

**GAMANIA DIGITAL ENTERTAINMENT CO., LTD.**

**FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS**

**December 31, 2005 AND 2004**

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These English financial statements were translated from the financial statements originally prepared in Chinese.

## **Report of Independent Accountants**

(05) R.F014.5025

To the Board of Directors and Stockholders of Gamania Digital Entertainment Co., Ltd.

We have audited the accompanying balance sheets of Gamania Digital Entertainment Co., Ltd. as of December 31, 2005 and 2004, and the related statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2005 and 2004 financial statements of certain investee companies, accounted for under the equity method, which statements reflect total investment balance of \$492,774,000 and \$571,394,000 as of December 31, 2005 and 2004, respectively, and the related investment loss of \$207,289,000 and \$168,160,000 for the years then ended, respectively. These financial statements were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to the amounts included for these investee companies and the information disclosed in Note 11 relative to these long-term investments, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the "Rules Governing Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Gamania Digital Entertainment Co., Ltd. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with the “Rules Governing Preparation of Financial Statement of Securities Issuer” and generally accepted accounting principles in the Republic of China.

As disclosed in Notes 3 and 4(10), the Company adopted R.O.C. Statement of Financial Accounting Standards No. 35, “Accounting for Assets Impairment” at the beginning of the fourth quarter, 2004. As a result of the change in accounting principle, as of December 31, 2004, the total assets and the 2004 income were decreased by \$321,770,000, respectively. The 2004 earnings per share were decreased by \$2.11.

As disclosed in Notes 4(10), as a result of the adjust marketing value, parts of assets have impairment losses the 2005 income were decreased by \$176,610,000.

We have also audited the consolidated financial statements of Gamania Digital Entertainment Co., Ltd. and subsidiaries for the years ended December 31, 2005 and 2004. In our report dated March 15, 2006, based on our audits and the reports of the other auditors, we expressed an unqualified opinion on those consolidated financial statements.

March 15, 2006

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The accompanying financial statements are not intended to present the financial position and results of operations and cash flows of the Company in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices utilized in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of the independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.  
BALANCE SHEETS  
DECEMBER 31,  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>2005</u>	<u>2004</u>		<u>2005</u>	<u>2004</u>
<b><u>ASSETS</u></b>			<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b><u>Current Assets</u></b>			<b><u>Current Liabilities</u></b>		
Cash and cash equivalents (Note 4(1))	\$ 746,138	\$ 757,625	Short-term loans (Note 4(11))	\$ 30,000	\$ -
Notes receivable - net - third parties (Note 4(2))	84,816	70,631	Notes payable	59,166	45,231
Notes receivable - net - related parties (Note 5)	2,483	-	Notes payable - related parties (Note 5)	88,900	-
Accounts receivable - net - third parties (Note 4(3))	499,793	523,880	Accounts payable	94,037	73,439
Accounts receivable - net - related parties (Note 5)	1,375	1,842	Income tax payable (Note 4(13))	20,375	18,585
Other receivables - third parties (Note 4(4))	208,452	119,207	Accrued expenses	127,465	100,794
Other receivables - related parties (Note 5)	48,494	37,547	Other payable-related parties (Note 5)	130,255	168,518
Other financial assets - current (Note 6)	30,000	-	Other payables	34,912	20,587
Inventories (Note 4(5))	14,426	9,372	Unearned revenue collected in advance	59,623	94,841
Prepaid expenses	9,054	12,920	Current portion of long-term liabilities (Note 4(12))	28,769	56,230
Deferred income tax assets-current (Note 4(13))	36,618	36,250	Other current liabilities	7,102	7,746
	<u>1,681,649</u>	<u>1,569,274</u>		<u>680,604</u>	<u>585,971</u>
<b><u>Long-term Investments</u></b> (Notes 4(6) and 4 (10))			<b><u>Long-term Liabilities</u></b>		
Long-term investments - equity method	519,492	642,890	Long-term loans (Note 4 (12))	<u>313,634</u>	<u>189,818</u>
Long-term investment - cost method	12,551	26,846		<u>313,634</u>	<u>189,818</u>
Prepayment for long-term investments	<u>-</u>	<u>13,114</u>	<b><u>Other Liabilities</u></b>		
	<u>532,043</u>	<u>682,850</u>	Accrued pension liabilities (Note 4(14))	4,768	3,245
<b><u>Property, Plant and Equipment</u></b> (Notes 4(7) and 6)			Guarantee deposits	<u>42</u>	<u>34</u>
Cost				<u>4,810</u>	<u>3,279</u>
Land	147,751	147,751	Total Liabilities	<u>999,048</u>	<u>779,068</u>
Buildings	151,961	144,548	<b><u>Stockholders' Equity</u></b>		
Machinery and equipment	652,968	523,831	Common stock (Notes 1 and 4(15))	1,518,787	1,539,897
Transportation equipment	1,700	1,700	Capital reserve (Note 4 (16))		
Computer and communication equipment	73,366	93,925	Paid-in capital in excess of par	1,037,644	1,348,505
Leasehold improvements	63,771	81,861	Treasury stock (Note 4(20))	27,162	17,111
Other equipment	4,435	5,349	Gain on disposal of property, plant and equipment	221	221
Total Cost	<u>1,095,952</u>	<u>998,965</u>	Retained earnings		
Less: Accumulated depreciation	<u>(459,818)</u>	<u>(365,509)</u>	Legal reserve (Notes 4 (17) and 4 (18))	-	103,066
	<u>636,134</u>	<u>633,456</u>	Accumulated deficit (Notes 4 (13) and 4 (18))	( 267,318)	( 394,267)
Intangible assets (Notes 4(8) and 4(10))	<u>-</u>	<u>-</u>	Cumulative translation adjustments	21,208	21,810
<b><u>Other Asset</u></b>			Treasury stock (Note 4(20))	<u>(302,140)</u>	<u>(319,214)</u>
Refundable deposits	6,141	8,730	Total Stockholders' Equity	<u>2,035,564</u>	<u>2,317,129</u>
Deferred charges (Notes 4 (9) and 4(10))	129,151	112,491	Commitments and Contingent Liabilities (Note 7)		
Deferred income tax assets-non current (Note 4(13))	49,494	89,396	Subsequent Events (Note 9)		
	<u>184,786</u>	<u>210,617</u>			
<b><u>TOTAL ASSETS</u></b>	<u>\$ 3,034,612</u>	<u>\$ 3,096,197</u>	<b><u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>	<u>\$ 3,034,612</u>	<u>\$ 3,096,197</u>

The accompanying notes are an integral part of the financial statements.

See report of independent accountants dated March 15, 2006.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.  
STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31,  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT LOSS PER SHARE DATA)

	2005	2004
Operating revenues		
Sales revenue (Note 5)	\$ 1,824,753	\$ 1,895,340
Sales returns	( 76,176)	( 37,331)
Sales allowances	( 36,126)	( 37,502)
Net sales revenue	1,712,451	1,820,507
Service Revenue (Note 5)	<u>140,017</u>	<u>120,644</u>
Operating revenue	1,852,468	1,941,151
Operating costs		
Cost of goods sold (Notes 4(22) and 5)	( 925,276)	( 935,659)
Gross profit	<u>927,192</u>	<u>1,005,492</u>
Operating expenses (Notes 4(22) and 5)		
Selling expenses	( 218,935)	( 162,653)
General and administrative expenses	( 400,284)	( 392,925)
Research and development expenses	( 80,515)	( 73,673)
Total operating expenses	( 699,734)	( 629,251)
Operating income	<u>227,458</u>	<u>376,241</u>
Non-operating income		
Interest income	474	376
Gains on sale of investments	9,630	8,577
Foreign exchange gain	394	-
Rental income (Note 5)	32,199	9,676
Miscellaneous income (Note 5)	<u>4,727</u>	<u>10,809</u>
Total non-operating income	<u>47,424</u>	<u>29,438</u>
Non-operating expenses		
Interest expense	( 10,338)	( 6,838)
Investment loss accounted for under equity method (Notes 4(6) and 4 (10))	( 363,870)	( 264,180)
Other investment loss (Note 4(6))	( 14,295)	( 68,095)
Loss on disposal of property, plant and equipment	( 466)	( 149)
Provision for decline in market value and on obsolete inventories	( 8,021)	-
Impairment losses (Note 4(10))	( 76,103)	( 321,770)
Miscellaneous losses	( 7,770)	( 2,431)
Total non-operating expenses	( 480,863)	( 663,463)
Loss before income tax	( 205,981)	( 257,784)
Income tax (expense) benefit (Note 4(13))	( 54,052)	90,040
Net loss	<u>(\$ 260,033)</u>	<u>(\$ 167,744)</u>

