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CREATIVE

CHAIRMAN'S MESSAGE

Dear Shareholders,

Fiscal 2007 was a very difficult and challenging year for Creative, yet we had a major success with a $100 million license from Apple for its use of our ZEN® Patent. Our financial performance was negatively affected by certain market conditions during the year. For the MP3 market in particular, we experienced intense competition which exerted severe pressure on our prices, reducing revenues and gross margins.

Our primary objective during the year was to position the Company to return to profitability by the middle of our 2008 fiscal year by focusing on several key strategic areas, to improve margins and reduce the overall level of operating expenses. These efforts covered our product areas, where we focused on growing the higher-margin products, and operational improvements, including in the areas of supply chain, procurement and inventory management. The result of these efforts is reflected in the financial results for the year – improvements in gross margins and reduction in operating expenses, albeit with a reduction in revenue.

Sales for fiscal year 2007 were $0.9 billion compared to $1.1 billion for the fiscal year 2006. Gross profit as a percentage of sales was 19% in fiscal 2007, compared to 15% in fiscal 2006. Net income for fiscal 2007 was $28 million, compared to a net loss of $118 million in fiscal 2006. Net income for fiscal 2007 included a $100 million paid-up license from Apple for its use of the ZEN Patent in its products, while net loss for fiscal 2006 included net investment gains of $19 million and one-time charges of $42 million primarily related to goodwill and restructuring charges for our 3Dlabs subsidiary.

During the year we achieved a major success with the ZEN Patent with the $100 million payment from Apple as part of our broad settlement, which includes a license for Apple to use the ZEN Patent in their products. In addition, we have also joined Apple's "Made for iPod" program, under which we are able to make and sell accessory products such as speaker systems for Apple's iPod players.

We have continued to explore the opportunities that our U.S. patent for the user interface for portable media players (which we refer to as the "ZEN Patent") affords us, including licensing programs, partnerships and potential legal remedies. The ZEN Patent was awarded to Creative in the previous fiscal year for our invention of the user interface for portable media players, including many of the Creative ZEN and earlier NOMAD® Jukebox MP3 players, and found in some competing players, such as the Apple® iPod® products, and certain cell phones with music functions. The ZEN Patent covers the user interface that enables users of portable media players to efficiently and intuitively navigate among and select tracks on players which store large numbers of songs.

On the product and technology front, we have focused on growing our audio business by expanding the market for X-Fi Xtreme Fidelity® audio beyond sound cards and the PC; growing our speaker business in the high-growth and higher-margin segments of the market, including docking and portable speaker systems for the MP3 digital audio market, headphones and lifestyle speakers for the home; and streamlining our MP3 player business with a focus on a few strategic high-volume and profitable products instead of the large number of product offerings we had. Our participation in the "Made for iPod" program has also provided significant new market opportunities for our high-growth and high-margin businesses, such as docking and portable speaker systems, earphones and headphones, and our newly introduced X-Fi-enabled audio enhancement products.

In the audio business, as I have mentioned last year, following the introduction of what I believe will be the future direction of audio – the new Xtreme Fidelity audio standard, and the launch of the Sound Blaster® X-Fi™ sound cards in the previous year, we saw tremendous potential growth opportunities for expanding X-Fi beyond the PC space into the consumer electronics and cell phone markets, and beyond the X-Fi sound cards into speakers and headphones, portable music and video players, digital entertainment products for the living room, and other X-Fi-enabled audio enhancement products. X-Fi can provide these products with ground-breaking audio technologies to dramatically improve the audio experience with music, games, movies and audio creation.

During the year, we introduced the first of such X-Fi audio enhancement products and followed on with a whole range of these products covering X-Fi modules, X-Fi docking devices, X-Fi docking speakers and X-Fi headphones. Products introduced to date include the Xmod, Xdock, X-Fi Wireless Receiver, Xmod Wireless, X-Fi Sound System Z600, X-Fi Sound System i600 for iPod and Aurvana X-Fi Headphones.

The Xdock is an X-Fi Dock for iPods that allows you to play back music wirelessly in any room of the home. When docked with an iPod that connects to the home entertainment system or speaker system, it up-converts the music from the player in real-time to a quality beyond CD quality - to 24-bit Xtreme Fidelity, a dramatic improvement over the sound of compressed MP3 music. In addition to playing music through the home entertainment system, it wirelessly broadcasts the music through the home to X-Fi Wireless Receivers, playing music from the player in Xtreme Fidelity. The Xdock has been certified by the Made for iPod program, giving us the first Xtreme Fidelity solution that we can market to a huge base of iPod users.

Similar to the Xdock, the Xmod Wireless is an X-Fi Wireless Music System that works with any audio player. The X-Fi Crystalizer technology in the Xmod Wireless dramatically improves the quality of MP3 music playback. It also allows the user to play music from any MP3 device including the iPhone and iPod wirelessly throughout the home through X-Fi Wireless Receivers. To differentiate our docking speakers from market competition, our X-Fi Sound System Z600 and X-Fi Sound System i600 for iPod incorporate the X-Fi Crystalizer technology that intelligently helps restore audio detail and vibrancy lost during compression of downloaded music and movies, and our X-Fi CMSS-3D technology allows users to enjoy surround sound experience over both speakers and headphones. The premium Aurvana X-Fi Headphones with noise-canceling technology are the world's first headphones with X-Fi technology that are designed to significantly improve audio playback quality for the iPhone, iPod and any other portable entertainment devices.

For the speaker and headphone products, in addition to the X-Fi-enabled speakers and headphones mentioned earlier, we have expanded our line of these products to include a new range of elegant lifestyle docking speakers for MP3 players, namely the PlayDock Z500 for ZEN players and PlayDock i500 for iPod, and the TravelSound series of portable speakers, such as TravelSound i and TravelSound i50 for iPod, and TravelSound ZEN Stone Docking Speakers. These speakers are designed as compact docking stations for Creative ZEN and Apple iPod players and offer superior sound quality with the use of premium full-range NeoTitanium micro-drivers. They can instantly transform ZEN or iPod players into vibrant entertainment hubs for any home or outdoor environments. For high-performance stereo speakers, we're building on the success of our GigaWorks T20 system with the introduction of the powerful GigaWorks T40. This professionally designed full-range speaker system features a three-driver design for rich acoustic audio performance and deeper bass effects, injecting new life to users' desktop music-listening experience. The power and performance of the T40 system makes it ideal for use with desktop and notebook PCs, and flat-panel monitors and televisions. For headphone products, we continue to build on the initial success of our premium Aurvana series of high performance headphones and earphones. During the period, besides the Aurvana X-Fi Headphones mentioned earlier, we have also introduced Aurvana DJ Headphones and Aurvana Live! Headphones.

