

October 11, 2007

Stock Rating
Outperform

Sector Rating
Market Overweight

Year-End 2008 Target Price
US\$27.00

Valuation Method
DCF analysis

52-Week Range
US\$8.66-US\$18.25

GAAP EPS
2006: US\$0.50
2007E: US\$0.62
2008E: US\$1.10

P/E
2007E: 28.9x
2008E: 16.3x

FCF Yield (2008E)
5.3%

Common Shares (mil)
53

Market Capitalization (\$ mil)
US\$945

Book Value per Share (2008E)
US\$3.58

3-Yr EPS CAGR (08E-11E)
27%

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GigaMedia Ltd.

(GIGM.US-US\$17.90)

Double Happiness

- **INITIATED AT OUTPERFORM.** Once a struggling Taiwanese broadband provider, GigaMedia has transformed itself into a purveyor of online entertainment with reach across Europe and Asia. We like the company for its positioning in two growing and lucrative industries – real-money gaming software and online games. We see revenue rising at a healthy clip, registering three-year CAGRs of 26% and 83% for the two segments, respectively, over 2007E-10E.
- **PENDULUM SWINGING TOWARD REGULATE VS. PROHIBIT.** The policy of free trade among European Union states and recent rulings by the European Court of Justice lead us to believe that a “license and regulate” framework will govern in Europe, the primary market for GigaMedia’s real-money gaming software business. We expect the stock’s compressed valuation to lift in conjunction with regulatory liberalization.
- **SOLID INVESTMENT TRACK RECORD.** In this report we calculate forecast five-year return on investment for GigaMedia’s three major acquisitions. We like the company’s investment track record and believe that management has prudently employed cash from the disposal of less attractive assets and operations to create shareholder value.
- **TARGET PRICE US\$27.** Our year-end 2008 target price is based on a 15% public-market discount to our DCF fair value of US\$31.75, and implies a P/E of 25x 2008E earnings. GigaMedia offers an attractive 2008E FCF yield of 5.3%, ROE of 36%, and year-on-year diluted EPS growth of 77%.

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PLEASE READ THE IMPORTANT DISCLOSURE AND ANALYST CERTIFICATION INFORMATION IN THE ADDENDUM SECTION OF THIS REPORT.

GIGAMEDIA LTD. (GIGM.US-US\$17.90)
Company Description:

GigaMedia was incorporated in 1999 in Singapore, has its principal offices in Taipei, and has been trading on the NASDAQ since February 2000. GigaMedia is a purveyor of online entertainment, which reaches across Europe and Asia. The company entered the gaming software business in 2004 with the acquisition of Cambridge Entertainment Software Ltd., and thereafter the online games business with the acquisition of Taipei-based FunTown in 2006. GigaMedia subsequently made equity investments in online games entities operating in China and certain Southeast Asian markets, as well as a Taiwanese game developer.

CAPITALIZATION (6/30/07)

	US\$ Mil.	%
Long-Term Debt	Nil	0
Minority Interest	5	3
Equity	157	97
TOTAL	162	100

KEY FINANCIAL RATIOS (2008E)

Net Debt/Equity	Cash
ROA LTM	24%
ROE LTM	36%

VALUATION

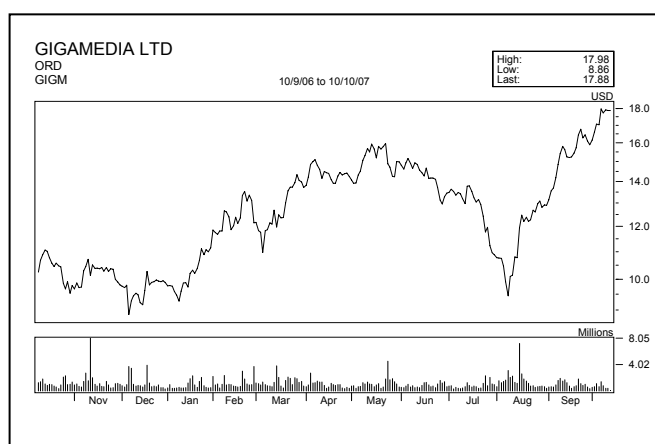
	2007E	2008E
Price/Earnings	28.9x	16.3x
Enterprise Value/EBITDA	22.1x	10.5x

QUARTERLY EARNINGS PER SHARE (DILUTED)

	2006	2007E	2008E
March	US\$0.05	US\$0.14	US\$0.20
June	0.18	0.17	0.25
September	0.10	0.14	0.28
December	0.17	0.17	0.36

Key Upcoming Events/Developments:

- ◆ Third-quarter 2007 financial results (November 2007).
- ◆ Real-money mahjong and pachinko/pachislo services may contribute to revenue from fourth-quarter 2007.
- ◆ Launch of online game *Fanta Tennis* (fourth-quarter 2007) and *SP Jam* (late first-quarter 2008) in China via subsidiary T2CN.
- ◆ Launch of online game *Hellgate:London* (second-quarter 2008) in Taiwan, Hong Kong, and Macau



Source: FactSet Research Systems Inc.

FINANCIAL SUMMARY

(US\$ in millions, except per share data)

Year-End	Revenue	— Gross —		— Operating —		— Net Income —		Diluted GAAP EPS ⁽¹⁾	ROE	Free Cash Flow per Share
		Profit	Margin	Profit	Margin	Income	Margin			
2009E	365	262	72%	122	33%	101	28%	1.58	37%	\$1.60
2008E	257	198	77%	80	31%	69	27%	1.10	36%	\$0.95
2007E	162	129	79%	38	23%	37	23%	0.62	26%	\$0.82
2006	94	71	75%	22	23%	31	33%	0.50	23%	\$0.42

(1) Bear Stearns' policy is for analysts to reflect a normalized level of stock-based compensation in earnings. EPS numbers included under the "GAAP EPS" column are as reported on the GAAP financial statements.

All pricing is as of the market close on October 10, 2007, unless otherwise indicated.

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GigaMedia: Double Happiness

SUMMARY AND RECOMMENDATION

We initiated coverage of GigaMedia Ltd. on October 11, 2007 with an Outperform rating, at the previous day's closing price of US\$17.90. We like GigaMedia for its solid presence in two growing and lucrative industries – real-money gaming software and online games.¹ We are also impressed with the quality of management and its ability to devise value-creating strategies and execute upon them. Our year-end 2008 target price of US\$27 implies a 2008E P/E of 25x and represents 50% upside from current levels.

GigaMedia was incorporated in 1999 in Singapore, has its principal offices in Taipei, and has been trading on the NASDAQ since February 2000. Under new management since 2004, GigaMedia has transformed itself into a purveyor of online entertainment with reach across Europe and Asia, from a Taiwan-based internet service provider (ISP) and old-economy retail music merchant. The company entered the gaming software business in April 2004 with the acquisition of Cambridge Massachusetts-based Cambridge Entertainment Software Ltd. (CESL) and, thereafter, the online games business with the acquisition of Taipei-based FunTown in January 2006. The company has made subsequent equity investments in online games entities operating in China and certain Southeast Asian markets, as well as a Taiwanese developer.

INVESTMENT POSITIVES

Solid Position in Two Global Growth Sectors. Through acquisitions, GigaMedia has, over a short period of time, established itself as a top-tier provider of both gaming software and online games. The company's *Everest Poker* is consistently ranked in the top-five online poker sites, according to PokerSiteScout's online poker traffic report. FunTown is Taiwan's top-rated casual game portal, and GigaMedia's online games segment is set for growth through its recent acquisitions in China's T2CN and a minority stake in Infocomm Asia Holdings (IAH). Earlier in 2007, GigaMedia retained the rights to widely anticipated *Hellgate:London (HG:L)* for Taiwan, Hong Kong, and Macau, and *Holic* for the greater China region (China, Taiwan, Hong Kong, and Macau). *HG:L* is an online role-playing game employing some first-person shooter elements.

Synergies Between Distinct Businesses. Several common elements are shared by the company's gaming software segment (which is operated by licensees for real-money online wagering) and its online games segment. Namely: 1) entertainment value in games; 2) online community; 3) accessibility from remote locations; and 4) virtual identities. The obvious distinction lies in the *real-money wagering* element of the gaming software business. Arguably, providing services in one business could aid

¹ In this report, we distinguish between "gaming software" (for Internet-based gambling sites) and "online games" (interactive video games played over the Internet). The term "online gaming" commonly refers to both of these industries, hence the requirement to differentiate. Our terminology is consistent with the segment classification employed by GigaMedia.

the other. To illustrate, parlor/card/board games are offered free on the FunTown casual game portal. Should the regulatory framework in various jurisdictions become clearer and allow for online real-money wagering, we believe a customer base could be leveraged into real-money versions of currently offered free-to-play games, such as mahjong, for instance.

Solid Management Team and Track Record. GigaMedia's management team is a blend of topnotch professionals with backgrounds in law, mergers and acquisitions, corporate finance, financial services, and media industries. We believe that management has a track record of value creation. We calculate forecast five-year return on investment on GigaMedia's three major acquisitions in Figure 1. We like the company's track record of investments in select opportunities in gaming software and online games, and believe that management has prudently employed cash from the disposal of less attractive assets and operations to create shareholder value.