	2005		2004	
Basic loss per share (in dollars) (Note 4(19))	<u>Before income tax</u>	<u>After income tax</u>	<u>Before income tax</u>	<u>After income tax</u>
Net loss	(NT\$ 1.40)	(NT\$ 1.77)	(NT\$ 1.69)	(NT\$ 1.10)

The accompanying notes are an integral part of the financial statements.  
See report of independent accountants dated March 15, 2006.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Capital Reserve		Retained Earnings		Other Adjustment Items			Total	
	Paid-in Capital in		Treasury Stock Transaction	Capital Surplus from Gain on Disposal of Assets	Legal Reserve	(Accumulated Deficit) Retained Earnings	Cumulative Translation Adjustments		Treasury stock
	Common Stock	Excess of Par							
Balance at January 1, 2004	\$ 1,587,997	\$ 1,390,640	\$ -	\$ 221	\$ 103,066	(\$ 216,514)	\$ 24,123	(\$ 302,140)	\$ 2,587,393
Net loss for 2004	-	-	-	-	-	( 167,744)	-	-	( 167,744)
Acquisition of treasury stock	-	-	-	-	-	-	-	( 90,198)	( 90,198)
Retirement of treasury stock	( 48,100)	( 42,135)	17,111	-	-	-	-	73,124	-
Cumulative translation adjustments	-	-	-	-	-	-	( 2,313)	-	( 2,313)
Effect of change in ownership percentage of investee company	-	-	-	-	-	( 10,009)	-	-	( 10,009)
Balance at December 31, 2004	1,539,897	1,348,505	17,111	221	103,066	( 394,267)	21,810	( 319,214)	2,317,129
Paid-in capital compensation for accumulated deficit	-	( 291,201)	-	-	( 103,066)	394,267	-	-	-
Net loss for 2004	-	-	-	-	-	( 260,033)	-	-	( 260,033)
Acquisition of treasury stock	-	-	-	-	-	-	-	( 13,645)	( 13,645)
Retirement of treasury stock	( 21,110)	( 19,660)	10,051	-	-	-	-	30,719	-
Cumulative translation adjustments	-	-	-	-	-	-	( 602)	-	( 602)
Effect of change in ownership percentage of investee company	-	-	-	-	-	( 7,285)	-	-	( 7,285)
Balance at December 31, 2004	<u>\$ 1,518,787</u>	<u>\$ 1,037,644</u>	<u>\$ 27,162</u>	<u>\$ 221</u>	<u>\$ -</u>	<u>(\$ 267,318)</u>	<u>\$ 21,208</u>	<u>(\$ 302,140)</u>	<u>\$ 2,035,564</u>

The accompanying notes are an integral part of the financial statements.

See report of independent accountants dated March 15, 2006.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>2005</u>	<u>2004</u>
<u>Cash flows from operating activities</u>		
Net loss	(\$ 260,033)	(\$ 167,744)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on disposal of investments	( 9,630)	( 8,577)
Provision for (reversion of) bad debts expense and sales returns	11,517	( 15,008)
(Recovery of) provision for decline in market value and obsolescence on inventories and write off	( 863)	( 4,040)
Depreciation and amortization	203,423	177,698
Loss on disposal of property, plant and equipment	466	149
Investment loss accounted for under equity method	363,870	264,180
Other investment loss	14,295	68,095
Loss on disposal of deferred charges	39,941	283,472
Loss on disposal of other intangible assets	-	38,298
Loss on disposal of goodwill	36,162	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Notes receivable – third parties	( 14,185)	61,569
Notes receivable – related parties	( 2,483)	-
Accounts receivable – third parties	18,060	( 2,172)
Accounts receivable – related parties	467	( 1,842)
Other receivables – third parties	( 94,735)	( 124,223)
Other receivables – related parties	( 10,947)	( 27,986)
Inventories	( 4,191)	2,098
Prepaid expenses	3,866	10,849
Deferred income tax assets	39,534	( 111,611)
Notes payable	13,935	( 9,484)
Notes payable – related parties	88,900	-
Accounts payable	20,598	6,567
Income tax payable	1,790	13,566
Accrued expenses	26,671	27,300
Other payables	16,615	( 7,725)
Other payable-related parties	( 38,262)	167,033
Unearned revenue collected in advance	( 35,218)	46,653
Other current liabilities	( 644)	( 559)
Accrued pension liabilities	1,523	3,245
Net cash provided by operating activities	<u>430,442</u>	<u>689,801</u>

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31,  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>2005</u>	<u>2004</u>
<u>Cash flows from investing activities</u>		
Increase in short-term investments	(\$ 2,882,700)	(\$ 3,123,813)
Proceeds from disposal of short - term investments	2,892,330	3,132,390
Increase (decrease) in pledged assets, net	( 30,000)	15,000
Proceeds from disposal of property, plant and equipment	3,579	3,353
Increase in subsidiary capital infusion	( 271,408)	( 278,256)
Increase in acquisition of subsidiaries	-	( 221,292)
Proceeds from disposal of long-term investments	-	12,116
Return for liquidation of subsidiaries	-	4,045
Acquisition of property, plant and equipment	( 154,125)	( 73,221)
Increase in deferred charges	( 114,912)	( 103,731)
Recovery from operation rights	-	37,007
Decrease in refundable deposits, net	2,589	4,578
Net cash used in investing activities	<u>( 554,647)</u>	<u>( 591,824)</u>
<u>Cash flows from financing activities</u>		
Increase (decrease) in short-term loans, net	30,000	( 100,000)
Increase in long-term loans	96,355	8,057
Decrease in long-term notes payable, net	-	( 10,687)
Increase (decrease) in guarantee deposits	8	( 494)
Purchase of treasury stock	( 13,645)	( 90,198)
Net cash provided by (used in) financing activities	<u>112,718</u>	<u>( 193,322)</u>
Net decrease in cash and cash equivalents	( 11,487)	( 95,345)
Cash and cash equivalents at beginning of year	<u>757,625</u>	<u>852,970</u>
Cash and cash equivalents at end of year	<u>\$ 746,138</u>	<u>\$ 757,625</u>
<u>Supplemental disclosure of cash flow information</u>		
Cash paid during the year for:		
Interest	<u>\$ 9,851</u>	<u>\$ 6,949</u>
Income taxes	<u>\$ 14,678</u>	<u>\$ 5,574</u>
<u>Cash paid for the acquisition of property, plant and equipment:</u>		
Property, plant and equipment acquired	\$ 151,835	\$ 77,740
Less: Payable-ending	( 2,594)	( 4,884)
Add: Payable-beginning	4,884	365
Cash paid	<u>\$ 154,125</u>	<u>\$ 73,221</u>
<u>The related fair market values of assets and liabilities of the subsidiary acquired are as follows</u>		
Cash and bank deposits	\$ -	\$ 93,096
Securities	-	15,581
Other current assets	-	171,020
Property, plant and equipment	-	49,455
Other assets	-	14,967
Goodwill	-	59,901
Current liabilities	-	( 128,874)
Long-term liabilities	-	( 13,480)
Minority interest	-	( 40,374)
Cash paid for the purchase of subsidiary	<u>\$ -</u>	<u>\$ 221,292</u>

The accompanying notes are an integral part of the financial statements.