Despite the challenging MP3 market, Creative continued to achieve the number two worldwide unit market share position, with our ZEN family of MP3 players. In line with our plan to streamline our MP3 player business to focus on a few strategic high-volume and profitable products instead of the previous large number of product offerings, we have reduced our new product introductions to only a few key products, the main ones being the Creative ZEN Stone, Creative ZEN Stone Plus and the recently introduced credit card-sized ZEN digital media player. The tiny Creative ZEN Stone is a featherweight 1GB flash memory MP3 player that comes in six vibrant colours. It is especially attractive to entry-level music enthusiasts. The Creative ZEN Stone Plus 2GB uses the same cool style and colours of the Creative ZEN Stone and added on a rich selection of features, including a small LCD screen, FM radio, clock, stopwatch and voice recorder. These two micro-sized players have opened up a new market for our MP3 players. In the recently introduced Creative ZEN, we have updated our award-winning Creative ZEN Vision:M digital media player by reducing its form factor to an incredible small size of a credit card, yet retaining and upgrading its many key features. The all new Creative ZEN, in 4GB, 8GB and 16GB flash memory, now has a stunning 2.5-inch colour screen that supports up to 16.7 million colours. It is the first Creative player to support AAC music and unprotected iTunes Plus tracks from the iTunes stores, in addition to MP3 and WMA formats. Furthermore, it features an SD memory slot, so users can add virtually limitless additional storage capacity and carry all their digital content on the go.

Looking ahead, our near term plan is to focus on returning to profitability by focusing on several key areas. On the product front, these include continuing to grow our audio business in the X-Fi-enabled audio products segments, and the high-growth and higher-margin segments of the speaker and headphone market, while we continue to focus on a smaller number of strategic profitable products for our MP3 player business. On the operations front, we will continue exploring strategic alternatives for improvement, including in the areas of supply chain, procurement and inventory management, and reducing the overall level of operating expenses.

Going forward, we see significant growth opportunities for X-Fi in the consumer electronics and cell phone markets, in addition to the PC space. The X-Fi-enabled products we saw in the past year are just the beginning of many more new opportunities to expand X-Fi into more speaker systems and headphones, portable music and video players, digital entertainment products for the living room, and other X-Fi-enabled audio enhancement products such as the Xmod and X-Fi docking devices. Our participation in the "Made for iPod" program provides further market potential for X-Fi audio enhancement products in the iPod market.

We will continue to focus on our core competence - advanced audio technologies, and work on leveraging on our leadership in this area and, together with the other key technologies we have, exploit them to develop the next generation of advanced, cutting edge, ground-breaking personal digital entertainment products.

Sim Wong Hoo
Chairman & Chief Executive Officer

CREATIVE

SELECTED CONSOLIDATED FINANCIAL DATA

The following table contains selected data from Creative's Consolidated Statements of Operations for the five years ended June 30, 2007. The data for the three years ended June 30, 2007 is derived from and should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this annual report. The data for the two years ended June 30, 2004 and 2003 is derived from the audited financial statements which are not included in this annual report.

CONSOLIDATED STATEMENTS OF OPERATIONS DATA (US$'000, EXCEPT PER SHARE DATA):

	For the years ended June 30				
	2007	**2006**	**2005**	**2004**	**2003**
Sales, net	$ 914,906	$ 1,127,531	$ 1,224,411	$ 814,853	$ 701,769
Cost of goods sold	737,203	963,217	949,151	533,513	452,952
Gross profit	**177,703**	**164,314**	**275,260**	**281,340**	**248,817**
Operating expenses:					
Selling, general and administrative	175,180	195,197	196,258	167,588	162,839
Research and development	63,646	77,186	82,325	69,504	58,775
Impairment of goodwill and other intangible assets	–	31,478	65,225	–	–
Other charges (1)	–	5,873	–	–	–
Operating (loss) income	**(61,123)**	**(145,420)**	**(68,548)**	**44,248**	**27,203**
(Loss) gain from investments, net	(1,880)	18,904	74,405	72,602	(6,049)
Interest income	9,916	6,241	3,571	4,592	2,623
Interest expense	(10,245)	(9,411)	(3,674)	(1,001)	(1,495)
Others (2)	114,622	3,572	(4,260)	5,685	3,736
Income (loss) before income taxes and minority interest	**51,290**	**(126,114)**	**1,494**	**126,126**	**26,018**
Income tax (expense) benefit (3)	(23,918)	7,150	(969)	8,539	(2,720)
Minority interest in loss (income)	817	805	63	(418)	79
Net income (loss)	**$ 28,189**	**$ (118,159)**	**$ 588**	**$ 134,247**	**$ 23,377**
Basic earnings (loss) per share	$ 0.34	$ (1.42)	$ 0.01	$ 1.66	$ 0.30
Weighted average ordinary shares outstanding ('000)	83,452	83,093	82,661	80,654	79,202
Diluted earnings (loss) per share	$ 0.34	$ (1.42)	$ 0.01	$ 1.61	$ 0.29
Weighted average ordinary shares and equivalents outstanding ('000)	83,913	83,093	85,333	83,630	80,851
Dividends declared per share	$ 0.25	$ 0.25	$ 0.50	$ 0.25	$ 0.25

CONSOLIDATED BALANCE SHEET DATA (US$'000):

	As of June 30				
	2007	2006	2005	2004	2003
Cash and cash equivalents	$ 250,480	$ 213,995	$ 187,246	$ 211,077	$ 232,053
Working capital	351,260	405,907	506,527	297,502	209,389
Total assets	723,033	830,613	1,077,474	940,848	646,843
Long-term debt, net of current maturities	129,131	206,593	209,455	35,614	39,027
Shareholders' equity	408,570	393,153	581,132	691,497	428,837

Notes:

(1) Other charges of $5.9 million in the results of operations in fiscal year 2006 comprised a $4.9 million restructuring charge relating to 3Dlabs Inc., Ltd ("3Dlabs") and $1.0 million in employee separation costs under a worldwide workforce reduction exercise.

(2) Other income of $114.6 million in fiscal year 2007 included a $100.0 million paid-up license by Apple Inc. for use of the Creative ZEN Patent in its products.