Figure 1. GigaMedia: Projected ROI on Select Corporate Transactional Activity (US\$m)

Cambridge Entertainment Software Limited (CESL)										
ROI	5-year Aggregate EBIT		65.8	=	202%	EBIT *				
	Acquisition Price		32.5			Year 1	Year 2	Year 3	Year 4	Year 5
						[1.9	4.7	11.3	21.8	26.0

FunTown World Limited										
ROI	5-year Aggregate EBIT		70.8	=	147%	EBIT *				
	Acquisition Price		48			Year 1	Year 2	Year 3	Year 4	Year 5
						[4.8	5.8	15.9	22.9	21.4

T2CN Holding Limited										
ROI	5-year Aggregate EBIT		59.9	=	150%	EBIT *				
	Acquisition Price		40			Year 1	Year 2	Year 3	Year 4	Year 5
						[2.0	11.9	14.2	15.7	16.1

* EBIT discounted at a WACC of 14.2%, as calculated at Figure 2.

Source: Company data, Bear Stearns Asia Ltd. estimates.

Pan-Asian Online Games Platform. GigaMedia has an operational footprint in the greater China region and Southeast Asia, with potential for operations in other regional markets, such as Japan. We believe that GigaMedia's ability to offer a "one-stop shop" solution for Asia will be attractive to game developers and publishers. We view the company's recent licensing of the anticipated Q-style game (or "cute-style" game genre) *Holic* for the greater China region as one such example.

Diverse Sourcing of Games Mitigates Risk. GigaMedia has mitigated the risks inherent in license-dominated sourcing of online games by diversifying its sources, including taking a strategic stake in a Taiwan developer. We continue to believe that a winning formula for Asia's online game operators is licensing *quality* games plus operating games developed internally or from a captive studio.

**INVESTMENT
CONCERNS**

Regulatory Risks Inherent in Gaming Software Industry. Certain jurisdictions license and regulate online gaming, while others ban gaming altogether. The U.S. takes a prohibitionist stance, or perhaps a protectionist position, toward the offering of online services based on gaming software, and has criminalized receipt of bets from the U.S. by offshore service providers. GigaMedia and its affiliates do not knowingly offer online gaming software services into the U.S. market. As for Europe and Asia, there does not appear to be consistency between the legal frameworks of the myriad countries; as a consequence, uncertainties exist. (See *Regulatory Issues and Potential Impact* below for further discussion.)

Acquisition, Integration Risks in Online Games. The company has made four online games acquisitions: 1) FunTown of Taiwan; 2) majority stake in T2CN of China; 3) minority stake in IAH of Singapore; and 4) Softstar of Taiwan. There would be risks to our estimates in the event that managerial and operational issues arise between GigaMedia and the aforementioned components of its online games business.

Internet Gaming Competition. Competition for the core European customer base supporting GigaMedia's gaming software business could increase, from both land-based regulated gaming enterprises and Internet-based gaming operators. As the U.S. audience has been effectively cut off from wagering online, competitors that had previously focused on U.S. customers could redirect resources toward the continental European market.

Rogue Threats to Online Games Business. In the online games industry, and the massively multiplayer online role-playing game (MMORPG) segment in particular, operators face the threat of potential attack by hackers and cheaters. An important consideration for an online game operator is the damage that can arise to a franchise's value by the misdeeds of such individuals, who often gain an unfair in-game advantage. Disgruntled players may turn to alternative games if the operator cannot ensure a stable environment and level playing field. Also, illegal game servers pose a threat to operators' financial performance. Some Internet cafes and others have misappropriated games, installed unauthorized software on their servers, and charge customers directly, undercutting official game operators.

Regulatory Risks in Online Games. Online games operations may become subject to more stringent censorship and age restrictions, among other measures. For example, China's regulations require an 18 years minimum age threshold for entry into Internet cafes, attempt to discourage marathon game playing through an anti-addiction system, and require censorship of socially and politically unhealthy content. Although enforcement may appear lax in some jurisdictions or impractical, the popularity of an operator's games and the addressable market could be negatively affected by regulatory measures.

Valuation

We apply a 15% public-market discount to our discounted cash flow fair value to arrive at a year-end 2008 target price of US\$27. Our target price implies a P/E multiple of 25x 2008 estimated earnings, which we find reasonable vis-à-vis the company's 2008E-11E earnings CAGR of 27%.

For our DCF analysis, we segregate EBIT by the online games and gaming software segments, then allocate: 1) depreciation and amortization; 2) capex; 3) change in net working capital; and 4) net cash proportionate to each segment's contribution to total EBIT. Assumptions and calculus for our DCF analysis are shown at Figure 2, with the DCF matrix at Figure 3.

For the online games division, we use a 15x terminal EBITDA multiple, consistent with the exit multiples employed across our Asian online gaming (i.e., online games) universe. This is consistent with the sector average forward EV/EBITDA multiple of 16x. (See Figure 4 for comparable valuations.)

For the gaming software division, we use a 12.5x terminal EBITDA multiple. This represents a significant discount to GigaMedia's forward EV/EBITDA of 22.1x and that of market-leading PartyGaming Plc. (PRTY.LN-Not Rated), which currently trades at 21x forward EV/EBITDA (based on Bloomberg consensus 2007E EBITDA). While we do not expect dramatic regulatory downside for GigaMedia's gaming software operation, we nevertheless discount our exit multiple in light of perceived risks in the aftermath of U.S. prohibition. (See section on *Regulatory Issues and Potential Impact* for details.)

Of note, our financial projections for the gaming software segment exclude the potential from gaming software based upon mahjong or traditional Japanese games (such as pachinko and pachislo) as the consumer reception to these products is unclear at this time. GigaMedia has already licensed its mahjong software application and is expected to license pachinko/pachislo software shortly. Upside potential exists to our estimates based on the timing and performance of the rollout of these new applications.

For the company's ISP business, we have eliminated any financial contribution from this legacy segment as of January 1 2008, as management has stated its intention to dispose of this business. We assume a disposal value of US\$15 million (which implies a 3.8x multiple to our current-year EBITDA forecast) and have reflected the cash inflow in 2008. We do not know whether or not, or when, a disposal will occur, but consider this segment immaterial to our valuation of the core enterprise in either case.

Investment risks. Risks to our year-end 2008 target price of US\$27 include prohibitions against real-money gaming, and competition in Asia's online games market.

Figure 2. GigaMedia: DCF-based Fair Value

Segmental Breakdown :						
Software Licensing & Entertainment Software	=					16.57
Online Gaming	=					15.18
DCF-based Fair Value Per ADS (USD)	=					31.75

YE Dec 31 (USDmn)	2008E	2009E	2010E	2011E	2012E	2013E
Software Licensing & Entertainment Software						
Free Cash Flow	35	54	70	84	97	107
EBIT x (1 - t)	45	60	75	89	101	110
+ Depreciation & Amortization	1	2	2	3	3	3
+ Capex	(9)	(6)	(6)	(6)	(7)	(7)
+ (Inc)/Dec in NWC	(3)	(2)	(2)	(1)	(1)	(0)
NPV of FCF	30	40	45	48	48	47
Base case WACC calculation : Risk free rate4.5%Market risk premium8.0%Beta1.50Cost of equity16.5%After-tax cost of debt5.1%Debt/Total Capital (Steady State):% Common Equity80% % Net debt20%WACC14.2%Terminal FCFF107Implied Perpetual Growth Rate7.4% DCF Valuation : PV of first 5 years FCF211Terminal EBITDA126Exit EBITDA Multiple12.5 xTerminal Value1,576NPV of Terminal value784Total Enterprise Value995TV:EV79%Proportional Net Debt / (Cash) (2008E)(44)						
DCF-based Segmental Fair Value						
Equity value (USDmn)					1,039	
Per ADS (USD)					16.57	

YE Dec 31 (USDmn)	2008E	2009E	2010E	2011E	2012E	2013E
Online Gaming						
Free Cash Flow	24	48	61	70	77	85
EBIT x (1 - t)	27	50	60	67	73	80
+ Depreciation & Amortization	6	5	8	9	10	11
+ Capex	(6)	(6)	(6)	(6)	(5)	(5)
+ (Inc)/Dec in NWC	(2)	(1)	(1)	(1)	(1)	(0)
NPV of FCF	21	36	40	40	38	37
Base case WACC calculation : Risk free rate4.5%Market risk premium8.0%Beta1.50Cost of equity16.5%After-tax cost of debt5.1%Debt/Total Capital (Steady State):% Common Equity80% % Net debt20%WACC14.2%Terminal FCFF85Implied Perpetual Growth Rate8.5% DCF Valuation : PV of first 5 years FCF174Terminal EBITDA100Exit EBITDA Multiple15 xTerminal Value1,497NPV of Terminal value745Total Enterprise Value919TV:EV81%Proportional Net Debt / (Cash) (2008E)(33)						
DCF-based Segmental Fair Value						
Equity value (USDmn)					952	
Per ADS (USD)					15.18	

DCF-based Segmental Fair Value

Equity value (USDmn)

1,039

Per ADS (USD)

16.57

Source: Bear Stearns Asia Ltd. estimates.