See report of independent accountants dated March 15, 2006.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,

EXCEPT AS INDICATED OTHERWISE

1. HISTORY AND ORGANIZATION

Gamania Digital Entertainment Co., Ltd. (the Company) was incorporated in June 1995 under the provisions of the Company Law of the Republic of China (R.O.C.) as a company limited by shares. As of December 31, 2005, the total authorized shares of common stock was \$2,500,000 consisted of 250 million shares of common stock (including 15 million shares of employee stock options), at par value NT\$10 (dollars) per share and issued and outstanding capital was \$1,518,787. The Company engages in software services, TV programming and magazine publications. As of December 31, 2005, the Company had 546 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying non-consolidated financial statements were prepared in conformity with the “Rules Governing Preparation of the Financial Statements of Securities Issuers” and generally accepted accounting principles in the Republic of China. Significant accounting policies are summarized as follows:

(1) Foreign currency transactions

The accounts of the Company are maintained in New Taiwan dollars. Transactions arising in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses are included in the current year’s net income.

(2) Short-term investments

Short-term investments are stated at the lower of cost or market value; cost is determined using the weighted average method. The market value of listed equity securities and closed-end mutual funds are determined based on average closing prices of the last month before the balance sheet date. The market value of open-end mutual funds is determined based on the net asset value as of the balance sheet date.

(3) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on an evaluation of the collectibility of ending balances of notes receivable, accounts receivable and other receivables (including balances from related parties), taking into account the aging analysis of receivables.

(4) Inventories

Inventories are stated at the lower of cost or market value based on the aggregate value method. Market value is determined using the net realizable value. Cost is determined using the weighted average method. Allowance for loss is provided on obsolete inventories.

(5) Long-term investments

A) Long-term investments are stated at the lower of cost or market value for listed companies and at cost for unlisted companies, if the ratio of the Company's voting rights in the investee company is below 20% or if the Company has no ability to exercise significant influence in the management of the investee company. Valuation allowance for unrealized loss under this method is shown under stockholders' equity. When it becomes evidently clear that there has been a permanent impairment in value, and the probability of recovery is unlikely, loss is recognized in the current year's operating results.

B) Long-term investments in which the Company owns at least 20% of the investee company's voting rights, or has the ability to exercise significant influence on the investee company, are accounted for under the equity method. The excess of investment cost over the underlying equity in net assets of the investee companies at the date of investment is amortized at 5 years.

- C) Long-term investments in foreign investee companies accounted for under the equity method and denominated in foreign currency are translated into New Taiwan dollars at the exchange rate prevailing at the balance sheet date. The unrealized exchange loss resulting from translation is deferred in the cumulative translation adjustment account in the stockholders' equity.
  - D) The capital reserve and long-term investment amounts are adjusted by the variance between the investment cost and net assets of the investee due to the disproportionate acquisition or decrease of shares in connection with the capital increase or decrease by the investee company. If the balance of capital reserve from long-term investment is not sufficient, then retained earnings is debited.
  - E) Effective on July 1, 2005, the Company adopted the revised R.O.C. SFAS No. 7 "Consolidated Financial Statements". Under SFAS No. 7, all majority owned subsidiaries and controlled entities are consolidated when the company and its subsidiaries own more than 50%. Restatement of prior years' consolidated financial statement is not required.
  - F) Details on assets impairment of long-term investment accounted for under the equity method are listed in Note 2(9).
- (6) Property, plant and equipment
- A) Depreciation is provided on the straight-line method using the estimated useful lives of the assets plus one year as salvage value, except for leasehold improvements, which is based on the shorter of the contract period or the life for the asset. The estimated useful lives are 55 years for buildings and 3 to 5 years for the other property, plant and equipment.
  - B) When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in current non-operating income (expense).
  - C) Major renewals or betterments are capitalized. Maintenance and repairs are charged to expense as incurred.
  - D) Details on assets impairment are listed in Note 2(9).

(7) Deferred charges

- A) Cost of software and copyrights are capitalized and amortized under the straight-line basis over the estimated useful lives.
- B) Royalties payments for operating online game software and is capitalized and amortized based actual units of play.
- C) Detail on assets impairment are listed in Note 2(9).

(8) Other intangible asset

- A) Other intangible asset consists primarily of prepayments technology fee and is amortized over one year.
- B) Detail on assets impairment are listed in Note 2(9).

(9) Impairment of assets

- A) Impairments loss is recognized when recoverable amount is below the book value due to changes of environment or occurrences of some events. Recoverable amounts is the higher of fair value less cost to sell or value in use of an asset. Fair value less cost to sell is the selling price of an asset in an arm's length transaction between knowledgeable and willing parties, less the cost of disposal. Value in use is present value of the future cash flow expected to be derived from an asset.
- B) If there is an indication that an asset has recovered its value of the impairment loss recognized in prior period, a gain is recognized to the extent of the impairment loss recognized. No recovery in impairment loss is recognized in goodwill.

(10) Employee stock option plan

The cost of employee stock option plan is determined using the "intrinsic value method". In addition, the Company discloses the pro forma net income and earnings per share as if the "fair-value-based method" has been adopted.

(11) Deferred Income tax assets and income tax

- A) Income tax is provided based on accounting income after adjusting for permanent differences. The provision for income tax includes deferred income tax resulting from items reported in different periods for tax and financial reporting purposes. Deferred income tax assets or liabilities are further classified into current and non-current items based on the classifications of the related assets or liabilities or on the expected reversal date of the temporary differences and are presented on the financial statements as net balance. Valuation allowance for deferred income tax assets is recognized if it is more likely than not that the tax benefits will not be realized.

- B) Tax credits resulting from equipment purchase, technology acquisition, research and development expenditure, training expense and long-term equity investment, etc. are recognized as current income tax benefit when it incurred.
- C) Over or under provision of prior years' income tax liabilities is included in the current year's income tax expense.
- D) According to the Taiwan imputation tax system, and undistributed current earnings of a company derived on or after January 1, 1998 is subject to an additional 10% corporate income tax if the earnings are not distributed before a specific time. This 10% additional corporate income tax is recorded as income tax expense in the period the stockholders approved a resolution to retain the earnings.

(12) Retirement plan

- A) Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. The net periodic pension costs include service cost, interest cost, expected return on plan assets, unrecognized net transition obligation and amortization of gains or losses on plan assets. Unrecognized net transition obligation is amortized on a straight-line basis over 15 years.
- B) Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

(13) Treasury Stock

- A) Treasury stocks acquired are stated at cost using the weighted average method.
- B) Upon disposal, the related gain is credited to “capital reserve-treasury stock transaction” and any loss is offset against this capital reserve account. However, when the balance of this capital reserve account is insufficient to offset the loss, then the remaining amount is charged against retained earnings.
- C) Upon registration of cancellation, except the book value offset sum of “common stock ” and “capital reserve-additional paid-in”, the related gain is credited to “capital reserve-treasury stock transaction” and any loss is offset against this capital reserve account. However, when the balance of this capital reserve account is insufficient to offset the loss, then the remaining amount is charged against retained earnings.

(14) Earnings per share

- A) The computation of earnings per share is as follows:

Basic earnings per share: net income divided by the weighted average number of shares outstanding during the period.

Diluted earnings per share: the computation is the same as basic earnings per share, except that the potential dilutive shares were assumed to have been converted to common stock at the beginning of the period and net income was adjusted by the amount associated with the conversion.

- B) The potential dilutive shares are employee stock options. The Company adopted the “treasury stock method” in computing the dilutive affect of the employee stock options.

(15) Revenue, costs and expenses

- A) Revenue from prepaid cards for on-line game is deferred and is recognized based on points consumed.

- B) Revenue from software and other merchandise is recognized upon sale and delivery of goods to retailers.

- C) Sales return is estimated based on percentage of sales.

- D) Costs and expenses are recognized as incurred.

(16) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenue, cost of revenue and expenses reported during the period. Actual results could differ from those estimates.

3. CHANGES IN ACCOUNTING PRINCIPLES

- (1) In accordance with the newly issued accounting standard for employee stock option by Accounting Research Foundation, the Company adopted the “intrinsic value method” to account for the stock options after January 1, 2004. The adoption of newly issued accounting principle had no significant impact on the 2004 financial statements.