(3) As described in Note 10 of "Notes to Consolidated Financial Statements," Creative was granted a Pioneer Certificate under the International Headquarters Award that will expire in March 2010. Under the Pioneer Certificate, profits arising from qualifying activities will be exempted from income tax in Singapore, subject to certain conditions. As a result of obtaining this Pioneer Certificate, income taxes in fiscal year 2006 and 2004 includes a $10.0 million and $12.3 million reversal of income taxes. The reversal was related to corporate taxes provided for in full for profits arising from qualifying activities from the commencement date of the Pioneer Certificate until the second quarter of fiscal year 2004, based on the standard tax rates of 24.5% for fiscal year 2001 and 22% for fiscal years 2002 and 2003 and 20% for fiscal year 2004. These standard corporate income tax rates continue to be applicable to profits arising from activities excluded from the Pioneer Certificate. See Management's Discussion and Analysis of Financial Condition and Results of Operations ("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 contains forward-looking statements and are subject to certain risks and uncertainties that could cause Creative's actual results to differ materially. Such risks and uncertainties include: Creative's ability to timely develop new products that gain market acceptance and to manage frequent product transitions; competitive pressures in the marketplace; a reduction or cancellation of sales orders for Creative products; accelerated declines in the average selling prices of Creative's products or any prices of components; Creative's ability to successfully integrate acquisitions; potential fluctuations in quarterly results due to the seasonality of Creative's business and the difficulty of projecting such fluctuations; possible disruption in commercial activities caused by factors outside of Creative's control, such as terrorism, armed conflict and labor disputes; a reduction in demand for computer systems, peripherals and related consumer products as a result of poor economic conditions, social and political turmoil; major health concerns; the proliferation of sound functionality in new products from competitors at the application software, chip and operating system levels; the deterioration of global equity markets; exposure to excess and obsolete inventory; 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 vulnerability of certain markets to current and future currency fluctuations; the effects of restricted fuel availability and rising costs of fuel; and fluctuations in the value and liquidity of Creative's investee companies. For further information regarding the risks and uncertainties associated with Creative's business, please refer to its filings with the SEC, including its Form 20-F for fiscal 2006 filed with the SEC. Creative undertakes no obligation to update any forward-looking statement to conform the statement to actual results or changes in Creative's expectations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

GENERAL

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon Creative's Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgment about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies affect its more significant estimates and assumptions used in the preparation of its consolidated financial statements:

Revenue recognition;
Allowances for doubtful accounts, returns and discounts;
Product warranties;
Valuation of inventories;
Valuation of investments;
Valuation of goodwill and other intangible assets;
Assessment of the probability of the outcome of current litigation; and
Accounting for income taxes.

REVENUE RECOGNITION

Revenue from product sales is recognised when the following four criteria are met:

- Persuasive evidence of an arrangement exists

  Persuasive evidence of an arrangement exists when Creative receives a purchase order from the customer and Creative subsequently confirms the order by issuing a sales order to the customer.

- Title and risk of loss have been transferred and delivery has occurred

  Based on the shipping terms specified in the customer's purchase order or Creative's sales order to the customer, this criteria is met when a product is delivered to a common carrier, or delivered to the customer's delivery site or shipped to the customer.

- The price is fixed or determinable

  The price is fixed or determinable when a sales order is issued to the customer.

- Collection is probable

  Creative assesses the credit worthiness of each customer and will only issue a sales order to a customer if it believes that collection from that customer is probable.

Allowances are provided for estimated returns, discounts and warranties. Management analyzes historical returns, current economic trends and changes in customer demand and acceptance of its products when evaluating the adequacy of the sales returns allowance. Such allowances are adjusted periodically to reflect actual and anticipated experience. When recognizing revenue, Creative records estimated reductions to revenue for customer and distributor programs and incentive offerings, including price protection, promotions, other volume-based incentives and rebates. Significant management judgment and estimates must be used in connection with establishing these allowances in any accounting period. Creative may take action when necessary in response to market conditions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered.

ALLOWANCES FOR DOUBTFUL ACCOUNTS, RETURNS AND DISCOUNTS

Creative distributes its products primarily through third party resellers. Creative establishes allowances for doubtful accounts, returns and discounts for specifically identified doubtful accounts, returns and discounts based on credit profiles of its customers, current economic trends, contractual terms and conditions and historical payment, return and discount experience. Management performs ongoing credit evaluations of customers' financial condition and uses letters of credit in certain circumstances. Credit insurance coverage is obtained when coverage is available and feasible. However, Creative is not able to procure credit insurance coverage for all customers as insurers have excluded certain customers and geographic markets. In the event actual returns, discounts and bad debts differ from the company's estimates, or Creative adjusts these estimates in future periods, its operating results and financial position could be adversely affected.

PRODUCT WARRANTIES

The warranty period for the bulk of Creative's products typically ranges between 1 to 3 years. The product warranty accrual reflects management's best estimate of probable liability under its product warranties. Management determines the warranty provision based on known product failures (if any), historical experience, and other currently available evidence. If actual experience of product returns or cost of repair differ from the management's estimates, revisions to the estimated warranty liability would be required and could have a material effect on Creative's future results of operations.

VALUATION OF INVENTORIES

Creative states inventories at the lower of cost or market. The company records a write-down for inventories of components and products which have become obsolete or are in excess of anticipated demand or net realizable value. Management performs a detailed assessment of inventory at each balance sheet date to establish provisions for excess and obsolete inventories. Management's evaluation includes a review of, among other factors, historical sales, current economic trends, forecasted sales, demand requirements, product lifecycle and product development plans, quality issues, and current inventory levels. The markets for PC peripherals and personal digital entertainment products are subject to a rapid and unpredictable pace of product and component obsolescence and demand changes. If future demand or market conditions for the company's products are less favorable than forecasted or if unforeseen technological changes negatively impact the utility of component inventory, Creative may be required to record write-

VALUATION OF INVENTORIES (Cont'd)

downs which would negatively affect gross margins in the period when the write-downs are recorded and its operating results and financial position could be adversely affected.

VALUATION OF INVESTMENTS

Creative holds equity investments in various companies from less than 1% to 100% of the issuer's outstanding capital stock. Investments in companies in which Creative acquires more than 50% of the outstanding capital stock and which are under Creative's effective control, are treated as investments in subsidiaries, and the balance sheets and results of operations are fully consolidated after making an allowance for any minority interests. Companies in which Creative's investments total between 20% and 50% of such company's capital stock are treated as associated companies and recorded on an equity basis, whereby the cost of investment is adjusted to recognise Creative's share of all post acquisition results of operations.

As for investments of less than 20%, non-quoted investments are carried at cost, less provisions for permanent impairment where necessary, and quoted investments are reported at fair value with the unrealised gains and losses included as a separate component of shareholders' equity. The investment portfolio is monitored on a periodic basis for impairment. Creative's investments in these companies are inherently risky because the markets for the technologies or products they have under development are typically in the early stages and may never develop. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. Fair values for investments in public companies are determined using quoted market prices. Fair values for investments in privately-held companies are estimated based upon one or more of the following: pricing models using historical and forecasted financial information and current market rates, liquidation values, the values of recent rounds of financing, or quoted market prices of comparable public companies.