Figure 3. GigaMedia: DCF Matrix
DCF MATRIX

Weighted		DCF-Based Fair Value (USD)						
Exit Multiple		7.6x	9.6x	11.6x	13.6x	15.6x	17.6x	19.6x
WACC								
11%		23.64	27.76	31.88	36.00	40.12	44.25	48.37
12%		22.71	26.64	30.58	34.51	38.44	42.37	46.30
13%		21.83	25.59	29.34	33.09	36.84	40.60	44.35
14%		21.00	24.58	28.17	31.75	35.33	38.92	42.50
15%		20.21	23.63	27.05	30.48	33.90	37.32	40.75
16%		19.45	22.73	26.00	29.27	32.54	35.81	39.08
17%		18.74	21.87	24.99	28.12	31.25	34.38	37.51
		NPV of Forecast FCF (USDmn)						
		2008E	2009E	2010E	2011E	2012E		
WACC								
11%		52	81	92	98	99	422	
12%		51	79	90	94	95	409	
13%		51	78	87	91	91	397	
14%		50	76	85	88	86	385	
15%		50	75	82	84	83	373	
16%		49	73	80	81	79	362	
17%		49	72	78	78	75	352	
Weighted		Terminal value as EBITDA multiple (USDmn)						
Exit Multiple		7.6x	9.6x	11.6x	13.6x	15.6x	17.6x	19.6x
WACC								
11%		983	1,241	1,500	1,758	2,017	2,275	2,534
12%		938	1,184	1,431	1,677	1,924	2,171	2,417
13%		895	1,130	1,366	1,601	1,836	2,072	2,307
14%		855	1,079	1,304	1,529	1,754	1,978	2,203
15%		816	1,031	1,246	1,460	1,675	1,890	2,105
16%		780	985	1,191	1,396	1,601	1,806	2,011
17%		746	942	1,138	1,334	1,530	1,727	1,923
Weighted		Implied PER (2008E)						
Exit Multiple		7.6x	9.6x	11.6x	13.6x	15.6x	17.6x	19.6x
WACC								
11%		21.6x	25.3x	29.1x	32.9x	36.6x	40.4x	44.1x
12%		20.7x	24.3x	27.9x	31.5x	35.1x	38.7x	42.3x
13%		19.9x	23.4x	26.8x	30.2x	33.6x	37.1x	40.5x
14%		19.2x	22.4x	25.7x	29.0x	32.2x	35.5x	38.8x
15%		18.4x	21.6x	24.7x	27.8x	30.9x	34.1x	37.2x
16%		17.8x	20.7x	23.7x	26.7x	29.7x	32.7x	35.7x
17%		17.1x	20.0x	22.8x	25.7x	28.5x	31.4x	34.2x

Source:-Bear Stearns Asia Ltd. estimates.

Figure 4. GigaMedia: Comparable Asian Valuations

	Ticker	Rating	Price (local)	MCAp (US\$ mn)	EV (local mn)	EV (US\$ mn)	EV / EBITDA		P / E		EPS YoY '07E-08E	PEG 08E	ROE 07E	
							07E	08E	07E	08E				
Online Gaming														
	NCsoft	036570.KS	P	KRW 74,000	1,605	1,152,483	1,225	17.9x	11.3x	40.2x	26.1x	54%	0.5 x	9%
	NetEase	NTES.US	O	\$17.45	2,317	1,904	1,904	11.1x	9.9x	14.7x	13.5x	9%	1.5 x	41%
	Shanda	SNDA.US	O	\$39.08	2,848	2,604	2,604	18.2x	13.9x	22.8x	18.3x	24%	0.8 x	33%
	The9	NCTY.US	P	\$35.09	1,039	714	714	11.5x	7.1x	26.9x	17.2x	56%	0.3 x	13%
	Perfect World	PWRD.US	NR	\$32.72	1,230	1,030	1,030	30.6x	14.1x	55.8x	28.3x	97%	0.3 x	38%
	CJ Internet	037150.KS	NR	KRW 22,450	543	388,940	414	7.9x	6.8x	22.5x	14.8x	51%	0.3 x	26%
	Group Average (MCAp weighted)							16.7x	11.4x	28.4x	19.4x	40%	0.8x	29%
	China Average (MCAp weighted)							17.1x	11.8x	26.3x	18.3x	36%	0.9x	33%
GigaMedia	GIGM.US	O	\$17.90	948	912	912	22.1x	10.5x	28.9x	16.3x	77%	0.2 x	18%	
Internet														
	Sina	SINA.US	O	\$51.90	3,097	2,776	2,776	44.3x	29.8x	58.2x	32.5x	79.4%	0.4 x	13%
	Sohu	SOHU.US	NR	\$44.13	1,729	1,673	1,673	43.6x	34.4x	75.1x	66.2x	13.5%	4.9 x	14%
	Tencent	0700.HK	NR	HK\$56.95	13,376	100,969	12,937	64.4x	47.1x	78.2x	59.8x	30.9%	1.9 x	30%
	Ctrip	CTRP.US	NR	\$52.21	3,539	3,364	3,364	65.7x	43.8x	79.4x	50.4x	57.6%	0.9 x	30%
	51job	JOBS.US	NR	\$20.85	586	454	454	19.2x	14.6x	36.6x	25.5x	43.8%	0.6 x	11%
	NHN	035420.KS	NR	KRW 242,300	12,326	11,131,782	11,835	30.1x	22.7x	48.2x	35.3x	36.4%	1.0 x	49%
	Daum	035720.KS	NR	KRW 76,100	1,082	918,948	977	13.7x	11.9x	42.5x	28.2x	50.6%	0.6 x	24%
	Gmarket	GMKT	NR	\$25.89	1,302	1,091	1,091	44.9x	35.5x	49.2x	38.5x	27.9%	1.4 x	20%
	Yahoo!Japan	4689.JP	NR	JPY 50,400	26,439	2,951,527	25,585	21.0x	18.3x	45.1x	38.9x	15.8%	2.5 x	31%
	Group Average (MCAp weighted)							36.5x	27.9x	56.0x	43.4x	29%	1.9x	32%
	China Average (MCAp weighted)							59.0x	42.4x	74.3x	54.1x	41%	1.8x	26%

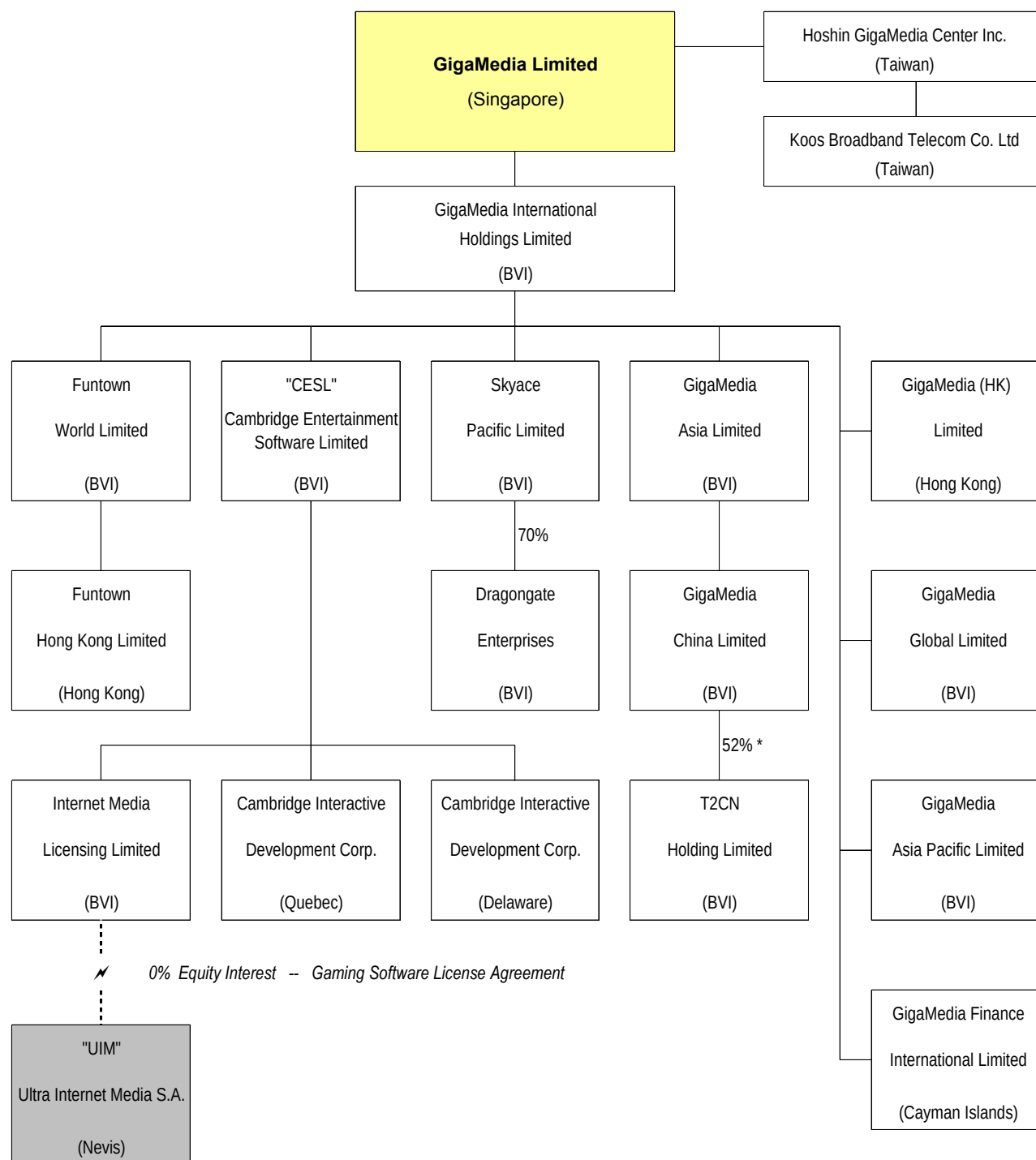
Note: Forecasts for Not Rated companies are from Bloomberg consensus estimates. Sina is rated Outperform by Adam B. Clark, within the Asian Telecom Services sector, which is rated Market Weight.

Bear Stearns Rating System: Stock Ratings – Outperform (O), Peer Perform (P), Underperform (U), Not Rated (NR).

