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CHAIRMAN'S MESSAGE

Dear Shareholders,

Fiscal 2001 was a year of significant changes and tremendous challenges for Creative. We started the year positively with an exciting product line-up and business plan, and we were optimistic about the opportunities in the upcoming year. However, the global technology market experienced a sudden and rapid downturn during the holiday season, and has subsequently worsened during the past nine months, together with a steep decline in the global equity markets. Creative was not immune to these negative market developments which have adversely affected our operating results and resulted in the company taking significant write-downs in our investment portfolio.

Sales for fiscal 2001 were $1.2 billion compared to $1.3 billion for the fiscal 2000. Gross profit as a percentage of sales was 27% in fiscal 2001 compared to 30% in fiscal 2000. Net loss for fiscal 2001 was $130 million, compared to net income of $161 million in fiscal 2000. The loss for fiscal 2001 included net investment losses and write-downs totaling $149 million and restructuring and other charges of $31 million while net income for fiscal 2000 included net investment gains of $103 million and other charges of $20 million. Excluding these investment gains/losses and other charges, net income would have been $49 million for fiscal 2001 and $78 million for fiscal 2000. We ended fiscal 2001 with a cash balance of $168 million. Although this was down when compared with $286 million in fiscal 2000, the reduction reflects the utilization of $91 million during fiscal 2001 for the repurchase of 8 million shares under the share buy-back program and the payment of $39 million for dividends.

During the year, in view of the increasingly difficult and uncertain economic outlook, we took measures to position Creative to meet the challenges in the tough period ahead of us. We redirected our strategy to focus on profitability, by concentrating on revenues from the higher-margin core audio segments, namely sound cards, speakers and personal digital entertainment (PDE) products. We are also de-emphasizing the lower-margin and higher-risk storage and graphics product lines. In addition, we implemented operational improvement programs, including cost reduction and expense control efforts in all aspects of the business. At the same time, we focused on managing our inventory position to reduce inventory exposure, especially in high-risk and low-margin product segments.

On the products and technology front, we have continued to innovate and develop new products, maintaining our leadership position in the digital entertainment market. We have also expanded our product offerings, especially in the three core audio categories: sound cards, speakers and PDE.

In the sound card category, Creative launched the 7th generation Sound Blaster® cards – the Sound Blaster Live!™ 5.1 line of sound cards, providing true Dolby® Digital 5.1 multi-channel sound to consumers, which allows them to experience total sound immersion – just like at the movie theater. In addition, we expanded our target market base and announced Sound Blaster Live! audio solutions for Macintosh® users and SUN™ workstation users.

In August 2001, we launched our groundbreaking 8th generation Sound Blaster Audigy™ cards. We believe the Sound Blaster Audigy sound card will enjoy the same success of its predecessors, and will set a new benchmark for PC audio. Powered by the Audigy processor, Sound Blaster Audigy sound card delivers audio clarity of 24 bit/96kHz and SNR of 100 dB, comparable to professional audio systems and surpassing most high-end home stereo solutions with exceptional realism in audio playback. Sound Blaster Audigy is also the only audio platform capable of delivering EAX® ADVANCED HD™, which enables high definition Multi-Environments and features four times the processing power of the previous Creative audio processor, the EMU10K1® used in the Sound Blaster Live!. We believe these features provide compelling reasons for owners of other audio cards, and even of our own existing Sound Blaster audio cards, to upgrade. The Sound Blaster platform will be further extended when we launch an external encapsulation of Sound Blaster, which is targeted at portable notebook users and closed box PCs, in the later part of fiscal 2002.

In the speaker category, there were many exciting and affordable additions to the Cambridge SoundWorks® series of speakers: Cambridge SoundWorks DTT3500 Digital which offered a high-end 5.1 speaker solution with Dolby Digital technology support; Cambridge SoundWorks PlayWorks™ PS2000 Digital for consumers who prefer space-saving one-piece speaker systems that offer "virtual" Dolby Digital 5.1 technology surround sound; Cambridge SoundWorks Slim500 for those who look for slim and elegant-looking speakers; the portable PlayDock™ PD200 for NOMAD® Jukebox users who want to share their digital audio music collection wherever they go and the top-of-the-range 5.1 high performance Cambridge SoundWorks Newton speaker system.

In fiscal 2002, we are planning to launch the new Creative Inspire™ speaker series – which boasts an inspiringly elegent design and uncompromised engineering to enable our customers to enjoy the kind of audio experience associated with high-end speaker systems.

In the PDE category, fiscal 2001 saw the launch of the NOMAD Jukebox portable digital audio player, which enjoyed a phenomenal press reception and received much highly acclaimed reviews from the industry's publications and media.

During fiscal 2002, in the PDE category, we will see new models of NOMAD Jukebox with lower costing, and features like faster connectivity, increased storage capacities and customizable faceplates. We will also introduce other variations of Creative digital audio players. This market offers new and constantly changing technologies, which, if tapped carefully, will provide growth opportunities for Creative.

Looking ahead, the existing business environment has been worsened by the recent global events. It has become even more uncertain and challenging for Creative. It is important that we continue to pursue more aggressively our strategy to focus on profitability, higher-margin core audio categories (sound cards, speakers, PDE products), cost control and inventory management.

Creative is now a much leaner and focused company with the ability to respond more quickly to changes in the tough prevailing conditions. Leveraging on our leadership in the very captive PC audio and digital entertainment markets, our broad channels, strong brand name and healthy financial position, I believe that we can rise to meet the challenges ahead.

I would like to record my appreciation to the management and staff of Creative for their dedication and perseverance in helping the company through these challenging times. I would also like to take this opportunity to thank our shareholders for their continuing support.

Sim Wong Hoo
Chairman & Chief Executive Officer

SELECTED CONSOLIDATED FINANCIAL DATA

The following table contains selected data from Creative's Consolidated Statements of Operations for the five years ended June 30, 2001. The data for the three years ended June 30, 2001 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				
	2001	**2000**	**1999**	**1998(1)**	**1997**
Sales, net	$ 1,228,602	$ 1,343,604	$ 1,296,537	$ 1,234,208	$ 1,232,957
Cost of goods sold	894,236	947,157	944,499	848,305	893,432
Gross profit	**334,366**	**396,447**	**352,038**	**385,903**	**339,525**
Operating expenses:					
Selling, general and administrative	232,951	253,733	209,668	162,464	135,644
Research and development	54,022	60,428	46,725	41,723	35,164
Restructuring and other charges (2)	22,814	20,000	–	68,568	–
Operating income	**24,579**	**62,286**	**95,645**	**113,148**	**168,717**
(Loss) gain from investments, net	(148,490)	103,443	15,048	18,469	6,803
Interest income and other, net	2,416	5,287	14,621	21,183	11,579
(Loss) income before income taxes and minority interest	**(121,495)**	**171,016**	**25,314**	**2,800**	**7,099**
Provision for income taxes (3)	(8,409)	(9,472)	(9,920)	(19,805)	(20,073)
Minority interest in (income) loss	(469)	(532)	(312)	1,779	20
Net (loss) income	**$ (130,373)**	**$ 161,012**	**115,082**	**134,774**	**167,046**
Basic (loss) earnings per share	$ (1.65)	$ 1.96	$ 1.28	$ 1.49	$ 1.89
Weighted average ordinary shares outstanding ('000)	79,049	82,028	89,818	90,654	88,422
Diluted (loss) earnings per share	$ (1.65)	$ 1.86	$ 1.25	$ 1.42	$ 1.84
Weighted average ordinary shares and equivalents outstanding ('000)	79,049	86,612	92,241	94,964	90,763

CONSOLIDATED BALANCE SHEET DATA (US$'000):

	As of June 30				
	2001	**2000**	**1999**	**1998(1)**	**1997**
Cash and cash equivalents	$ 168,157	$ 285,757	$ 318,990	$ 417,262	$ 417,943
Working capital	203,180	331,414	400,998	484,792	371,921
Total assets	673,980	1,176,459	805,689	865,113	814,818
Long-term debt, net of current maturities	22,560	27,051	28,642	32,277	33,711
Shareholders' equity	381,886	778,638	560,261	622,314	522,605

Notes:

(1) Financial data for fiscal 1998 includes the results of Cambridge SoundWorks, Inc., ENSONIQ Corporation, Silicon Engineering, Inc., and the NetMedia Division of OPTi Inc. acquired during fiscal 1998, from the date each acquisition was completed.

