GIGAMEDIA LTD
Form 20-F
June 30, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 20-F

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003
Commission File Number: 000-30540

GIGAMEDIA LIMITED

(Exact name of registrant as specified in its charter)

REPUBLIC OF SINGAPORE
(Jurisdiction of incorporation or organization)

122 TUNHUA NORTH ROAD, TAIPEI, TAIWAN, R.O.C.
(Address of principal executive offices)

Registrant s telephone number, including area code
886-2-8770-7966

Securities registered or to be registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered or to be registered pursuant to Section 12(g) of the Exchange Act: Ordinary shares, par value NT$10 per share

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 50,154,000 ordinary shares, par value NT$10 per share.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes x No o

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 o Item 18 x

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USE OF CERTAIN TERMS

In this annual report, all references to (i) we , us , our , our Company or GigaMedia are to GigaMedia Limited and, unless the context requires otherwise, its subsidiaries, (ii) Koos Group are to a group of companies controlled by members of the Koo family, (iii) Shares are to ordinary shares of our Company, par value NT$10, and (iv) Hoshin GigaMedia are to Hoshin GigaMedia Center Inc., a company incorporated under the laws of Taiwan, Republic of China, or ROC. All references in this annual report to US dollar , $ and US$ are to United States dollars, all references to NT dollar and NT$ are to New Taiwan dollars.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that involve risks and uncertainties. These statements are generally indicated by the use of forward-looking terminology such as believe , expect , anticipate , estimate , plan project , may , will or other similar words. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Our actual results may differ materially from those expressed or implied by these forward-looking statements as a result of risk factors and other factors noted throughout this annual report. We undertake no obligation to release publicly any versions to any forward-looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated event. Given this level of uncertainty, you are advised not to place undue reliance on such forward-looking statements.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

EXCHANGE RATES

In this annual report, we have translated certain New Taiwan dollar amounts into U.S. dollars for the convenience of investors. All translations from New Taiwan dollars to United States dollars were made (unless otherwise indicated) on the basis of the noon buying rates of the U.S. Federal Reserve Bank of New York, or the Noon Buying Rate, of NT$33.92 = US$1.00 on December 31, 2003, which was the last trading day in 2003. All amounts translated into United States dollars as described above are provided solely for the convenience of the reader, and we make no representation that the New Taiwan dollar or United States dollar amounts referred to in this annual report could have been or could actually be converted into United States dollars or New Taiwan dollars at that rate or at any other particular rate, or at all. The following table sets forth the Noon Buying Rates for New Taiwan dollars expressed in New Taiwan dollar per US$1.00 for the periods indicated below.

Year Ended December 31,	Average (of month-end rates)	High (of month-end rates)	Low (of month-end rates)	At Period-End
1998	33.50	34.39	32.20	32.27
1999	32.28	33.17	31.39	31.39
2000	31.37	33.17	30.48	33.17
2001	33.91	35.13	32.23	35.00
2002	34.53	35.11	33.46	34.70
2003	34.40	34.85	33.78	33.99

Month Ended	Average (of day-end rates)	High (of day-end rates)	Low (of day-end rates)	At Period-End
	(NT$ per US$1.00)			
January 31, 2004	33.68	33.98	33.33	33.39
February 29, 2004	33.21	33.36	33.10	33.28
March 31, 2004	33.25	33.42	33.00	33.00
April 30, 2004	32.97	33.27	32.73	33.27

May 31, 2004	33.44	33.70	33.14	33.36
June 30, 2004 (only through June 25)	33.55	33.80	33.35	33.57

A. Selected Financial Data

The selected consolidated balance sheet data as of December 31, 2002 and 2003 and the selected consolidated statement of operations data for the years ended December 31, 2001, 2002 and 2003 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated balance sheet data as of December 31, 1999, 2000 and 2001, and the selected consolidated statement of operations data for the years ended December 31, 1999 and 2000 have been derived from our audited consolidated financial statements, which are not included in this annual report. The consolidated

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financial statements have been prepared and presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The selected consolidated financial data set forth below should be read in conjunction with Item 5. Operating and Financial Review and Prospects and the consolidated financial statements and the notes to those statements included elsewhere in this annual report.

For the Years Ended December 31,
(in thousands except for loss per share amounts)

	1999	2000	2001	2002	2003	
	NT$	NT$	NT$	NT$	NT$	US$
						(Unaudited)
STATEMENT OF OPERATIONS DATA:						
OPERATING REVENUES						
Sales/rental/installation	16,831	126,810	7,490	1,864,128	2,559,008	75,442
Access revenues	19,661	155,035	389,801	638,916	647,716	19,095
Web development revenue	1,429	28,978	7,190			
Advertising and promotional revenues	71	26,762	5,039	32,801	54,894	1,618
Other revenues		3,603	1,432	19,964	18,505	545
Total	37,992	341,188	410,952	2,555,809	3,280,123	96,700
COSTS AND EXPENSES						
Costs of sales/rental/installation	(24,429)	(278,974)	(143,420)	(1,686,256)	(2,244,196)	(66,162)
Operating costs	(238,113)	(987,331)	(1,636,820)	(634,872)	(623,318)	(18,376)
Web development expenses	(1,150)	(23,182)	(12,233)			
Product development and engineering	(20,939)	(56,625)	(106,458)	(64,444)	(41,673)	(1,229)
Selling and marketing expenses	(84,192)	(383,948)	(285,590)	(427,310)	(499,820)	(14,734)
General and administrative expenses	(328,440)	(235,934)	(215,663)	(211,944)	(274,278)	(8,086)
Bad debt expenses	(892)	(1,686)	(40,250)	(32,167)	(5,362)	(158)
Impairment loss on goodwill				(242,938)	(25,389)	(748)
				(80,627)		

Impairment loss on intangible assets						
Impairment loss on property, plant and equipment					(53,567)	(1,579)
Other costs		(3,881)	(1,203)			
Total	(698,155)	(1,971,561)	(2,441,637)	(3,380,558)	(3,767,603)	(111,072)
Net loss	(657,933)	(1,206,372)	(1,811,324)	(637,990)	(484,857)	(14,295)
Loss per share basic and diluted (in dollars)						
Net Loss	(18.06)	(24.73)	(36.12)	(12.72)	(9.67)	(0.29)

As of December 31,

(in thousands except for loss per share amounts)

	1999	2000	2001	2002	2003	
	NT$	**NT$**	**NT$**	**NT$**	**NT$**	**US$**
						(Unaudited)
BALANCE SHEET DATA:						
Total Current Assets	1,170,428	8,066,547	6,132,875	2,877,715	2,639,778	77,824
Property, plant and equipment- net	170,981	535,090	705,570	738,938	531,155	15,659
Intangible assets-net		948,004	12,631	242,012	210,583	6,208
Total Assets	2,869,142	9,710,398	8,062,552	4,696,038	4,069,342	119,968
Total shareholders equity	1,514,433	9,357,436	7,845,126	3,619,877	3,069,619	90,495

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

We have a limited operating history, which may make it difficult for you to evaluate our business

We began offering our online access services in Taiwan in late 1998. Our operating history in respect of retail music distribution and online gaming is even more limited since we only acquired our two music store chains in 2002 and acquired Grand Virtual in April 2004. Our financial success will depend on the commercial acceptance and profitability of our services. If we are unsuccessful in addressing these risks or in executing our business strategy, our business and financial results will suffer.

We have a history of losses and may incur substantial losses in future periods

We have never been profitable. We have incurred substantial costs to operate and grow our Internet access services and our retail music business. We incurred a net loss of approximately NT$484.9 million (US$14.3 million) in 2003 and as of December 31, 2003, we had an accumulated net loss of approximately NT$5.5 billion (US$163.3 million). Our limited operating history and market conditions make predicting our results of operations difficult, and we may incur substantial losses in the future.

In addition, after the adoption of a new accounting standard in 2002, we are required to perform annual impairment tests of goodwill. As a result, we wrote off goodwill associated with the music businesses we acquired in 2002 in the amount of NT$242.9 million, which reduced our profitability in 2002. Any similar write-off in the future may have a negative impact on our financial results.

Our efforts to improve the performance of our retail music distribution business may be unsuccessful

We operate Taiwan s two major music store chains. This business experienced substantial operating losses in 2002 and 2003. We are currently taking several steps with a view to improving the performance of this business, including, among other things, reducing costs, improving our management information systems with a view to operating the business more efficiently and improving our operating margins. If our strategies for our retail music business prove unsuccessful, this business will likely experience continuing losses, which would likely have a material and adverse effect on our financial condition and results of operations.

The cyclical nature of the music industry, the impact of technological innovations and the prevalence of piracy could materially and adversely affect our business, financial condition or results of operations

Our retail music business is affected by the release of hit music titles, which can create cyclical trends in sales distinctive to the music industry. It is not possible to determine the timing of these cycles or the future availability of hit titles. Our business is also affected by changes in music entertainment technology. While technological advances such as CDs have had a favorable impact on industry growth in the past, there is no assurance that future advances will continue to have a favorable impact on music entertainment product retailers. In particular, the Internet and cable set-top boxes, coupled with high quality digital recording technologies, facilitate and encourage direct downloading of recorded music by consumers, reducing the demand for CDs, thus negatively impacting the physical retail music distribution channels. In addition, Taiwan continues to experience relatively high levels of physical and online music piracy, which has further eroded the retail music distribution industry. If the music industry experiences a lull in hit music titles, or such technological innovations were to result in significant changes in existing distribution channels for pre-recorded music, or music piracy continues to be flagrant in Taiwan, our business, financial condition or results of operations could be materially and adversely affected.

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Our results of operations are subject to significant fluctuations, which may adversely affect our business and financial results

Our revenues, expenses and results of operations have varied in the past and may fluctuate significantly in the future due to a variety of factors, many of which are beyond our control. The key factors affecting our retail music distribution business include the frequency with which hit music titles are introduced, the seasonality of market demand for our retail music products and our ability to enter into and maintain strategic alliances with major record companies. The main factors affecting our online business include price competition in the Internet access business, the rate at which new customers subscribe to our services, subscriber turnover rates and the pace of rollout of our service to our cable partners. In addition, our operating expenses are based on our expectations of the future demand for our services and are relatively fixed in the short term. We may be unable to adjust spending quickly enough to offset any unexpected demand shortfall. A shortfall in revenues in relation to our expenses could have a material and adverse effect on our business and financial results.

Our businesses face intense competition, which may adversely affect our revenues, profitability and planned business expansion

We face competition from many competitors, and we expect to face competition from additional potential competitors, including competitors with:

- significantly greater technological financial, sales and marketing resources;
- larger customer bases, longer operating histories;
- greater name recognition; and
- more established relationships with music label companies, cable partners, advertisers, content and application providers and/or other strategic partners than we have.

COMPETITION IN THE RETAIL MUSIC DISTRIBUTION BUSINESS. Taiwan s retail music distribution industry is fragmented and competitive. In addition to our Rose Records and Tachung Records chains, there are several other record distribution chains operating in Taiwan as well as convenience stores, individual music stores and night markets. Hypermarket chains, such as Carrefour and specialty entertainment chains, such as FNAC, reflect a small, but growing, segment of the market; some of these competitors have greater financial and other resources than our Company and have been expanding into our markets. Alternative distribution channels, such as Internet sale of physical recorded music and Internet-based music downloads, which enjoy lower inventory and distribution costs, have also begun to emerge in recent years as competitive distribution channels and have adversely affected our popular music sales. Going forward, we anticipate that an increasing proportion of popular music sales is likely to continue to be effected through such alternative distribution channels, particularly Internet-based downloading, which will further erode our sales of popular music. Further, we expect continued growth in competing home entertainment options, including the Internet and large numbers of television and music channels offered by cable companies. In addition, the prevalent practice of physical and online piracy in Taiwan presents a continuing threat to the growth of the music distribution industry in Taiwan. Such competition may reduce sales at music stores, put pressure on gross margins, increase operating expenses and reduce profit margins. There can be no assurance that the retail music business will continue to be a viable business, that retail stores will continue to be a primary distribution channel for recorded music, or that we will continue to compete successfully within the retail music store sector or the retail music business generally.

COMPETITION IN THE INTERNET ACCESS BUSINESS. Our main competitors are fixed-line service providers in Taiwan that offer asymmetrical digital subscriber line, or ADSL, broadband services, including

Chunghwa Telecom s HiNet, the dominant provider of broadband services. Our competitors also include cable-based Internet access companies that have developed their own cable-based services and market those services to cable operators. We also compete with other cable-based data service providers that are seeking to contract with cable operators to bring their services into geographic areas that are not covered by an exclusive relationship between our Company and our cable partners. In recent years, we have experienced a reduction in the number of our new subscribers. The primary basis of competition in the online business industry is price. We can offer no assurance that we will be able to attract new subscribers or retain existing subscribers, as a result of which our revenues may decline. Due to this intense competition, there may be a limited market opportunity for our broadband access services. We cannot assure you that we will be successful in achieving widespread acceptance of our services before our competitors offer services similar to our current or prospective offerings, which might preclude or delay purchasing decisions by potential subscribers.