Source: Bloomberg, Bear Stearns Asia Ltd. estimates.

Company Background

Figure 5. GigaMedia: Corporate Structure



NOTES:

Unless otherwise noted, shareholding in subsidiaries is 100%.

* As of July 2007, the company owned or controlled voting rights in an aggregate 52%.

Source: Company, Bear Stearns Asia Ltd.

Figure 6. GigaMedia: Management Profiles

Arthur M. Wang is the chief executive officer and a director of the company. He is also a member of the board of Linmark Group, a Hong Kong-listed global sourcing firm, where he serves as chair of the audit committee. Previously, Mr. Wang was a managing partner of 698 Capital Ltd., an Asian investment firm, as well as an executive director of KGI Asia Ltd. (KGI). At KGI, Mr. Wang served as head of corporate finance. He also served as an investment advisor and board member of UFJ Asia Finance Technology Fund of the UFJ Group (formerly the Sanwa Bank Group of Japan), and as a board member and director of Softbank Investment International (Strategic) Ltd., the Hong Kong-listed arm of Softbank Corp. Mr. Wang received his Bachelor of Arts degree from the University of California, Los Angeles, and his Juris Doctorate degree from Yale Law School, in the U.S. He practiced corporate and securities law in the New York and Hong Kong offices of Skadden, Arps, Slate, Meagher & Flom LLP.

Thomas T. Hui is the president and chief operating officer of the company and a director of the company. Mr. Hui served in the capacity of chief financial officer from 2004 through 2007. Mr. Hui joined GigaMedia from Goldman Sachs (Asia), where he was an executive director of the investment banking division. At Goldman Sachs, Mr. Hui originated and executed a broad range of mergers and acquisitions and financing transactions in Asia. Prior to working at Goldman Sachs, Mr. Hui was an investment banker at Merrill Lynch & Co. and a management consultant at McKinsey & Co., both in Hong Kong. Mr. Hui holds a Master of Engineering degree in electrical engineering from Cornell University and a Bachelor of Science degree in electrical engineering from the University of Wisconsin-Madison, both in the U.S.

Antonio I. Tambunan is the chief investment officer and chief strategy officer of the company. He was formerly at Bear Stearns Asia Ltd., where he was head of online games research for the Asia-Pacific region. Mr. Tambunan has a long history covering the Asian Internet and online entertainment space, leading some of the sector's pioneering research at Deutsche Bank. He was one of the first analysts to cover the Asian online games sector in 2001. Prior to research, he held corporate finance roles at SBC Warburg and at Deloitte and Touche Corporate Finance focusing on the telecommunications and technology sectors. Mr. Tambunan holds a Master of Business Administration degree in finance and strategy, and a Bachelor of Arts degree in international business from Boston University, U.S.

Robert J. Cahill is the head of the software licensing and online entertainment business of the company. Mr. Cahill is the chief executive officer of CESL. Prior to joining GigaMedia, Mr. Cahill served as the chief financial officer for Smarterkids.com. He also previously served in the finance group for Gensym Corp. and as an audit manager at Ernst & Young, LLC. Mr. Cahill received a Master of Business Administration degree from Bentley College and a Bachelor of Science degree in business administration from the University of Massachusetts, U.S.

Samuel Chou is the head of the online games business of the company. Mr. Chou became the chief executive officer and president of online games and entertainment for GigaMedia in April 2007. Mr. Chou was chairman and chief executive officer of Warner Music for the greater China region from 2004 to 2006. Prior to this, Mr. Chou was managing director of Warner Music in Taiwan. Mr. Chou was also previously the chairman of the International Federation of the Phonographic Industry in Taiwan. Mr. Chou received his Master of Business Administration degree from the National Gao Tung University, in Taiwan, and a Bachelor of Sociology degree from National Taiwan University.

Source: Company, Bear Stearns Asia Ltd.

Figure 7. GigaMedia: Significant Acquisitions and Divestitures
Grand Virtual

In March 2004, through its wholly owned subsidiary, Cambridge Entertainment Software Ltd. (CESL), GigaMedia acquired private U.S.-based software developer Grand Virtual Inc. and related affiliates in a private transaction from the founding shareholders of GV Enterprise Voting Trust, for an all-cash consideration of US\$32.5 million.

FunTown

In December 2005, the company entered into a definitive agreement with Acer TWP Corp. of Taiwan to acquire the online casual games portal known as "FunTown" from the software division of Acer. In January 2006, GigaMedia completed the acquisition of FunTown and purchased certain assets and assumed certain liabilities of FunTown for a total consideration of about US\$48 million.

Music Distribution

In September 2005, GigaMedia sold its land-based music distribution business to Nextbase International of Taiwan for US\$5.15 million.

ADSL

In May 2006, GigaMedia sold its ADSL broadband business to Webs-TV (a Taiwan digital content provider) for about US\$9.8 million in cash. In connection with the sale of the ADSL business, GigaMedia will continue to provide bandwidth support, consulting and other services for Webs-TV through December 31, 2007 for a fee of about US\$8.3 million.

Wretch – Yahoo Taiwan

In December 2006, following Yahoo Taiwan's proposed acquisition of *Wretch* (an online community site in Taiwan), GigaMedia struck a strategic cooperation agreement with Yahoo Taiwan that includes co-marketing of FunTown's games on key Yahoo Taiwan properties and revenue sharing on resulting revenues. GigaMedia has agreed to cancel its 20% purchase option in Wretch in exchange for strategic cooperation with Yahoo Taiwan and a cash payment, ranging between US\$5 million-US\$11.5 million based on certain conditions. Strategic cooperation includes placement of direct links to a co-branded FunTown and Yahoo Taiwan websites throughout Wretch, on Yahoo Taiwan's online games and messenger homepages. Members of Yahoo Taiwan will be able to use their login and password to directly access FunTown's games on the co-branded site.

T2CN

In April 2006, GigaMedia announced that its wholly owned subsidiary, GigaMedia China Ltd., made an initial investment of US\$15 million to acquire 7.5 million shares of convertible preferred stock in privately held Chinese game operator T2CN, convertible into 7.5 million common shares. In 2007, GigaMedia scaled up its investment by: 1) purchasing 18.1 million common shares (32.4%) of T2CN for US\$19-US\$26.3 million; and 2) subscribing to an additional 7.5 million convertible preferred shares. Altogether, GigaMedia's ownership stake in T2CN is currently about 52%.

Infocomm Asia Holdings

In December 2006, GigaMedia announced a US\$10 million investment in Infocomm Asia Holdings (IAH), an emerging online game publisher in Southeast Asia based in Singapore, in the form of convertible preferred stock. If converted, GigaMedia's equity stake in IAH will translate to about 33%, which would currently make the company the largest shareholder of IAH. IAH offers *Granado Espada* and has license rights to *Hellgate:London* in multiple markets within ASEAN.

Softstar

In June 2007, GigaMedia made an initial US\$1.8 million investment in Softstar, a Taiwanese online game developer and operator, in the form of convertible preferred shares, convertible into 16.1% of Softstar's common shares and yielding cumulative dividends of 3%. GigaMedia also receives first right of refusal on Softstar's games and co-development projects.

Source: Company, Bear Stearns Asia Ltd.

The Internet Gaming Business (“Gaming Software”)

Regulatory Issues and Potential Impact

THE LONG ARM OF THE LAW

Certain jurisdictions license and regulate gaming over the Internet while others ban gaming altogether. The U.S. and France, for instance, take a prohibitionist stance, or perhaps a protectionist position, toward online gaming software services.

The U.S. has criminalized receipt of bets from the U.S. by operators. However, the Internet has made it possible for gaming services to be offered into the U.S. from remote territories (such as Antigua, Barbuda, Gibraltar, and the Kahnawake Territory of Canada) under a regulated licensing framework. As the U.S. lacks jurisdiction over these sovereign states, the Unlawful Internet Gambling Enforcement Act (UIGEA) makes illegal the act of processing payments by U.S. financial institutions on behalf of gaming websites. (The most relevant U.S. legislation is the UIGEA, which was enacted October 13, 2006.)

In France, however, recent developments indicate a potential easing of the prohibitionist stance toward that of a regulatory approach in response to: 1) an E.U. opinion that France’s prohibition violated free-trade agreements; and 2) the ruling against the government’s nationalist gaming monopoly by France’s highest court.

The UIGEA has dramatically reduced the addressable market of online gaming software service operators as the U.S. market has been effectively cut off. For example, PartyGaming, a Gibraltar-licensed and U.K.-headed service provider, reported consolidated revenue of US\$1.1 billion in 2006. Of this sum, US\$800 million that was generated from the start of the year up to the law’s enactment is classified as revenue from “discontinued operations.” (“Discontinued operations” refers to operations that related to customers in the United States.)

GIGAMEDIA VIS-À-VIS THE LAW

GigaMedia, through its wholly owned subsidiary Cambridge Entertainment Software Ltd. (CESL), develops and licenses gaming software applications – it does not directly offer gaming services. Services are offered by GigaMedia’s licensee Ultra Internet Media (UIM), a service provider in which GigaMedia holds neither an ownership stake nor any management rights or influence. UIM operates gaming software in 15 languages, including French and German. While UIM targets continental European audiences, this does not in itself insulate UIM from the UIGEA since there is no barrier preventing U.S.-based bettors from accessing UIM’s web-based services. However, GigaMedia has stated that UIM does not knowingly accept bets from the U.S. nor does it seek payment facilitation (e.g. credit card authorization) from U.S. financial institutions.