(2) Effective in the fourth quarter of 2004, the Company adopted the newly issued R.O.C. Statement of Financial Accounting Standards No. 35, "Accounting for Assets Impairment". As a result of this change in accounting principle, the net income and total assets was decreased by \$321,770 in 2004, respectively. The adoption of the new accounting principle had no significant effect on the financial statements for the year ended December 31, 2005.

#### 4. DESCRIPTION OF SIGNIFICANT ACCOUNTS

##### (1) Cash and cash equivalents

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Cash on hand	\$ 443	\$ 275
Cash in banks	<u>745,695</u>	<u>757,350</u>
	<u>\$ 746,138</u>	<u>\$ 757,625</u>

##### (2) Notes receivable - net

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Notes receivable	\$ 84,832	\$ 70,647
Less: Allowance for doubtful accounts	( <u>16</u> )	( <u>16</u> )
	<u>\$ 84,816</u>	<u>\$ 70,631</u>

##### (3) Accounts receivables - net

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Accounts receivables	\$ 550,745	\$ 568,805
Less: Allowance for doubtful accounts	( 36,900 )	( 42,390 )
Allowance for sales returns	( <u>14,052</u> )	( <u>2,535</u> )
	<u>\$ 499,793</u>	<u>\$ 523,880</u>

(4) Other receivables - net

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Commissions receivable (Note)	\$ 223,226	\$ 127,325
Others	107	1,273
Less: Allowance for doubtful account	( <u>14,881</u> )	( <u>9,391</u> )
	<u>\$ 208,452</u>	<u>\$ 119,207</u>

(Note) Commissions receivable is generated from sales of subsidiary's on-line games and peripheral products.

(5) Inventories

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Inventories	\$ 34,012	\$ 29,821
Less: Reserve for loss on decline in market value and obsolescence	( <u>19,586</u> )	( <u>20,449</u> )
	<u>\$ 14,426</u>	<u>\$ 9,372</u>

(6) Long-term investments

A) List of long-term investments

<u>Name of investee</u>	<u>December 31, 2005</u>			<u>Investment (loss) gain</u>
	<u>Original cost</u>	<u>Ownership Percentage</u>	<u>Balance</u>	
Accounted for under the equity method:				
Gamania Holdings Ltd.	\$ 892,188	100%	\$ 107,154	(\$ 147,815)
Gamania Korea Co., Ltd.	80,189	100%	13,793	( 119,265)
Alibangbang Digital Games Co., Ltd.	90,000	95.56%	19,221	( 29,762)
NC Taiwan Co., Ltd.	71,400	51%	111,007	42,535
Taiwan Index Co., Ltd.	208,200	69.40%	104,577	( 61,962)
Gamania Asia investment Co., Ltd.	190,000	100%	136,776	( 42,849)
Soga Interactive Co., Ltd.	28,000	40%	23,504	( 4,010)
Playcoo Co.	40,000	30.30%	39,452	( 548)
Gamania Digital Entertainment Labuan Holdings, Ltd.	329	100%	170	( 194)
	<u>1,600,306</u>		<u>555,654</u>	<u>( 363,870)</u>
Accounted for under the cost method:				
Buybooks Digital Technology Corp. Ltd.	2,995	3.74%	-	( 2,995)
ECD Interactive Corporation	34,200	18.55%	2,700	( 2,500)
Joyon Entertainment Co., Ltd.	9,851	11.47%	9,851	-
RAVA Ideologie Inc.	8,800	8.69%	-	( 8,800)
Zona Inc.	<u>52,095</u>	10.34%	<u>-</u>	<u>-</u>
	<u>107,941</u>		<u>12,551</u>	<u>( 14,295)</u>
			568,205	
Less : Accumulated impairment			( <u>36,162</u> )	
Total	<u>\$ 1,708,247</u>		<u>\$ 532,043</u>	<u>(\$ 378,165)</u>

Name of investee	December 31, 2004			2004 Investment (loss) gain
	Original cost	Ownership Percentage	Balance	
Accounted for under the equity method:				
Gamania Holdings Ltd.	\$ 815,442	100%	\$ 189,324	(\$ 173,131)
Gamania Korea Co., Ltd.	80,189	100%	127,765	( 20,369)
Mogamer Interactive Co., Ltd.	32,625	89.90%	-	( 697)
Clicklit Interactive Co., Ltd.	90,452	68.85%	-	( 621)
Alibangbang Digital Games Co., Ltd.	50,000	92%	11,063	( 22,790)
NC Taiwan Co., Ltd.	71,400	51%	68,472	6,884
Taiwan Index Co., Ltd.	208,200	69.40%	166,540	( 42,635)
Gamania Asia investment Co., Ltd.	90,000	100%	79,625	( 10,375)
Gamania Digital Entertainment Labuan Holdings, Ltd.	<u>67</u>	100%	<u>101</u>	<u>40</u>
	<u>1,438,375</u>		<u>642,890</u>	<u>( 263,694)</u>
Accounted for under the cost method:				
Buybooks Digital Technology Corp. Ltd.	2,995	3.74%	2,995	-
ECD Interactive Corporation	34,200	18.55%	5,200	( 16,000)
Joyon Entertainment Co., Ltd.	9,851	17.86%	9,851	-
RAVA Ideologie Inc.	8,800	8.69%	8,800	-
Zona Inc.	<u>52,095</u>	10.34%	<u>-</u>	<u>( 52,095)</u>
	<u>107,941</u>		<u>26,846</u>	<u>( 68,095)</u>
Prepayment for long-term investments:				
Soga Interactive Co., Ltd.	<u>13,600</u>		<u>13,114</u>	<u>( 486)</u>
Total	<u>\$ 1,559,916</u>		<u>\$ 682,850</u>	<u>(\$ 332,275)</u>

- B) Long-term investments in Gamania Korea Co., Ltd., , NC Taiwan Co., Ltd. , Taiwan Index Co., Ltd. , Gamania Asia Investment Co., Ltd., , Soga Interactive Co., Ltd. , Playcoo Co. , Gamania Digital Entertainment (H.K.) Co., Ltd. and Gamania Digital Entertainment (Japan) Co., Ltd., accounted for under the equity method, were based on financial statements audited by other auditors in 2005.
- C) Long-term investments in Gamania Korea Co., Ltd., , NC Taiwan Co., Ltd., , Taiwan Index Co., Ltd. , Gamania Asia Investment Co., Ltd. , Gamania Digital Entertainment (H.K.) Co., Ltd. and Gamania Digital Entertainment (Japan) Co., Ltd., accounted for under the equity method, were based on financial statements audited by other auditors in 2004.
- D) The related investment loss based on financial statements audited by other auditors amounts to \$207,289 and \$168,160 for 2005 and 2004, respectively. As of December 31, 2005 and 2004, the balance of these investments was \$492,774 and \$571,394, respectively.
- E) The related investment loss in Gamania Digital Entertainment Labuan Holdings, Ltd. and Soga Interactive Co., Ltd. were based on their unaudited financial statements in 2004 because their authorized shares of common stock are below \$30,000, operating revenues are below \$50,000 and did not consist 10% of the Company's operating revenues.
- F) The related investment loss in Gamania Digital Entertainment Labuan Holdings, Ltd. was based on their unaudited financial statements in 2005.
- G) Among those companies which are accounted for under the equity method, Mogamer interactive Co., Ltd. and Clicklit Interactive Co., Ltd. were liquidated in July, 2004. In addition, RAVA Ideologie Inc., investment accounted for under the cost method, began the liquidation process in September 2005 and the process has not been completed.
- H) The Company recognized a permanent impairment loss in Buybooks Digital Technology Corp. Ltd. , RAVA Ideologie Inc. and ECD Interactive Corporation, investments accounted for under the cost method, in the amounts of \$2,995, \$8,800 and \$2,500 in 2005, respectively.
- I) The Company recognized a permanent impairment loss in Zona Inc. and ECD Interactive Corporation, investments accounted for under the cost method, in the amounts of \$52,095 and \$16,000 in 2004, respectively.
- J) In 2004, Game Factory Co., Ltd was renamed as RAVA Ideologie Inc.
- K) As mentioned in above Gamania Korea Co., Ltd., Alibangbang Digital Games Co., Ltd. and Gamania Diginia Entertainment Labuan Holdings, Ltd.

are new consolidated subsidiaries of the consolidated statements for the year ended December 31, 2005. They were not consolidated in the year ended December 31, 2004 because they did not meet the related criteria for consolidation. Under Financial Accounting Standard No. 7 “Consolidated Financial Statements”, restatement of prior years’ consolidated financial statements is not required.