(2) Included in the results of operations are restructuring and other charges of: $22.8 million in fiscal 2001 which comprised $8.4 million restructuring charges, $3.2 million fixed assets impairment write-downs and $11.2 million write-off of other assets acquired from Aureal Semiconductor, Inc. ("Aureal"); in fiscal 2000, the $20.0 million charge relates to the settlement of all outstanding litigation claims between 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. See Notes 13 and 14 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 $0.8 million, $18.3 million, $26.4 million, $43.3 million and $36.4 million, or $0.01, $0.21, $0.29, $0.46 and $0.40 per share, for fiscal 2001, 2000, 1999, 1998 and 1997 respectively. The corporate income tax rate in Singapore, which would otherwise be applicable, would have been 24.5 % for fiscal year 2001, 25.5 % for fiscal year 2000, and 26 % for fiscal years 1997 to 1999. Creative's Pioneer Certificate expired in March 2000. Creative has applied for a separate and new Pioneer Certificate covering a new range of products. If Creative is awarded this new Pioneer Certificate, profits from qualified products under the new Pioneer Certificate will be exempted from tax in Singapore. The Singapore corporate income tax rate of 24.5 % will be applicable to the profits of products excluded from the new Pioneer Certificate. 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

Except for the historical information contained herein, the matters set forth herein (including all references to future financial performance, products and marketing efforts) are forward-looking statements within the meaning of the "safe harbor" provisions of The Private Securities Litigation Reform Act of 1995. Readers of this Annual Report are cautioned not to place undue emphasis or reliance on these forward-looking statements which reflect management's analysis, judgement, belief or expectation only as of the date of this Annual Report. These forward-looking statements are subject to certain assumptions, risks and uncertainties that could cause actual results to differ materially from those set forth or implied in the forward looking statements. Such assumptions, risks and uncertainties include, among others: the cost-cutting measures Creative has taken and plans to take may be insufficient or may fail to achieve the anticipated cost reduction benefits; further deterioration of the global stock market and overall reduction in demand for computer systems, peripherals and related products in general, and Creative's products specifically; increased exposure to excess and obsolete inventory; higher overhead costs as a percentage of revenue; reduction or cancellation of sales orders for Creative products or other unexpected or unplanned events that could cause Creative to miss its revenue guidance, operating expense projections or negatively impact its margins; the timely development, ramp, shipment, delivery, and market acceptance of new products, including Creative's next generation of audio and personal digital entertainment appliances, including the WebCam line of products, the NOMAD and NOMAD Jukebox line of products, CD-ROM, CD-RW and DVD drives, and communications products; the increasing proliferation of sound functionality in new products from new and existing competitors and at the application software, chip and operating system levels; reductions in the market value of products sold by Creative, including increases in inventory or declines in demand or prices for storage devices, digital entertainment appliances, board and chip-level products, software, speakers, and other products; reductions in revenues and gross margins due to numerous factors, including declines in average selling prices of Creative's products, failure to reduce costs, divestments of low margin product lines or businesses, and increased inventories and pricing pressure from competitors; the short product cycles that characterize most of Creative's products; further fluctuations in the value and liquidity of Creative's investee companies, including any losses that may result from the recent trend of increased volatility for technology stocks and potential price reductions of carrying values of our investee companies; potential fluctuations in quarterly results due to the seasonality of Creative's business and the difficulty of projecting such fluctuations; the vulnerability of certain markets to current and future currency fluctuations, including the exchange rate of the Euro; labor shortages or work stoppages; credit shortages; effects of restricted fuel availability and rising costs of fuel; Creative's reliance on sole sources for many of its chips and other key components; component shortages which may impact Creative's ability to meet customer demand; Creative's ability to protect its proprietary rights; the volatility of share prices for companies in Creative's industry and the effect of those prices or other events beyond Creative's control, including acts of war, terrorist attacks, or adverse changes in general economic conditions; and other risk factors described in Creative's filings with the Securities and Exchange Commission over the past twelve months, including without limitation, Creative's Form 6-K dated January 19, 2001. Creative urges you to consider all such factors. Creative undertakes no obligation to publicly release the results of any revisions to such forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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		
	2001	2000	1999
Sales, net	100 %	100 %	100 %
Cost of goods sold	73	70	73
Gross profit	**27**	**30**	**27**
Operating expenses:			
Selling, general and administrative	19	19	16
Research and development	4	4	3
Restructuring and other charges	2	2	–
Operating income	**2**	**5**	**8**
(Loss) gain from investments, net	(12)	8	1
Interest income and other, net	–	–	1
(Loss) income before income taxes and minority interest	**(10)**	**13**	**10**
Provision for income taxes	(1)	(1)	(1)
Minority interest in (income) loss	–	–	–
Net (loss) income	**(11) %**	**12 %**	**9 %**

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		
	2001	2000	1999
Audio products	41 %	39 %	38 %
Speakers	12 %	11 %	7 %
Multimedia Upgrade Kits	22 %	23 %	27 %
Graphic & Video products	6 %	15 %	20 %
Personal Digital Entertainment	9 %	4 %	–
Communication/ Other products	10 %	8 %	8 %

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

YEAR ENDED JUNE 30, 2001 COMPARED TO YEAR ENDED JUNE 30, 2000

Net sales for the year ended June 30, 2001 decreased by 9% compared to the year ended June 30, 2000. Audio product sales (Sound Blaster audio cards and chipsets) for fiscal year 2001 decreased marginally by 2% compared to fiscal year 2000 primarily due to weaker demand in the system integrator and original equipment manufacturer ("OEM") channels. As a percentage of total sales, audio product sales increased to 41% of sales compared to 39% of sales in fiscal year 2000. Sales of multimedia upgrade kits ("MMUK"), including data storage, decreased by 12% in fiscal year 2001 and represented 22% of sales compared to 23% of sales in the prior fiscal year. Within MMUK, sales of audio upgrade kits and CD-ROM drives declined but their impact on total sales was partially offset by an increase in sales of Compact Disk ReWritable ("CD-RW") drives. The decline in sales of multimedia audio upgrade kits, which comprised a combination of sound cards and CD-ROM drives is mainly due to the downturn in the PC business. Sales of video and graphics products decreased by 63% and represented 6% of sales in fiscal year 2001 compared with fiscal year 2000, when they represented 15% of sales. The decline in sales was due to management's decision to reduce its reliance on lower margin graphics products. Sales of personal digital entertainment products ("PDE") which include digital audio players and digital cameras increased by 95% to represent 9% of sales compared to fiscal 2000 when they represented 4% of sales. This increase in sales was primarily due to an increase in sales of the NOMAD Jukebox product introduced in the first quarter of fiscal year 2001. Sales of speakers increased marginally by 2% and represented 12% of sales in fiscal 2001 compared with fiscal 2000, when they represented 11% of sales. This improvement in speaker sales was primarily a result of the introduction of new models of multi-media speakers. Sales of other products, which included accessories, music products, communication products and other miscellaneous items, increased by 8% and represented 10% of sales in fiscal 2001 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 communication products.