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COMPETITION IN THE INTERNET GAMING SOFTWARE BUSINESS. The Internet gaming software industry is characterized by rapid technological change and we face significant and intense competition in the area of software development and provision of application services. Some of our competitors are more established, enjoy greater market recognition, are substantially larger and have substantially greater resources and distribution capabilities than we do. We also face the likelihood of new competitors offering Internet gaming software technology entering this industry. There is no assurance that we will be able to compete successfully with existing and future competitors, which could have a material and adverse effect on our business, financial condition or results of operations.

The benefits of our exclusive agreements with the cable partners may be substantially diminished by open-access proposals, which would require our exclusive cable partners to grant our competitors access to their systems

We have entered into exclusive agreements with 11 out of 19 of our cable partners (not including Original Equipment Manufacturers, or OEM, partners) to provide services through their cable systems. Under a regulation in Taiwan, our cable partners must obtain leased-circuit licenses to lease their circuits to us in order for us to provide two-way cable services. In addition, any holder of leased-circuit licenses, including any of the cable partners having exclusive relationships with us, may be required to grant our competitors access to its cable system if it is deemed to be a dominant leased-circuit operator. In that event:

- Other Internet and online service providers could potentially provide services over these cable partners cable systems that compete with our services;
- our rights as the exclusive broadband Internet access provider over these cable partners systems could be lost; and
- our business, financial condition and results of operations would likely be adversely affected.

Our controlling shareholder has significant influence in determining the outcome of any corporate transaction or other matters submitted to the shareholders for approval, and their interests may conflict with your interests

Members of the Koos Group currently beneficially own approximately 28.7% of our outstanding shares. Accordingly, the Koos Group has significant influence in determining the outcome of any corporate transaction or other matters submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, and also the power to prevent or cause a change in control. The interests of the Koos Group may differ from or conflict with your interests.

Our relationship with our major shareholders may not benefit us in the future, and the expected benefits to be derived from our affiliations with our major shareholders may never materialize

We have entered into alliances with several members of the Koos Group. These alliances have enabled us to obtain services relating to our access and content businesses. We expect to enter into additional alliances with members of the Koos Group in the future as we expand our operations. However, we cannot assure you that we will succeed in entering into such alliances or that the alliances with the Koos Group s members will be beneficial to us.

Our transactions with affiliates may not benefit us and may harm our Company

We have entered into several transactions with our affiliates. Our policy is that transactions with affiliates are to be conducted on an arm s-length basis and on terms substantially as favorable to us as with non-affiliates. However, we cannot assure you that all our future transactions with affiliates will be beneficial to us.

Out of our 19 cable partners, 11 are members of the Koos Group, our controlling shareholder. We cannot assure you that future transactions between our Company and those related cable partners will be on arm s-length terms, or that we could not have obtained more favorable terms in negotiations with independent third parties. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions .

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We may need additional capital in the future and it may not be available on acceptable terms

The development of our business may require significant additional capital in the future to:

- fund our operations;
- enhance and expand the range of products and services we offer; and
- respond to competitive pressures and perceived opportunities, such as investment, acquisition and international expansion activities.

We cannot assure you that additional financing will be available on terms favorable to us, if at all. If adequate funds are not available on acceptable terms, we may be forced to curtail or cease our operations. Moreover, even if we are able to continue our operations, any failure to obtain additional financing could have a material and adverse effect on our business, financial condition and results of operations and we may need to delay the deployment of our services. See Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources .

We may be subject to claims of intellectual property right infringement, and our limited intellectual property protection causes us to be vulnerable to competitors infringing upon or misappropriating our proprietary rights

As a distributor of Internet content, we face the same types of risks that apply to all businesses that publish or distribute information, such as potential liability for copyright, patent or trademark infringement, defamation, indecency and other similar claims. Any imposition of liability that is not covered by insurance, is in excess of insurance coverage or for which we are not indemnified by a content provider, could have a material adverse effect on our business and results of operations.

We rely on a combination of copyright and trademark laws, trade secret protection, confidentiality and non-disclosure agreements, and other contractual provisions to protect our proprietary software, trade secrets and similar intellectual property. These are especially critical to our online gaming software and application services business. We can offer no assurance that our efforts will prove to be sufficient or that third parties will not infringe upon or misappropriate our proprietary rights. We may have to engage in litigation to enforce and protect our trade secrets and other intellectual property rights. We may also be sued for allegedly infringing the rights of others or to determine the scope and validity of their intellectual property rights. Any litigation involving proprietary rights could be costly, require us to seek licenses from third parties and prevent us from selling our products and services, any of which could have a material adverse effect on us.

Defects in our online gaming software and application services could harm our reputation and thus our business

The performance of our online gaming software and application service is critical to the success of Grand Virtual s business, the failure of which exposes us to serious potential risks. These risks include:

- the risk of defects in our software and application service or system failures, which could result in losses to our licensees, end-users and to us; and
- the risk from claims resulting from losses to end-users, which could damage our reputation and subject us to liability.

If we are unable to successfully protect our computer systems from online security risks, our business could suffer

While we have implemented industry-standard security measures, our network may still be vulnerable to unauthorized access, computer viruses, denial of service attacks and other disruptive problems. A party that is able to circumvent security measures could misappropriate proprietary information and, perhaps, most importantly, cause interruptions in our operations. Internet and online service providers have, in the past, experienced and may, in the future, experience, interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees or others. We may be required to expend significant capital or other resources to protect against the threat of security breaches or to alleviate problems caused by such breaches. There can be no assurance that any measures implemented will not be circumvented in the future.

The markets for our Internet access and online gaming software and application services are characterized by rapid technological changes, and our inability to respond quickly and sufficiently to new Internet technologies or standards may have a material and adverse effect on our business

The markets for our Internet access and online gaming software and application services are characterized by rapid technological advances, evolving industry standards, changes in user requirements and frequent new service introductions and enhancements. If we are unable to effectively use leading technologies, continue to develop our technological expertise, enhance our current services and continue to improve the performance, features and reliability of our products and services, or we are unable to respond quickly and sufficiently to new Internet technologies or standards, then our business and financial results may be materially and adversely affected.

Our Internet access and online gaming software and application services businesses depend on the reliability of our network infrastructure, which is subject to physical, technological and other risks

The development and operation of our online networks are subject to physical, technological and other risks which may result in interruption in service or reduced capacity for customers. These risks include physical damage, power loss, telecommunications failure, capacity limitation, hardware or software failures or defects and breaches of security by computer viruses, break-ins or otherwise. The occurrence of any of these events could result in interruptions, delays or cessation in service to users of our online services, which could have a material adverse effect on our business and operating results. An increase in the volume of usage of online services could strain the capacity of our software and hardware employed, which could result in slower response time or systems failures.

We do not have redundant facilities in the event of an emergency, but we have a variety of backup servers at our primary site to deal with system failures.

The licensees of our Internet gaming software and application services business depend on credit card transactions for a substantial portion of the deposits or payments by their customers

Our Internet gaming software and application services business derives most of its revenues from its licensees. A substantial portion of the deposits or payments made to licensees are made through credit card transactions. If credit card companies were to stop processing online gaming transactions, either generally or in jurisdictions where our licensees operate, our Internet gaming software and application services business could be materially and adversely affected.

Many issuing banks of major credit cards (such as Visa and Mastercard) have announced that they will decline authorization to U.S. persons who attempt to use their credit cards for online gaming. U.S. and non-U.S. banks which process online gaming transactions for U.S. persons face potential criminal proceedings under the U.S. Patriot Act, as U.S. jurisdiction under the Patriot Act extends to non-U.S. banks that have correspondent accounts in the United States. This could result in issuing banks deciding not to process online gaming transactions generally. In addition, it is possible that other jurisdictions may enact legislation or take other actions which result in credit card companies being unwilling or unable to process online gaming transactions.

Furthermore, there is a higher incidence of fraud associated with online credit card payments than with respect to other types of transactions, which could further discourage issuing banks from processing online gaming transactions.

The worldwide legal and regulatory environment in which our Internet gaming business operates embodies uncertainties that could adversely affect our business and operating results

The licensees of our software products and our business of software development and application service provision itself are subject to applicable laws and regulations in various jurisdictions. Companies and consumers involved in Internet gaming are located around the world, including the end-users of our licensees. As such, it is in many cases uncertain which governments have authority to regulate or legislate with respect to different aspects of this industry. The Internet gaming industry is still in an early stage of development, and as such, the worldwide legal and regulatory environment in which the business operates is highly fluid, and subject to change. Most foreign jurisdictions have some form of legal framework applicable to games of chance, but few provide any guidance on how this framework applies to Internet gaming. Issues such as physical location of the gaming event, foreign jurisdictional law, Cyberlaws , and control of the Internet all make traditional legal and regulatory laws difficult to apply. In addition, the very nature of Internet gaming creates new and unique forms of entertainment that were neither contemplated nor feasible in the past. Due to the uncertainties in the worldwide legal and regulatory environment in which our Internet gaming business operates, we cannot assure you that our status or operations as an application service provider to the gaming industry is in compliance with all laws and regulations of the jurisdictions in which we operate, or that changes in such laws and regulations, or in their interpretation, will not adversely affect our business and operating results.

Our Company and the industry as a whole may be affected by efforts by members of the U.S. Congress to ban certain Internet gambling. Early in the 108th Congress, U.S. Congressman Jim Leach (R-IA) introduced HR 21, the Unlawful Internet Gambling Funding Prohibition Act, which attempts to prohibit Internet gambling by forbidding the use of credit instruments of United States banks from being used to make bets or wagers over the Internet. Shortly afterwards, U.S. Senator Jon Kyl (R-AZ) introduced similar legislation, S. 627 in the U.S. Senate. In June 2003, HR 21 was reintroduced as HR 2143 by U.S. Congressman Spencer Bachus (R-AL) without any civil and criminal sanctions in order to bypass the U.S. House of Representatives Committee on Judiciary. After a very close vote on an amendment to HR 2143, the House of Representatives passed that legislation. In late July 2003, the U.S. Senate s Committee on Banking voted to report an altered version of S. 627. We continue to monitor this situation since the passage of this legislation could have a substantial impact on the business of our licensees and ultimately our Company. If this legislation passes and becomes law, it would have an immediate detrimental effect on the industry and would pose a serious threat to the continued operation of our online gaming business.

In March 2003, the World Trade Organization held in favor of Antigua and Barbuda and against the U.S. with regard to unlawful trade restrictions relating to Internet gaming. Due to the recent timing of this ruling and without the ruling being published in full, it is too early to determine what, if any, influence this may have on United States-led legislation.

Our operating results and financial condition are affected by general economic conditions and levels of consumer spending as well as the occurrence of natural disasters

Our operating results and financial condition, particularly in relation to our retail music business and our online entertainment business, are directly dependent upon general economic conditions and levels of consumer spending. Political unrest, war, acts of terrorism and other instability, as well as natural disasters such as earthquakes and typhoons which are common in Taiwan, can result in disruption to our business or the businesses of our customers. Similar occurrences in the future could result in increased volatility in or damage to the global financial markets, which in turn may adversely affect our business and results of operations. Past economic downturns have resulted in lower levels of consumer spending, thus negatively impacted our sales and profit. There can be no assurance that rising interest rates, an economic recession, other adverse economic developments or natural disasters will not have a material adverse effect on our cashflow, profitability or financial condition.

There are economic risks associated with doing business in Taiwan, particularly due to the tense relationship between Taiwan and China

Our principal executive offices and our operations in respect of our online and retail music businesses are located in Taiwan and all of our net revenues in respect of our online and retail music businesses are derived from customers in Taiwan. Taiwan, as part of the Republic of China, has a unique international political status. The People s Republic of China, or the PRC, asserts sovereignty over mainland China and Taiwan and does not recognize the legitimacy of the Taiwan government. Although significant economic and cultural relations have been established during recent years between Taiwan and the PRC, the PRC government has indicated that it may use military force to gain control over Taiwan if Taiwan declares independence or if any foreign power interferes in Taiwan s affairs. Relations between Taiwan and the PRC and other factors affecting the political or economic conditions of Taiwan could also affect our online and retail music businesses.

We may be subject to heightened scrutiny by Taiwan s Fair Trade Commission due to our sizeable share of the recorded music retail distribution market in Taiwan, which could result in new regulations that may negatively impact our results of operations

Since we hold a sizeable market share of Taiwan s recorded music retail distribution market, we could be deemed a monopoly by Taiwan s Fair Trade Commission. This could result in heightened scrutiny of our retail music distribution operations and regulations. Any existing or new regulations that govern the activities of a monopoly could restrict the scope of our music distribution business, which could negatively impact our financial condition and results of operations.