(7) Property, plant, and equipment

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
<u>Cost</u>		
Land	\$ 147,751	\$ 147,751
Buildings	151,961	144,548
Machinery and equipment	652,968	523,831
Transportation equipment	1,700	1,700
Computer and communication equipment	73,366	93,925
Leasehold improvements	63,771	81,861
Other equipment	<u>4,435</u>	<u>5,349</u>
	<u>1,095,952</u>	<u>998,965</u>
<u>Accumulated depreciation</u>		
Buildings	( 8,625)	( 5,660)
Machinery and equipment	( 338,852)	( 238,627)
Transportation equipment	( 1,086)	( 803)
Computer and communication equipment	( 54,004)	( 58,819)
Leasehold improvements	( 53,507)	( 58,073)
Other equipment	<u>( 3,744)</u>	<u>( 3,527)</u>
	<u>( 459,818)</u>	<u>( 365,509)</u>
	<u>\$ 636,134</u>	<u>\$ 633,456</u>

(8) Other intangible assets

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Prepayments for technology fee	\$ 38,298	\$ 38,298
Less: Accumulated impairment	<u>( 38,298)</u>	<u>( 38,298)</u>
	<u>\$ -</u>	<u>\$ -</u>

In the fourth quarter of 2004, the Company adopted the R.O.C Statement of Financial of Accounting Standards No. 35, “Accounting for Assets Impairment” and recognized a loss of \$38,298.

(9) Deferred charges

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Royalties payments	\$ 380,095	\$ 354,172
Unamortized expense	72,469	41,791
	<u>452,564</u>	<u>395,963</u>
Less: Accumulated impairment	( 323,413)	( 283,472)
	<u>\$ 129,151</u>	<u>\$ 112,491</u>

In the fourth quarter of 2004, the Company adopted R.O.C. Statement of Financial of Accounting Standards No. 35, "Accounting for Assets Impairment" and recognized a loss of \$39,941 and \$283,472 in 2005 and 2004, respectively.

(10) Assets impairment

The Company adopted the SFAS No. 35 "Accounting for Assets Impairment" at the beginning of the fourth quarter, 2004.

The details in 2005 are as follows :

	<u>Recognized in statement of income</u>	<u>Recognized in stockholders' equity</u>
Impairment loss-long-term investments	\$ 36,162	\$ -
Impairment loss-other assets -deferred charges	<u>39,941</u>	<u>-</u>
	<u>\$ 76,103</u>	<u>\$ -</u>
Recognition of impairment loss on other assets of investee	<u>\$ 100,507</u>	<u>\$ -</u>

The details in 2004 are as follows:

	<u>Recognized in statement of income</u>	<u>Recognized in stockholders' equity</u>
Impairment loss-other assets -deferred charges	\$ 283,472	\$ -
Impairment loss-other intangible assets	<u>38,298</u>	<u>-</u>
	<u>\$ 321,770</u>	<u>\$ -</u>

(11) Short-term loans

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Short-term bank loans	<u>\$ 30,000</u>	<u>\$ -</u>
Annual interest rates	<u>1.6596%</u>	<u>-</u>
Credit lines	<u>\$ 425,000</u>	<u>\$ 458,000</u>

(12) Long-term Loans

Financial Bank	Total Credit Lines	Period/Terms of Repayment	December 31,	
			2005	2004
International Bank of Taipei	\$ 49,000	03.28.2002 ~ 03.28.2017 Two year grace period, 52 equal quarterly installments starting from year 3	\$ 42,403	\$ 46,173
International Bank of Taipei	51,000	08.20.2002 ~ 08.20.2017 Two year grace period, 52 equal quarterly installments starting from year 3 (Note)	-	49,875
Chiao Tung Bank	200,000	08.30.2004 ~ 08.30.2007 Principal due on maturity	50,000	50,000
Chiao Tung Bank	200,000	12.31.2004 ~ 12.31.2007 Principal due on maturity	100,000	100,000
Chang Hwa Bank	150,000	02.14.2005 ~ 02.14.2009 First year grace period, 12 equal semi-annual installment starting from year 2	<u>150,000</u>	<u>-</u>
			342,403	246,048
Less: Current portion			( <u>28,769</u> )	( <u>56,230</u> )
			<u>\$313,634</u>	<u>\$189,818</u>

(Note) Principal repaid before due dates.

(13) Income tax payable

A) Income tax payable and income tax expense (benefit) are reconciled as follow:

	2005	2004
Current year income tax expense (benefit)	\$ 35,050	( \$ 101,232 )
Additional 10% corporate income tax on undistributed earnings	<u>19,002</u>	<u>11,192</u>
	54,052	( 90,040 )
Add (Less): Net change in deferred income tax ( assets	( 39,534 )	111,611
Prepaid income tax	( 41 )	( 42 )
Over (under) provision of prior year's income tax	<u>5,898</u>	( <u>2,944</u> )
Income tax payable	<u>\$ 20,375</u>	<u>\$ 18,585</u>

B) Deferred income tax assets (liabilities) are follows:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Deferred income tax assets-current	\$ 36,618	\$ 36,250
Deferred income tax assets (liabilities) – non-current-net	<u>49,494</u>	<u>89,396</u>
	<u>\$ 86,112</u>	<u>\$ 125,646</u>

C) The temporary differences and related income tax effects are as follows:

	<u>December 31,</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>Tax effect</u>	<u>Amount</u>	<u>Tax effect</u>
Current items:				
Over provision of allowance for bad debts	\$ 45,403	\$ 11,351	\$ 43,988	\$ 10,997
Allowance for loss on decline in market value and inventories obsolescence	20,284	5,071	20,449	5,112
Allowance for sales returns	14,052	3,513	2,535	634
Welfare expenses	1,083	270	3,515	879
Pension liability without disbursement	185	46	-	-
Investment tax credit		<u>16,367</u>		<u>18,628</u>
		<u>\$ 36,618</u>		<u>\$ 36,250</u>
Non-current items:				
Welfare expenses	\$ 1,000	\$ 250	\$ 83	\$ 21
Impairment losses	244,819	61,205	321,770	80,443
Reserve for foreign investment	( 219,236)	( 54,809)	( 163,608)	( 40,902)
Investment tax credit		<u>42,848</u>		<u>49,834</u>
		<u>\$ 49,494</u>		<u>\$ 89,396</u>

D) As of December 31, 2005 and 2004, the balance of shareholders account of deductible tax were as follows:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
The balance of shareholders account of deductible tax	<u>\$ 22,065</u>	<u>\$ 7,387</u>
2005 Estimated creditable tax ratio		<u>\$ -</u>
2004 Actual creditable tax ratio		<u>\$ -</u>

E) As of December 31, 2005 and 2004, the information regarding the undistributed earning is as follows:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
On or after January 1, 1998		
a. Earnings not subjected to 10% income tax	(\$ 260,033)	(\$ 167,744)
b. Earnings subjected to 10% income tax	( 7,285)	( 226,523)
	<u>(\$ 267,318)</u>	<u>(\$ 394,267)</u>

F) (a) As of December 31, 2005 the Company's income tax returns for the years through 2002 have been assessed and approved by the Tax Authority.

(b) The Company was assessed \$963 in additional tax for the year 1999, and in 2002 and 2003, the Company filed an appeal to contest the assessment. The Ministry of Finance has rendered an unfavorable judgment and the Company has prepaid all of the additional income tax, as well as, filed a second appeal to the High Administrative Court.

(c) The Tax Authority imposed additional tax and penalties amounting to \$26,293 on the Company's 2001 income tax return. The Company paid \$244 and is contesting the remaining balance and penalties imposed by the Tax Authority. The Company has filed for re-examination in April 2005.