Gross profit in fiscal 2001 declined by 16% to represent 27% of sales compared to 30% in fiscal 2000. Margins in fiscal 2001 were negatively impacted by a decline in the average selling prices of drives and PDE products and an $8.2 million inventory restructuring charge applied to cost of goods sold.

Selling, general and administrative ("SG&A") expenses in fiscal 2001 declined by 8% and were flat at 19% of sales compared to fiscal 2000. SG&A expenses declined due to management's cost cutting efforts and reduction in expenses incurred on non-revenue generating Internet activities. Research and development ("R&D") expenses in fiscal 2001 remained flat at 4% of sales compared with fiscal 2000.

Restructuring and other charges of $22.8 million booked in fiscal 2001 comprised restructuring charges totaling $8.4 million, $3.2 million write-downs of fixed assets and write-off of other assets acquired from Aureal amounting to $11.2 million. See Notes 13 of "Notes to Consolidated Financial Statements."

In fiscal 2001, Creative's net loss from investments was $148.5 million compared to a net gain of $103.4 million in fiscal 2000. The loss relates to $200.3 million of losses from permanent write-downs of quoted and unquoted investments, offset partially by a $51.8 million net gain from sales of quoted investments and marketable securities. Net interest and other income decreased by $2.9 million to $2.4 million in fiscal 2001 compared to $5.3 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.

Creative's provision for income taxes for fiscal 2001 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 loss or gain from investments increased from 14% in fiscal 2000 to 31% in fiscal 2001. The increase was primarily due to a higher effective tax rate in Singapore due to the expiration of the Singapore pioneer status in March 2000, and changes in the mix of taxable income arising from various geographical regions, where the tax rates range from 0% to 50%. Creative has applied for a separate and new Pioneer Certificate covering a new range of products. If Creative is awarded this new Pioneer Certificate, profits from qualified products under the new Pioneer Certificate will be exempted from tax in Singapore. In the event that Creative fails to obtain the new Pioneer Certificate, future taxable income in Singapore shall be subjected to a statutory tax rate of 24.5%. There can be no assurance that Creative will be awarded a new Pioneer Certificate; and, if awarded, the rate may be higher than historical experience.

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.

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%.

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

QUARTERLY RESULTS

The following is a summary of Creative's unaudited quarterly results for the eight quarters ended June 30, 2001, 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 in future quarters.

	Unaudited data for quarters ended (in US$'000 except per share data)							
	Jun 30 2001	**Mar 31 2001**	**Dec 31 2000**	**Sep 30 2000**	**Jun 30 2000**	**Mar 31 2000**	**Dec 31 1999**	**Sep 30 1999**
Sales, net	$ 234,178	$ 263,030	$ 427,026	$ 304,368	$ 307,715	$ 330,022	$ 436,789	$ 269,078
Cost of goods sold	170,211	199,622	313,069	211,334	212,739	228,444	306,912	199,062
Gross profit	**63,967**	**63,408**	**113,957**	**93,034**	**94,976**	**101,578**	**129,877**	**70,016**
Operating expenses:								
Selling, general and administrative	49,100	55,685	70,064	58,102	59,724	64,167	76,340	53,502
Research and development	12,431	11,380	15,115	15,096	16,460	16,538	14,717	12,713
Restructuring and other charges (1)	–	22,814	–	–	20,000	–	–	–
Operating income (loss)	**2,436**	**([illegible]6,471)**	**2[illegible],778**	**1[illegible]836**	**(1[illegible]08)**	**20,[illegible]73**	**38,8[illegible]0**	**3,8[illegible]**
Net (loss) gain from investments	(75,988)	(75,360)	507	2,351	19,211	70,632	9,235	4,365
Interest income (expense) and other, net	183	1,090	2,055	(912)	1,055	(542)	918	3,856
(Loss) income before income taxes and minority interest	**(73,369)**	**(1[illegible],741)**	**31[illegible]40**	**21,[illegible]75**	**19,[illegible]8**	**90,9[illegible]**	**48,97[illegible]**	**12,02[illegible]**
Provision for income taxes	–	–	(4,624)	(3,785)	(2,004)	(2,327)	(3,939)	(1,202)
Minority interest in (income) loss	(71)	(289)	(241)	132	349	(317)	(554)	(10)
Net (loss) income	**$ (73,440)**	**$(101,030)**	**$ 26,475**	**$ 17,622**	**$ 17,403**	**$ 88,319**	**$ 44,480**	**$ 10,810**
Basic (loss) earnings per share	$ (0.94)	$ (1.27)	$ 0.34	$ 0.22	$ 0.21	$ 1.09	$ 0.54	$ 0.13
Weighted average ordinary shares outstanding ('000)	78,084	79,299	78,964	79,848	81,367	81,339	81,999	83,410
Diluted (loss) earnings per share	$ (0.94)	$ (1.27)	$ 0.33	$ 0.21	$ 0.20	$ 1.01	$ 0.52	$ 0.13
Weighted average ordinary shares and equivalents outstanding ('000)	78,084	79,299	81,180	84,151	87,605	87,697	86,291	84,855

QUARTERLY RESULTS (Cont'd)

	Unaudited data for quarters ended (as a percentage of sales)							
	Jun 30 2001	**Mar 31 2001**	**Dec 31 2000**	**Sep 30 2000**	**Jun 30 2000**	**Mar 31 2000**	**Dec 31 1999**	**Sep 30 999**
Sales, net	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of goods sold	73	76	73	70	69	69	70	74
Gross profit	**27**	**24**	**27**	**30**	**31**	**31**	**30**	**26**
Operating Expenses:								
Selling, general and administrative	21	21	16	19	19	20	18	20
Research and development	5	4	4	5	5	5	3	5
Restructuring and other charges (1)	–	9	–	–	7	–	–	–
Operating income (loss)	**1**	**(10)**	**7**	**6**	**–**	**6**	**9**	**1**
Net (loss) gain from investments	(32)	(29)	–	1	6	22	2	2
Interest income (expense) and other, net	–	1	–	–	–	–	–	1
(Loss) income before income taxes and minority interest	**(31)**	**(38)**	**7**	**7**	**6**	**28**	**11**	**4**
Provision for income taxes	–	–	(1)	(1)	(1)	(1)	(1)	–
Minority interest in (income) loss	–	–	–	–	–	–	–	–
Net (loss) income	**(31) %**	**(38) %**	**6 %**	**6 %**	**5 %**	**27 %**	**10 %**	**4 %**

(1) Restructuring and other charges for the quarter ended March 31, 2001 includes $8.4 million in restructuring charges, fixed assets impairment write-downs of $3.2 million and write-off of other assets acquired from Aureal amounting to $11.2 million. For the quarter ended June 30, 2000, other charges of $20.0 million relates to the settlement of all outstanding litigation claims between Aureal and Creative. See Notes 13 and 14 of "Notes to Consolidated Financial Statements."

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

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents at June 30, 2001 were $168.2 million, a decrease of $117.6 million compared to the balance of $285.8 million at June 30, 2000.