Fluctuations in the exchange rate between New Taiwan dollars and U.S. dollars could increase our costs relative to our revenues, which could adversely affect our profitability

Historically, all of our revenues and a majority of our expenses and liabilities have been denominated in New Taiwan dollars, the currency of Taiwan. We also generate expenses and liabilities in U.S. dollars. In the future, we may also conduct business in additional foreign countries and generate revenues, expenses and liabilities in other foreign currencies. As a result, we are subject to the effects of exchange rate fluctuations with respect to any of these currencies. We have not entered into agreements or purchase instruments to hedge our exchange rate risks although we may do so in the future. If we do so in the future, these agreements and instruments may not help us to hedge our exchange rate risks completely.

Any future outbreak of severe acute respiratory syndrome, or SARS, may materially and adversely affect our business and results of operations

Since March 2003, several economies in Asia, including China, Hong Kong, Singapore and Taiwan, have been affected by the outbreak of SARS, a highly contagious form of atypical pneumonia. SARS has caused damage to the trade and tourism industries as well as to the economies and financial markets of the affected countries, including Taiwan. The SARS outbreak had a significant negative impact on our retail music business and operating results. Any economic downturn as a result of any future SARS outbreak may have an adverse effect on consumer confidence, and may in turn result in a decrease in the demand for our products and services, which would adversely and materially affect our business and results of operations.

We believe that we were a passive foreign investment company for the taxable year 2003 and are likely to be treated as a passive foreign investment company for the taxable year 2004. As a result, you may be subject to materially adverse tax consequences with respect to our shares

Based on the composition of our assets and the nature of our income, we believe that for U.S. federal income tax purposes we were a passive foreign investment company for the taxable year 2003 and are likely to be treated as a passive foreign investment company for the taxable year 2004 unless the market value of our shares increases significantly or we make substantial active investments, or both, during the taxable year 2004. We have limited control over the market value of our shares and do not currently have plans to make significant active investments. If you are a U.S. person holding our shares, because we are a passive foreign investment company, you will be subject to special U.S. federal income tax rules that may have materially adverse tax consequences and will require annual reporting. See Item 10. Additional Information E. Taxation United States Federal Income Tax Considerations For U.S. Holders Passive Foreign Investment Company Rules .

We depend on dividends from our subsidiary in Taiwan to meet our cash needs, and our subsidiary s ability to distribute dividends to us may be subject to restrictions under Singapore and Taiwan laws

We are a holding company, and our primary assets constitute our ownership interests in our subsidiaries in Taiwan, including Hoshin GigaMedia, Rose Records and Tachung Records. Accordingly, our primary internal sources of funds to meet our cash needs is our share of the dividends, if any, paid by these subsidiaries in Taiwan. The distribution of dividends from these subsidiaries in Taiwan to us is subject to restrictions imposed by Taiwan and Singapore corporate and tax regulations, which are more fully described in Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Dividends from Our Subsidiaries in Taiwan . In addition, although there are currently no foreign exchange control regulations, which restrict the ability of our subsidiaries in Taiwan to distribute dividends to us, the relevant regulations may be changed and the ability of these subsidiaries to distribute dividends to us may be restricted in the future.

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We are a Singapore company, and because the rights of shareholders under Singapore law differ from those under U.S. law, you may have difficulty protecting your shareholder rights

Our corporate affairs are governed by our Memorandum and Articles of Association and by the laws governing corporations incorporated in Singapore. The rights of our shareholders and the responsibilities of members of our board of directors under Singapore law are different from those applicable to a corporation incorporated in the United States and, therefore, our shareholders may have more difficulty protecting their interests in connection with actions by the management, members of our board of directors or our controlling shareholders than they would as shareholders of a corporation incorporated in the United States.

There are anti-takeover provisions under the Singapore Securities and Futures Act (Chapter 289) and the Singapore Code on Takeovers and Mergers that may delay, deter or prevent a future takeover or change of control of our Company, which may adversely affect the price of our shares

There are provisions under the Singapore Securities and Futures Act (Chapter 289) and the Singapore Code on Take-overs and Mergers that may delay, deter or prevent a future takeover or change of control of our Company. Anyone acquiring an interest, either on his own or together with parties acting in concert with him, in 30% or more of our voting shares must extend a takeover offer for the remaining voting shares. A person holding between 30% and 50% of our voting shares, either on his own or together with parties acting in concert with him, must also make a takeover offer if that person acquires additional voting shares in excess of 1% of the total number of voting shares in any 6-month period. These provisions may discourage or prevent transactions that involve an actual or threatened change of control of our Company. This may harm you because a transaction of that kind may allow you to sell your shares at a price above the prevailing market price.

You may be subject to Singapore taxes

You should consult your tax advisors concerning the overall tax consequences of acquiring, owning or selling the shares. Singapore tax law may differ from the tax laws of other jurisdictions, including the United States.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of our Company

Our legal and commercial name is GigaMedia Limited. We were incorporated in September 1999 as a company limited by shares organized under the laws of the Republic of Singapore. Our Singapore company registration number is 199905474H. Our principal executive offices are located at 14th Floor, 122 TunHua North Road, Taipei, Taiwan, and our telephone number is country/city code 886 and number 8770-7966. Our Web site address is: www.giga.net.tw.

We are a holding company and, prior to the finalization of our acquisition of Taiwan s two leading music store chains in February, September and December of 2002, respectively, all our operations were conducted primarily through our wholly-owned subsidiary, Hoshin GigaMedia Center Inc., or Hoshin GigaMedia. Hoshin GigaMedia commenced operations in October 1997 and was incorporated in October 1998 in Taiwan. Hoshin GigaMedia, as an unlisted Taiwanese company, could not publicly offer its shares to investors outside of Taiwan. To enable us to offer our shares to international investors, we were incorporated in Singapore in September 1999 and acquired 99.99% of Hoshin GigaMedia in November 1999. In October 2002, we acquired the 0.01% of Hoshin GigaMedia we did not own.

We completed the initial public offering of our shares on February 24, 2000. Our shares trade on the Nasdaq National Market under the symbol GIGM . We are the first Internet company based in Taiwan to list on the Nasdaq National Market.

In 2002, we acquired Rose Records (formerly described as Point Records Co., Ltd.) and Tachung Records (formerly described as Music King Co., Ltd.), Taiwan s two largest music store chains, respectively, with a view to expanding our business to retail entertainment services.

In April 2004, we acquired Grand Virtual, a privately-held online gaming software developer and application service provider based in the Boston area of the U.S., with a view to enhancing our diversified entertainment products portfolio.

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B. Business Overview

We are a holding company and, through several subsidiaries, distribute recorded music and provide broadband Internet access services and online entertainment services in Taiwan. Our core retail music business is operated through our subsidiary G-Music Limited, or G-Music, which controls Taiwan s two largest music store chains. Our online broadband businesses are operated through our subsidiary, Hoshin GigaMedia Center Inc., and Hoshin GigaMedia s subsidiary Koos Broadband Telecom Limited, or KBT, which are focused on consumer and corporate users, respectively.

Prior to 2002, our primary business was to provide broadband Internet access services in Taiwan. After we acquired Taiwan s two largest music store chains, Rose Records and Tachung Records, in 2002, and our acquisition of Grand Virtual in 2004, we became a diversified provider of entertainment services and Internet access services. Our online/retail business model provides us with multiple distribution channels. We believe this business model will provide us deep customer relationships and the ability to meet future market demand as technology drives new media and entertainment industry change.

We operate Taiwan s two largest music store chains, Rose Records and Tachung Records, through our subsidiary, G-Music. As of December 31, 2003, we operated a total of 52 stores with a total floor area of approximately 124,494 square feet. Our estimated market share of the physical retail music distribution industry in Taiwan in 2003 was between 35% and 45%. While seeking to preserve our market share, we are also aiming to reduce costs and improve our management information systems with a view to operating this business more efficiently, and increasing our operating margins. Our retail music distribution business generated revenues of NT$2.6 billion (US$76.9 million) and a loss from operation of NT$243.5 million (US$7.2 million) in 2003.

Online, we operate a broadband ISP via our subsidiary Hoshin GigaMedia, which provides Internet access service and broadband content with multiple delivery technologies. Our access products consist of ADSL and cable modem offerings, giving us the ability to deliver broadband connections island-wide. We offer broadband Internet access at speeds of up to 100 times faster than traditional dial-up services. With 19 cable system partners, our cable modem business passes more than 3.1 million Taiwan households, as well as 417,000 small and medium-sized businesses. We offer interactive Chinese-language multimedia Web sites through our Web destination http://www.gigigaga.com. In addition, another subsidiary of our Company, Koos Broadband Telecom Limited, or KBT, provides broadband service to corporate customers. Our online business generated revenues of NT$671.3 million (US$19.8 million) and a loss from operations of NT$188.9 million (US$5.6 million) in 2003.

In April 2004, we acquired Grand Virtual in a private transaction for an all-cash consideration of US$32.5 million. Grand Virtual is a software developer and application service provider based in the Boston area of the U.S.. Grand Virtual develops software for online entertainment services, including online gaming and social networking. As an application service provider, Grand Virtual offers turnkey solutions for games of skill and chance, which it licenses predominantly to online gaming companies in Europe and Asia. We believe that our acquisition of Grand Virtual will be accretive to our cash flows and earnings, and will enhance our diversified entertainment products business portfolio.

We are controlled by the Koos Group, a major conglomerate in Taiwan s finance, manufacturing, telecommunications, media, and cable industries.

Retail Music Distribution Services

Overview

We operate a retail music distribution business through our indirect ownership of Taiwan s two largest retail music distribution chains, Rose Records and Tachung Records. Our stores sell recorded music as well as DVDs, VCDs and ancillary equipment such as personal stereo headphones. As of December 31, 2003, we operated a total of 52 stores with a total floor area of approximately 124,494 square feet. We estimate that in 2003 we had a market share of between 35% and 45% of Taiwan s physical retail music distribution business. While seeking to preserve our market share, we are also aiming to improve the operating results and financial condition of this business by reducing costs, improving our management information systems with a view to operating this business more efficiently, and increasing our operating margins.

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We hold our retail music distribution business through G-Music Limited, our 58.58% owned subsidiary. We acquired the stores operated by Rose Records and Tachung Records in a series of transactions in February 2002, September 2002 and December 2002, and have consolidated the results of operations of the acquired businesses from the respective dates of acquisition. See Note 3 of our consolidated financial statements for additional information. Our retail music distribution business, which we refer to in our consolidated financial statements as our offline business, generated revenues of NT$2.6 billion (US$76.9 million) and a loss from operations of NT$243.5 million (US$7.2 million) in 2003.

Industry Overview

Taiwan s retail music distribution industry is relatively fragmented. In addition to our Rose Records and Tachung Records chains, there are several other record distribution chains operating in Taiwan. Hypermarket chains, such as Carrefour and specialty entertainment chains, such as FNAC, reflect a small, but growing, segment of the market, with the balance consisting of convenience stores, individual music stores and night markets. Alternative distribution methods, such as Internet sale of physical recorded music and Internet-based music downloads have also begun to emerge in recent years as competitive distribution channels.

While no formal industry statistics are available, based on information provided to us by record companies and knowledge of our own revenues, we estimate that our market share in 2003 was between 35% and 45% of the total physical retail music distribution industry. This total does not include Internet-based music downloads or illegal physical or online piracy, which we believe to be significant but about which we do not have reliable information.

The retail music distribution industry in Taiwan has been undergoing significant change in recent years. The development of new technologies, such as Internet-based music downloading and changing consumer buying habits, have contributed to a significant global reduction in the size of recorded music sales during the past several years. This trend has also adversely affected the retail music distribution industry in Taiwan. In addition, Taiwan continues to experience relatively high levels of physical and online music piracy, which has further eroded the retail music distribution industry.

We believe that these changes are likely to continue to impact the retail music distribution industry going forward. Historically, purchases of popular music have constituted a significant portion of ours and our competitors sales. Going forward, we anticipate that an increasing proportion of these sales is likely to be effected through alternative distribution channels, particularly Internet-based downloading. Consequently, we anticipate that an increasing proportion of physical retail music distribution will comprise specialized areas of music, such as classical and jazz, whose purchasers demand the higher sound quality of physical recordings and who we believe are generally less price-sensitive than purchasers of popular music.

Taiwan s retail music distribution industry has also been affected in recent years by relatively lower levels of new popular artists and albums than has been the case in some prior periods, which we believe has adversely affected our sales and those of our competitors.

Stores and Store Formats

As of December 31, 2003, we operated 52 stores with a total floor area of approximately 124,494 square feet. These stores range in size from approximately 2,130 square feet to approximately 3,560 square feet. The stores typically offer a broad selection of album titles across a range of musical genres.

