



**GIGAMEDIA First-Quarter 2005  
Financial Results  
CONFERENCE CALL SCRIPT  
JULY 20, 2005 AT 8:30 A.M. (EST)**

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**Operator:** Good day ladies and gentlemen and thank you for standing by. Welcome to the GIGAMEDIA LIMITED (“GigaMedia” or the “Company”) conference call to discuss first-quarter 2005 operating and financial results. At this time, all participants are in a listen only mode. Following the formal presentation, instructions will be given for the question and answer session. If anyone needs assistance at any time during the conference, please press the “\*” followed by the “0” for operator assistance. As a reminder this conference is being recorded today, the 20th of July 2005. I would now like to turn the conference over to Mr. Brad Miller. Please go ahead Mr. Miller.

**Brad:** Thank You. This is Brad Miller, investor relations director of GigaMedia. Welcome to our first-quarter 2005 results conference call for GigaMedia Limited. Here to speak with you and answer your questions today are Arthur Wang, our CEO, and Thomas Hui, our CFO.

Before I turn it over to today’s speakers, I would like to remind you that a number of forward-looking statements will be made during this conference call. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of GigaMedia and there can be no assurance that such expectations will prove to be correct. Because forward-looking statements involve risks and uncertainties, GigaMedia’s actual results could differ materially from these statements. Information about factors that could cause, and in some cases have caused, such

differences can be found in GigaMedia's Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission in June 2005.

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The agenda for today's call includes first a review of 2005 Q1 business activities and financial performance, as well as our outlook, by Arthur Wang. Thomas Hui will then follow with details on our financial results during the first quarter and further insight into our expectations for 2005. After the speaker presentations, we will go into a question and answer session. With that, I would like to turn the call over to Arthur, our CEO.

**Arthur:** Thanks Brad and thank you all for joining us today.

On June 8th of this year, we announced that GigaMedia recorded its first-ever full-year profitability in 2004, climbing from a US\$14 million dollar hole in 2003 to a net profit of US\$1.7 million for 2004 – truly an important milestone in the history of the Company.

Today, I am happy to report that our business momentum and progress continues in fiscal year 2005, with first quarter 2005 consolidated net profit of US\$1 million and consolidated EBITDA of US\$2.5 million. We have now recorded four consecutive quarters of net profit, and are on-track for what we have great confidence will be another record year. We are building a new GigaMedia, with growing shareholder value as its cornerstone.

Let me share with you now how we are building the company and what we achieved in the first quarter.

The key driver of the new GigaMedia and our financial performance today is our entertainment software business.

The dominant online entertainment offerings today are overwhelmingly concentrated on the North American market. Our strategy is to be a first mover and market leader in Europe and Asia, in the large non-English language universe. Our CES subsidiary now receives about 70% of its revenue from the European Community and our plan is to continue to expand and exploit this starting position. At the same time, our geographic home base is in Asia – and we see much opportunity for growth in our own backyard, where we have a deep understanding of the culture and marketplace.

Over the past year, we have invested heavily in this business to lay down a strong foundation for strong growth. We have revamped our traditional casino gaming software offerings, releasing many new games and many, many different iterations of these games.

We have also moved into the exciting world of multi-player poker to tap into the dynamic growth of this business. At present, traditional casino gaming software is our primary revenue generator, but multi-player

poker is growing rapidly, benefiting from tremendous media attention. We released a single-table poker product in late 2004 and a multi-table tournament product in April of this year. This multi-table tournament feature is a key functionality as it allows players to compete for big prizes, much larger than available at any one table. While we are not releasing numbers at this time, we are very encouraged by the numbers growth which has exceeded our internal forecasts.

In sum, we are excited and very bullish about the growth prospects of our entertainment software business. We are committed to build this business both through organic growth and by way of strategic acquisitions which will drive significant long-term growth.

Turning now to our broadband ISP business, we continued to make progress during the first quarter despite a very competitive operating environment for our consumer ISP division. Our strategy here is to achieve growth by focusing on our corporate broadband ISP business, while retaining subscribers on the consumer side. During the first quarter we continued to be successful in executing this strategy. We grew both bandwidth and total lines provided in our corporate services, and in our consumer ISP we held our subscriber base relatively stable and actually achieved a very slight increase in blended ARPU.

Music retail continued to underperform in the face of an ongoing secular downturn in the industry. In response to difficult market

conditions, we have made significant progress in controlling costs and improving store operating efficiencies. As I have mentioned before, we have completed a thorough overhaul of this business, installing a chain-wide POS and inventory system, negotiating new consignment terms with our suppliers, enforcing strict inventory controls, and subletting or sharing of store space to retailers interested in capitalizing on our high foot-traffic, as well as making numerous other in-store improvements.

However, we recognize that the decline in the sales of recorded music will continue. As a result, we continue to manage defensively with strict inventory and purchasing controls, and at the same time, we continue to think deeply about our long-term future in this business.