In order to determine whether a decline in value is other-than-temporary, Creative evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value; the financial condition of and business outlook for the company, including key operational and cash flow metrics, current market conditions and future trends in the company's industry, and the company's relative competitive position within the industry; and Creative's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

VALUATION OF GOODWILL AND OTHER INTANGIBLE ASSETS

Creative uses the purchase method of accounting for business combinations, in line with Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 141 "Business Combinations." The purchase method of accounting for acquisitions requires extensive use of accounting estimates and judgment to allocate the purchase price paid to the fair value of the net tangible and intangible assets acquired, including in-process technology. The allocation of the purchase price is based on independent appraisals. The amounts and useful lives assigned to intangible assets could impact future amortization. The amount assigned to in-process technology is expensed immediately. If the assumptions and estimates used to allocate the purchase price are not correct, purchase price adjustments or future asset impairment charges could be required.

Creative reviews goodwill and purchased intangible assets for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Factors that Creative may consider important which could trigger an impairment review include the following:

- significant under-performance relative to historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for Creative's overall business;
- significant negative industry or economic trends;
- significant decline in Creative's stock price for a sustained period; and
- Creative's market capitalization relative to net book value.

When the existence of one or more of the above factors indicate that the carrying value of goodwill and other intangible assets may be impaired, Creative measures the amount of impairment based on a combination of market comparable method and projected discounted cash flow method using a discount rate determined by the management to commensurate with the risk inherent in

Creative's current business model. Additionally, in response to changes in the PC peripherals and consumer electronics industries and changes in global or regional economic conditions, Creative may strategically realign its resources and consider restructuring, disposing or otherwise exiting businesses, which could result in an impairment of property, plant and equipment, identifiable intangibles or goodwill.

ASSESSMENT OF THE PROBABILITY OF THE OUTCOME OF CURRENT LITIGATION

Creative records accruals for loss contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

ACCOUNTING FOR INCOME TAXES

In preparing its financial statements, Creative estimates its income taxes for each of the jurisdictions in which it operates. This involves estimating the actual current tax exposure and assessing temporary differences resulting from differing treatment of items, such as reserves and accruals for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within Creative's consolidated balance sheet. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and future taxable income for purposes of assessing the ability to realize any future benefit from its deferred tax assets. Creative provides for a valuation allowance with regard to its deferred tax assets as management believes that a substantial uncertainty exists regarding the realizability of these assets.

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

RESULTS OF OPERATIONS

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

	Years ended June 30		
	2007	**2006**	**2005**
Sales, net	100 %	100 %	100 %
Cost of goods sold	81	85	78
Gross profit	**19**	**15**	**22**
Operating expenses:			
Selling, general and administrative	19	18	16
Research and development	7	7	7
Impairment of goodwill and other intangible assets	–	3	5
Other charges	–	–	–
Operating loss	**(7)**	**(13)**	**(6)**
(Loss) gain from investments, net	–	2	6
Interest income	1	1	–
Interest expense	(1)	(1)	–
Others	13	–	–
Income (loss) before income taxes and minority interest	**6**	**(11)**	**–**
Income tax (expense) benefit	(3)	1	–
Minority interest in loss	–	–	–
Net income (loss)	**3 %**	**(10) %**	**– %**

The following table sets forth Creative's net sales by product category expressed as a percentage of sales for the past three fiscal years:

	Percentage of Net Sales for fiscal years ended June 30		
	2007	**2006**	**2005**
Personal Digital Entertainment	63 %	65 %	63 %
Audio	13 %	13 %	14 %
Speakers	16 %	13 %	14 %
All Other Products	8 %	9 %	9 %

YEAR ENDED JUNE 30, 2007 COMPARED TO YEAR ENDED JUNE 30, 2006

Net sales

Net sales for the year ended June 30, 2007 decreased by 19% compared to the year ended June 30, 2006 mainly due to lower sales of personal digital entertainment ("PDE") and audio products. Sales of PDE products, which include digital audio players and digital cameras, decreased by 21% compared to fiscal year 2006 and represented 63% of sales in fiscal year 2007 compared to 65% of sales in fiscal year 2006. The decrease in sales of PDE products was primarily attributable to lower average selling prices of digital audio players resulting from product mix and management's decision to streamline the company's lineup of digital audio players to focus on strategic and more profitable products. Sales of audio products, which consist of Sound Blaster audio cards and chipsets, decreased by 22% compared to fiscal year 2006 and represented 13% of sales in fiscal years 2007 and 2006. The decrease in audio product sales was mainly due to a decrease in sales of low-end audio sound cards. Sales of speakers decreased by 6% in fiscal year 2007 compared to fiscal year 2006 and represented 16% of sales in fiscal year 2007 compared to 13% in fiscal year 2006. Sales from all other products, which include graphics products, communication products, accessories and other miscellaneous items, decreased by 20% compared to fiscal year 2006 and represented 8% of sales in fiscal year 2007 and 9% in fiscal year 2006. The decrease was primarily attributable to decreases in sales of graphics and other miscellaneous products.

Gross profit

Gross profit in fiscal year 2007 was 19% of sales compared to 15% in fiscal year 2006. Gross profit at 19% in fiscal year 2007 was consistent with the mix of products sold during the fiscal year with a higher percentage of sales coming from digital audio players which generally have lower gross profit margins due to competitive pricing on the digital audio players. The lower gross profit margin in fiscal year 2006 was primarily attributable to a substantial write-down of flash memory inventory amounting to $19.0 million in the third quarter of fiscal year 2006 due to a drop in flash memory prices. The drop in flash memory prices caused market uncertainty that resulted in lower sales and selling prices of digital audio players, negatively impacting the gross profit margin of fiscal year 2006.

Operating expenses

In line with the decrease in sales and management's efforts to reduce operating costs, selling, general and administrative ("SG&A") expenses in fiscal year 2007 decreased by 10% compared to fiscal year 2006. As a percentage of sales, SG&A expenses were 19% of sales compared to 18% of sales in fiscal year 2006.

Research and development ("R&D") expenses decreased by 18% compared to fiscal year 2006. The decrease was in line with the management's costs cutting efforts and a reduced R&D spending by Creative's wholly-owned subsidiary, 3Dlabs, due to a change in its business strategy to focus on the portable handheld device market instead of the professional workstation graphics business. As a percentage of sales, R&D expenses were 7% of sales in fiscal years 2007 and 2006.

In fiscal year 2006, there was a change in the business strategy of 3Dlabs to refocus on the portable handheld device market instead of the professional workstation graphics business. As a result, the fair value of 3Dlabs could no longer support the carrying value of the goodwill and other intangible assets associated with the acquisition of 3Dlabs in May 2002. Accordingly, Creative recorded a $31.5 million impairment of goodwill and other intangible assets in fiscal year 2006. See Note 3 of "Notes to Consolidated Financial Statements."