Our stores are located principally in Taipei, Taichung, Kaoshiung and Taiwan s other major urban areas, although we also operate certain stores in rural areas. Historically, we have sought to locate our stores in high-traffic areas and near transportation hubs such as Mass Rapid Transit, railway and bus stations, with a view to attracting young purchasers of popular music. These areas also tend to be characterized by higher store rental costs. We currently have 22 stand-alone music stores in the North of Taiwan, nine in Central Taiwan and 10 in the South of Taiwan. In addition, 11 of our Rose records retail outlets are located in either hypermarkets or department stores throughout Taiwan.

We believe that in the future, younger purchasers of popular music are likely to turn increasingly to alternative music distribution channels, such as Internet-based downloads, and that an increasing proportion of the physical retail music distribution will comprise more specialized areas of music, such as classical and jazz.

In light of the trends we perceive in this business, we are in the process of experimenting with alternative store formats and locations. These include:

Joint Stores these are stores co-located with other businesses, which attract customers who we believe are likely to purchase our products. We are currently negotiating a joint store arrangement with a major operator of fitness centers in Taiwan and are exploring other similar opportunities. In addition, we may elect to operate coffee shops or similar businesses in our stores. We intend to open or convert several existing stores to joint stores in the second half of 2004.

Specialized Stores these are stores which specialize in one or more particular styles of music, such as classical or jazz. These stores will offer a broader and deeper selection of music of a particular genre and will feature more knowledgeable store personnel. The stores will be located in areas designed to attract less-price-sensitive consumers of these types of music, such as in business districts. We plan to open several specialty stores in the second half of 2004.

Community Stores these are located in rural and other areas where they serve a local community which is not otherwise served by a music store. Due to their locations, these stores generally face less direct competition and, consequently, permit more aggressive pricing strategies. As of December 31, 2003, we operated two community stores. We plan to open several additional community stores in the second half of 2004.

Other Formats we are currently developing and evaluating other possible store formats, including flagship stores which integrate our retail music distribution business with other entertainment-related businesses.

We also offer and sell physical CDs, DVDs and VCDs to retail purchasers through Internet Web sites which we operate. Revenue from our Internet store represents a small fraction of our total music distribution revenue. In the future, we may consider establishing an Internet-based music download business, although we have no current plans to do so.

Purchasing and Distribution

Other than major record releases,which are procured by our headquarters, each of our retail music stores, through its store manager, currently makes its own purchase of CDs, DVDs and VCDs either directly from the major record companies or through other suppliers. Following the implementation of our Point of Sale system (which is discussed below), we plan to centralize procurement for all of our retail music stores at our headquarters in Taipei, which we believe will strengthen our position in negotiating terms, discounts and in-store advertising with the major record companies. From the data collected by our POS system, we will be able to identify fast-selling CDs which we should purchase more of, and be alerted when inventories of slow-moving CDs become too high.

Currently, merchandise purchased by our retail music stores is also separately distributed by the major record companies or the other suppliers, as the case may be, directly to our individual retail music stores. Following the centralization of our procurement, we expect our suppliers to continue to ship the merchandise directly to each of our retail music stores.

Consistent with retail music industry practice in Taiwan, CD purchases from major record companies are in general not returnable for full credit. The principal exception relates to major record releases, where the first batch of purchases are usually returnable for full credit. CD purchases from suppliers other than major record companies are usually returnable for full credit.

Merchandising and Marketing

The primary source of revenue for our retail music stores is the sale of recorded music on CDs. Each of our stores carries a wide selection of CDs purchased from major and independent record companies, which, except for new releases and special promotions, are generally arranged in our stores according to genre and alphabetically by artist or group. Our music stores also receive marketing/sales promotional revenue from store media, that is, in-store promotion by record companies. Record companies typically allocate a portion of their album marketing budgets as marketing/sales promotional revenues to music stores in return for prominent in-store placement of CDs and/or posters as well as record company-sponsored promotional events. In 2003, we recognized a total amount of NT$54.0 million (US$1.6 million) in advertising and promotional revenues.

In light of the changing trends we perceive in the retail music industry, as part of our marketing strategy we plan to launch a co-branded credit card and loyalty program. We believe that a co-branded credit card will help promote sales and, more importantly, build customer loyalty. We will also be able to collect valuable data regarding our customers music preferences, for example, jazz or classical music, which will help us to tailor the offerings of our specialty stores to meet their needs. We are currently in negotiations with a major bank in Taiwan to develop and launch a co-branded credit card and loyalty program, which we expect to launch in the fourth quarter of 2004.

Management Information System

We are in the process of implementing our new point of sale, or POS, system for our retail music stores. This is a centralized management information system that allows tracking from purchase through to sale, providing us with real-time information on what is being sold at each of our retail music stores. The new POS system is expected to enable us to implement a centralized purchasing system, perform inventory swap among our stores and monitor our inventory movement more accurately and efficiently. We expect our new POS system to greatly reduce manpower costs in terms of our purchasing and also improve our billing system. Our new POS system is currently being tested at two of our retail music stores, and we expect to begin implementing the system at all of our stores beginning in the third quarter of 2004. We also plan to conduct training programs to prepare our store staff in connection with the implementation of our new POS system. We believe that implementation of our POS system should ultimately enable us to achieve a more efficient division of labor between staff performing stock-taking and other operational functions and more knowledgeable sales staff to improve customer service.

Competition

The retail music distribution business in Taiwan is highly competitive. We believe that the principal bases of competition are store location, selection and price of CDs. We compete in the music chain store business with Asia Record and Guan Nan Record. Our music stores also compete with independent operators and convenience stores. We are also facing increasing competition from hypermarkets, such as Carrefour, as well as specialized entertainment chains, such as FNAC, some of which have greater financial and other resources than our Company. We expect competition from hypermarkets to increase in the future, as this reflects the expected shift in customers from high-traffic areas like bus and train stations to areas with available and accessible parking lots, such as hypermarkets and business areas. Some of our larger competitors have exclusive distribution arrangements with music label companies and the operation of these arrangements prevent us from distributing certain popular music products. In addition, we compete with music distribution channels that employ modern technology, such as online download and streaming, which enjoy lower inventory and distribution costs. Furthermore, the prevalent practice of physical and online piracy in Taiwan presents a continuing threat to the growth of the music distribution industry in Taiwan.

Seasonality

Retail music sales in Taiwan are typically higher during the Chinese New Year and in the summer due to increased store traffic and buying by students and youths on school vacation. Rose Records and Tachung Records are similarly exposed to this trend in seasonality of sales, and rely heavily on the Chinese New Year and summer sales to achieve annual financial targets.

Online Internet Access Services

We provide Internet access services in the form of ADSL devices and cable modems.

Access Services Offerings

ADSL. GigaMedia s ADSL services offer different levels of performance from 512Kbps download with 64Kbps upload to 3Mbps download with 640 Kbps upload. The high performance of our products is designed to better support file sharing, video and other broadband Internet applications. We were the first company in Taiwan to offer ADSL services with a standard fixed IP-address feature, which enables users to build their own multimedia Web sites, participate in online meetings, set up servers and utilize Voice-over-IP. As of December 31, 2003, we had 77,837 ADSL customers, as compared to 73,573 ADSL customers as at December 31, 2002.

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CABLE MODEMS. We also offer our cable modem-based broadband Internet access at transmission speeds of up to 6 Mbps. Our cable modem-based broadband access services allow subscribers to more efficiently use (1) bandwidth-intensive multimedia applications, such as interactive games, high-quality audio, video and distance learning, and (2) electronic commerce applications, such as retailing, financial services and online software distribution. As of December 31, 2003, we had 25,119 cable modern-based broadband customers, as compared to 35,658 cable modem-based broadband customers as at December 31, 2002.

Markets of Access Services

RESIDENTIAL ACCESS SERVICES. We receive access fees from residential subscribers of our cable modem-based broadband Internet access services under revenue sharing arrangements with our cable partners with respect to each subscriber s monthly access fee. We recognize our access revenues net of payments to our cable partners.

Our 2-way cable modem-based broadband service packages are offered at NT$1,199 for premium service; NT$850 for a mid-tier package; and NT$699 for basic service. We also offer selected subscribers discounts on their monthly access fees and quarterly payment options to further promote our access services. We recognize our revenue from access fees net of split with cable partners and these discounts. In the future, our product mix may change in response to market dynamics.

During 2003, we offered different tiers of ADSL service options with monthly access fees ranging from NT$410 to NT$1099, which from time to time have been revised for promotion purposes, including providing subscribers periods of free Internet access service. Unlike our cable access fees, our ADSL access revenues are not shared.

The number of subscribers of our Internet access services declined during 2003. The table below sets forth the number of our subscribers on the dates specified. Despite the declines in our subscribers in 2003, our access revenues increased by 1.4% for 2003 as compared to that for 2002, primarily because more subscribers were using higher specification products. We do not expect to see significant growth in our subscriber base in the future.

	Number of Subscribers		
Date	**2001**	**2002**	**2003**
31-Mar	70,437	128,946	103,375
30-Jun	82,200	124,919	100,677
30-Sep	99,109	112,242	99,837
31-Dec	119,130	108,016	102,940

COMMERCIAL ACCESS SERVICES. KBT offers and sells dedicated and high speed Internet access to corporate customers over fiber optical lines. KBT offers various speeds of leased line services, ranging from 1Mbps to 1Gbps, to different kinds of subscribers like ISPs, ICPs, corporates, SMEs (small and medium enterprises), and cyber cafes. KBT charges its customers monthly fees for access services depending on the level of bandwidth.

CABLE MODEM Original Equipment Manufacturers (OEM) SERVICES. Besides directly providing cable modem-based Internet services under GigaMedia s brand name to end-users, we also provide trunk bandwidth and backend systems, which include a customer provisioning system, billing system and network management system, to independent cable operators that wish to operate their cable modem-based Internet service under their own brand names. We receive fees from these OEM cable systems under various revenue sharing arrangements. As of

December 31, 2003, we had nine OEM cable partners.

Other Services

Our Web destination offers users a wide variety of rich, multimedia Internet content in Chinese optimized for broadband access. Our Web destination allows users to personalize across multiple online content channels using only one unified log-in password, which enables the users to customize their own viewing priority and preferences. Through our network, our Web destination delivers to users textual data, near-CD-quality audio and

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high-quality digital video. In addition, our Web destination provides users with a broad range of community services and other online services. To enable our users to enjoy a comprehensive online experience, our Web destination also features extensive Web-based community services, including free electronic mail, bulletin boards, photo albums and video and text integrated chat rooms. These community services are available to all users who are registered members of our Web destination. The registration is free of charge, conducted online and used by us to establish a user database.

Our Broadband Network Cable and ADSL Network

Over the past years, we have built an island-wide network infrastructure which is based on Gigabit Ethernet technologies and has covered 20 major districts out of a total 25 districts in Taiwan. In these 20 districts, we have built regional data centers to host both the cable Internet and ADSL headend equipments. These centers also act as service hubs for:

- the provision of key community services, including electronic mail, usenet news and personal Web hosting, to subscribers;
- the management of network performance;
- the replication of content and applications; and
- the provision of a cost-efficient infrastructure to cache data.

NETWORK OPERATIONS CENTERS. We provide centralized network management through our network operations centers, which represents the nerve center of our whole network. Our centers use advanced proprietary network management tools and systems to monitor the network infrastructure 24 hours a day, 7 days a week, enabling us to effectively address network problems before they adversely affect our subscribers.

Data Backbone

Ongoing privatization of the telecommunications market by Taiwan s government has expanded the number of telecommunications operators. Including Chunghwa Telecom, there are currently four fixed-line telecommunications operators in Taiwan. It is our policy to continually monitor the usage pattern, adjust the network architecture, and select better leased-line circuits providers to optimize the user experience and service economics.

Private peer to peer relationships among Internet service providers (i.e., private direct cable connections as opposed to public Internet connections) have become the most effective solutions to resolve the problems of packet loss and latency resulting from the significant traffic volume through Internet networks. We have peering arrangements with most of Taiwan s major networks and Internet service providers, providing us with what we believe to be the most comprehensive Internet connections in Taiwan. According to Taiwan Network Information Center, or TWNIC, GigaMedia had the best aggregate peering bandwidth among all commercial organizations in Taiwan as of June 20, 2003. Our extensive peering arrangements have enabled us to route most of our traffic over the less congested private peering links, through which we passed most of our traffic in 2002 and 2003. This enhances the efficiency of our network and allows us to provide better, faster access services to our subscribers.

Through our peering arrangements with several Internet service providers and networks, we currently connect to Taiwan s Internet backbone from our network operations center. We have installed direct Internet connections at each of our regional data centers to minimize backbone traffic flow and to provide Internet connection redundancies. We currently connect to the international Internet through a direct trans-Pacific submarine cable link. As the competition in the trans-Pacific submarine cable segment provides better price economics, we are able to significantly increase our bandwidth without incurring additional cost. In 2003, we upgraded our infrastructure from STM-4 connection to Gigabit connections to provide faster connections.