(d) The Tax Authority imposed additional tax amounting to \$127,204 on the Company's 2002 income tax return. The Company paid \$4,050 and is contesting the remaining balance imposed by the Tax Authority. The Company has filed for re-examination in February 2006.

G) The two incremental income associated with the Company's investments in the development of its PC-based and internet-based computer games are exempt from income tax for five years (2001 to 2005 and 2002 to 2006). The tax exempt income amounted to \$38,670 for the year ended December 31, 2005.

H) As of December 31, 2005, according to "Income Tax Law" and "Statute for

Upgrading Industries,” the Company had investment tax credits in the amount of \$59,215 to offset taxable income for the next four years. The details are as follows:

<u>Deductible item</u>	<u>Total credits</u>	<u>Un-utilized balance</u>	<u>Year of expiration</u>
Research and development expenditures	\$ 13,843	\$ 13,843	2008
“	16,697	16,697	2009
Machinery and equipment	23,468	22,074	2007
“	2,195	2,195	2008
“	1,000	1,000	2009
Employee trainings	1,342	1,342	2008
“	<u>2,064</u>	<u>2,064</u>	2009
	<u>\$ 60,609</u>	<u>\$ 59,215</u>	

(14) Accrued pension liability

A) The Company has a non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees before the implementation of the Labor Pension Act on July 1, 2005. Under the defined benefit plan, two units are accrued for each year of service for the first 15 years and one unit for each units year thereafter with a maximum of 45 units. Retirement benefits are based on the number of units accrued and the average monthly salaries and wages of the last six months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees’ monthly salaries and wages to the retirement fund deposited with Central Trust of China under the name of the independent retirement fund committee. For the year ended December 31, 2005 and 2004, net pension costs recognized by the Company under the defined benefit plan amounted to \$4,992 and \$7,473. The balance of the retirement fund deposited with Central Trust of China was \$19,358 and \$14,407 as of December 31, 2005 and 2004. The fund balances are not reflected in the financial statements.

B) Effective July 1st 2005, in accordance with Labor Pension Act, the Company adopted a defined contribution pension plan (New Plan). Under the New Plan, employees have the option to join the New Plan and the Company contributes monthly an amount of based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts deposited with the Bureau of Labor Insurance. Benefits accrued under the New Plan are portable when the employment is terminated. The net pension costs recognized by the Company under the defined contribution plan for the year ended December 31, 2005 amounted to \$7,963.

C) The related assumptions used to calculate the periodic pension cost were as follows:

	<u>2005</u>	<u>2004</u>
Discount rate	3.75%	3.75%
Expected return rate on plan assets	2.75%	2.75%
The average ratio of salary increase	3.00%	3.00%

D) The reconciliation of the funded status to accrued pension liability are summarized as follows:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Vested benefit obligation	\$ -	\$ -
Non-vested benefit obligation	( 12,796)	( 12,078)
Accumulated benefit obligation	( 12,796)	( 12,078)
Additional benefits based on future salary increases	( 12,184)	( 12,182)
Projected benefit obligation	( 24,980)	( 24,260)
Fair value of plan assets	<u>19,358</u>	<u>14,407</u>
Funded status	( 5,622)	( 9,853)
Unrecognized transition obligation	279	310
Unrecognized net gain or loss	<u>1,912</u>	<u>6,298</u>
Accrued pension liability – old policy	( 3,431)	( 3,245)
Accrued pension liability – new policy	<u>( 1,337)</u>	<u>-</u>
Total accrued pension liability	<u>(\$ 4,768)</u>	<u>(\$ 3,245)</u>
Vested obligation	<u>\$ -</u>	<u>\$ -</u>

The components of net pension cost were as follows:

	<u>2005</u>	<u>2004</u>
Service cost	\$ 4,125	\$ 6,821
Interest cost	910	555
Expected return on plan assets	( 396)	( 287)
Unrecognized transition obligation	31	31
Unrecognized net gain or loss	<u>322</u>	<u>353</u>
Net pension cost	<u>\$ 4,992</u>	<u>\$ 7,473</u>

(15) Common Stock

On March 18, 2005 and August 30, 2005, the Company's Board of Directors adopted resolution to decrease its paid-in capital to \$1,518,787 by retiring 1,072,000 shares and 1,039,000 shares of treasury stocks, respectively.

(16) Capital reserve

Share premium from the issuance of new shares and donations may be used to increase capital stock if the Company has surplus in retained earnings. The amount that can be transferred to capital stock each year is limited to 10% of this balance. Other capital reserves can only be used to cover the accumulated deficit when the legal reserve is insufficient to cover the accumulated deficit.

(17) Legal reserve

Pursuant to the R.O.C Company Law, 10% of the annual after-tax net income of the Company, after covering accumulated losses, must be appropriated as legal reserve until its total amount equals the issued capital stock. Legal reserve can only be used to cover accumulated losses or to increase capital. Legal reserve can be used to increase capital only if the accumulated amount of legal reserve is more than 50% of paid-in capital, and the amount is limited to 50% of its balance.

(18) Undistributed earnings

- A) As stipulated in the Company's Articles of Incorporation, the current earnings, if any, shall be distributed in the following order:
- a. Pay for taxes and duties.
  - b. Covering prior years' accumulated deficit, if any.
  - c. After deducting items a and b, 10% of the remaining amount is appropriated as legal reserve.
  - d. In addition to the amount appropriated for legal reserve, the Company may appropriate an amount equal to the negative items in the stockholders equity from retained earnings as special reserve.
  - e. Interest on capital.
  - f. After deducting items a to e, 10% ~ 15% of the remaining earnings is appropriated as employees' bonuses and up to 2% as remuneration to directors and supervisors.
  - g. The remaining amount is to be distributed to stockholders in accordance with the resolution adopted at the stockholders' meeting.
- B) The Taiwan imputation tax system requires that any undistributed current earnings of a company derived on or after January 1, 1998 be subject to an additional corporate income tax if the earnings are not distributed before a specific time. This 10% additional tax on undistributed earnings paid by the company may be used as tax credit by shareholders, including foreign shareholders, against the withholding tax on dividends. In addition, the domestic shareholder can claim a proportionate share in the company's corporate income tax as tax credit against its individual income tax liability effective 1998.
- C) As of December 31, 2005, the Company is in an accumulated loss position and the loss has not been recognized in the shareholder's meeting till March 15, 2006. For current status of the resolution, please visit the Taiwan Stock Exchange website.
- D) As of December 31, 2004, the Company is in a deficit position. The Company's Board of Directors has adopted a resolution not to distribute

dividends, employee bonus, and directors' remuneration. In addition, the Board adopted a resolution to use \$103,066 of legal reserve and \$291,201 of capital reserve to cover the accumulated deficit of \$394,267.

E) For current status on these resolutions, please visit the Taiwan Stock Exchange website.

(19) Loss per share

	2005		Loss per share (Note)	
	Amount	Weighted average outstanding common shares	Before income tax	After income tax
Loss per share:				
Net loss	(\$ 205,981) (\$ 260,033)	147,297	(\$ 1.40)	(\$ 1.77)

As of December 31, 2005, the outstanding employee stock option has no dilutive effect.

	2004		Loss per share (Note)	
	Amount	Weighted average outstanding common shares	Before income tax	After income tax
Loss per share:				
Net loss	(\$ 257,784) (\$ 167,744)	152,286	(\$ 1.69)	(\$ 1.10)

As of December 31, 2004, the outstanding employee stock option has no dilutive effect.

Note : In New Taiwan Dollars.

(20) Treasury Stock

A) Purpose

	2005			
	Beginning shares (Note)	Additions	Disposals	Ending shares (Note)
Employees stock options	\$ 5,000	\$ -	\$ -	\$ 5,000
To enhance Company's	1,072	1,039	( 2,111)	-

credit and shareholders'  
equity

	<u>\$ 6,072</u>	<u>\$ 1,039</u>	<u>\$ 2,111</u>	<u>\$ 5,000</u>
	<u>2004</u>			
<u>Purpose</u>	<u>Beginning shares (Note)</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending shares (Note)</u>
Employees stock options	5,000	-	-	5,000
To enhance Company's credit and shareholders' equity	<u>-</u>	<u>5,882</u>	<u>( 4,810)</u>	<u>1,072</u>
	<u>5,000</u>	<u>5,882</u>	<u>( 4,810)</u>	<u>\$ 6,072</u>

(Note) Amount in thousands of shares.