LIMITED REGULATORY DOWNSIDE TO GIGAMEDIA’S BUSINESS

We consider prohibitionist downside to be limited for UIM and GigaMedia, and thus do not envisage the company needing to present “discontinued” results as PartyGaming has done. The E.U. and the World Trade Organization have both stated a preference for a “license and regulate” framework relating to Internet gaming rather than the U.S. prohibitionist stance. This does, however, raise the possibility of higher fees or taxes, but 1) the E.U. states reaching a consensus on this issue is likely to take

time; and 2) harmonizing the various license fee and tax regimes is also likely to take time, in our view.

Macro Environment

Figure 8 shows the market outlook for global gaming broken down by region, and close-ups of the online gaming software services markets for EMEA and Asia. Bricks-and-mortar gaming outpaces the online version in Asia, where Macau's casinos are the main driver of growth. Singapore, Japan, and Korea are also liberalizing their gaming frameworks. We believe that growth in land-based gaming comes partly in response to the inability of a jurisdiction to assess taxes and fees upon offshore-registered online gaming software operators. While a potential increase in land-based gaming in Asia is a competitive threat to online operators, ethical and public policy issues about gaming may diminish, in our view, which would benefit online gaming software operators over the long term.

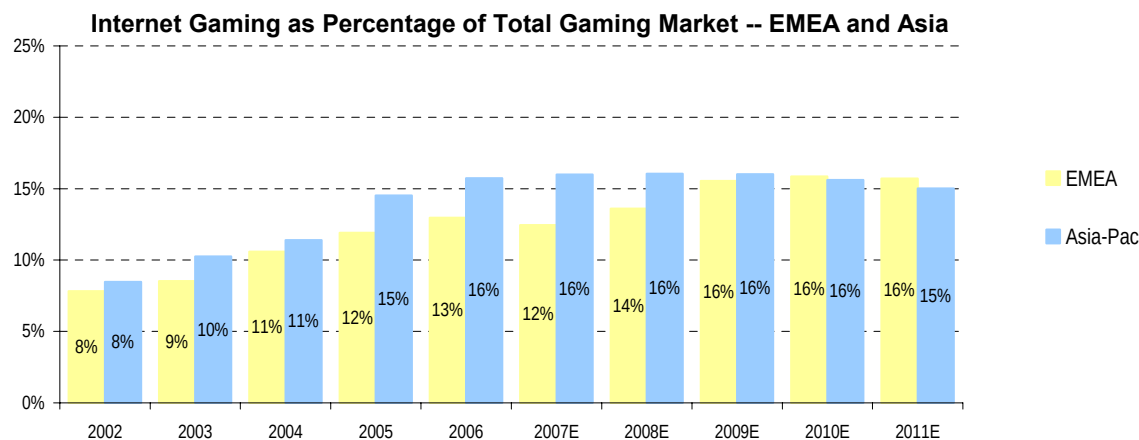
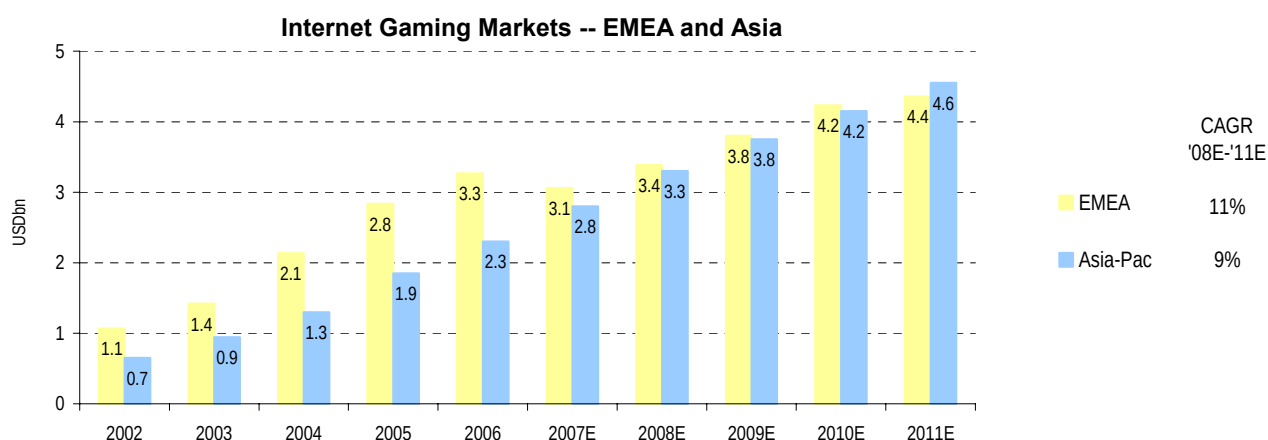
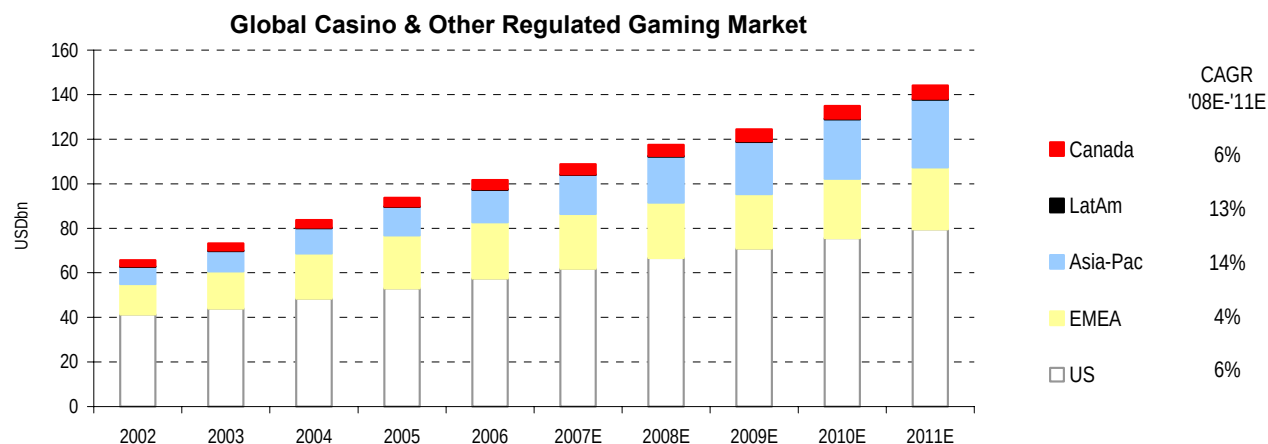
Segment Discussion

Wholly owned CESL develops and licenses gaming software applications to UIM, which is a real-money gaming software services provider. UIM is licensed to operate its online services by the Kahnawake Gaming Commission of the independent tribal territory of Kahnawake, which is situated within Canada.

Two products offered by GigaMedia are: 1) *Everest Poker*; and 2) traditional casino games. *Everest Poker* revenue has ramped up quickly since its introduction in late 2004, to surpass the company's revenue from traditional casino games in 2006. We see *Everest Poker* revenue growing at a 26% three-year CAGR (2008E-11E) and achieving revenue of US\$233 million in 2011E. We forecast the casino games to grow at a mild 4% CAGR over the period.