Information System

We have established a versatile, scalable, real-time information system that integrates service provisioning, customer management, billing, data gathering and usage tracking functions. With independent multiple

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processing layers, we are able to quickly respond to increases in user, subscriber or service data by expanding our information system s capacity on demand.

Sales And Marketing

RESIDENTIAL ACCESS SERVICES. We plan to continue utilizing bundled marketing with our strategic partners to minimize costs. We primarily use the following means to market our services:

- television, magazine and newspaper advertisements;
- Web-based banners;
- Internet newsletters;
- inserts in cable television guides;
- participation in computer, technology and telecommunications tradeshows;
- free trial promotions through waiving monthly access fees for one or two months; and
- demonstration centers in computer superstores and other locations.

COMMERCIAL ACCESS SERVICES. With the unique optical Ethernet MAN infrastructure and solution, KBT is able to provide corporate customers, one-megabit increment, on-demand leased line service. We primarily use the direct sale force to reach our potential customers.

CABLE MODEM OEM SERVICES. For cable operators that are interested in providing or improving upon their cable Internet services, we will form a team composed of sales personnel, network engineers, backend software engineers and customer service specialists to provide free consultancy and turnkey solutions. We believe that direct sales contact and site visits to existing OEM partners and referrals by our existing OEM partners are the most efficient methods of marketing our cable modem OEM services.

Customer Service and Billing Online Access Business

We provide our subscribers with a comprehensive range of customer service, including assistance on cable modem installations, continuous post-installation technical support and prompt responses to billing and service requests.

Our customer service department is divided into two groups: technical support and general customer service. Our customer service department operates a toll-free help desk with extended hours of operation. Our subscribers may also contact us via electronic mail or through accessing our interactive self-service Web site. Our general customer service staff assist subscribers with cable modem questions and problems, as well as basic computer and software configuration questions and billing inquiries. Our technical support group handles technical problems referred by the general customer service staff.

We typically prepare and mail the bill for our services, which we send to the subscribers under our own name and logo, on a monthly basis. We offer our subscribers a wide variety of payment options, including automatic credit card payments, direct debits from their bank accounts and post office savings accounts, pre-payment or over-the-counter payment at post offices and convenience stores. We also seek to provide detailed information on the bills to enable our subscribers to obtain all relevant information relating to their services.

Competition

The Internet access service industry is highly competitive.

We mainly compete with broadband Internet service providers, which provide basic Internet access to residential and commercial users generally through the provision of ADSL services using existing telephone networks or cable modem-based services operating over cable television networks. The Internet access service industry in Taiwan is very competitive and challenging. The broadband Internet access service industry in

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Taiwan is dominated by the main fixed-line telecommunication company, Chunghwa Telecom. Chunghwa Telecom s HiNet broadband service is the current broadband ISP market leader with approximately 75% of the market share, while we have only managed to capture approximately 5% of the market share. The primary basis for competition is price. The prevalence of competitors offering similar access services at competitive prices has and will continue to saturate the Internet access market, making it difficult for us to attract new subscribers and/or retain existing ones.

We also compete with other broadband technologies, including integrated services digital networks, wireless and satellite data services. We believe that our access services have both technological and cost advantages over these alternative broadband means.

In the cable modem-based Internet access market, we believe that our close relationships with a large number of cable partners and our exclusive access to a substantial portion of Taiwan s households and businesses provide us with a competitive advantage. Our competitors in the Internet access service include all the four direct-line operators in Taiwan as well as SeedNet.

Some of our major competitors, including Chunghwa Telecom, have advantages over us in terms of financial and marketing resources, established customer relationships, brand awareness, customer access and telecommunications infrastructure.

Acquisition of Grand Virtual

We acquired Grand Virtual in April 2004. Grand Virtual is an application service provider and software developer which develops and licenses software for online entertainment services, including online gaming and social networking. In addition, Grand Virtual develops and licenses turnkey packages to licensees who, in turn, offer online gaming to end users.

Licensees of the gaming services provider platform in essence outsource to Grand Virtual, on a revenue sharing basis, the key operations required for the provision of online gaming, with the exception of marketing. As licensor, Grand Virtual provides the gaming engine software, as well as transaction and payment processing services, jurisdictional and fraud control, database management, player support and Web hosting.

Intellectual Property and Proprietary Rights

While we regard our intellectual property and proprietary rights as important, we believe that our future success is dependent primarily on the innovative skills, technological expertise and management abilities of our employees rather than on patent, copyright and trademark protection, and, accordingly, we do not consider any particular intellectual property or proprietary right to be material to our business.

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REGULATION

A. Telecommunications Regulation In Taiwan

The Ministry of Transportation and Communications and the Directorate General of Telecommunications of Taiwan regulate Taiwan s telecommunications industry primarily under the Telecommunications Law of Taiwan.

The Telecommunications Law authorizes the Directorate General of Telecommunications to regulate two types of telecommunications companies, Type I operators and Type II operators. Type I operators, such as Chunghwa Telecom, are enterprises that have established their own switching and transmission facilities to provide telecommunications services. These facilities-based services are similar to common carrier services or basic services in the United States. Type II operators, such as Hoshin GigaMedia, comprise all telecommunications operators other than Type I operators, including companies which generate fees from providing Internet access, online information, electronic mail and electronic commerce services.

Regulation of Type II Operators. Type II operators typically provide telecommunications services to customers by using the telecommunications facilities of Type I operators and are not permitted to engage in the buildup of telecommunications facilities. Type II telecommunications services can be further divided into special Type II telecommunications services and general Type II telecommunications services. A special Type II telecommunications license is required for any Type II operator which provides voice simple resale, Internet telephony, and other international telecommunications services by leasing international circuit(s). A general Type II telecommunications license is required for any Type II operator which provides telecommunications services other than those specified above. Hoshin GigaMedia currently holds a general Type II telecommunication license.

- License. A Type II license is valid for ten years, and may be renewed six months before its expiration. The license is nontransferable. Hoshin GigaMedia s license is due to expire in 2008.

- Tariff Regulation. Type II operators are required to establish tariffs for major rates and charges. These tariffs and any changes must be filed with the Directorate General of Telecommunications before they become effective. Tariff information must include the types of services provided, terms and fee schedules for all service items, rights and obligations of customers, contract termination events and other matters affecting the right and obligations of customers, all to be included in the operator s business plans.

- Change in Business. Under Taiwan s Regulations Governing Type II Telecommunications Operators, any change of type or scope of business must be approved by the Directorate General of Telecommunications. For change of the systems structure stated in the business plan, a report shall be filed with the Directorate General of Telecommunications for recordation within one month from the effective date of change of such system structure. In addition, Type II operators must report to the Directorate General of Telecommunications and inform their customers in advance of any plan to suspend or terminate any of their businesses.

- Technical Standards. Type II operators are required to retain qualified senior telecommunications engineers to install and maintain telecommunications equipment. Any telecommunications equipment used by a Type II operator must also satisfy technical standards adopted by the Directorate General of Telecommunications.

Regulation of Type I Operators. Type I operators are more heavily regulated than Type II operators, and the government of Taiwan has broad powers to limit the number of operators and their business scope and markets. Under the Telecommunications Law, Type I operators must satisfy required levels of capital adequacy and, to ensure that they meet their facilities rollout obligations, are subject to pre-licensing merit review of their business plans and tariff rates. In addition, the Telecommunications Law prescribes that any adjustment to the tariff rates of a Type I operator is subject to a price cap set according to the coefficient of the annual fluctuations of the consumer product index promulgated by the Directorate General of Budget, Account and Statistics under the Executive Yuan of Taiwan.

Liberalization of Type I Fixed Network Licensing. The Directorate General of Telecommunications adopted Fixed Network Regulations in 1999 to govern the issuance of fixed network communication licenses. Type I fixed network communications licenses are subdivided into comprehensive network, local network, long distance network, international network and lease-circuit licenses. These regulations have been designed to grant

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additional comprehensive network licenses to encourage competition with Chunghwa Telecom, which is a state-owned company and currently the dominant fixed-line network operator in Taiwan.

Content Liability. In the event that the content sent, transmitted or received via the Internet through an operator s system is found to be obscene, defamatory or in violation of public order or national security, the relevant operator would be liable for the content only if it knew or should have known that the content is obscene, defamatory or in violation of public order or national security. In addition, carriers must provide telecommunications services on a fair and equal basis and may not refuse to receive or transmit telecommunications information unless the content would endanger the national security or offend against the public order of Taiwan.

B. Cable Regulation In Taiwan

Regulation on Shareholding. Respectively in 2000 and 2001, the Cable Television and Broadcast Law has been modified. Under the modified regulations, the original regulation of a single shareholder cannot own more than 10% of the total issued shares of a cable operator , and no shareholder and its related parties may collectively own more than 20% of a cable operator s total issued shares has already been eliminated. Instead, the shares of a cable operator directly or indirectly held by foreign shareholders cannot exceed sixty (60) percent of all outstanding shares of the cable operator. Furthermore, foreign shareholders who directly hold shares of a cable operator are limited to foreign corporations and the total shares held by them cannot exceed twenty (20) percent of all outstanding shares of the cable operator.

Operating Licenses. To obtain an operating license, a cable operator must first apply for a rollout permit. After receiving this permit, the cable operator generally has three years to complete the cable system rollout as set forth in its permit application. Upon the satisfactory completion of the rollout, the Government Information Office will issue an operating license to the cable operator. If the cable operator has not received an operating license before its rollout permit expires, its right to engage in the cable television business will be terminated immediately.

The term of an operating license is nine years. A review committee established by the Government Information Office conducts periodic review of the performance of each licensed cable operator on the basis of its business and operating plans every three years. Following a review, a licensed cable operator may be instructed by the Government Information Office to make requested improvements in its business within a specified period. A failure to timely comply with the instruction could result in revocation of the cable operator s license.

Market Share Limitations. Under the Cable Television and Broadcast Law, the number of subscribers of all affiliated cable operators may not exceed one-third of the total number of cable television subscribers in Taiwan. In addition, the number of all affiliated cable operators may not exceed one-third of the total number of all cable operators in Taiwan.

Competition. Under the Cable Television and Broadcast Law, the Government Information Office is authorized to issue additional licenses in a franchised area if it believes that the existing license holders in that area are engaging in anti-competitive or unfair competition practices. In addition, service fees charged by cable operators must be approved by local government authorities on an annual basis.

Open Access Regulation. Under the Fixed Network Regulation described above, cable operators must obtain leased-circuit licenses issued by the Directorate General of Telecommunications in order to lease their circuits to companies that provide services through their cable systems. The Directorate General of Telecommunications began to accept applications for these licenses from cable operators in June 1999 and most of the cable operators have been granted with leased-circuit licenses to lease out their cable capacities to Type I operators and Type II operators, including Hoshin GigaMedia. As a condition to holding these licenses, any licensed cable operator that is deemed to be a dominant leased-circuit carrier may be required by the Directorate General of Telecommunications to allow all parties to provide services, including Internet access services, through their cable systems on substantially similar terms. Any imposition of this requirement from the Directorate General of Telecommunications on the cable partners having exclusive relationships with us will eliminate the benefits associated with our exclusive rights.

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C. Organization Structure

We are a holding company incorporated in Singapore in September 1999. Prior to 2002, our primary business was to provide broadband Internet access services in Taiwan. After we acquired Taiwan s two largest music store chains, Rose Records and Tachung Records in 2002, we became a diversified provider of music products and Internet access services in Taiwan. The table below sets forth for each of our principal subsidiaries, the name, year and country of incorporation and our percentage holding and principal activities as of May 31, 2004:

Entity	Year of Incorporation	Place of Incorporation /Operation	Our Percentage Holding	Principal Activities
Hoshin GigaMedia Center Inc	1998	Taiwan	100%	Cable based broadband and ADSL Internet access services and Internet content services and other online services
G-Music Limited	2002	Cayman Islands/Taiwan	58.58%	Holding company
Music King Co., Ltd.	2000	Taiwan	58.58%	Retail music distribution
Point Records Co., Ltd.	1997	Taiwan	58.58%	Retail music distribution
Koos Broadband Telecom Limited	2001	Taiwan	100%	Broadband Internet access services targeting business clients
GigaMusic.com.Ltd	2000	Cayman Islands/Taiwan	100%	On-line music distribution
GigaMedia (HK) Limited	2004	Hong Kong	100%	Holding company
GigaMedia International Limited	2004	British Virgin Islands	100%	Holding company
Grand Virtual Inc	1997	Delaware, U.S.A. Massachusetts, U.S.A.	100%	Development of software and provision of application service for online entertainment services

D. Property, Plant and Equipment

Our principal executive office and operating office are located at 14th Floor, 122 TunHua North Road, Taipei, Taiwan, where we lease approximately 24,178.96 square feet. We also lease office and other space, as well as space for our servers, in various other locations. In addition, we operate from G-Music s headquarters at 10F, No. 171, Chen-Kung Road, Sanchung City, in Taipei County where we lease approximately 9,200 square feet and from KBT s offices at 6F, No. 20, Lane 478, Rueiguang Road, Neihu District, Taipei, 114, Taiwan, where we lease approximately 13,060 square feet.