B) The maximum and ending balances of treasury stock for the year ended December 31, 2005 and 2004 are as follows:

<u>December 31, 2005</u>		<u>December 31, 2004</u>	
<u>Maximum balance</u>	<u>Ending balance</u>	<u>Maximum balance</u>	<u>Ending balance</u>
<u>\$ 319,214</u>	<u>\$ 302,140</u>	<u>\$ 392,338</u>	<u>\$ 319,214</u>

C) Treasury stocks purchased on April 18, 2005 and October 4, 2005 were retired. As a result, the additional paid in capital-treasury stock transaction was increased by \$10,051 and the additional paid in capital-in excess of par was decreased by \$19,660.

D) Treasury stocks purchased on October 26, 2004 were retired. As a result, the additional paid in capital-treasury stock transaction was increased by \$17,111 and the additional paid in capital-in excess of par was decreased by \$42,135.

E) According to the R.O.C Security Exchange Act, the percentage of the number of shares of treasury stock may not exceed 10% of the total shares of common stock issued by the Company and the total amount of treasury stock may not exceed the total amount of retained earnings, paid-in capital in excess of par value, and realized capital reserve.

F) According to the R.O.C Security Exchange Act, treasury stock held by the Company may not be pledged, and shall bear no rights of shareholders until reissued.

G) According to the R.O.C. Security Exchange Act, treasury shares for the purpose of enhancing Company's credit and shareholder's equity not reissued within three years shall be retired, all other purpose treasury stock shall be reissued within six months of acquisition.

(21) Employee Stock Option Plan

A) On December 25, 2003, the board of directors approved an employee stock option plan. The program involves the issuance of 10,000 units of option with one unit equal to one thousand shares of common stock. When the contributed capital changes as a result of the issuance of new shares of common stock, the option price will be adjusted based on a predetermined formula. The stock options has a exercise period of six years. Employees will be able to exercise these options after two years under the policy in accordance with the procedures of the employee stock option plan.

B) The units and weighted average exercise price of the stock options for the year periods ended December 31, 2005 and 2004 are as follows:

	<u>2005</u>		<u>2004</u>	
	Units	Weighted- average exercise price	Units	Weighted-average exercise price
	<u>(in thousands)</u>	<u>(in dollars) (Note)</u>	<u>(in thousands)</u>	<u>(in dollars) (Note)</u>
Stock Options				
Beginning balance (Note)	10,000	\$ 32.8	-	\$ -
Number of options granted	-	-	10,000	32.8
Adjustment due to issuance of stock dividends	-	-	-	-
Exercised	-	-	-	-
Cancelled	<u>-</u>	-	<u>-</u>	-
Ending balance (Note)	<u>10,000</u>	\$ 32.8	<u>10,000</u>	\$ 32.8
Exercisable at the period of the year	<u>-</u>		<u>-</u>	
Authorized but unissued at the period of the year	<u>-</u>		<u>-</u>	

(Note) The exercise price has been adjusted in accordance with the terms of the plan.

C) As of December 31, 2005 and 2004, the details of outstanding stock options are as follows:

2005						
Outstanding stock options				Exercisable stock options		
Exercise price (in dollars)	Units (in thousands)	Weighted- average remaining life (year)	Weighted- average exercise price (in dollars)	Units (in thousands)	Weighted- average exercise price (in dollars)	
\$ 32.80	10,000	4.08	\$ 32.80	-	\$ -	
2004						
Outstanding stock options				Exercisable stock options		
Exercise price (in dollars)	Units (in thousands)	Weighted- average remaining life (year)	Weighted- average exercise price (in dollars)	Units (in thousands)	Weighted- average exercise price (in dollars)	
\$ 32.80	10,000	5.08	\$ 32.80	-	\$ -	

D) The pro forma information as if the “fair-value method” has been adopted is as follows:

(a) Model: The Black-Scholes model.

(b) Assumptions:

<u>Black-Scholes model assumptions</u>	<u>2005</u>		<u>2004</u>	
Dividend yield	0%		0%	
Volatility	62.02%		62.02%	
Risk-free interest rate	1.95%		1.95%	
Expected life of the option	6 years		6 years	
Exercise price	\$	32.8 (in dollars)	\$	32.8 (in dollars)
Amortization period	2~3 years		2~3 years	

(c) Result of evaluation:

	<u>2005</u>		<u>2004</u>	
Weighted average fair value of options granted to employees	\$	17.4656 (in dollars)	\$	17.4656 (in dollars)

The compensation cost under “fair value method”	35,296	57,170
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(d) Pro forma information:

		<u>2005</u>	<u>2004</u>
Net income	Net loss	(\$ 260,033)	(\$ 167,744)
	Pro forma net loss	( 295,329)	( 224,914)
Basic earnings per share	EPS	( 1.77) (in dollars)	( 1.10) (in dollars)
	Pro forma EPS	( 2.00) (in dollars)	( 1.48) (in dollars)
Diluted earnings per share	EPS	( 1.77) (in dollars)	( 1.10) (in dollars)
	Pro forma EPS	( 2.00) (in dollars)	( 1.48) (in dollars)

(22) Personnel, Depreciation and Amortization Expenses

	<u>2005</u>	<u>2004</u>
Personnel expenses		
Salaries	\$ 295,968	\$ 261,944
Labor and health insurances	22,121	20,565
Pension	12,955	7,473
Other	<u>19,328</u>	<u>17,098</u>
	<u>\$ 350,372</u>	<u>\$ 307,080</u>
Depreciation expense	\$ 145,094	\$ 131,065
Amortization expense	<u>58,329</u>	<u>46,633</u>
	<u>\$ 203,423</u>	<u>\$ 177,698</u>

## 5. RELATED PARTY TRANSACTIONS

### (1) Names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Gamania Digital Entertainment (Japan) Co., Ltd. (Gamania (Japan))	A subsidiary of the Company
Gamania China Holdings Ltd. (G.C.H)	"
Gamania Digital Entertainment (H.K.) Co., Ltd. (Gamania (H.K.))	"
Gamania Korea Co., Ltd. (Gamania (Korea))	"
Gamania Holdings Ltd. (G.H)	"
Gamania International Holdings Ltd. (G.I.H)	"
Gamania Sino Holdings Ltd. (Sino)	"
NC Taiwan Co., Ltd. (NC Taiwan)	"
Alibangbang Digital Games Co., Ltd. (Alibangbang)	"
Gamania Digital Entertainment (Beijing) Co., Ltd. (Gamania (Beijing))	"
Taiwan Index Co., Ltd. (Taiwan Index)	"
Gamania Asia investment Co., Ltd. (Gamania Asia)	"
Gamania Digital Entertainment Labuan Holdings, Ltd. (Gamania (Labuan))	"
Soga Interactive Co., Ltd. (Soga)	Investee accounted for under equity method
Playcoo Co.	"

### (2) Significant transactions with related parties

#### A) Service revenue

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of net service revenue</u>	<u>Amount</u>	<u>% of net service revenue</u>
NC Taiwan	\$ 67,701	48	\$ 88,906	74
Taiwan Index	60,126	43	31,738	26
	<u>\$ 127,827</u>	<u>91</u>	<u>\$ 120,644</u>	<u>100</u>

The terms and prices of sales were negotiated in consideration of different factors including products, cost and competitors.

B) Royalty revenue

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of net sales revenue</u>	<u>Amount</u>	<u>% of net sales revenue</u>
Gamania (H.K.)	\$ 3,432	92	\$ 4,157	100

Collected royalty amounts from subsidiaries for the on-line game.

C) Other operating revenue

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of net sales revenue</u>	<u>Amount</u>	<u>% of net sales revenue</u>
Gamania (Japan)	\$ 2,180	9	\$ -	-
Gamania (H.K.)	1,028	4	-	-
Gamania (Beijing)	475	2	-	-
Taiwan Index	36	-	-	-
	<u>\$ 3,719</u>	<u>15</u>	<u>\$ -</u>	<u>-</u>

Collected from subsidiaries for services revenue.