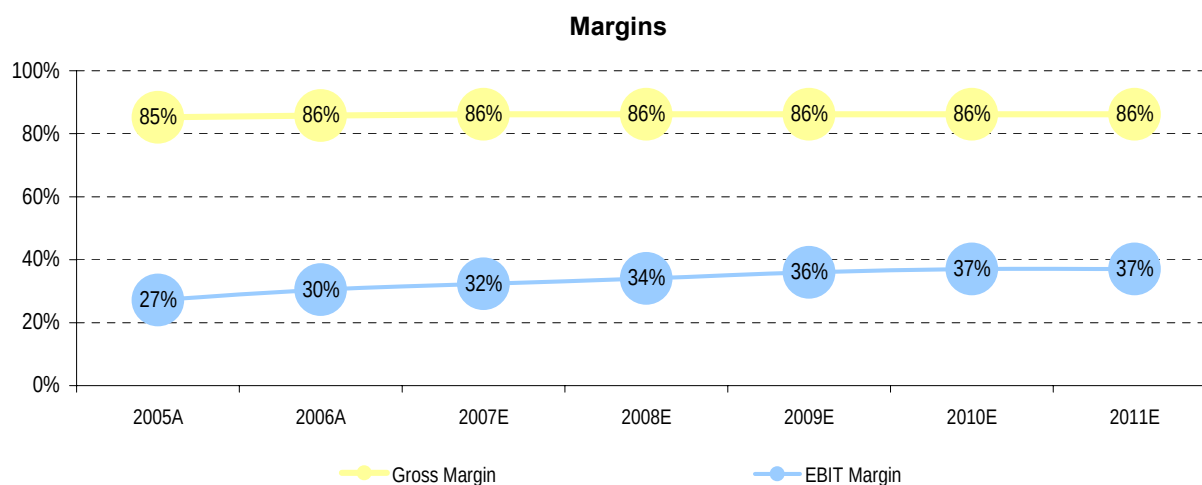
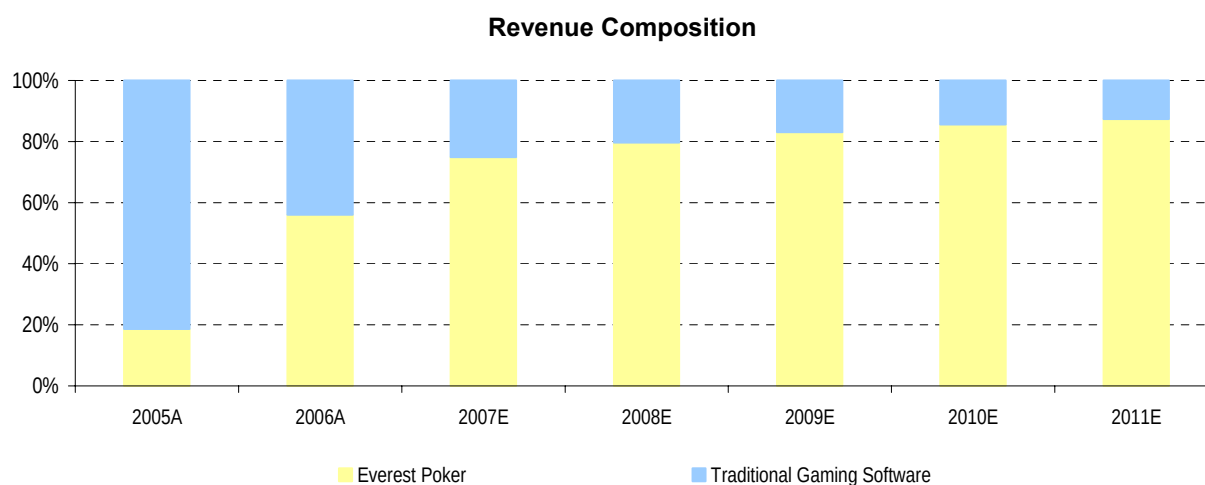
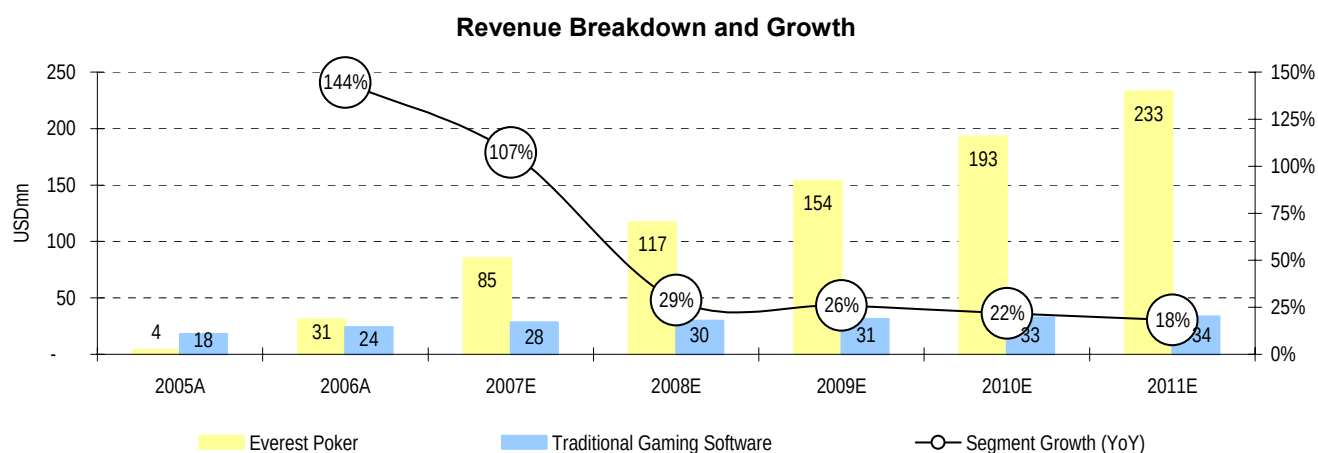
As mentioned earlier, our projections for GigaMedia exclude the potential from mahjong or pachinko/pachislo. It is possible that the introduction of both games may contribute from the fourth quarter of 2007, and steadily ramp up over 2008. In the absence of a performance track record, however, we have chosen not to factor into our model the potential of these applications, pending further information and developments.

Figure 8. Gaming and Internet Gaming Market Forecasts (USDbn)



Source: PricewaterhouseCoopers estimates, Bear Stearns Asia Ltd.

Figure 9. GigaMedia: Gaming Software Segment Revenue Forecasts



Source: Company data, Bear Stearns Asia Ltd. estimates.

The Interactive Video Games Business (“Online Games”)

2008E ONLINE GAMES MARKET SIZE:

CHINA – US\$1.65BN
TAIWAN – US\$383MN

Macro Environment ²

Figure 10 presents our forecasts for the markets relevant to GigaMedia’s online games business. We expect China’s online games market to grow to US\$1.65 billion in 2008, while Taiwan’s online games market is expected to reach US\$383 million. Market size is a function of gamers and average revenue per user (ARPU).

- **As for Gamers:** Based on the low cost of online games in each market, we do not believe that gamer growth is limited by *cost* considerations. In our view, the main driver of growth will be *access* to online games – a function of broadband and PC penetration. Internet cafes are becoming more and more common in China’s metropolitan areas, contributing to growth in the gamer population to 40 million (paying gamers) at year-end 2006 from 14 million as of year-end 2004, according to our estimates. Gamer growth may not rise much in Taiwan, as broadband penetration is relatively high – reaching 73% of households by year-end 2007, according to our estimates.
- **As for ARPU:** The hardcore gamer population lies within the 15- to 25-year-old age bracket, but the median age of gamers will rise in Asia. Every year will see a new batch of 15-year-olds entering while 26-year-olds exit. The new batch of 15-year-olds should display the same user characteristics as their predecessors – very hard core in terms of time spent online. The older end of the spectrum will roll off the age bracket as they age, but they are unlikely to abandon online games completely, in our opinion. While older gamers may spend less time online, they should have greater disposable income to compensate for time, and as a consequence, are likely opt to buy items and privileges in free-to-play games.

Segment Discussion

GigaMedia’s online games business is comprised of the following:

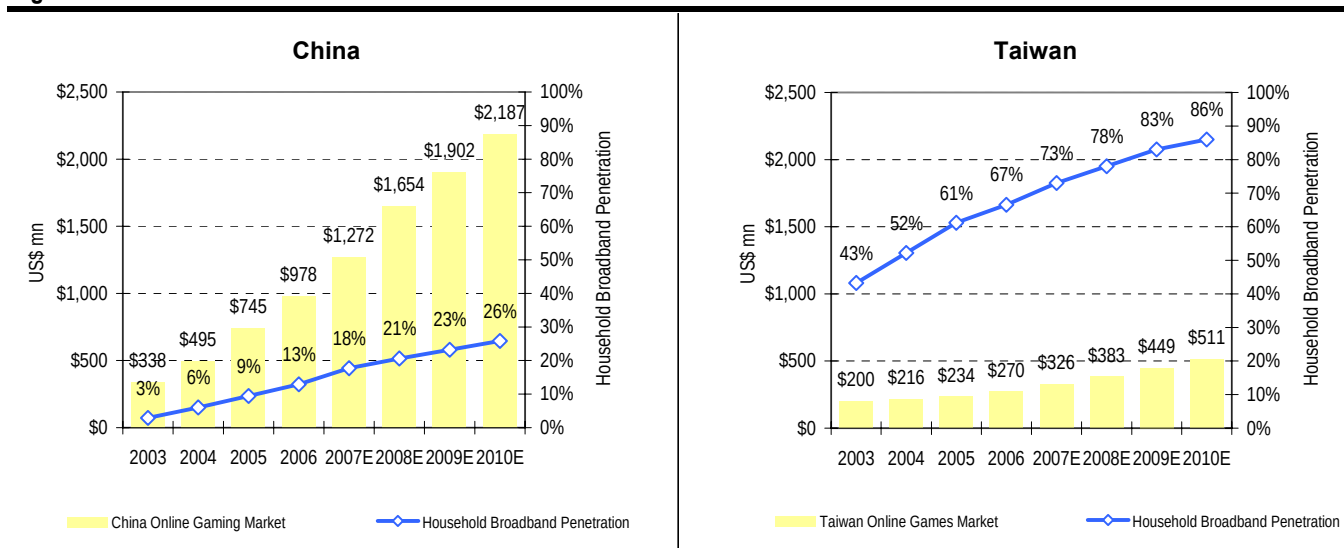
- Wholly owned **FunTown**: The FunTown website is a simple casual game portal that offers card/board/parlor games, with a base of operations in Taiwan.
- 52%-stake in **T2CN**: T2CN is an online games operator based in Shanghai, China. The company currently offers multiple titles among which the street basketball game *FreeStyle* (from JC Entertainment) is the most successful title. T2CN has rights to *Fanta Tennis* (from ECI) and *SP Jam* (a snowboarding game from NCsoft), which are expected to release within the next six months. GigaMedia consolidates T2CN in its financials from 2007.

² Please refer to our June 21, 2007 industry report, “Asian Online Gaming: Thousand-Year-Old Egg – China’s Developers Coming of Age,” for a discussion of online games in Asia.

- 33% minority stake in **Infocomm Asia Holdings (IAH)**. IAH is a Singapore-based online games operator with a footprint in certain ASEAN nations, with a portfolio of MMORPGs including *Hellgate:London* and *Granado Espada*. IAH is not consolidated but accounted for at the affiliate level.
- 16% minority stake in **Softstar Entertainment**. Softstar is a developer-operator based in Taiwan. GigaMedia currently holds the first right of refusal to titles emerging from this strategic investment.