Operating Activities: Net cash generated from operating activities during fiscal 2001 was $76.9 million compared with $160.2 million in fiscal 2000. The cash generated during fiscal 2001 primarily resulted from the net loss of $130.4 million being more than offset by net adjustments of $196.5 million for non-cash items including depreciation and amortization of $27.0 million, investments and other non-current asset write offs of $17.4 million, and net loss from investments of $147.4 million. Also contributing to the cash generated from operating activities were net decreases in marketable securities of $17.6 million, other assets and prepaids of $15.7 million, and inventory of $75.1 million which is in line with the management's decision to maintain a lower inventory level. However, the positive cash flow was offset partially by a net reduction in accounts payable, other accrued liabilities and income taxes payable of $101.9 million, resulting in the net cash generated of $76.9 million.

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.

Investing Activities: Net cash used for investing activities during fiscal 2001 was $69.1 million compared with $104.3 million in fiscal 2000. The amount used in fiscal 2001 comprises the purchase of investments of $110.4 million, capital expenditures of $34.5 million, and the acquisition of other non current assets of $13.1 million, including assets from Aureal. The cash used in investing activities was offset in part by the proceeds from sale of quoted investments amounting to $88.9 million.

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.

Financing Activities: During fiscal 2001, $125.4 million was used for financing activities compared with $89.1 million in fiscal 2000. Cash used for financing included $91.0 million to purchase and retire 7.7 million of Creative's ordinary shares (See Note 6 of "Notes to Consolidated Financial Statements"), $39.4 million for dividends paid (See Note 7 of "Notes to Consolidated Financial Statements"), and $4.5 million to repay long-term obligations. The cash used in financing activities was offset partially by cash generated from exercises of Creative's stock options amounting to $9.3 million.

During fiscal 2000, $89.1 million was used for financing activities compared with $184.0 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 partially 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.

As of June 30, 2001, in addition to cash reserves and excluding the term loan, Creative had unutilized credit facilities totaling approximately $116.3 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1 of "Notes to Consolidated Financial Statements" for the discussion of recently issued accounting pronouncements.

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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001 in conformity with accounting principles generally accepted in the United States of America. 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 of America, 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 our opinion.

PricewaterhouseCoopers
Singapore
August 10, 2001

CONSOLIDATED BALANCE SHEETS

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

	June 30 2001	June 30 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 168,157	$ 285,757
Marketable securities	3,581	21,156
Accounts receivable, less allowances of $25,221 and $37,197	94,445	98,923
Inventory	155,550	230,616
Other assets and prepaids	19,476	34,942
Total current assets	**441,209**	**671,394**
Property and equipment, net	110,535	96,751
Investments	118,330	395,888
Other non-current assets	3,906	12,426
Total Assets	**$ 673,980**	**$1,176,459**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 88,691	$ 183,299
Accrued liabilities	98,135	103,756
Income taxes payable	47,601	48,350
Other current liabilities	3,602	4,575
Total current liabilities	**238,029**	**339,980**
Long term obligations	22,560	27,051
Minority interest in subsidiaries	31,505	30,790
Shareholders' equity:		
Ordinary shares ('000); S$0.25 par value;		
Authorized: 200,000 shares		
Outstanding: 73,944 and 80,325 shares	6,914	7,808
Additional paid-in capital	209,555	203,111
Unrealized holding gains on quoted investments	22,249	173,948
Deferred share compensation	(5,711)	(15,924)
Retained earnings	148,879	409,695
Total shareholders' equity	**381,886**	**778,638**
Total Liabilities and Shareholders' Equity	**$ 673,980**	**$1,176,459**

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		
	2001	**2000**	**1999**
Sales, net	$1,228,602	$1,343,604	$1,296,537
Cost of goods sold	894,236	947,157	944,499
Gross profit	**334,366**	**396,447**	**352,038**
Operating expenses:			
Selling, general and administrative	232,951	253,733	209,668
Research and development	54,022	60,428	46,725
Restructuring and other charges (Notes 13 and 14)	22,814	20,000	–
Operating income	**24,579**	**62,286**	**95,645**
(Loss) gain from investments, net	(148,490)	103,443	15,048
Interest income and other, net	2,416	5,287	14,621
(Loss) income before income taxes and minority interest	**(121,495)**	**,016**	**314**
Provision for income taxes	(8,409)	(9,472)	(9,920)
Minority interest in income	(469)	(532)	(312)
Net (loss) income	**$(130,373)**	**$ 161,012**	**115,082**
Basic (loss) earnings per share	$ (1.65)	$ 1.96	$ 1.28
Weighted average ordinary shares outstanding ('000)	79,049	82,028	89,818
Diluted (loss) earnings per share	$ (1.65)	$ 1.86	$ 1.25
Weighted average ordinary shares and equivalents outstanding ('000)	79,049	86,612	92,241

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

CREATIVE

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Years ended June 30		
	2001	**2000**	**1999**
Cash flows from operating activities:			
Net (loss) income	$ (130,373)	$ 161,012	$ 115,082
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	27,004	35,582	37,265
Deferred share compensation amortization	3,254	4,615	–
Minority interest in income	469	532	312
Equity share in loss (income) of unconsolidated investments	927	(74)	(106)
Write off of investments and other non-current assets	17,438	9,793	–
Loss (gain) from investments, net	147,382	(94,712)	(15,048)
Changes in assets and liabilities, net:			
Accounts receivable	4,478	31,221	(14,214)
Inventory	75,066	(82,588)	(3,708)
Marketable securities	17,575	(21,156)	–
Other assets and prepaids	15,673	(15,252)	(2,961)
Accounts payable	(94,608)	81,633	11,122
Accrued and other liabilities	(6,588)	48,259	(5,697)
Income taxes payable	(749)	1,319	2,029
Net cash provided by operating activities	**76,948**	**160,184**	**124,076**
Cash flows from investing activities:			
Capital expenditures, net	(34,490)	(21,588)	(16,424)
Proceeds from sale of quoted investments	88,874	146,504	42,502
Purchase of investments	(110,397)	(228,273)	(64,578)
(Increase) decrease in other non current assets, net	(13,106)	(994)	133
Net cash used in investing activities	**(69,119)**	**(104,351)**	**(38,367)**
Cash flows from financing activities:			
Increase (decrease) in minority shareholders' loan and equity balance	1,071	(114)	(21)
Net proceeds from issuance of preference shares to minority shareholders	(670)	22,459	–
Proceeds from exercise of ordinary share options	9,265	16,953	5,202
Repurchase of ordinary shares	(91,029)	(102,189)	(138,994)
Repayments of long-term obligations, net	(4,497)	(5,618)	(5,124)
Dividends paid to ordinary shareholders	(39,414)	(20,557)	(45,044)
Dividends paid to minority interest	(155)	–	–
Net cash used in financing activities	**(125,429)**	**(89,066)**	**(183,981)**
Net decrease in cash and cash equivalents	**(117,600)**	**(33,233)**	**(98,272)**
Cash and cash equivalents at beginning of year	285,757	318,990	417,262
Cash and cash equivalents at end of year	**$ 168,157**	**$ 285,757**	**318,990**
Supplemental disclosure of cash flow information:			
Interest paid	$ 1,028	$ 1,069	$ 1,686
Income taxes paid	$ 9,158	$ 4,209	$ 7,832