Other charges of $5.9 million for fiscal year 2006 comprised mainly restructuring charges incurred by 3Dlabs due to the change in business strategy. The restructuring charges comprised mainly employee severance costs and fixed assets impairment write-downs. See Note 12 of "Notes to Consolidated Financial Statements."

Net investment (loss) gain

Net loss of $1.9 million in fiscal year 2007 was mainly due to $2.0 million write-downs of investments. Net investment gain of $18.9 million in fiscal year 2006 included a $20.9 million net gain from sales of investments offset by $2.0 million in write-downs of investments.

As part of its long-term business strategy, from time to time, Creative makes strategic equity investments in companies that can provide Creative with technologies or products that management believes will give Creative a competitive advantage in the markets in which Creative competes.

Net interest

Net interest for fiscal years 2007 and 2006 was an expense of $0.3 million and $3.2 million respectively. The lower net interest expense for fiscal year 2007 was due to higher interest income from the higher average cash balance in fiscal year 2007 compared to fiscal year 2006 which helped to offset the bulk of the interest expense in fiscal year 2007.

Others

Other income was $114.6 million in fiscal year 2007 compared to $3.6 million in fiscal year 2006. Other income of $114.6 million in fiscal year 2007 included a $100.0 million paid-up license by Apple Inc. for use of the Creative ZEN Patent in its products and a $12.1 million exchange gain. Other income of $3.6 million in fiscal year 2006 comprised mainly of $1.4 million in dividends received from investments and $2.0 million in sundry income, the bulk of which pertained to a write-back of unclaimed invoices.

Income tax (expense) benefit

Income tax expense of $23.9 million in fiscal year 2007 was mainly due to $18.0 million withholding tax paid on the license fees received from Apple and the changes in the mix of taxable income arising from various geographical regions. Income taxes of foreign subsidiaries are based on the corporate income tax rates of the country in which the subsidiary is located. Net operating profits from some subsidiaries are not offsetable with net operating losses sustained by subsidiaries from a different tax jurisdiction. In Singapore, Creative was granted a Pioneer Certificate under the International Headquarters Award that will expire in March 2010. Profits arising from qualifying activities under the Pioneer Certificate will be exempted from income tax, subject to certain conditions. The Singapore corporate income tax rate of 18% is applicable to profits excluded from the Pioneer Certificate.

In fiscal year 2006, tax write-back includes a $10.0 million reversal of income taxes. The reversal was related to corporate taxes provided for in full for profits arising from qualifying activities from the commencement date of the Pioneer Certificate until the second quarter of fiscal year 2004, based on the standard tax rates of 24.5% for fiscal year 2001, 22% for fiscal years 2002 and 2003, and 20% for fiscal year 2004.

YEAR ENDED JUNE 30, 2006 COMPARED TO YEAR ENDED JUNE 30, 2005

Net sales

Net sales for the year ended June 30, 2006 decreased by 8% compared to the year ended June 30, 2005. Sales of PDE products, which include digital audio players and digital cameras, decreased by 5% compared to fiscal year 2005 and represented 65% of sales in fiscal year 2006 compared to 63% of sales in fiscal year 2005. During the first six months of fiscal year 2006, sales of PDE products increased by 34% compared to the same period in the prior fiscal year, but sales of such products slowed significantly in the second half of the fiscal year. The slowdown in sales of PDE products in the second half of fiscal year 2006 was mainly due to a drop in flash memory prices during that period, which created uncertainty and price instability in the retail market for flash-based digital audio players and contributed to a slowdown in worldwide sales of digital audio players, and Creative's decision to streamline its lineup of digital audio players to focus on strategic and more profitable products. Sales of audio products, which consist of Sound Blaster audio cards and chipsets, decreased by 12% compared to fiscal year 2005 and represented 13% of sales in fiscal year 2006 compared to 14% in fiscal year 2005. The decrease in audio product sales was mainly due to a decrease in sales of low-end audio sound cards. Sales of speakers decreased by 12% in fiscal year 2006 compared to fiscal year 2005 and represented 13% of sales in fiscal year 2006 compared to 14% in fiscal year 2005. The decrease was primarily attributable to lower sales of non-multimedia speakers. Sales from all other products, which include graphics products, communication products, accessories and other miscellaneous items, decreased by 16% compared to fiscal year 2005 and represented 9% of sales in fiscal years 2006 and 2005. The decrease was primarily attributable to decreases in sales of graphics and communication products.

Gross profit

Gross profit in fiscal year 2006 was 15% of sales compared to 22% in fiscal year 2005. The decrease in gross profit was primarily attributable to a substantial write-down of flash memory inventory amounting to $19.0 million in the third quarter of fiscal year 2006 due to a drop in the flash memory prices. The drop in flash memory prices caused market uncertainty that resulted in lower sales and reductions in the selling prices of digital audio players, which negatively impacted gross profit.

Operating expenses

SG&A expenses in fiscal year 2006 decreased marginally by 1% compared to fiscal year 2005. As a percentage of sales, SG&A expenses were 18% of sales compared to 16% of sales in fiscal year 2005.

R&D expenses decreased by 6% compared to fiscal year 2005. As a percentage of sales, R&D expenses were 7% of sales in fiscal years 2006 and 2005.

In fiscal year 2006, there was a change in the business strategy of 3Dlabs to refocus on the portable handheld device market instead of the professional workstation graphics business. As a result, the fair value of 3Dlabs could no longer support the carrying value of the goodwill and other intangible assets associated with the acquisition of 3Dlabs in May 2002. Accordingly, Creative recorded a $31.5 million impairment of goodwill and other intangible assets in fiscal year 2006. See Note 3 of "Notes to Consolidated Financial Statements."

The impairment of goodwill and intangible assets charge of $65.2 million in fiscal year 2005 resulted from a review of the goodwill and intangible assets of 3Dlabs during the second quarter of fiscal year 2005. During the second quarter of fiscal year 2005, management noted that the revenue of 3Dlabs continued to perform below expectations due to delays in the launch of new products. Therefore, in accordance with SFAS No. 142, an impairment test was performed by an independent assessor on the goodwill and other intangible assets of 3Dlabs. The fair value was determined based on a combination of the projected discounted cash flow method and the market comparable method whereby market multiples of 3Dlabs were compared to the market multiples of other publicly traded companies in similar lines of business. The conclusion of the impairment review was that the fair value of 3Dlabs could no longer support the carrying value of the remaining goodwill and other intangible assets associated with them. As a result, Creative recorded goodwill and other intangible assets impairment charge of $65.2 million in fiscal year 2005.

Other charges of $5.9 million for fiscal year 2006 comprised mainly restructuring charges incurred by 3Dlabs due to the change in business strategy. The restructuring charge comprised mainly employee severance costs and fixed assets impairment write-downs. See Note 12 of "Notes to Consolidated Financial Statements."