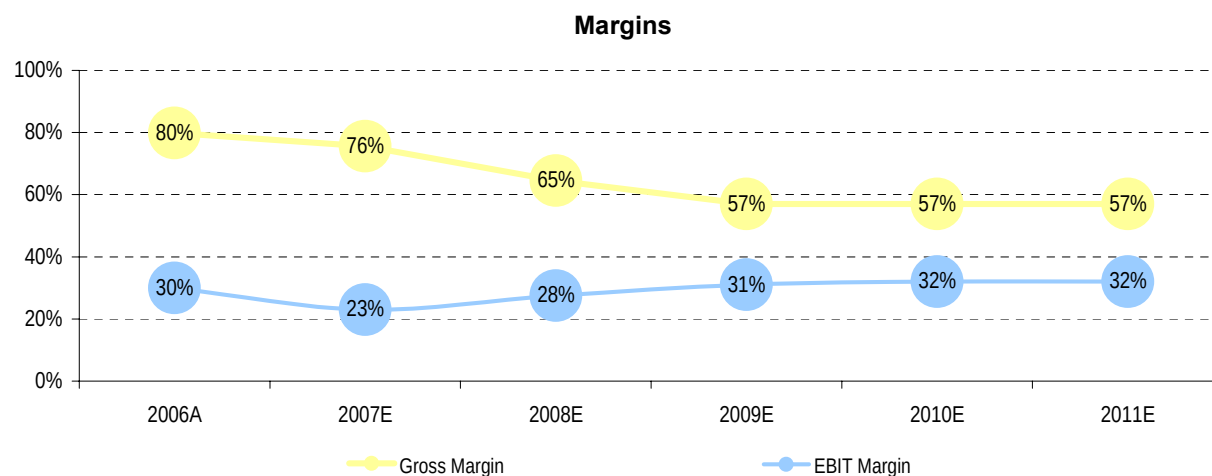
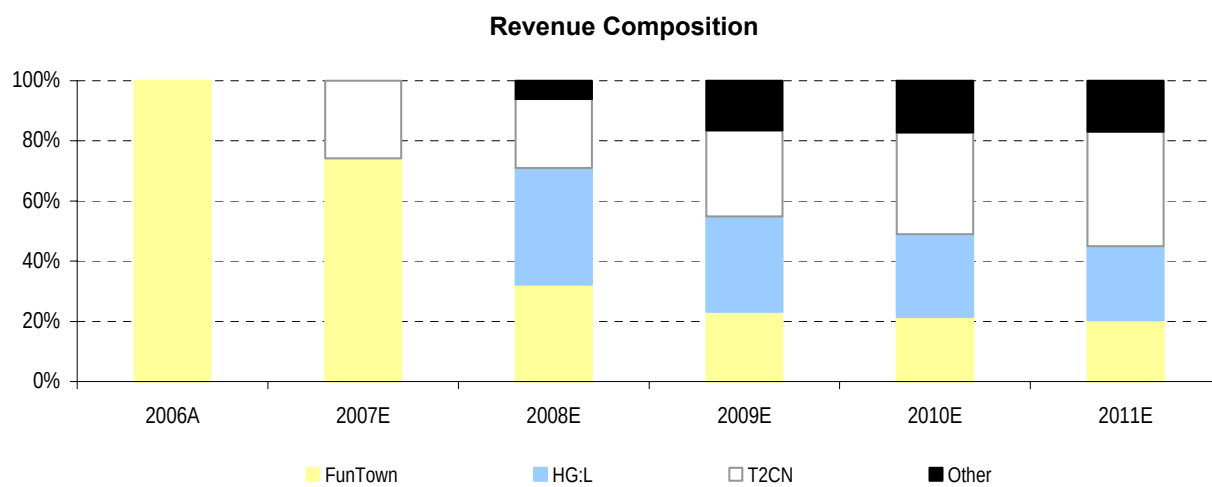
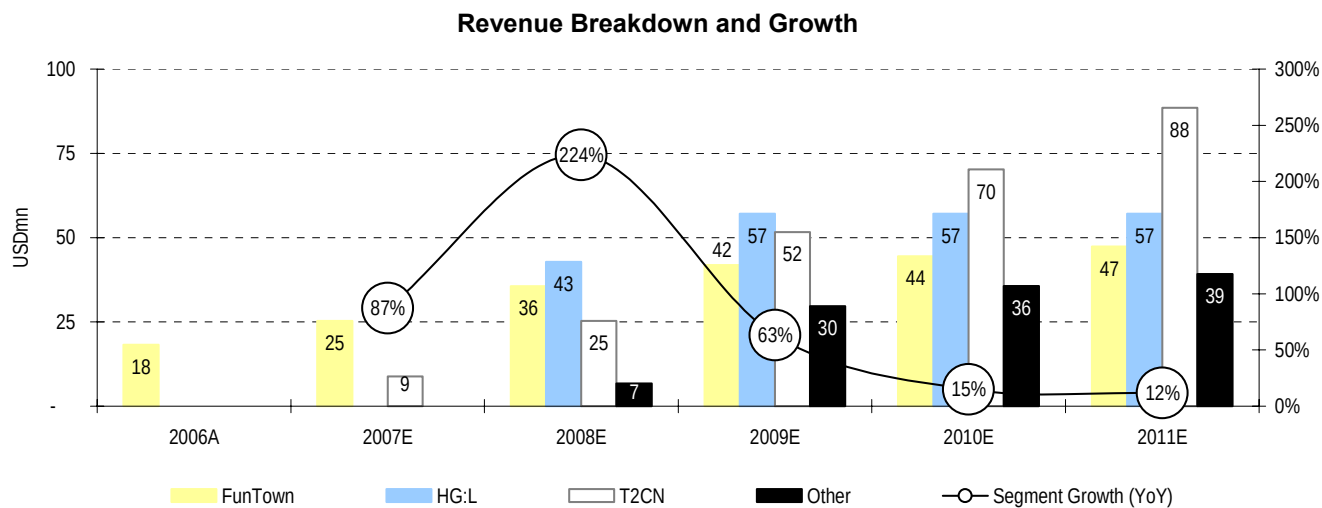
Several multiplayer online games such as *Tales Runner* (from Rhaon Entertainment), *Hellgate:London* (from Flagship Studios), and *Holic* (from MGame) have been licensed for Taiwan, Hong Kong, and Macau. We expect the latter two titles to be released in 2008. GigaMedia also has the rights to operate *Holic* in China, which we expect to be handled by T2CN.

Figure 10. Asian Online Games Market Outlook



Source: iResearch, Taiwan Institute for Information Industry (III), Bear Stearns Asia Ltd. estimates.

Figure 11. GigaMedia: Overview of Gaming Software Segment



Source: Company data, Bear Stearns Asia Ltd. estimates.

Figure 12. Key Games Assets

FunTown



GigaMedia

The *FunTown* casual game portal offers board games, card games, and parlor games such as mahjong, and generates revenues through access fees and the sale of various in-game items. The suite of casual games is designed for players of all levels of skill and experience, from “newbies” to masters. The game portal also provides community-building services, such as forming clubs for players, arranging tournaments, and serving as a platform for social networking.

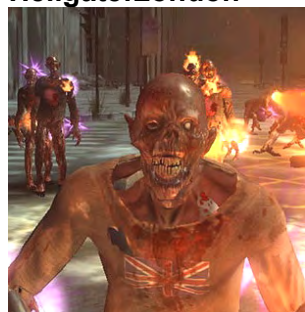
FreeStyle



JC Entertainment

FreeStyle is an advanced casual “street” basketball game that is operated in China by T2CN, under license from JC Entertainment of Korea. The game is about skill, knowing strengths and weaknesses of a player’s online position, and playing in concert with others. Gamers can engage in one-on-one play as well as two-on-two, and three-on-three team play. As in real life, T2CN holds tournaments and players are ranked. *FreeStyle* was licensed by T2CN prior to GigaMedia’s equity interest – license terms are currently not available.

Hellgate:London



Flagship Studios

Hellgate:London takes place in a fantasy future after London has been overrun by demons. *Hellgate:London* fuses role-playing mechanics with first-person shooter (FPS) gameplay. The game looks like an FPS, but characters level up and accrue experience points and items. Multiplayer modes are focused on cooperative player-vs.-environment combat. The persistent world is not divided into shards (i.e. separate realms), but plays like a massively multiplayer online role-playing game (MMORPG) with instancing (i.e. private areas). GigaMedia has received the right to operate *Hellgate:London* in Taiwan, Hong Kong, and Macau for a license fee of US\$2.5 million and a running royalty of 22% (US\$6.5 million minimum guarantee).

Holic



MGame

Holic is a cute-style MMORPG set in a colorful medieval countryside, involving players in a world of fantasy and adventure. Players can create cartoon-style characters, complete quests and battle monsters with magic and martial arts to advance through skill levels. Players are also able to create their own quests and environments, which adds to overall game experience. GigaMedia has received the right to operate the game in China, Taiwan, Hong Kong, and Macau for a license fee and minimum guarantee of US\$11 million, and a running royalty fee of 21%-25% of sales.

Source: Companies. Bear Stearns Asia Ltd.