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	Cumulative Comprehensive Income (Loss)	Deferred Share Compensation	Retained Earnings	Total
Balance at June 30, 1998	**92,914**	**$ 9,678**	**$158,532**	**$ 13,719**	**$ –**	**$440,385**	**$622,314**
Share option exercise	921	137	5,065	–	–	–	5,202
Acquistion of SEI — Shares issued from the escrow account	102	15	–	–	–	–	15
Repurchase of ordinary shares	(9,966)	(1,482)	1,482	–	–	(138,994)	(138,994)
Dividends paid	–	–	–	–	–	(45,044)	(45,044)
Deferred share compensation	–	–	5,078	–	(5,078)	–	–
Comprehensive income	–	–	–	1,686	–	115,082	116,768
Balance at June 30, 1999	**83,971**	**8,348**	**1[illegible],157**	**[illegible],405**	**([illegible],078)**	**371,[illegible]29**	**560,[illegible]1**
Shares issued under employee options and share purchase plans	2,271	333	16,620	–	–	–	16,953
Repurchase of ordinary shares	(5,917)	(873)	873	–	–	(102,189)	(102,189)
Dividends paid	–	–	–	–	–	(20,557)	(20,557)
Deferred share compensation	–	–	15,461	–	(15,461)	–	–
Amortization of deferred share compensation	–	–	–	–	4,615	–	4,615
Comprehensive income	–	–	–	158,543	–	161,012	319,555
Balance at June 30, 2000	**80,325**	**$ 7,808**	**$ 2[illegible]3,111**	**$ 17[illegible],948**	**$ (15[illegible]924)**	**$ 409,[illegible]5**	**$ 778,6[illegible]3**
Shares issued under employee options and share purchase plans	1,153	165	9,100	–	–	–	9,265
Repurchase of ordinary shares	(7,742)	(1,089)	1,089	–	–	(91,029)	(91,029)
Shares issued for purchase of Aureal assets	208	30	3,214	–	–	–	3,244
Dividends paid	–	–	–	–	–	(39,414)	(39,414)
Reversal of unvested deferred share compensation	–	–	(6,959)	–	6,959	–	–
Amortization of deferred share compensation	–	–	–	–	3,254	–	3,254
Comprehensive loss	–	–	–	(151,699)	–	(130,373)	(282,072)
Balance at June 30, 2001	**73,944**	**$ 6,914**	**$ 209,555**	**$ 22,249**	**$ (5,711)**	**$ 148,879**	**$ 381,886**

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 US GAAP 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 monetary assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net income (loss). Creative enters into forward exchange contracts to reduce its exposure to foreign exchange translation gains and losses. Forward exchange contracts are marked to market each period and the resulting gains and losses are included in the determination of net income or loss. No forward exchange contracts were outstanding at June 30, 2001. Included in interest and other expenses for fiscal years 2001, 2000 and 1999 are exchange losses of $3.7 million, $7.0 million and $2.3 million respectively.

At June 30, 2001, 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	86 %	3 %	3 %	8 %
Accounts receivable, less allowances	76 %	2 %	9 %	13 %
Total current liabilities	70 %	21 %	2 %	7 %
Long-term obligations	–	100 %	–	–

The exchange rates for the S$ and Euro utilized in translating the balance sheet at June 30, 2001, expressed in US$ per one S$ and Euro was 0.5490 and 0.8469, respectively.

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, 2001 and 2000 are fixed rate deposits of $132.7 million and $205.0 million.

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.

Fair value of financial instruments

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 actual cost on a 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, 2001 and 2000, prepaid royalties of $7.1 million and $2.4 million were included in other assets and prepaids. 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", quoted 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	
	2001	**2000**
Non quoted investments	$ 40,761	$ 106,519
Quoted investments	77,569	289,369
Total investments	**$ 118,330**	**$395,888**

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, 2001 and 2000, amounts capitalized in connection with these acquisitions was $66.5 million and the related accumulated amortization totaled $62.6 million and $56.3 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 customer. Allowances are established and regularly reviewed by management to reflect an estimate of future sales returns from customers and expected price adjustments for sales to distributors.

Research and development
Research and development costs are charged to operations as incurred.

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

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

Stock-based compensation
Creative accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. Accordingly, compensation expense for stock option is measured as the excess, if any, of the 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 August 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 will be adopted for Creative's fiscal year beginning July 1, 2002. Adoption of SFAS 143 is not expected to have a material impact on the consolidated financial statements.

In July 2001, the Financial Accounting Standards Board ("FASB") issued FASB Statements Nos. 141 and 142 (SFAS 141 and SFAS 142), "Business Combinations" and "Goodwill and Other Intangible Assets." SFAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. SFAS 141 and SFAS 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of SFAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assests acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS 141 will be reclassified to goodwill. Companies are required to adopt SFAS 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted. In connection with the adoption of SFAS 142, the Company will be required to perform a transitional goodwill impairment assessment. Adoption of these statements is not expected to have a material impact on the consolidated financial statements.

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

Recently issued accounting pronouncements *(Cont'd)*
In December 1999, the Securities and Exchange Commission's ("SEC") staff issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Creative adopted SAB No. 101 effective from the first quarter of fiscal year 2001. There was no material impact from the adoption of this statement on Creative's consolidated financial statements.

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000 and cannot be applied retroactively. There was no material impact from the adoption of this statement on Creative's consolidated financial statements.

NOTE 2 – NET (LOSS) INCOME PER SHARE

In accordance with Statement of Financial Accounting Standards No. 128 ("SFAS 128") "Earnings per Share", Creative reports both basic earnings per share and diluted earnings per share. Basic earnings per share is computed using the weighted average number of Ordinary 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. In computing the diluted earnings per share, the treasury stock method is used to determine, based on average stock prices for the respective periods, the ordinary equivalent shares to be purchased using proceeds received from the exercise of such equivalent shares. Other than the dilutive effect of stock options, there are no other financial instruments that would impact the weighted average number of ordinary shares outstanding used for computing diluted earnings per share. The potentially dilutive ordinary equivalent shares outstanding under the employee share purchase plan were not material.

Following is a reconciliation between the average number of ordinary shares outstanding and equivalent shares outstanding (in '000):

	As of June 30		
	2001	**2000**	**1999**
Weighted average ordinary shares outstanding	79,049	82,028	89,818
Weighted average dilutive stock options outstanding	–	4,584	2,423
Weighted average ordinary shares and equivalent outstanding	**79,049**	**86,612**	**92,241**

For the fiscal year 2001, approximately 2.0 million potentially dilutive shares were excluded from the determination of diluted net loss per share, as the effect of including such shares is anti-dilutive.

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

	Estimated Useful Life	As of June 30 2001	As of June 30 2000
Inventory:			
Raw materials		$ 66,509	$ 136,803
Work in progress		6,882	27,293
Finished products		82,159	66,520
Total inventory		**$155,550**	**$230,616**
Property and equipment:			
Land and buildings	25 years	$ 83,203	$ 69,630
Construction in progress	–	96	428
Machinery and equipment	3 - 6 years	54,539	57,827
Furniture and fixtures	3 - 8 years	62,430	53,748
Leasehold improvements	Term of lease	12,879	12,582
		213,147	**194,215**
Accumulated depreciation		(102,612)	(97,464)
Net property and equipment		**$110,535**	**$ 96,751**
Other accrued liabilities:			
Marketing accruals		$ 27,104	$ 28,986
Payroll accruals		18,365	18,763
Royalty accruals		7,483	5,147
Litigation accruals		–	20,000
Restructuring accruals		4,452	–
Other accruals		40,731	30,860
Total other accrued liabilities		**$ 98,135**	**$103,756**

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, 2001, were as follows (in US$'000):

	Operating Leases
Fiscal years ended June 30,	
2002	$ 8,207
2003	7,537
2004	6,756
2005	4,869
2006	3,699
Thereafter	16,354
Total minimum lease payments	**$ 47,422**

Rental expense under all operating leases was $11.8 million, $12.2 million and $11.2 million for fiscal 2001, 2000 and 1999, respectively.