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As of December 31, 2003, we operated 52 stores with a total floor area of approximately 124,493 square feet. These stores range in size from approximately 2,130 square feet to approximately 3,562 square feet. All of our retail music stores are leased. The leases typically provide for a term of between three to five years with no renewal option. All of our retail music store leases are on a fixed rate basis. The terms of our 39 leases as of May 31, 2004 expire as follows:

Lease Terms to Expire during (12 months ending on or about May 31)	Number of Stores
2004	10
2005	9
2006	8
2007	6
2008	4
2009	2

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

Unless stated otherwise, the discussion and analysis of our financial condition and results of operations in this section apply to our financial statements as prepared in accordance with U.S. GAAP. You should read the following discussion of our financial condition and results of operations together with the financial statements and the notes to these statements included elsewhere in this annual report.

Overview

We are a holding company. Through our subsidiaries, we distribute recorded music and provide broadband Internet access services and online entertainment services in Taiwan. Our core retail music business is operated through our subsidiary G-Music Limited, which controls Taiwan s two largest music store chains. Our online broadband businesses are operated through our subsidiary Hoshin GigaMedia, and Hoshin GigaMedia s subsidiary, KBT, which are focused on consumer and corporate users, respectively. In April 2004, we acquired Grand Virtual, a developer of software for online entertainment and social networking services and an application service provider of turnkey solutions for games of skill and chance.

Retail Music Business. We operate our retail music distribution business through G-Music Limited, our 58.58% owned subsidiary, which owns Taiwan s two largest retail music distribution chains, Rose Records and Tachung Records. We acquired our interests in Rose Records and Tachung Records in a series of transactions in February 2002, September 2002 and December 2002, and have consolidated the results of operations of the acquired businesses from the respective dates of acquisition. See Note 3 of our consolidated financial statements for additional information. Our retail music distribution business, which we refer to in our consolidated financial statements as our offline business, generated revenues of NT$2.6 billion (US$76.9 million) and a loss from operations of NT$243.5 million (US$7.2 million) in 2003.

Some of the key factors affecting Taiwan s retail music distribution industry are technological developments and changing consumer buying habits, which have resulted and are likely to continue to result in an increasing proportion of popular music sales being made through alternative distribution channels, particularly Internet-based downloading.

Consequently, we anticipate that an increasing proportion of physical retail music distribution will comprise specialized areas of music, such as classical and jazz, whose purchasers demand higher sound quality of physical recordings and who we believe are generally less price-sensitive than purchasers of popular music. The prevalent practice of physical and online music piracy is another factor that has eroded the retail music distribution industry in Taiwan.

Our retail music distribution business continued to operate in a challenging environment in 2003. Our revenues in the first and second quarters of 2003 were adversely affected by the SARS outbreak, which particularly impacted our sales from April through July, and decisions by major record companies to defer the release of popular titles until the containment of the SARS outbreak contributed to a smaller than usual seasonal increase in revenues during the summer school vacation season. Our operating environment improved somewhat in the fourth quarter of 2003.

Although we are seeking to reduce costs and improve our management information systems with a view to operating this business more efficiently and increasing our operating margins, we believe that our retail music distribution business is likely to continue to face a difficult operating environment going forward.

Online Business. Online, we operate a major broadband ISP via our subsidiary Hoshin GigaMedia, which provides Internet access service and broadband content with multiple delivery technologies. Our Internet access products consist of premium ADSL and cable modem offerings. Our ADSL service accounted for approximately 52.7% of our online revenues in 2003. Our online business generated revenues of NT$671.3 million (US$19.8 million) and a loss from operations of NT$188.9 million (US$5.6 million) in 2003. Our online business continues to operate in a very competitive and challenging environment. Our principal competitor, Chunghwa Telecom s HiNet service, is the dominant provider of ADSL broadband services in Taiwan and has significantly greater resources than we do. The availability of similar services at competitive prices has made it difficult for us to attract and retain ADSL subscribers.

We believe that our cable modem business offers a product which is to some extent differentiable from competing ADSL services, and are seeking to further develop this business by restructuring the terms of our agreements with our cable partners. In recognition of declining costs of cable modem hardware, we reached an agreement in principle with our cable partners in May 2004 for all of our new cable subscribers to be provided with two-way cable Internet services. This agreement in principle involves an equal sharing of revenues between GigaMedia and our cable partners, thus providing our cable partners with additional economic incentives to provide two-way cable services through their systems. Two-way cable systems allow us to offer subscribers higher upstream transmission speeds and always on Internet access capabilities, eliminating the time consuming dial-up procedures and allow our subscribers to maintain full use of their telephones and televisions while online.

We also offer interactive Chinese-language multimedia Web sites through our Web destination http://www.gigigaga.com. Another subsidiary of our Company, KBT, provides broadband service to corporate customers.

Acquisition of Grand Virtual. In April 2004, we acquired all of the issued and outstanding shares of Grand Virtual in a private transaction for an all-cash consideration of US$32.5 million. Grand Virtual is a developer of software for online entertainment and social networking services and an application service provider of turnkey solutions for games of skill and chance based in the Boston area of the U.S. We believe that our acquisition of Grand Virtual will be accretive to our cash flows and earnings, and will enhance our diversified entertainment products portfolio.

Application of Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are derived from our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S., or U.S. GAAP. The preparation of these financial statements requires our Company and our subsidiaries to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We continually evaluate our estimates and assumptions, which are based on historical experience and other various factors that we believe are reasonable under the circumstances. The results of these estimates and assumptions form the basis for making judgments about the carrying values of certain assets and liabilities. Our actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussions address the most critical accounting policies applicable to our Company, which are those that are most important to the portrayal of the financial condition and results of operations of our Company, and require management s most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Acquisition Price

During 2002, we acquired Taiwan s two leading music store chains, Rose Records and Tachung Records for approximately NT$638.9 million (NT$418.3 million in cash and NT$220.6 million in the form of shares in G-Music). In the absence of a quoted market price for the shares of G-Music issued as a portion of the consideration for the acquisitions of Rose Records and Tachung Records, the acquisition price of these music store chains is determined based on management s estimates for fair value of acquired net assets, including goodwill and amortizable intangibles. The actual value of such acquired net assets may differ significantly from management s estimates.

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Revenue Recognition

For 2003, our revenue was primarily generated from retail sales of offline music merchandise comprised of pre-recorded music (including compact discs and audio cassettes), video (including DVD and pre-recorded videocassettes), video games and other complementary products (including electronics, accessories, blank tapes and CD-Rs). Revenue from these retail sales is recognized at the point of sale to the consumer, at which time payment is tendered. There are no provisions for uncollectible amounts since payment is received at the time of sale.

In addition, we also record revenues from Internet access services, as well as fee-based services, which mainly include subscription services for videostreaming and paid email services. Such revenues are recognized in the period in which the service is performed, if no significant company obligations remain and collection of the receivables is reasonably assured. We contract with third party content providers for certain services related to subscriptions transmitted to our users and record the fees charged by the third parties as cost of revenues.

Merchandise Inventory and Return Costs

Inventory is stated at the lower of cost or market value with cost being determined by the weighted average cost method and market value being determined by net realizable value. As with any retailer, economic conditions, cyclical customer demand and changes in purchasing or distribution can affect the carrying value of inventory. As circumstances warrant, we record the lower of cost or market value, or LCM, as inventory adjustments. We also recorded loss on obsolete and slow-moving items as inventory adjustments. In some instances, these adjustments can have a material effect on the financial results in an annual or interim period. In order to determine such adjustments, we evaluate the age, inventory turns and estimated fair value of merchandise inventory by product category and record any adjustment if estimated market value is below cost and if inventory is obsolete. Actual inventory loss may differ significantly from management s estimates. Through merchandising and other initiatives, we attempt to take the steps necessary to increase the sell-off of slower moving merchandise to eliminate or lessen the effect of any LCM adjustments. We record actual and estimated merchandise return charges in cost of sales.

Impairment of Long-Lived Assets

Fixed assets and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset over its remaining useful life. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The estimate of fair value is generally based on quoted market prices or on the best available information, including prices for similar assets and the results of using other valuation techniques. During 2003, we recorded an asset impairment charge of NT$58.5 million (US$1.7 million) to write-off the carrying value of our investment in an Internet company. We reviewed the underlying operating performance, and financial conditions of this Internet company in assessing impairment, and concluded an other-than-temporary impairment charge is necessary for this investment impairment.

During 2003, we also recorded an impairment charge related to our broadband and communication equipment due to our decision to phase out one-way Internet access services. The amount of impairment charge was determined by the excess of carrying value over the estimated fair value of these equipment based on quoted market prices. Actual impairment may differ significantly from management s estimates.

We have significant amortizable intangible assets arising from the acquisitions of Rose Records and Tachung Records. The amortizable intangible assets, including distribution channel and brand names, are amortized on a straight-line basis over estimated useful lives ranging from five to fifteen years. As of December 31, 2003, the balances of distribution channel and brand names were NT$74.8 million and NT$135.8 million, respectively. In determining the useful lives and recoverability of the intangibles, assumptions must be made regarding estimated future cash flows and other factors to determine the fair value of the assets, which may not represent the true fair value. If these estimates or their related assumptions change in the future, there may be a significant impact on our results of operations in the period of the change incurred.

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Goodwill

Goodwill represents the adjusted amount of the cost of acquisitions in excess of fair value of net assets acquired in purchase transactions. Effective January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets . Under the provisions of SFAS 142, goodwill is no longer subject to amortization and potential impairment of goodwill and purchased intangible assets with indefinite useful lives will be evaluated at least annually. We periodically evaluate the carrying amount of goodwill to determine whether adjustments to these amounts are required based on current events and circumstances. We perform an analysis of the recoverability of goodwill using a cash flow approach consistent with the analysis of the impairment of long-lived assets. We performed an impairment test of our goodwill and intangible assets as of December 31, 2003. Due to the general market downturn and the operating performance of the acquired businesses falling below our expectations, we recorded a goodwill impairment loss of NT$25.4 million in 2003. The amount of the loss was determined based on an independent appraiser s report as of December 31, 2002. As the value of goodwill and its impairment are determined based on a number of assumptions and management s estimates, the change of assumptions and circumstances in the future may have significant impact on our results of operations in the period when a change occurred.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are subject to valuation allowances based upon the management s estimate of realizability. Due to uncertainty of realization, we have provided 100% valuation allowance against deferred tax assets as of December 31, 2003. Actual results may differ significantly from management s estimate.

Discussions of Results of Operations

For the Years Ended December 31, 2002 and 2003

Consolidated Results Of Operations

REVENUES. Total revenues for 2003 grew 28.3% to NT$3.3 billion (US$96.7 million) from NT$2.6 billion in 2002, primarily due to the contributions of the Rose Records and Tachung Records music store chains that we acquired in 2002. For 2003, the retail music business contributed approximately NT$2.6 billion (US$76.9 million) or 79.5% of our revenues. The online business contributed approximately NT$671.3 million (US$19.8 million) or 20.5% of our revenues in 2003, and it comprises (1) the Internet access services business, which contributed approximately NT$647.7 million (US$19.1 million) of our revenues and (2) advertising and promotional business, which contributed approximately NT$0.9 million (US$27.1 thousand) of our revenues.

COSTS AND EXPENSES. Costs and expenses increased by 11.4% to NT$3.8 billion (US$111.1 million) in 2003 from NT$3.4 billion in 2002. Our costs and expenses in 2003 primarily consist of cost of sales/ rental/ installation of NT$2.2 billion (US$66.2 million), operating costs of NT$623.3 million (US$18.4 million), product development and engineering expenses of NT$41.7 million (US$1.2 million), selling and marketing expenses of NT$499.8 million (US$14.7 million), general and administrative expenses of NT$274.3 million (US$8.1 million) and an impairment loss on property, plant and equipment of NT$53.6 million (US$1.6 million).

OPERATING LOSS. Operating loss for 2003 decreased 40.9% to NT$487.5 million (US$14.4 million) from NT$824.7 million for 2002.