Net investment (loss) gain

Net investment gain of $18.9 million in fiscal year 2006 included a $20.9 million net gain from sales of investments offset by $2.0 million in write-downs of investments. Net investment gain of $74.4 million in fiscal year 2005 comprised a $86.0 million net gain from sales of investments offset by $11.6 million in write-downs of investments. The bulk of the net gain from the sales of investments was derived from sales of shares of SigmaTel, Inc. ("SigmaTel").

As part of its long-term business strategy, from time to time, Creative makes strategic equity investments in companies that can provide Creative with technologies or products that management believes will give Creative a competitive advantage in the markets in which Creative competes.

Net interest

Net interest for fiscal year 2006 was an expense of $3.2 million compared to an expense of $0.1 million for fiscal year 2005. The higher net interest expense in fiscal year 2006 was due to the five-year $175.0 million syndicated term loan, of which $100.0 million was drawn-down in December 2004 and the remaining $75.0 million in February 2005.

Others

Other income was $3.6 million in fiscal year 2006 compared to an expense of $4.3 million in fiscal year 2005. Other income of $3.6 million in fiscal year 2006 comprised mainly of $1.4 million in dividends received from investments and $2.0 million in sundry income, the bulk of which pertained to a write-back of unclaimed invoices. Other expenses in fiscal year 2005 included an exchange loss of $4.2 million and Creative's share of equity-method investees' losses of $1.6 million, offset partially by $1.2 million in dividends received from investments.

Income tax (expense) benefit

Income taxes of foreign subsidiaries are based on the corporate income tax rates of the country in which the subsidiary is located. Net operating profits from some subsidiaries are not offsetable with the net operating losses sustained by subsidiaries from a different tax jurisdiction. In Singapore, Creative was granted a Pioneer Certificate under the International Headquarters Award that will expire in March 2010. Profits arising from qualifying activities under the Pioneer Certificate will be exempted from income tax, subject to certain conditions. The Singapore corporate income tax rate of 20% is applicable to the profits excluded from the Pioneer Certificate.

In fiscal year 2006, tax write-back included a $10.0 million reversal of income taxes. The reversal was related to corporate taxes provided for in full for profits arising from qualifying activities from the commencement date of the Pioneer Certificate until the second quarter of fiscal year 2004, based on the standard tax rates of 24.5% for fiscal year 2001, 22% for fiscal years 2002 and 2003, and 20% for fiscal year 2004.

QUARTERLY RESULTS

The following is a summary of Creative's unaudited quarterly results for the eight quarters ended June 30, 2007, together with the percentage of sales represented by such results. Consistent with the PC peripherals and digital entertainment markets, demand for Creative's products is generally stronger in the quarter ended December 31, compared to any other quarter of the fiscal year due to consumer buying patterns. 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 2007	**Mar 31 2007**	**Dec 31 2006**	**Sep 30 2006**	**Jun 30 2006**	**Mar 31 2006**	**Dec 31 2005**	**Sep 30 2005**
Sales, net	$ 165,210	$ 183,828	$ 324,356	$ 241,512	$ 230,875	$ 225,657	$ 390,826	$ 280,173
Cost of goods sold	132,040	145,845	253,706	205,612	198,371	235,799	305,440	223,607
Gross profit (loss)	**33,170**	**37,983**	**70,650**	**35,900**	**32,504**	**(10,142)**	**85,386**	**56,566**
Operating expenses:								
Selling, general and administrative	36,466	44,521	52,366	41,827	42,753	51,959	55,220	45,265
Research and development	14,790	18,035	14,958	15,863	15,682	18,843	22,734	19,927
Impairment of goodwill and other intangible assets	–	–	–	–	–	31,478	–	–
Other charges	–	–	–	–	–	5,873	–	–
Operating (loss) income	**(18,086)**	**(24,573)**	**3,326**	**(21,790)**	**(25,931)**	**(118,295)**	**7,432**	**(8,626)**
(Loss) gain from investments, net	(112)	(1,276)	225	(717)	(34)	2,030	6,880	10,028
Interest income	2,652	3,085	2,270	1,909	2,000	1,847	1,399	995
Interest expense	(1,698)	(2,798)	(2,885)	(2,864)	(2,701)	(2,449)	(2,244)	(2,017)
Others	2,819	2,976	106,994	1,833	6,072	2,488	(5,140)	152
(Loss) income before income taxes and minority interest	**(14,425)**	**(22,586)**	**109,930**	**(21,629)**	**(20,594)**	**(114,379)**	**8,327**	**532**
Income tax (expense) benefit	(4,889)	(529)	(18,118)	(382)	7,632	(229)	(115)	(138)
Minority interest in loss (income)	2	(498)	310	1,003	230	279	(1)	297
Net (loss) income	**$ (19,312)**	**$ (23,613)**	**$ 92,122**	**$ (21,008)**	**$ (12,732)**	**$ (114,329)**	**$ 8,211**	**$ 691**
Basic (loss) earnings per share	$ (0.23)	$ (0.28)	$ 1.10	$ (0.25)	$ (0.15)	$ (1.38)	$ 0.10	$ 0.01
Weighted average ordinary shares outstanding ('000)	83,608	83,484	83,394	83,322	83,179	82,895	82,740	83,556
Diluted (loss) earnings per share	$ (0.23)	$ (0.28)	$ 1.10	$ (0.25)	$ (0.15)	$ (1.38)	$ 0.10	$ 0.01
Weighted average ordinary shares and equivalents outstanding ('000)	83,608	83,484	83,992	83,322	83,179	82,895	83,532	84,690

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

	Unaudited data for quarters ended (as a percentage of sales)							
	Jun 30 2007	Mar 31 2007	Dec 31 2006	Sep 30 2006	Jun 30 2006	Mar 31 2006	Dec 31 2005	Sep 30 2005
Sales, net	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of goods sold	80	79	78	85	86	105	78	80
Gross profit (loss)	**20**	**21**	**22**	**15**	**14**	**(5)**	**22**	**20**
Operating Expenses:								
Selling, general and administrative	22	24	16	17	18	23	14	16
Research and development	9	10	5	7	7	8	6	7
Impairment of goodwill and other intangible assets	–	–	–	–	–	14	–	–
Other charges	–	–	–	–	–	3	–	–
Operating (loss) income	**(11)**	**(13)**	**1**	**(9)**	**(11)**	**(53)**	**2**	**(3)**
(Loss) gain from investments, net	–	(1)	–	(1)	–	1	2	4
Interest income	1	2	1	1	1	1	–	–
Interest expense	(1)	(2)	(1)	(1)	(1)	(1)	(1)	(1)
Others	2	2	33	1	2	1	(1)	–
(Loss) income before income taxes and minority interest	**(9)**	**(12)**	**34**	**(9)**	**(9)**	**(51)**	**2**	**–**
Income tax (expense) benefit	(3)	(1)	(6)	–	3	–	–	–
Minority interest in loss (income)	–	–	–	–	–	–	–	–
Net (loss) income	**(12) %**	**(13) %**	**28 %**	**(9) %**	**(6) %**	**(51) %**	**2 %**	**– %**

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents at June 30, 2007 were $250.5 million compared to the balance of $214.0 million at June 30, 2006.