NOTE 5 – COMPREHENSIVE INCOME

The components of total comprehensive income are as follows (in US$'000):

	Years ended June 30		
	2001	**2000**	**1999**
Net (loss) income	$(130,373)	$ 161,012	$ 115,082
Unrealized holding (losses) gains on available-for-sale securities during the period	(151,699)	158,543	1,686
Total comprehensive (loss) income	**$(282,072)**	**$319,555**	**$116,768**

NOTE 6 – SHARE REPURCHASES

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 (US$)
	1999	10.0	$ 14
	2000	5.9	$ 17
	2001	7.7	$ 12
Total		**23.6**	**$ 14**

At the 2000 Annual General Meeting ("AGM") held on November 8, 2000, the shareholders approved the share repurchase mandate allowing Creative to buy up to 10% of the issued share capital of Creative as at the date of the AGM. This amounts to approximately 7.9 million shares. This authority to repurchase shares shall continue in force unless revoked or revised by the shareholders in a general meeting, or until the date that the next AGM of Creative is held or is required to be held, whichever is the earlier.

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

NOTE 7 – DIVIDENDS

At the Annual General Meeting held on November 8, 2000, Creative's shareholders approved an ordinary dividend of $0.25 and a special dividend of $0.25 for each outstanding ordinary share of Creative for the fiscal year ending June 30, 2001. Dividends of $39.4 million were paid on December 15, 2000 to all shareholders of record as of November 29, 2000. Creative paid an ordinary dividend of $0.25 per ordinary share in the previous fiscal year.

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.

In fiscal 2001 and 2000, 225,000 and 57,000 shares were issued at a weighted average exercise price of $10.80 and $15.25 per share under Creative's Employee Share Purchase Plan.

Creative Employee Stock Option Plans

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. 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.

On November 18, 1996, the Board of Directors offered all employees with stock options, 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 four 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, except in the case of options granted to participants other than employees, options expire not later than the fifth 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.

No options were granted under the 1999 Scheme in fiscal 2001.

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 canceled 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 till March 31, 2001 whereby any unexercised options were canceled. 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.

Creative Employee 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, 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**
Granted – at fair market value	–	–
– below fair market value	–	–
Exercised	(928)	7.31
Canceled	(1,185)	13.49
Balance as of June 30, 2001	**6,781**	**9.01**

The total number of options exercisable at June 30, 2001, 2000 and 1999 under the New Plan and 1999 Scheme were 3,843,000, 2,594,000 and 1,996,000, 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, 2001.

	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	405	0.41	4.79	404	4.79
$5.00 to $7.99	569	0.41	5.83	569	5.83
$8.00 to $10.99	5,484	7.94	9.15	2,632	9.18
$11.00 to $14.99	85	0.83	12.77	85	12.77
$15.00 to $22.00	238	4.12	19.40	153	19.69
	6,781	6.63	9.01	3,843	8.72

Subsidiary Stock Option Plan
During fiscal 2000, a consolidated subsidiary of Creative established a stock option plan which allows for subsidiary employees and others to be granted options to purchase shares of stock in the subsidiary. 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.

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.

Subsidiary Stock Option Plan *(Cont'd)*

In fiscal 2001, the subsidiary granted 0.9 million options under the 2000 Plan at a weighted average exercise price of $2.45. Included in the options granted during the fiscal year were replacement options granted to certain employees of Creative Technology Ltd to acquire 235,000 and 30,000 of the subsidiary company's shares at an exercise price of $2.50 and $1.00 per share respectively. These options were granted in lieu of the cancellation of 470,000 shares at an exercise price of $2.50 per share and 60,000 shares at $1.00 per share. The replacement options vest immediately on grant date and the share compensation expense arising from replacement of options amounted to $0.7 million.

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 ($)
Balance as of June 30, 2000	**3,841**	**1.98**
Options granted	899	2.45
Options canceled	(2,540)	1.80
Balance as of June 30, 2001	**2,200**	**2.39**

The following table summarizes option information for the subsidiary employee stock option plan as at June 30, 2001:

Range of Exercise Price	Number Outstanding ('000)	Weighted Average Remaining Contractual Life (years)	Number Exercisable ('000)
$1.00	160	7.97	132
$2.50	2,040	8.55	603
	2,200	8.51	735

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 2001	Fiscal 2000	Fiscal 1999
Volatility	50%	60%	70%
Risk-free interest rates			
Share purchase plan	3.78% to 6.09%	6.22% to 6.81%	–
Stock options	–	5.20% to 6.65%	4.70% to 5.27%
Dividend yield	–	1.0%	2.0%
Expected lives:			
Share purchase plan	6 months	6 months	–
Stock options	–	0.01 years after vest date	0.01 years after vest date

	Years ended June 30		
	2001	2000	1999
Weighted average fair value of stock options granted:			
Stock options:			
At market	$ –	$ 5.02	$ 5.95
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 2001	Fiscal 2000
Volatility	–	–
Risk-free interest rates	3.78% to 6.34%	5.99% to 6.40%
Dividend yield	–	–
Expected lives	0.01 year after vest date	0.01 year after vest date

Creative and Subsidiary Pro Forma Disclosures *(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 (loss) and net income (loss) per share would have been as follows:

In US$'000, except for per share data	**Years ended June 30**		
	2001	**2000**	**1999**
Net (loss) income:			
As reported	$ (130,373)	$ 161,012	$ 115,082
Pro forma	$ (134,868)	$ 151,450	$ 108,230
Diluted (loss) earnings per share:			
As reported	$ (1.65)	$ 1.86	$ 1.25
Pro forma	$ (1.71)	$ 1.78	$ 1.19

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 24.5 % 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 $0.8 million, $18.3 million and $26.4 million, or $0.01, $0.21 and $0.29 per share, for fiscal 2001, 2000 and 1999, respectively. The corporate income tax rate in Singapore, which would otherwise be applicable for Creative is 24.5% for fiscal 2001, 25.5% for 2000, and 26% for 1999. Any income of a foreign subsidiary of Creative is subject to tax in the country in which the subsidiary is located and, as a result, the effective rate of tax is subject to changes as a result of the international source of income before tax.