Financials

Figure 13. GigaMedia: Summary and Ratios

YE Dec 31	2006A	2007E	2008E	2009E	2010E	2011E	CAGR/bps	
							07E-10E	08E-11E
PER SHARE DATA (US\$)								
EPS (Basic)	0.60	0.70	1.24	1.80	2.21	2.56	46%	27%
EPS (Diluted)	0.50	0.62	1.10	1.58	1.94	2.25	46%	27%
FCF per Share	0.42	0.62	0.95	1.60	2.00	2.31	48%	35%
Book Value per Share	2.18	2.58	3.58	5.09	6.94	9.05	39%	36%
Cash & Equivalents per Share	0.38	0.61	1.23	2.51	4.19	6.18	90%	71%
Average Shares Outstanding, Basic	50.9	53.0	55.2	56.3	57.4	58.6	3%	2%
Average Shares Outstanding, Diluted	61.5	60.3	62.7	64.0	65.2	66.6	3%	2%
VALUE								
EV / Revenue	9.7x	5.6x	3.5x	2.5x	2.1x	1.8x	--	--
EV / EBITDA	32.5x	22.1x	10.5x	7.0x	5.6x	4.9x	--	--
EV / FCF	35.0x	24.3x	15.4x	8.9x	7.0x	5.9x	--	--
Price / Sales	10.5x	6.1x	3.8x	2.7x	2.3x	2.0x	--	--
Price / Book	8.2x	6.9x	5.0x	3.5x	2.6x	2.0x	--	--
P/E (diluted)	35.7x	28.9x	16.3x	11.3x	9.2x	7.9x	--	--
P/E (ex-cash, diluted)	35.0x	27.9x	15.2x	9.7x	7.1x	5.2x	--	--
SUMMARY P&L (US\$ mn)								
Revenue	94	162	257	365	433	499	39%	25%
Gross Profit	71	129	198	262	313	362	34%	22%
EBITDA	28	41	87	129	161	188	58%	29%
EBIT	22	38	80	122	151	176	59%	30%
Net Income	31	37	69	101	127	150	50%	30%
PROFITABILITY								
Gross Margin	75%	79%	77%	72%	72%	73%	(710 bps)	(430 bps)
EBITDA Margin	30%	25%	34%	35%	37%	38%	1187 bps	380 bps
Operating Margin	23%	23%	31%	33%	35%	35%	1159 bps	412 bps
Net Income Margin	33%	23%	27%	28%	29%	30%	631 bps	339 bps
YIELD								
FCF Yield	2.4%	3.5%	5.3%	9.0%	11.2%	12.9%	770 bps	765 bps
Earnings Yield	3.4%	3.9%	7.0%	10.0%	12.3%	14.3%	841 bps	736 bps
BALANCE SHEET (US\$ mn)								
Net debt (cash)	(23)	(37)	(77)	(161)	(273)	(412)	95.2%	74.6%
Net debt/ equity	cash	cash	cash	cash	cash	cash	--	--
Shareholders Equity	134	156	225	326	453	603	42.7%	39.0%
RETURNS								
ROA	17%	18%	24%	25%	24%	22%	605 bps	(217 bps)
ROE	23%	26%	36%	37%	33%	28%	687 bps	(768 bps)
ROIC	45%	25%	35%	36%	32%	28%	718 bps	(681 bps)
MOMENTUM								
Revenue Growth	113%	72%	59%	42%	18%	15%	--	--
EBITDA Growth	542%	47%	111%	49%	25%	16%	--	--
Operating Profit	403%	72%	112%	53%	24%	16%	--	--
Net Income Growth	386%	21%	84%	47%	26%	18%	--	--
EPS Growth	335%	24%	77%	44%	23%	16%	--	--

Source: Company data, Bear Stearns Asia Ltd. estimates.

Figure 14. GigaMedia: Consolidated Financial Statements

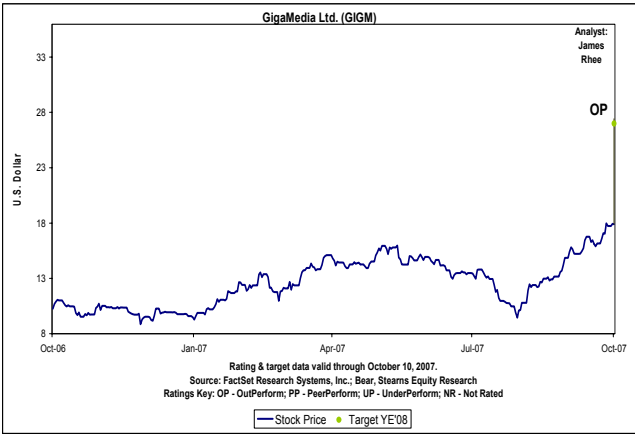
Year Ending Dec 31	2006A	2007E	2008E	2009E	2010E	2011E	CAGR	
							07E-10E	08E-11E
Consolidated Income Statement (USDmn)								
Revenue	94	162	257	365	433	499	39%	25%
Software licensing & online entertainment	55	114	147	185	225	267	26%	22%
Online game	19	34	110	180	208	232	83%	28%
Other (including ISP business)	21	14	0	0	0	0	--	--
COS	23	34	59	103	120	137	53%	32%
Gross Profit	71	129	198	262	313	362	34%	22%
<i>Gross margin</i>	75%	79%	77%	72%	72%	73%	--	--
SG&A	49	91	118	140	162	186	21%	17%
Income from operations	22	38	80	122	151	176	59%	30%
<i>Operating margin</i>	23%	23%	31%	33%	35%	35%	--	--
Non-operating income (expense)	11	1	2	4	7	11	75%	69%
Income before taxes	33	39	82	126	158	187	59%	31%
Income tax expense	2	1	8	13	16	19	131%	31%
Minority interest income (loss)	0	0	5	13	15	18	217%	49%
Net income	31	37	69	101	127	150	50%	30%
<i>Net margin</i>	33%	23%	27%	28%	29%	30%	--	--
Consolidated Balance Sheet (USDmn)								
Current Assets	64	110	179	295	428	586	57%	48%
Cash and Cash Equivalents	22	50	90	174	286	425	79%	67%
Marketable Securities	14	11	11	11	11	11	0%	0%
Accounts Receivable	15	22	35	50	59	68	39%	25%
Other Current Assets	13	27	42	60	71	82	39%	25%
Fixed Assets	118	133	156	170	182	192	11%	7%
Marketable Securities (non-current)	25	15	15	15	15	15	0%	0%
PP&E	10	13	8	16	20	24	17%	41%
Intangible Assets	23	30	37	45	51	58	20%	16%
Goodwill	56	80	100	100	100	100	8%	0%
Other	4	10	10	10	10	10	0%	0%
Total Assets	183	243	335	466	610	778	36%	32%
Current Liabilities	45	80	104	133	151	169	23%	18%
Short-term debt	13	24	24	24	24	24	0%	0%
Payables	2	3	4	6	7	8	31%	22%
Other Current Liabilities	31	53	75	103	119	137	31%	22%
Other Liabilities	2	2	2	2	2	2	0%	0%
Total Liabilities	47	82	105	135	152	171	23%	17%
Minority	2	5	5	5	5	5	0%	0%
Shareholders Equity	134	156	225	326	453	603	43%	39%
Capital	289	289	289	289	289	289	0%	0%
Retained Earnings	(128)	(91)	(22)	79	206	356	-231%	-351%
Other	(27)	(43)	(43)	(43)	(43)	(43)	0%	0%
Total Sh. Equity + Liabilities	183	243	335	466	610	778	36%	32%
Consolidated Cash Flow (USDmn)								
Operating Cash Flow	37	41	67	100	126	149	46%	30%
Net Income	31	37	69	101	127	150	50%	30%
+ Depreciation & Amortization	6	4	7	7	11	12	44%	20%
+ Interest (Income)/Expense	(1)	(2)	(3)	(5)	(8)	(12)	51%	53%
Change in Working Capital	2	2	(5)	(3)	(3)	(2)	-207%	-33%
Investing Cash Flow	(78)	(27)	(30)	(22)	(22)	(22)	-7%	-10%
Capex	(3)	(5)	(15)	(12)	(12)	(12)	34%	-7%
Investments	(25)	10	0	0	0	0	--	--
Intangibles	(50)	(32)	(30)	(10)	(10)	(10)	-32%	-31%
Other (non-recurring)	0	0	15	0	0	0	--	--
Financing Cash Flow	13	14	3	5	8	12	-16%	53%
Shares issued (redeemed)	(2)	0	0	0	0	0	--	--
Increase (decrease) in debt	13	11	0	0	0	0	--	--
Cash Dividends	0	0	0	0	0	0	--	--
Interest Income/(Expense)	1	2	3	5	8	12	51%	53%
Net Change in Cash	(19)	27	41	83	112	138	60%	50%
Cash at beginning of period	42	22	50	90	174	286	98%	79%
Cash at end of period	22	50	90	174	286	425	79%	67%

Source: Company data, Bear Stearns Asia Ltd. estimates.

Addendum

Important Disclosures

GigaMedia Ltd. (GIGM)



BSC Recommendation History since October 10, 2006 for:

GigaMedia Ltd. (GIGM) - U.S. Dollar

Date	Stock Price	Rating	Target / Horizon
**Analyst: James Rhee			
11-Oct-07	17.90	OUTPERFORM	27 / 2008

Addendum

Important Disclosures

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Outperform (O) — Stock is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (P) — Stock is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.

Underperform (U) — Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

Ratings for Sectors (vs. regional broader market index)

Market Overweight (MO) — Expect the industry to perform better than the primary market index for the region (S&P 500 in the U.S.) over the next 12 months.

Market Weight (MW) — Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the U.S.) over the next 12 months.

Market Underweight (MU) — Expect the industry to underperform the primary market index for the region (S&P 500 in the U.S.) over the next 12 months.

Securities covered by the author(s) of this report include: James Rhee (Asian Online Gaming): GigaMedia Ltd., NCsoft Corp., Netease.com Inc., Shanda Interactive Entertainment, The9 Ltd.

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Peer Perform (Neutral): 49.8 / 11.1

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Addendum

Important Disclosures

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James Rhee

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