Operating Activities

Net cash provided by operating activities during fiscal year 2007 was $132.2 million compared with $48.9 million in fiscal year 2006. The cash provided by operating activities of $132.2 million was mainly contributed by gross license fees $100.0 million received from Apple Inc., less tax of $18.0 million, a $35.2 million net decrease in accounts receivable and other assets and prepaid expenses, a $100.0 million net decrease in inventory and a $12.4 million adjustment for non-cash items. The decrease in inventory was in line with management's intention to maintain a lower inventory balance. Cash provided by operating activities was offset partially by a $45.9 million net decrease in accounts payable and accrued and other liabilities. The $12.4 million in adjustments to non-cash items was mainly pertaining to $18.5 million of depreciation and amortization charges.

Net cash provided by operating activities during fiscal year 2006 was $48.9 million compared with $204.4 million used in fiscal year 2005. The cash provided by operating activities of $48.9 million was mainly due to a $21.6 million net decrease in accounts receivable and other assets and prepaid expenses, a $161.0 million net decrease in inventory and a $35.8 million adjustment for non-cash items. The decrease in inventory was in line with management's intention to maintain a lower inventory balance. Cash provided by operating activities was offset partially by a $49.6 million net decrease in accounts payable and accrued and other liabilities. The $35.8 million in adjustments to non-cash items comprised mainly $25.0 million of depreciation and amortization, $31.5 million in impairment of goodwill and intangible assets, offset partially by a $20.9 million in net gains from the disposal of investments.

Investing Activities

Net cash used in investing activities during fiscal year 2007 was $2.8 million compared to cash provided of $10.7 million in fiscal year 2006. The $2.8 million cash used in fiscal year 2007 was primarily for capital expenditures amounting to $6.0 million offset partially by proceeds from sales of fixed assets $4.3 million.

Net cash provided by investing activities during fiscal year 2006 was $10.7 million compared with $43.7 million in fiscal year 2005. The $10.7 million cash provided in fiscal year 2006 primarily comprised sales proceeds of investments amounting to $29.2 million, offset partially by net capital expenditures of $13.3 million and a $4.0 million increase in other non-current assets pertaining to additional investments in equity-method investee companies.

Financing Activities

Net cash used in financing activities during fiscal year 2007 was $99.5 million compared with $35.0 million in fiscal year 2006. Cash used in financing activities of $99.5 million primarily consisted of a $20.9 million dividend payment (see Note 8 of "Notes to Consolidated Financial Statements") and $78.9 million in repayments of debt obligations.

Net cash used in financing activities during fiscal year 2006 was $35.0 million compared with $142.2 million provided by financing activities in fiscal year 2005. Cash used in financing activities of $35.0 million primarily consisted of a $20.7 million dividend payment (see Note 8 of "Notes to Consolidated Financial Statements"), $8.1 million in open market repurchases of Creative's ordinary shares, $3.8 million in repayments of debt obligations and $3.7 million in repayments of capital leases, offset partially by proceeds from the exercise of ordinary share options amounting to $2.9 million.

Current and Expected Liquidity

As of June 30, 2007, in addition to its cash reserves and excluding long term loans, Creative has credit facilities totaling $91.3 million for overdrafts, guarantees, letters of credit and fixed short-term loans, of which approximately $89.3 million were unutilized.

As part of its long-term business strategy, from time to time, Creative makes strategic equity investments in companies that can provide Creative with technologies or products that management believes will give Creative a competitive advantage in the markets in which Creative competes.

Management believes that Creative has adequate resources to meet its projected working capital and other cash needs for at least the next twelve months. To date, inflation has not had a significant impact on Creative's operating results.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table presents the contractual obligations and commercial commitments of Creative as of June 30, 2007:

	Payments Due by Period (US$'000)				
Contractual Obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
Long Term Debt	$ 117,628	$ 3,917	$ 107,835	$ 5,876	$ –
Capital Lease Obligations	38	17	21	–	–
Operating Leases	32,850	6,560	8,880	5,210	12,200
Unconditional Purchase Obligations	38,042	38,042	–	–	–
Other Obligations	–	–	–	–	–
Total Contractual Cash Obligations	**$ 188,558**	**$ 48,536**	**$ 116,736**	**$ 11,086**	**$ 12,200**

Unconditional purchase obligations are defined as contractual obligations for the purchase of goods or services which are enforceable and legally binding on the company and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. The expected timing of payment of the obligations set forth above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

As of June 30, 2007, Creative has utilized approximately $2.0 million under guarantees and letters of credit.

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 REGISTERED PUBLIC ACCOUNTING FIRM

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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2007 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 of the Public Company Accounting Oversight Board (United States). Those standards 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
September 26, 2007

CREATIVE

CONSOLIDATED BALANCE SHEETS

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

	June 30 2007	June 30 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 250,480	$ 213,995
Accounts receivable, less allowances of $14,153 and $18,806	110,520	133,002
Inventory	134,911	234,942
Other assets and prepaids	40,308	53,248
Total current assets	**536,219**	**635,187**
Property and equipment, net	97,696	109,174
Investments	80,121	74,581
Other non-current assets	8,997	11,671
Total Assets	**$ 723,033**	**$ 830,613**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 66,778	$ 104,923
Accrued liabilities	92,898	100,690
Income taxes payable	21,349	18,930
Current portion of long term obligations and others	3,934	4,737
Total current liabilities	**184,959**	**229,280**
Long term obligations	129,131	206,593
Minority interest in subsidiaries	373	1,587
Shareholders' equity:		
Share capital ('000)		
Outstanding: 83,622 and 83,271 shares	300,086	298,474
Other reserves	53,949	52,265
Unrealized holding gains on investments	24,240	19,453
Retained earnings	30,295	22,961
Total shareholders' equity	**408,570**	**393,153**
Total Liabilities and Shareholders' Equity	**$ 723,033**	**$ 830,613**