NON-OPERATING EXPENSES. In 2003, we incurred non-operating expenses of NT$100.1 million (US$2.9 million), compared to a non-operating income of NT$108.7 million for 2002, principally due to an NT$58.5 million (US$1.7 million) write-off of our investment in Rock Internet Corporation and the recognition of a foreign exchange loss of NT$24.9 million (US$0.7 million) and loss on disposal of property, plant and equipment of NT$29.1 million (US$0.9 million) in 2003, compared to a foreign exchange gain of NT$93.9 million and gain on disposal of investment of NT$114.6 million, offset by an NT$67.5 million loss from the change of our percentage of ownership in G-Music from 100% to 58.58% as a result of the acquisitions of Rose Records and Tachung Records and an NT$40 million impairment loss on a long-term investment in Rock Internet Corporation in 2002.

NET LOSS. Net loss for 2003 declined by 24% to NT$484.9 million (US$14.3 million) from NT$638.0 million for 2002.

Business Segment Results

Retail Music Business

We began to consolidate the results of operations of Rose Records in February 2002 and the results of operations of Tachung Records in October 2002. Consequently, a comparison of the consolidated results of operations of our retail music business in 2003 and 2002 principally reflects the impact of consolidating these businesses for portions of 2002 and all of 2003. This and the impact of SARS on our 2003 results of operations makes it difficult to compare our results of operations in the two periods. We briefly describe below the principal trends affecting the revenues and cost of sales of our underlying retail music business in 2003:

*Revenue*s. Our revenues in the first and second quarters of 2003 were adversely affected by the SARS outbreak, which particularly impacted our sales from April through July. We believe that our competitors were similarly affected. Decisions by major record companies to defer the release of popular titles until it became clear that the SARS outbreak had been contained, contributed to a smaller than usual seasonal increase in revenues during the summer school vacation season and mitigated the effect of seasonality on sales in the fourth quarter.

Cost of sales. Gross margins generally improved through 2003. We believe this principally reflects a combination of fewer popular records being released in 2003 and improved purchasing terms resulting from management changes in the third quarter of 2003.

We present below information on the results of operations of our retail music business in 2002 and 2003.

TOTAL REVENUES. Total revenues from our retail music business increased by 38% to NT$2.6 billion (US$76.9 million) in 2003 from NT$1.9 billion in 2002. This increase was due in part to the fact that we consolidated the results of operations of Rose Records and Tachung Records for the full year of 2003, whereas in 2002, we had consolidated their results of operations from their respective closing dates of the acquisitions, namely, February 2002, September 2002 and December 2002.

COSTS AND EXPENSES. Cost of sales increased by 28% to NT$2.9 billion (US$84.1 million) in 2003 from NT$2.2 billion in 2002. This increase was due in part to our consolidation of the results of operations of Rose Records and Tachung Records for full year 2003.

OPERATING LOSS. Operating loss increased by 29% to NT$243.5 million (US$7.2 million) in 2003 from NT$340.8 million in 2002.

NET LOSS. Net loss decreased by 31.9% to NT$254.8 million (US$7.5 million) in 2003 from NT$340.7 million in 2002.

Online Services

ACCESS REVENUES. Total access revenues increased slightly from NT$638.9 million in 2002 to NT$647.7 million (US$19.1 million) in 2003, due to migration of subscribers to higher specification products. The number of our broadband subscribers decreased from 108,016 as of December 31, 2002 to 102,940 as of December 31, 2003. As of December 31, 2003, we had 6,653 1-way subscribers, 18,450 2-way subscribers, and 77,837 ADSL subscribers. In the fourth quarter of 2003, the average blended access fee per broadband subscriber per month (ARPU) for access services was approximately NT$428 (US$12.6), as compared to NT$388 for the fourth quarter of 2002. ARPU for 1-way cable services, 2-way cable services and ADSL services were NT$236 (US$7.0), NT$587 (US$17.3) and NT$406 (US$12.0), respectively, during the fourth quarter of 2003, as compared to NT$231, NT$618 and NT$363, respectively, for the same services during the fourth quarter of 2002.

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Of the total access revenues recorded for 2003, consumer access revenues through Hoshin GigaMedia were approximately NT$523.1 million (US$15.4 million), while corporate access revenues through KBT were approximately NT$124.6 million (US$3.7 million).

MODEM SALE/ RENTAL/ INSTALLATION REVENUES. Modem sale/rental/installation revenues decreased 6% from NT$4.4 million for 2002 to NT$4.1 million (US$121 thousand) for 2003, resulting mostly from a decrease in sales of modems.

WEB DEVELOPMENT REVENUES. We did not record any Web development revenues in 2002 or 2003 as we have de-emphasized this aspect of our business.

ADVERTISING REVENUES. Advertising revenues decreased 61.8% from NT$2.4 million in 2002 to NT$919.7 thousand (US$27 thousand) in 2003 as we de-emphasized our business relating to the provision of Internet content.

OPERATING COSTS. Operating costs decreased by 17.4% from NT$634.9 million in 2002 to NT$524.3 million (US$15.5 million) in 2003 due to a decrease in the price of leasing bandwidth and circuits.

COST OF MODEM SALES/RENTAL/INSTALLATION. Cost of modem sales/rental/installation decreased 44.9% from NT$54.6 million in 2002 to NT$30.0 million (US$885.8 thousand) in 2003, due to a fall in the price of cable modems, decreased sales as well as the use of refurbished cable modems during 2003.

WEB DEVELOPMENT EXPENSES. We did not incur any Web development expenses in 2002 or 2003, in line with our de-emphasis of this aspect of our business.

PRODUCT DEVELOPMENT AND ENGINEERING EXPENSES. Product development and engineering expenses decreased 35.3% from NT$64.4 million in 2002 to NT$41.7 million (US$1.2 million) in 2003, primarily due to reduced costs relating to workforce streamlining in 2003 and a de-emphasis on this aspect of our operations.

SELLING AND MARKETING EXPENSES. Selling and marketing expenses decreased 40.9% from NT$141.5 million in 2002 to NT$83.7 million (US$2.5 million) in 2003, primarily due to significantly reduced advertising in Taiwan s media for GigaMedia s broadband services.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses decreased 14.7% from NT$143.5 million in 2002 to NT$122.5 million (US$3.6 million) in 2003.

NET NON-OPERATING EXPENSE. For 2003, we incurred a non-operating expense of NT$10.7 million (US$315.3 thousand), primarily due to a foreign exchange loss of NT$15.2 million (US$448.8 thousand) and a loss from disposal of property of NT$16.0 million (US$472.4 thousand), which were offset by an interest income of NT$7.8 million (US$229.9 thousand) and an investment gain of NT$16.8 million (US$494.9 thousand).

For the Years Ended December 31, 2001 and 2002

Business Segment Results

Retail Music Business

We acquired Rose Records and Tachung Records during 2002. We began to consolidate the results of operations of Rose Records and Tachung Records from the respective closing dates of the acquisitions. Since these businesses were acquired during 2002, year over year comparisons of this business segment are not provided. The operating results of

GigaMedia s offline music business, post acquisition, were as follows:

TOTAL REVENUES. Total revenues in 2002 were NT$1.9 billion, including retail sales of NT$1.9 billion and advertising and promotional revenues of NT$30.4 million.

COSTS AND EXPENSES. Cost of sales were NT$2.2 billion in 2002.

OPERATING LOSS. Operating loss was NT$340.8 million in 2002.

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NET LOSS. Net loss in 2002 was NT$340.7 million.

Online Services

ACCESS REVENUES. Total access revenues grew 64% from NT$389.8 million for 2001 to NT$638.9 million for 2002, primarily due to the increase of access fees relating to the continuous rollout of ADSL services and the growth of these subscribers, offset by a reduction in the number of 1-way subscribers in 2002. The number of our broadband subscribers decreased from 119,130 as of December 31, 2001 to 108,016 as of December 31, 2002. As of December 31, 2002, we had 17,135 1-way subscribers, 17,308 2-way subscribers, and 73,573 ADSL subscribers. In the fourth quarter of 2002, the average access fee per broadband subscriber per month (ARPU) for access services was around NT$388, as compared to NT$341 for 2001. ARPU for 1-way cable services, 2-way cable services and ADSL services were NT$231, NT$618 and NT$363, respectively, during the fourth quarter of 2002, as compared to NT$287, NT$589 and NT$312, respectively, for the same services during the fourth quarter of 2001.

Of the total access revenues recorded for 2002, consumer access revenues through Hoshin GigaMedia were approximately NT$562.4 million, while corporate access revenues through KBT were approximately NT$76.5 million.

MODEM SALE/RENTAL/INSTALLATION REVENUES. Modem sale/rental/installation revenues decreased 42% from NT$7.5 million for 2001 to NT$4.4 million for 2002, resulting mostly from a decrease in sales of modems, which was partially offset by an increase in modem rentals revenue resulting from an increase in the number of rentals in 2002, but declining rental fees. We terminated free rental promotions on one-way cable service and modem sales in 2001 to control costs and grow margins.

WEB DEVELOPMENT REVENUES. Web development revenues decreased from NT$7.2 million for 2001 to nil for 2002, as we de-emphasized this aspect of our business.

ADVERTISING REVENUES. Advertising revenues decreased 52% from NT$5.0 million for 2001 to NT$2.4 million for 2002 as we continued to de-emphasize this aspect of our business in 2002.

OPERATING COST. Operating costs decreased 61% in 2002 to NT$634.9 million compared to NT$1.6 billion in 2001. There was a decrease in share compensation expense from 2001 of NT$14.1 million to NT$740 thousand in 2002. During 2001, we incurred amortization of Microsoft s warrant of NT$943.1 million, including an accelerated expense of approximately NT$428.7 million recognized during the fourth quarter in 2001 related to the remaining amount of the warrant.

COST OF MODEM SALES/RENTAL/INSTALLATION. Cost of modem sales/rental/installation decreased 62% from NT$143.4 million for 2001 to NT$54.6 million for 2002, due to decreased sales and the use of refurbished cable modems during 2002.

WEB DEVELOPMENT EXPENSES. Web development expenses decreased from NT$12.2 million for 2001 to nil for 2002, in line with our de-emphasis of this aspect of our business.

PRODUCT DEVELOPMENT AND ENGINEERING EXPENSES. Product development and engineering expenses decreased 39% from NT$106.5 million for 2001 to NT$64.4 million for 2002, primarily due to reduced costs relating to workforce streamlining in 2002 and a de-emphasis on this aspect of our operations.

SELLING AND MARKETING EXPENSES. Selling and marketing expenses decreased 50% from NT$285.6 million in 2001 to NT$141.5 million in 2002, primarily due to tightened expenditure controls during 2002 and a decrease in share compensation expense from 2001 of NT$11.9 million to NT$52.4 thousand in 2002.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses decreased 33% from NT$215.7 million for 2001 to NT$143.5 million in 2002, driven by reductions in our workforce and tight expense controls in 2002 and a decrease in share compensation expense from 2001 of NT$91.4 million to NT$4.0 million in 2002.

NET NON-OPERATING INCOME. For 2002, non-operating income declined 51% from NT$219.2

million for 2001 to NT$108.5 million, primarily due to a decrease in cash and investments in 2002, resulting in a lower asset base. We recognized non-operating income as a result of the gain from disposal of short-term investments of NT$62.8 million, derived primarily from our sale of mutual fund beneficiary certificates and the gain from disposal of long-term investments in Gamania and a UBS AG Jersey Bond amounting to NT$51.8 million. We also recorded an impairment loss in 2002 in the amount of NT$40.0 million related our long-term investment in Rock Internet Corporation.

B. Liquidity and Capital Resources

Our principal sources of liquidity consist of cash generated from our operations, interest generated or derived from the investment instruments we purchased with the proceeds of our initial public offering in 2000 and proceeds generated from the disposal of our investments. Our retail music business also relied on bank borrowings to finance its operations, which borrowings were repaid in full as of March 31, 2003. Because we historically have not generated positive cash flows from our operations, we have substantially relied on our cash management ability to support our operations. In addition, we have in recent periods reduced our workforce and engaged in corporate restructuring to reduce the capital requirement of our operations. Our policy with respect to liquidity management is to maintain sufficient cash and cash equivalents to fund operations, while placing remaining funds in higher yield investment instruments.

Our future cash requirements will depend on a number of factors including:

- the expansion and utilization of our music and artist catalog;
- the development of new technologies, such as Internet-based music downloading and changing consumer buying habits;
- inventory management;
- improvements in our operating margins;
- the effective and efficient marketing and distribution of our products;
- the rate at which subscribers purchase our Internet access services and the pricing of such services;
- the rate at which we expand our operations and employee base;
- the level of marketing required to acquire new subscribers and cable partners;
- the rate at which we invest in upgrading and maintaining our network and future technologies;
- the timing of entry into new markets and new services offered;
- price competition in the Internet and cable industries; and
- changes in revenue splits with our cable partners.