Overall then, we as a management team are pleased with the momentum we are building in our operating and financial performance. We are off to a solid start in 2005 and are confident that with continued strong execution, we will be able to deliver consistent bottom line improvements this year. In addition, we continue to be very focused on strategic acquisitions, targeting profitable companies with strong growth potential in transactions that would be accretive to our shareholders.

Thank you very much. Let me now turn the call over to Thomas Hui, our CFO.

**Thomas:** Thanks Arthur.

Let me now go over certain financial details in each of our business units for the quarter and end with a few additional comments on our outlook.

### **Entertainment Software Business**

The entertainment software unit made strong contributions to our first quarter financial results. As noted in our press release today, the variance in Q-on-Q revenues was due to year-end adjustments made during the fourth quarter of 2004 in which second and third quarter revenues from our licensee, UIM, were incorporated in the fourth quarter 2004 revenues of the entertainment software business. Excluding such adjustments, thus giving a clearer “apples-to-apples” picture, we saw revenues increase 6 percent Q-on-Q, from US\$4 million to US\$4.3 million.

Alternatively, looking at revenues resulting from our revenue-sharing agreement with UIM, first quarter revenues also increased 8 percent Q-on-Q from US\$2.6 million to US\$2.8 million. Such revenue growth was primarily due to an increase in activity level in our casino-based software products.

With respect to net income in this business, we have sequential variance largely related to a reduction of amortization expenses recorded during the fourth quarter of 2004 as a result of the reclassification of certain intangible assets to goodwill. This amounted to approximately US\$700 thousand. Excluding this reduction in fourth quarter amortization expenses, net income was relatively flat in the first quarter of 2005 versus the previous period.

Going forward, we expect revenue growth to accelerate as the newly launched poker software products will allow us to largely offset

traditional second and third quarter revenue declines related to seasonality in the entertainment software business.

### **Broadband ISP Business**

Despite facing strong competition, our broadband ISP unit performed well during the first quarter.

In our consumer broadband ISP operations, the number of subscribers declined by approximately 1,000 during the first quarter. However, the decline was mostly in the segment of one-way cable modem subscribers, which is the lowest ARPU segment in our subscriber base and a segment we are gradually phasing out. During the period, we continued to upgrade our ADSL subscribers through sales of packaged bundles that highlight our large email and Web storage space. As a result of the improvement in the quality of our subscriber base, we achieved a small improvement in our blended ARPU during the quarter, from \$12.40 in the previous quarter to \$12.70 in the first quarter.

In our corporate broadband ISP operations, there is less price competition and services tend to be more customized. As a result, we believe there is room for top-line growth here and continue to focus on this market segment.

During the first quarter, we were again able to grow both the number of service lines and the total bandwidth provided in this business. The corporate ISP business represented approximately 28% of our overall broadband ISP revenues in the first quarter versus 24% in the fourth quarter. Corporate broadband ISP revenues also grew 28% Q-on-Q. We expect both of these trends to continue in 2005.

### **Music Distribution Business**

We continued to aggressively manage for profitability in our legacy music distribution business in the first quarter. During the period we closed two underperforming stores and continued to convert additional

stores to a shared space format to lower our fixed costs. This initiative continues, and we expect to operate more shared-space stores going forward.

The increase in revenues in the music distribution business during the first quarter was primarily due to the appreciation of the NT dollar against the US dollar. In NT dollar terms, revenue in the first quarter was roughly flat compared to the fourth quarter of 2004, despite the increase in sales during the peak Chinese New Year period. Our legacy music distribution unit continues to face the clear challenge of a secular downtrend in Taiwan's music distribution market and we expect continued declines in revenues going forward.

The Q-on-Q decline in operating income and net income was primarily due to the reversal of inventory provisioning, which was recorded in the fourth quarter of 2004.

Active inventory management supported by our new Point-of-Sale system and reduction of fixed costs will continue to be our focus areas going forward as we expect the market to continue to deteriorate.

As Arthur mentioned, the long-term viability of this business unit is something we are monitoring very closely.

To conclude, we have now delivered four consecutive quarters of net profit. We are confident that our execution to date has put us on track for continued profitability and expect to see growing returns from our investments in the entertainment software business as we enter the second half of the year. In addition, we are actively reviewing opportunities in strategic acquisitions that would provide us with revenue growth and be accretive to our earnings. With positive cash flow from operations, a solid balance sheet and a strong management team, we are well positioned to deliver attractive long-term growth in shareholder value.

Thank you.

**Brad:** Thanks Thomas.

We will now move into a question and answer session. Operator, at this point, we would like to open the call up to questions.

**- Q&A Session -**

**Brad:** Thank you again for joining us today. We look forward to speaking with you on our next conference call for GigaMedia's second quarter 2005 financial results, which we anticipate will be announced in August. For further information about GigaMedia or if you have questions and would like to contact the Company, please see our Web site at <http://ir.giga.net.tw>.