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

	Years ended June 30		
	2001	**2000**	**1999**
Singapore	$ 25,193	$ 96,577	$ 106,644
Other countries	(146,688)	74,439	18,670
Income before income taxes and minority interest	**$(121,495)**	**$ 171,016**	**$ 125,314**

NOTE 9 – INCOME TAXES (Cont'd)

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

	Years ended June 30		
	2001	2000	1999
Singapore	$ 7,971	$ 7,376	$ 1,346
Other countries	438	2,096	8,574
Provision for income taxes	**$ 8,409**	**$ 9,472**	**$ 9,920**

Creative's effective tax provision for fiscal 2001, 2000 and 1999 reconciles to the amount computed by applying the Singapore statutory rate of 24.5% for 2001, 25.5% for 2000 and 26% for 1999 to income before income taxes and minority interest, as follows (in US$'000):

	Years ended June 30		
	2001	2000	1999
Income tax (benefit) at Singapore statutory rate	$ (29,766)	$ 43,609	$ 32,582
Tax exempt income			
Singapore	(834)	(18,316)	(26,446)
Others	–	(28,511)	(2,952)
Non-deductible expenses and write offs	37,795	3,245	2,319
Change in valuation allowances	8,699	5,135	2,603
Rate differences and others	(7,485)	4,310	1,814
Provision for income taxes	**$ 8,409**	**$ 9,472**	**$ 9,920**

Deferred tax assets at June 30, 2001 and 2000 consisted of the following (in US$'000):

	As of June 30	
	2001	2000
Non-deductible reserves	$ 26,388	$ 22,346
Net operating loss carryforwards	22,518	10,444
Other	2,558	2,608
Total deferred tax assets	**51,464**	**35,398**
Valuation allowance for deferred tax assets	(51,464)	(35,398)
	$ –	$ –

Included in fiscal 2001 are deferred tax assets comprising NOLs of $4.8 million and non-deductible reserves of $13.7 million for the United States previously not identified.

At June 30, 2001, Creative had Irish and US net operating loss carryforwards of approximately $23.7 million and $41.9 million, respectively. The Irish net operating losses have an indefinite carryforward period while the US net operating losses expire between 2005 to 2021. 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, 2001 and 2000 as management believes substantial uncertainty exists regarding the realizability of these assets.

Creative has United States tax deductions not included in the net operating loss carryforwards described above aggregating approximately $53.6 million at June 30, 2001, 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.

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 ($32.9 million) to finance the construction of Creative's headquarters building in Singapore. The loan is repayable in nineteen quarterly installments comprising of eighteen installments of S$1.5 million ($0.8 million) and a final installment for the remaining S$31.0 million ($17.0 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 interest rate charged for fiscal 2001 was at a range of 3.45% to 4.50%. 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, 2001, S$39.9 million ($21.9 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, 2001, loans extended and equity contributed by Bukit Frontiers Pte Ltd. totaled S$12.5 million ($6.9 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 $120.0 million at June 30, 2001. Within these credit facilities, sub-limits have been set on how Creative may utilize the overall credit facilities. At June 30, 2001, $2.3 million in letters of credit and $1.4 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, resulting in net proceeds to the subsidiary of approximately $22.0 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, 2001, Creative has committed to pay $2.1 million in respect of future minimum royalty obligations over terms of up to 5 years.

NOTE 13 – RESTRUCTURING AND OTHER CHARGES

In March 2001, Creative announced a series of cost-cutting measures which included a worldwide workforce reduction of approximately 10%, closure of Creative's manufacturing location in Pennsylvania and transferring these manufacturing activities to Creative's other facilities, and sharp cutbacks in selected non-revenue generating Internet initiatives. As a result of these measures and other market changes, Creative in fiscal year 2001 recorded restructuring and other charges of $22.8 million which was included in operating expenses and an inventory charge of $8.2 million to cost of goods sold. The $22.8 million restructuring and other charges comprised $5.1 million in employee separation costs, $3.3 million in facility exit costs, fixed asset impairment write-downs of $3.2 million and write off of other assets acquired from Aureal amounting to $11.2 million.

Employee separation costs represent the costs of involuntary severance benefits for approximately 400 positions. As of June 30, 2001, approximately 90% of these employees had separated from the Company. Facility exit costs primarily include lease termination and unutilized capacity costs. The accruals for employee separation costs and exit costs are included in accrued liabilities in the consolidated balance sheet.

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

	Initial Charges	Amounts Paid	Accruals as of June 30, 2001
Employee separation costs	$ 5,092	$ 3,215	$ 1,877
Facility exit costs	3,290	715	2,575
Total	**$ 8,382**	**$ 3,930**	**$ 4,452**

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

The $8.2 million inventory charge primarily relates to digital video recorders and graphics which were written down to their estimated sales values as a result of management's decision to exit from these businesses.

Included in the results of operations for fiscal 2000 were US$20.0 million for the settlement of all outstanding litigation claims between Aureal and Creative (see Note 14 of "Notes to Consolidated Financial Statements").

NOTE 14 – LITIGATION

During the course of its normal business operations, Creative and its subsidiaries are involved from time to time in a variety of intellectual property and other disputes, including claims against Creative alleging copyright infringement, patent infringement and other business torts. Currently such disputes exist with, among other entities, Bose Corporation (an action involving a patent claim by Bose and other claims and counterclaims by both sides in the District of Massachusetts and involving Creative and its Cambridge SoundWorks subsidiary); the Lemelson Foundation (an action involving patent claims by Lemelson against over 500 entities, including Creative); Photobit Corporation (a patent infringement action pending with the International Trade Commission); Seer Systems, Inc. (a breach of contract action in connection with a technology development scheme and convertible note pending in the state courts of California); and Sunonwealth Electric Machine Industry Co. (a patent infringement action pending in the Northern District of California). Creative also from time to time receives licensing inquiries and/or threats of potential future patent claims from a variety of entities, including IBM and Lucent. Creative believes it has valid defenses to the various claims and counterclaims asserted against it. However, should any of these plaintiffs prevail in their claims or counterclaims, Creative does not expect there to be any consequent material adverse effect on its financial position or results of operations.

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 was completed in November 2001, and included settlement of all outstanding litigation claims between Aureal and Creative. Creative paid $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 $3.24 million based on the fair market value of Creative stock on the settlement date. Creative recorded as a pre-tax charge of $20.0 million against fiscal 2000 earnings as a result of the settlement of outstanding litigation.

NOTE 15 – INVESTMENTS

Resulting from a continued downturn in global equity markets, Creative experienced a steep decline in its investment portfolio in fiscal 2001, resulting in net investment losses of $148.5 million which included $200.3 million of losses from permanent write-downs of quoted and unquoted investments and $51.8 million net gain from quoted investments and marketable securities. Included in the results of operations for fiscal 2000 are net gains from quoted investments and marketable securities of $113.2 million and investments write off of $9.8 million.

NOTE 16 – 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		
	2001	**2000**	**1999**
External net sales:			
Asia Pacific	$ 227,146	$ 274,101	$ 242,602
The Americas	598,829	598,956	568,099
Europe	402,627	470,547	485,836
Consolidated	**$1,228,602**	**$1,343,604**	**$1,296,537**

	Years ended June 30		
	2001	**2000**	**1999**
Operating income (loss):			
Asia Pacific	$ 26,913	$ 85,621	$ 81,576
The Americas	(18,954)	(45,654)	(6,674)
Europe	16,620	22,319	20,743
Consolidated	**$ 24,579**	**$ 62,286**	**$ 95,645**

	As of June 30	
	2001	**2000**
Identifiable assets:		
Asia Pacific	$ 442,000	$ 904,479
The Americas	151,501	161,756
Europe	80,479	110,224
Consolidated	**$ 673,980**	**$1,176,459**

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, 2001 is based on the location of the selling entity.

