lemelson against over 500 entities, including Creative). Creative also from time to time receives licensing inquiries and/or threats of potential future patent claims from a variety of entities, including IBM and Lucent. Creative believes it has valid defenses to the various claims and counterclaims asserted against it. However, should any of these plaintiffs prevail in their claims or counterclaims, Creative does not expect there to be any consequent material adverse effect on its financial position or results of operations.

NOTE 15 – 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 15 – 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 fiscal year 1998. 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 fiscal year 1998, 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 year ended June 30, 1998	
Sales, net	$	1,287,095
Net income	$	192,179
Basic earnings per share	$	2.12
Diluted earnings per share	$	2.02

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 $173.9 million and $15.4 million being included in shareholders' equity in fiscal 2000 and 1999, respectively. Included in the results of operations for fiscal 2000 and 1999, are net gains from quoted investments of $94.7 million and $15.0 million, respectively.

NOTE 16 – SUBSEQUENT EVENT

In July 2000, a subsidiary's options granted to certain employees of Creative in May 2000 to acquire 0.47 million ordinary shares at an exercise price of $2.50 and 0.06 million shares at $1.00 per share were cancelled. In lieu of the cancellation of the said options, the subsidiary granted replacement options to these employees to acquire 0.24 million and 0.03 million of the subsidiary's shares at an exercise price of $2.50 per share and $1.00 per share respectively. The replacement options vest immediately on grant date and the compensation expense arising from full vesting of the replacement options amounted to $0.8 million.

NOTE 17 – 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		
	2000	1999	1998
External net sales:			
Asia Pacific	$ 274,101	$ 242,602	$ 255,072
The Americas	598,956	568,099	612,842
Europe	470,547	485,836	366,294
Consolidated	$ 1,343,604	$1,296,537	$1,234,208

	Years ended June 30		
	2000	1999	1998
Operating income (loss):			
Asia Pacific	$ 85,621	$ 81,576	$ 153,714
The Americas	(45,654)	(6,674)	(51,659)
Europe	22,319	20,743	11,093
Consolidated	$ 62,286	$ 95,645	$ 113,148

	As of June 30	
	2000	1999
Identifiable assets:		
Asia Pacific	$ 904,479	$ 519,314
The Americas	161,756	183,559
Europe	110,224	102,816
Consolidated	$ 1,176,459	$ 805,689

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, 2000 is based on the location of the selling entity.

NOTE 17 – SEGMENT REPORTING (Cont'd)

	As of June 30	
	2000	1999
Identifiable assets:		
Singapore	$ 428,949	$ 421,827
United States of America	161,756	183,559
Ireland	104,565	98,480
Rest of the world	481,189	101,823
Consolidated	$ 1,176,459	$ 805,689

	Years ended June 30		
	2000	1999	1998
Revenue by geographic region:			
Singapore	$ 202,917	$ 199,841	$ 222,382
United States of America	598,956	568,099	612,842
Ireland	470,547	485,836	366,294
Rest of the world	71,184	42,761	32,690
Consolidated	$ 1,343,604	$ 1,296,537	$ 1,234,208

Major customers: In fiscal 2000, 1999 and 1998, no customer accounted for more than 10% of net revenues. As of June 30, 2000 and 1999, one customer accounted for greater than 10% of total accounts receivable.

STOCK MARKET INFORMATION

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 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
Fiscal 2000				
First Quarter	13.00	9.69	22.80	16.60
Second Quarter	18.75	10.06	32.00	16.90
Third Quarter	38.00	16.25	64.00	27.80
Fourth Quarter	30.13	21.69	52.50	36.10

As of August 25, 2000, there were approximately 4,873 shareholders of record of the Ordinary Shares, of which approximately 251 were registered in the US, and approximately 4,622 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 25, 2000, the closing price of Creative's Ordinary Shares on the NASDAQ National Market was $21.75 and on the SES was S$38.00.

CORPORATE DIRECTORY

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
&
Morrison & Foerster
Attorneys at Law
425 Market Street
San Francisco, CA 94105 - 2482 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
8 Cross Street #17-00
PWC Building
Singapore 048424
&
PricewaterhouseCoopers LLP
Ten Almaden Boulevard
San Jose CA 95113 USA