Although operating conditions in 2003 were challenging, our financial condition remained stable. As a result of our operating, investing and financing activities during 2003, the amount of cash and cash equivalents we held as of December 31, 2003 remained relatively unchanged at NT$1.2 billion (US$35.3 million) as compared to December 31, 2002. Cash and cash equivalents, short-term investments and long-term investments as at December 31, 2003 also remained relatively unchanged at NT$2.7 billion (US$79.6 million), compared to December 31, 2002. In April 2004, we acquired all of the issued and outstanding shares of Grand Virtual, a developer of software for online entertainment and social networking services and an application service provider of turnkey solutions for games of skill and chance, in a private transaction for an all-cash consideration of US$32.5 million, which we paid for entirely out of our existing cash and cash equivalents. We continue to seek and review potential merger and acquisition opportunities on an ongoing basis, which may be funded through cash or equity. We do not believe that any potential merger or acquisition that we may be engaged in would alter our goal of preserving sufficient cash and cash equivalents to fund future operations. We believe that our existing cash, cash equivalents, short-term investments and expected cash flow from operations, will be

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sufficient to meet our capital expenditure, working capital, cash obligations under our existing lease arrangements, and other requirements through 2004.

OPERATING ACTIVITIES. In 2003, our net cash provided by operating activities amounted to NT$217.9 million (US$6.4 million). This was primarily attributable to a net loss of NT$484.9 million (US$14.3 million), which was offset by the add-back of significant non-cash items, including NT$180.3 million (US$5.3 million) in depreciation, NT$76.7 million (US$2.3 million) in amortization, impairment loss on long-term investments of NT$58.5 million (US$1.7 million) and impairment loss on property, plant and equipment of NT$53.6 million (US$1.6 million), the NT$88.0 million (US$2.6 million) decrease in inventories and the NT$57.4 million (US$1.7 million) decrease in accrued expenses.

INVESTING ACTIVITIES. Our net cash used in investing activities in 2003 was NT$170.9 million (US$5.0 million). This was primarily attributable to the purchase of short-term investments of NT$3.7 billion (US$108.7 million), which we largely funded from the liquidation of our short-term investments, and the purchase of property plant and equipment of NT$65.8 million (US$1.9 million). In 2002, our net cash provided by investing activities amounted to NT$4.0 billion.

FINANCING ACTIVITIES. Our net cash used in financing activities in 2003 was NT$89.3 million (US$2.6 million), primarily representing cash used in the repayment of bank borrowings.

OTHER. Set forth below are the aggregate amounts, as of December 31, 2003, of our future cash payment obligations under our existing contractual obligations.

	Payments Due by Period (in NT$ thousands)			
Contractual Obligations	Total	Less than 1 year	1-3 years	After 3 years
Operating Lease	430,173	197,254	224,842	8,077
Total Contractual Cash Obligations	430,173	197,254	224,842	8,077

	Amount of Commitment Expiration Per Period (in NT$ thousands)			
Other Commercial Commitments	Total	Less than 1 year	1-3 years	After 3 years
Standby Letters of Credit	34,800	34,800		
Total Other Commercial Commitment	24,800	34,800	0	0

Off-Balance Sheet Arrangements

Historically, all of our revenues and receivables and a majority of our operating expenses and payables are denominated in NT dollars, which is our functional currency. As our expenses denominated in foreign currencies historically have not been material, we have not used hedging transactions to reduce our exposure to exchange rate fluctuations. We do not engage in any derivative financial instruments for speculative purposes.

Capital Expenditures

We typically finance our capital expenditures through cash holdings. Our gross capital expenditures for equipment and software, furniture and fixtures declined 78.4%, from NT$304.7 million in 2002 to NT$65.8 million (US$1.9 million) in 2003. The decline was primarily related to the continued execution of stringent cost controls and a managed growth plan during 2003. Capital expenditures during 2003 were primarily for the replacement and upgrades of network-related hardware in our consumer and corporate broadband businesses. Our capital expenditure plans for 2004 will continue to focus primarily on the replacement and upgrades of network-related hardware in our consumer and corporate broadband businesses. We may adjust the amount of our capital expenditures upward or downward based on cash flow from operations, the progress of our expansion plans, and market conditions.

Dividends From Our Subsidiaries In Taiwan

Under existing laws of Taiwan, dividends, whether in cash or shares of common stock, declared by our subsidiaries incorporated under Taiwan law, including Hoshin GigaMedia, out of retained earnings and distributed to us are subject to Taiwan withholding tax, currently at the rate of 20% for non-Taiwan investors holding a Foreign Investment Approval granted by Taiwan s Ministry of Economic Affairs, such as us, on the amount of any cash dividends or on the par value of any share dividends.

Foreign Currency Exchange

All of our revenues and receivables and a majority of our operating expenses and payables are denominated in NT dollars, which is our functional currency. A small proportion of our operating expenses and payables, such as the cost of international bandwidth, technology license fees, insurance premiums and fees to our professional advisers, are primarily denominated in U.S. dollars. As a result, our margins may be impacted by fluctuations of exchange rate between the NT dollar and the U.S. dollar, exposing us to foreign currency exchange risks. Because expenses denominated in foreign currencies historically have not been material, we have not sought to reduce our exposure to exchange rate fluctuations by using hedging transactions. However, we may choose so in the future. We recognized a foreign exchange loss of NT$24.9 million (US$733 thousand) for 2003, and a foreign exchange gain of NT$93.9 million (US$2.7 million) for 2002.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (FIN 46). FIN 46 clarifies when a company should consolidate in its financial statements the assets, liabilities and activities of a variable interest entity. FIN 46 provides general guidance as to the definition of a variable interest entity and requires a variable interest entity to be consolidated if a company absorbs the majority of the variable interest entity s expected losses, or is entitled to receive a majority of the variable interest entity s residual returns, or both. In December 2003, the FASB issued a revised interpretation of FIN 46 (FIN 46-R), which supercedes FIN 46 and clarifies and expands current accounting guidance for variable interest entities. FIN 46 and FIN 46-R are effective immediately for all variable interest entities created after January 31, 2003, and for variable interest entities created prior to February 1, 2003, no later than the end of the first reporting period after March 15, 2004. We have performed a review of entities created prior to and subsequent to January 31, 2003, and determined the adoption of FIN 46 and FIN 46-R did not have a material impact on the Company s financial reporting and disclosures.

On April 30, 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS No. 149). SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group (DIG) process that effectively required amendments to SFAS No. 133, and decisions made in connection with other FASB projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative and characteristics of a derivative that contains financing components. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the Company s consolidated financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS No. 150). SFAS No. 150

establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material impact on the Company s consolidated financial statements.

In December 2003, the Staff of the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition , which supercedes SAB 101, Revenue Recognition in Financial Statements . SAB 104 s primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements and revises the SEC s Revenue Recognition in Financial

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Statements Frequently Asked Questions and Answers that have been codified in Topic 13. SAB 104 was effective immediately and did not have a material impact on the Company s financial reporting and disclosures.

In December 2003, the FASB issued SFAS No. 132, Employers Disclosures about Pensions and Other Post-retirement Benefits. This statement revises employers disclosures about pension plans and other post-retirement benefit plans. It requires additional disclosures to those in the original SFAS No. 132 about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit post-retirement plans. The required information should be provided separately for pension plans and for other post-retirement benefit plans. This statement, which also requires new disclosures for interim periods beginning after December 15, 2003, is effective for fiscal years ended after December 15, 2003. We adopted this statement for the year ended December 31, 2003 and the adoption of this statement has no impact on our consolidated financial statements.

Inflation

We do not believe that inflation in Taiwan, where all of our current business is conducted, has had a material impact on our results of operations.

Taxation

At December 31, 2003, we had net operating loss carry forwards for tax purposes of approximately NT$2.5 billion (US$74.5 million), which will expire at various times from December 2004 through December 2008. At December 31, 2003, we had a deferred tax asset of NT$724.1 million (US$21.3 million), relating principally to our net operating loss. Our ability to realize the value of our deferred tax asset depends on our future earnings, if any, the timing and amount of which are uncertain. We have recorded a valuation allowance substantially for the entire net deferred tax asset as a result of those uncertainties. We recorded an income tax benefit of approximately NT$4.4 million (US$129.2 thousand) for 2002, which was related to KBT, a subsidiary of our Company.

C. Research and Development, Patents and Licenses, Etc.

While we regard our intellectual property and proprietary rights as important, we believe that our future success is dependent primarily on the innovative skills, technological expertise and management abilities of our employees rather than on patent, copyright and trademark protection, and, accordingly, we do not consider any particular intellectual property or proprietary right to be material to our business.

D. Trend Information

Please see - A. Operating Results Overview for a discussion of the most recent trends in our operation costs and revenues since the end of 2003. In addition, please refer to discussions included in this Item for a discussion of known trends, uncertainties, demands, commitments or events that we believe are reasonable likely to have a material effect on our net operating revenues, income from continuing operations, profitability or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

ITEM 6. SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information with respect to all directors and executive officers as of May 31, 2004.

Board Of Directors

Name	Age	Position	Year Appointed to Current Position
WU, Daniel	56	Chairman	2003
KOO, Jeffrey, Jr	40	Vice Chairman	1999

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Name	Age	Position	Year Appointed to Current Position
BAO, Gilbert	40	Director	2003
CHANG, Nelson	39	Director	2004
DING, Michael Y.J.	47	Director	2003
HSU, Emmet Yu-Jui	41	Director	2003
HU ZEE, Nancy Jing-Ying	45	Director	2003
KOO, Andre	37	Director	1999
LEE, Howe Yong	48	Director	2004
LEE, Yichin	43	Director	2003
WANG, Arthur	43	Director	2003

Executive Officers

Name	Age	Position	Year Appointed to Current Position
Wu, Daniel	56	Chairman	2003
WANG, Arthur	43	Chief Executive Officer	2003
SHEA, Joseph	38	Vice President	2002
		Chief Financial Officer	2004
TSENG, Jennifer	35	Vice President and General Counsel	2003
CHU, Michel	35	Vice President and Chief Technology Officer	2000
MAI, Falco	42	Vice President and Chief Administrative Officer	2001

Mr. Arthur Wang was appointed as director and chief executive officer of our Company with effect from December 1, 2003, following the resignation of Mr. Raymond Chang. New board members appointed are as follows: (i) Mr. Yichin Lee, who was appointed on September 30, 2003, (ii) Mr. Emmet Yu-Jui Hsu and Mr. Gilbert Bao, who were appointed on December 1, 2003 and (iii) Mr. Nelson Chang and Mr. Howe Yong Lee, who were appointed on February 25, 2004. Our former directors, Leslie Koo and Gwo-yeu Tsai, resigned on December 11, 2003 and December 10, 2003, respectively, for personal reasons.

Directors

DANIEL WU is the chairman of GigaMedia Limited. He brings to our Company significant operational experience and extensive business relationships in Taiwan. Dr. Wu is currently the chairman of CDIB & Partners Investment Holding Corp. in Taiwan and a director and senior executive vice president of China Development Financial Holding Corporation. Previously, he served as the chairman of various companies including Videoland Inc. (2002-2004), Grand Pacific Petrochemical Corp. (1994-2004), Biocare Corp. (1997-2003) and Precision Semiconductor Mask Corp. (1998-2000). He was the chief executive officer of Wyse Technology Inc. (1990-1994) and the president of Grand Pacific Petrochemical Corp. (1992-1994). Dr. Wu was vice chairman of Crimson Asia Capital Holdings, Ltd. (1997-2000). Prior to that, Dr. Wu was also the chairman of Monte Jade Science & Technology Association from

1993 to 1994. Dr. Wu received his doctorate in chemical engineering from the University of Delaware in 1976 and an undergraduate degree in the same discipline from National Taiwan University in 1970.

JEFFREY KOO, JR. is vice-chairman and a director of our Company. He is also currently the chairman of Chinatrust Commercial Bank, the managing director of Crimson Capital Management, Ltd. and the honorary vice chairman of J-Ho Real Estate Development Co. From February 1993 to January 1995, Mr. Koo also served as the executive vice president of Taiwan Fuji-Xerox Corp. Mr. Koo received a bachelor of arts degree from SooChow University in Taiwan and a master of business administration degree from the University of Pennsylvania. He is the brother of Andre Koo.

GILBERT BAO(1) is a director of our Company. He is also currently vice president of Chung Shing Textile Co., Ltd., executive director of Taiwan Cotton Spinners Association, and executive director of Taiwan Manmade Fiber Industry Association. He graduated from the University of Southern California in 1986.

NELSON CHANG(1) is a director of our Company. He is also currently the managing director of Shin-Long Construction Co., managing director of Enrich Venture Capital Management Co., Ltd., vice president of X-Legend Entertainment Corp., and vice president of EasyFun Entertainment Corp. Mr. Chang received a master of business administration degree from National Taiwan University.

MICHAEL Y.J. DING(1) brings to our Company significant securities and business experience. Mr. Ding is currently president and chief executive officer of Fubon Asset Management Co., Ltd. Prior to that, Mr. Ding was president and fund manager of the R.O.C. Fund (