	As of June 30	
	2001	**2000**
Identifiable assets:		
Singapore	$ 275,103	$ 428,949
United States of America	151,501	161,756
Ireland	77,743	104,565
Rest of the world	169,633	481,189
Consolidated	**$ 673,980**	**$1,176,459**

	Years ended June 30		
	2001	**2000**	**1999**
Revenue by geographic region:			
Singapore	$ 149,228	$ 202,917	$ 199,841
United States of America	598,829	598,956	568,099
Ireland	402,627	470,547	485,836
Rest of the world	77,918	71,184	42,761
Consolidated	**$1,228,602**	**$1,343,604**	**$ 1,296,537**

Major customers: In fiscal 2001, 2000 and 1999, no customer accounted for more than 10% of net revenues. As of June 30, 2001, one customer accounted for 11.7% of net accounts receivable and as of June 30, 2000 and 1999, no customer accounted for more than 10% of net 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 SGX-ST since June 15, 1994. The following table presents, for the registered shares on the NASDAQ and SGX-ST:

(i) the annual high and low market prices for the five most recent full fiscal years;

(ii) the high and low market prices for each full fiscal quarter for the two most recent full fiscal years; and

(iii) the high and low market prices for each month for the most recent six months.

These prices do not include retail markups, markdowns, or commissions.

	NASDAQ (Price in US$/Share)		SGX-ST (Price in Singapore $/Share)	
	High	Low	High	Low
Annual High and Low				
Fiscal 1997	20.25	3.50	29.70	5.05
Fiscal 1998	29.38	11.00	46.50	17.90
Fiscal 1999	18.56	8.12	30.30	14.10
Fiscal 2000	38.00	9.69	64.00	16.60
Fiscal 2001	23.81	8.10	41.00	14.90
Quarterly High and Low				
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
Fiscal 2001				
First Quarter	23.81	19.63	41.00	34.00
Second Quarter	19.88	10.00	35.70	18.20
Third Quarter	13.88	9.03	24.10	16.50
Fourth Quarter	9.90	8.10	18.00	14.90
Monthly High and Low				
February 2001	13.56	11.25	23.90	19.90
March 2001	11.00	9.03	19.40	16.50
April 2001	9.90	8.88	17.80	16.00
May 2001	9.86	9.07	18.00	16.50
June 2001	9.24	8.10	16.60	14.90
July 2001	9.00	8.10	16.90	15.00

As of August 17, 2001, there were approximately 10,615 shareholders of record of the Ordinary Shares, of which approximately 234 were registered in the US, and approximately 10,381 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 17, 2001, the closing price of Creative's Ordinary Shares on the NASDAQ National Market was $7.90 and on the SGX-ST was S$13.90.

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

Ballycoolin Industrial Estate
Blanchardstown, Dublin 15
Republic of Ireland
Tel: 353-1-820-6444

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

CREATIVE

THE CREATIVE NETWORK

Worldwide Corporate Headquarters
Creative Technology Ltd.
31 International Business Park,
Creative Resource, Singapore 609921
Tel: +65-895 4000 Fax: +65-895 4999
Website: www.creative.com

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

Europe Headquarters
Creative Labs (Ireland) Ltd.
Ballycoolin Industrial Estate,
Blanchardstown, Dublin 15, Ireland
Tel: +353-1-820 6444
Fax: +353-1-820 9557

INSIDE ASIA

Singapore
Broadxent Pte Ltd
31 International Business Park,
#05-09, Creative Resource, Singapore 60991
Tel: +65-890 5200 Fax: +65-890 5269

China
Creative Future Computer Co. Ltd
Creative Park, No.18, Anhuaxili Block 2,
Chaoyang District, Beijing 100011
People's Republic of China
Tel: +86-10-6425 5500
Fax: +86-10-6425 9314

Hong Kong
Creative Labs (HK) Limited
Unit 927-931, 9/F., Hongkong International
Trade & Exhibition Centre,
1 Trademart Drive, Kowloon Bay,
Kowloon, Hong Kong
Tel: +852-2331 2930 Fax: +852-2331 2151

Japan
Creative Media K.K.
Kanda Eight Bldg.,
3F, 4-6-7 Soto-Kanda, Chiyoda-ku,
Tokyo 101-0021, Japan
Tel: +81-3-3256 5577 Fax: +81-3-3256 5221

Data Stream K.K.
Cortile 3F, 1-30-14 Takadanobaba,
Shinjuku-ku, Tokyo 169-0075, Japan
Tel: +81-3-5273 5251 Fax: +81-3-5273 5259
Website: www.dskk.co.jp

Malaysia
Creative Labs Sdn Bhd
D-0-5 & D-2-5 Megan Phileo Promenade,
Jalan Tun Razak, 50400 Kuala Lumpur
Tel: +60-3-2164 7199 Fax: +60-3-2164 7198

Cubic Electronics Sdn Bhd
No.1, Jalan T.U.43,
Taman Tasik Utama, Air Keroh,
75450 Melaka, Malaysia
Tel: +60-6-251 2888 Fax: +60-6-251 2999

Taiwan
Creative Labs Taiwan Co., Ltd
15F, No. 163, Sec. 1, Keelung Road,
Taipei, Taiwan, R.O.C. Zip Code: 110
Tel: +886-2-2748 2988
Fax: +886-2-2748 2989

Australia/New Zealand
Creative Labs Pty Ltd
Unit 10/1801 Botany Road
Banksmeadow NSW 2019, Australia
Tel: +61-2-9666 6100 Fax: +61-2-9666 6900

INSIDE USA

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

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

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

Broadxent, Inc.
188 Topaz Street, Milpitas, CA 95035
Tel: +1-408-719 5100 Fax: +1-408-262 1390
Website: www.broadxent.com

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

Creative Advanced Technology Center
1500 Green Hills Rd., Suite 101
Scotts Valley, CA 95067
Tel: +1-831-440 2800 Fax: +1-831-438 8509
Website: www.sei.com

INSIDE CANADA

Creative Labs, Inc.
703 Evans Avenue,
Suite 401, Etobicoke,
Ontario M9C 5E9 Canada
Tel:+1-416-626 2233 Fax: +1-416-626 2777

INSIDE EUROPE

United Kingdom
Unit 3, The Pavilions,
Ruscombe Business Park,
Ruscombe, Berkshire, RG10 9NN, UK
Tel: +44-118-9344 322
Fax: +44-118-9320 271

Benelux
Creative Labs N.V.
Royal House, Coremansstraat 34 bus 2,
B-2600 Bercham
Tel: +32-3-2878777 Fax: +32-3-2308550

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

INSIDE EUROPE

France
Creative Labs, SA
6 Bis Rue Fournier
92582 Clichy Cedex, France
Tel: +33-1 55 21 33 50
Fax: +33-1 55 21 33 51

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

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

Poland
Creative Labs (Irl) Ltd EE
02-708 Warsaw ul. Bzowa 21, Poland
Tel: +48-22-853 02 65
Tel/Fax: +48-22-843 2283

Portugal
Creative Labs
Centro de Escritorios de Negocios
Av. 5 de Outubro, 10-1, Sala 15
1050 Lisboa, Portugal
Tel: +351-1-314 9695 / 357 1118 / 356 3603
Fax: +351-1-353 4194

Spain
Creative Labs, S.L.
C/ Constitució 1-3, 4th Flr. 3rd
08960 Saint Just Desvern Barcelona, Spain
Tel: +34-93-470 3150
Fax: +34-93-499 0811

Sweden
Creative Technologies Scandinavia AB
Spånga Center, Box 129,
Stormbyvägen 2-4,
163 29 Spånga, Sweden
Tel: +46-8-795 7830
Fax: +46-8-795 7835

INSIDE AFRICA

South Africa
Creative Labs (Pty) Ltd
First Floor, North/East Wing,
TSW Building
Corner K101 & Old Pretoria Road
Midrand, South Africa
Tel: +27-11-805 0188 Fax: +27-11-805 0190