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		
	2007	2006	2005
Sales, net	$ 914,906	$ 1,127,531	$ 1,224,411
Cost of goods sold	737,203	963,217	949,151
Gross profit	**177,703**	**164,314**	**275,260**
Operating expenses:			
Selling, general and administrative	175,180	195,197	196,258
Research and development	63,646	77,186	82,325
Impairment of goodwill and other intangible assets	–	31,478	65,225
Other charges	–	5,873	–
Operating (loss) income	**(61,123)**	**(145,420)**	**(68,548)**
(Loss) gain from investments, net	(1,880)	18,904	74,405
Interest income	9,916	6,241	3,571
Interest expense	(10,245)	(9,411)	(3,674)
Others	114,622	3,572	(4,260)
Income (loss) before income taxes and minority interest	**51,290**	**(126,114)**	**1,494**
Income tax (expense) benefit	(23,918)	7,150	(969)
Minority interest in loss	817	805	63
Net income (loss)	**$ 28,189**	**$ (118,159)**	**$ 588**
Basic earnings (loss) per share	$ 0.34	$ (1.42)	$ 0.01
Weighted average ordinary shares outstanding ('000)	83,452	83,093	82,661
Diluted earnings (loss) per share	$ 0.34	$ (1.42)	$ 0.01
Weighted average ordinary shares and equivalents outstanding ('000)	83,913	83,093	85,333

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		
	2007	2006	2005
Cash flows from operating activities:			
Net income (loss)	$ 28,189	$ (118,159)	$ 588
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of fixed assets	15,334	20,967	22,994
Amortization of intangible assets	1,451	2,184	3,383
Deferred share compensation amortization	1,684	1,892	1,504
Minority interest in loss	(817)	(805)	(63)
Equity share in loss of unconsolidated investments	1,231	260	1,640
(Gain) loss on disposal of fixed assets	(2,088)	281	(139)
Write downs of investments and other non-current assets	1,713	2,034	11,571
Loss (gain) from investments, net	326	(20,938)	(85,755)
Impairment of goodwill/ intangible assets	–	31,478	65,225
Deferred income taxes, net	834	554	(393)
Gain on disposal of interests in associated company	–	–	(264)
Foreign currency exchange (gain) loss	(5,828)	(697)	5,658
Dividend income	(1,463)	(1,420)	(1,178)
Changes in assets and liabilities, net:			
Accounts receivable	22,482	30,281	(77,728)
Inventory	100,031	160,979	(211,987)
Other assets and prepaids	12,675	(8,641)	(18,490)
Accounts payable	(38,145)	(46,199)	64,891
Accrued and other liabilities	(7,792)	(3,410)	15,130
Income taxes	2,419	(1,782)	(1,008)
Net cash provided by (used in) operating activities	**132,236**	**48,859**	**(204,421)**
Cash flows from investing activities:			
Capital expenditures, net	(6,026)	(13,348)	(34,191)
Proceeds from sale of fixed assets	4,276	146	347
Proceeds from disposal of interests in associated company	–	–	234
Proceeds from sale of investments	121	29,152	98,129
Purchase of new subsidiaries (net of cash acquired)	–	(131)	–
Purchase of investments	(1,744)	(2,491)	(17,766)
Dividend income received	1,463	1,420	1,178
Increase in other non current assets, net	(912)	(4,049)	(4,281)
Net cash (used in) provided by investing activities	**(2,822)**	**10,699**	**43,650**
Cash flows from financing activities:			
Increase (decrease) in minority shareholders' loan and equity balance	3	(958)	366
Buyout of subsidiary's minority interest	–	(604)	–
Proceeds from exercise of ordinary share options	1,612	2,949	14,773
Repurchase of ordinary shares	–	(8,134)	–
Proceeds from debt obligations	–	–	175,000
Repayments of dept obligations	(78,917)	(3,780)	(3,542)
Repayments of capital leases	(954)	(3,747)	(3,079)
Dividends paid to ordinary shareholders	(20,855)	(20,700)	(41,357)
Dividends paid to minority interest	(400)	–	–
Net cash (used in) provided by financing activities	**(99,511)**	**(34,974)**	**142,161**

	Years ended June 30		
	2007	2006	2005
Net increase (decrease) in cash and cash equivalents	**29,903**	**24,584**	**(18,610)**
Effects of exchange rate changes on cash and cash equivalents	6,582	2,165	(5,221)
Cash and cash equivalents at beginning of year	213,995	187,246	211,077
Cash and cash equivalents at end of year	**$ 250,480**	**$ 213,995**	**$ 187,246**
Supplemental disclosure of cash flow information:			
Interest paid	$ 8,240	$ 9,433	$ 3,517
Income taxes paid, net	$ 20,621	$ 3,772	$ 4,471
Non cash transaction:			
Fixed assets acquired under capital lease	$ 18	$ –	$ –

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

CREATIVE

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In US$'000, except share data)

	Ordinary Shares ('000)	Share Capital	Additional Paid In Capital	Other Reserves	Unrealised Holding Gains (Losses) on Investments	Deferred Shares Compensation	Retained Earnings	Total
Balance at June 30, 2004	**81,369**	**$ 7,952**	**$ 323,660**	**$ –**	**$ 151,153**	**$ (1,991)**	**$ 210,723**	**$ 691,497**
Shares issued under employee options and share purchase plans	2,224	334	14,439	–	–	–	–	14,773
Dividends paid	–	–	–	–	–	–	(41,357)	(41,357)
Reversal of unvested deferred share compensation, net	–	–	(109)	–	–	109	–	–
Amortization of deferred share compensation	–	–	–	–	–	1,504	–	1,504
Comprehensive (loss) income	–	–	–	–	(85,873)	–	588	(85,285)
Balance at June 30, 2005	**83,593**	**8,286**	**337,990**	**–**	**65,280**	**(378)**	**169,954**	**581,132**
Shares issued under employee options and share purchase plans	678	103	2,846	–	–	–	–	2,949
Repurchase of ordinary shares	(1,000)	(150)	150	–	–	–	(8,134)	(8,134)
Dividends paid	–	–	–	–	–	–	(20,700)	(20,700)
Reversal of unvested deferred share compensation, net	–	–	(378)	–	–	378	–	–
Amortization of deferred share compensation	–	–	1,892	–	–	–	–	1,892
Effect of Companies (Amendment) Act 2005 (see Note 17)	–	290,235	(290,235)	–	–	–	–	–
Transfer to other reserves	–	–	(52,265)	52,265	–	–	–	–
Comprehensive loss	–	–	–	–	(45,827)	–	(118,159)	(163,986)
Balance at June 30, 2006	**83,271**	**298,474**	**–**	**52,265**	**19,453**	**–**	**22,961**	**393,153**
Shares issued under employee options and share purchase plans	351	1,612	–	–	–	–	–	1,612
Dividends paid	–	–	–	–	–	–	(20,855)	(20,855)
Amortization of deferred share compensation	–	–	–	1,684	–	–	–	1,684
Comprehensive income	–	–	–	–	4,787	–	28,189	32,976
Balance at June 30, 2007	**83,622**	**$ 300,086**	**$ –**	**$ 53,949**	**$ 24,240**	**$ –**	**$ 30,295**	**$ 408,570**

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