D) Purchases

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of net purchase</u>	<u>Amount</u>	<u>% of net purchase</u>
Taiwan Index	\$ 35,924	16	\$ 29,764	11
NC Taiwan	25,910	11	93,862	35
	<u>\$ 61,834</u>	<u>27</u>	<u>\$ 123,626</u>	<u>46</u>

Purchases consist of sales of products incurred on behalf of the subsidiaries.

E) Publishing expense

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of net operating cost</u>	<u>Amount</u>	<u>% of net operating cost</u>
NC Taiwan	\$ 3,253	5	\$ -	-
Taiwan Index	293	-	-	-
	<u>\$ 3,546</u>	<u>5</u>	<u>\$ -</u>	<u>-</u>

Amount represents royalties for publishing right.

F) Advertising expense

	2005		2004	
	<u>Amount</u>	% of net	<u>Amount</u>	% of net
		<u>operating expense</u>		<u>operating expense</u>
Taiwan Index	\$ 5,177	6	\$ -	-

The term and prices of advertising expense were negotiated in contract of different factors.

G) Rent revenue

	2005		2004	
	<u>Amount</u>	% of net	<u>Amount</u>	% of net
		<u>rent revenue</u>		<u>rent revenue</u>
Taiwan Index	\$ 16,268	50	\$ 1,951	20
NC Taiwan	5,344	17	5,863	61
Gamania (Korea)	4,509	14	-	-
Gamania (Beijing)	4,410	14	-	-
Gamania (H.K.)	1,464	4	-	-
Other	-	-	36	-
	<u>\$ 31,995</u>	<u>99</u>	<u>\$ 7,850</u>	<u>81</u>

Payments are collected with monthly notes receivables.

H) Other revenue

	2005		2004	
	<u>Amount</u>	% of net	<u>Amount</u>	% of net
		<u>other revenue</u>		<u>other revenue</u>
Taiwan Index	\$ 463	10	\$ -	-
Other	46	1	-	-
	<u>\$ 509</u>	<u>11</u>	<u>\$ -</u>	<u>-</u>

Collected from subsidiaries for services revenue.

I) Note receivable

	December 31, 2005		December 31, 2004	
	<u>Amount</u>	% of net	<u>Amount</u>	% of net
		<u>note receivable</u>		<u>note receivable</u>
NC Taiwan	\$ 1,790	2	\$ -	-
Others	693	1	-	-
	<u>\$ 2,483</u>	<u>3</u>	<u>\$ -</u>	<u>-</u>

Note receivable are receivables from subsidiaries for providing customer services and sale of goods.

J) Accounts receivable

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Amount</u>	% of net	<u>Amount</u>	% of net
		<u>accounts receivable</u>		<u>accounts receivable</u>
Taiwan Index	\$ 756	-	\$ -	-
Gamania (Japan) (Note)	2,011	-	266	-
Gamania (H.K.)	129	-	1,017	-
Gamania (Beijing)	38	-	162	-
NC Taiwan	-	-	397	-
	2,934	-	1,842	-
Less:Other receivables	( 1,559)	-	-	-
	<u>\$ 1,375</u>	<u>-</u>	<u>\$ 1,842</u>	<u>-</u>

Account receivable are receivables from subsidiaries for providing customer services and sales of goods.

(Note) The overdue accounts receivable from royalty and service are reclassified to other receivables.

K) Other receivables

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Amount</u>	% of net	<u>Amount</u>	% of net
		<u>other receivables</u>		<u>other receivables</u>
Gamania (Japan)	\$ 17,769	7	\$ 2,743	2
Gamania (H.K.)	11,951	5	14,917	10
NC Taiwan	5,468	2	4,282	3
Gamania (Beijing)	4,487	2	1,437	1
Gamania (Korea)	4,449	2	355	-
Soga	479	-	11,210	7
Others	2,332	1	2,603	2
	<u>\$ 46,935</u>	<u>19</u>	<u>\$ 37,547</u>	<u>25</u>

Other receivables consist of payments for the purchase of materials, miscellaneous expenses, machinery and equipment on behalf of related parties.

L) Other receivable-financial

	<u>December 31, 2005</u>			
	<u>The Highest Balance</u>	<u>Ending Balance</u>	<u>Rate</u>	<u>Interest revenue</u>
Gamania (Japan)	\$ 1,559	\$ 1,559	\$ -	\$ -

M) Note payable

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Amount</u>	% of net	<u>Amount</u>	% of net
		<u>note payable</u>		<u>note payable</u>
NC Taiwan	\$ 88,900	60	\$ -	-

N) Other payables

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Amount</u>	<u>% of net</u>	<u>Amount</u>	<u>% of net</u>
		<u>other payables</u>		<u>other payables</u>
NC Taiwan	\$ 82,796	50	\$ 135,963	77
Taiwan Index	38,750	23	29,678	17
Gamania (Japan)	4,367	3	1,312	1
Gamania (Beijing)	2,394	1	1,123	1
Gamania (H.K.)	1,782	1	409	-
Others	<u>166</u>	<u>-</u>	<u>33</u>	<u>-</u>
	<u>\$ 130,255</u>	<u>78</u>	<u>\$ 168,518</u>	<u>96</u>

Other payable consists of sales of products, expenses incurred on behalf of the subsidiaries and payments of goods returned.

O) The Company sold 1,091,000 shares common stocks of Taiwan Index Co., Ltd to Gamania Asia Investment Co., Ltd., at cost of \$11.106 per share.

P) Commitments

The Company provided guarantees for bank loans of its related party as follows:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Gamania (Korea)	\$ 30,000	\$ -
NC Taiwan	<u>-</u>	<u>30,000</u>
	<u>\$ 30,000</u>	<u>\$ 30,000</u>

6. DETAILS OF PLEDGED OR RESTRICTED ASSETS

<u>Assets</u>	<u>December 31,</u>		<u>Purpose</u>
	<u>2005</u>	<u>2004</u>	
Time deposits (shown in other financial assets-current)	\$ 30,000	\$ -	Provided guarantees of its related party
Land	141,717	141,717	Long-term loans / Credit lines
Buildings	106,167	48,345	"
Machinery equipment			Long-term loans/ Short term loans
	<u>27,807</u>	<u>36,517</u>	

\$ 305,691      \$ 226,579

7. COMMITMENTS AND CONTINGENT LIABILITIES

- (A) As of December 31, 2005, the total rental commitment for the next 3 years under non-cancelable operating lease agreements for the Company's office building was \$13,684.
- (B) The Company has contracted the use of cable lines, T1 and T3, with rental charges based on utilization. In addition, the Company has contracted with several on-line game vendors, and will pay royalty based on actual usage.
- (C) As of December 31, 2005, the Company had contracted for accounting software and related consulting services totaling \$30,860, of which \$28,775 has been paid.
- (D) As described in Note 4(13), the Tax Authority assessed additional income tax of \$963 on the 1999 income tax return for disallowing the R&D investment tax credits. In 2002, the Company has filed an appeal which was rejected by the Tax Authority. As required under the regulations, the Company has prepaid additional income tax and filed the second appeal to the high court in 2003. The case is currently pending.
- (E) As stated in Note 4(13), the Tax Authority imposed additional tax and penalties amounting to \$26,293 on the Company's 2001 income tax return. The Company has reassessed the 2001 income tax return and deemed its additional liability to be \$244. The Company has filed for re-examination in April to contest the balance of tax and penalties.
- (F) As stated in Note 4(13), the Tax Authority imposed additional tax and penalties totaling \$127,204 on the Company's 2002 income tax return. The Company has reassessed the 2002 income tax return and deemed its additional liability to be \$4,050. The Company has filed for re-examination in February, 2006, to contest the balance of tax and penalties.
- (G) First Commercial Bank has provided guarantee to a customer of the company covering the period from March 16, 2005 to December 31, 2005.

8. MAJOR CATASTROPHE

None.

9. SUBSEQUENT EVENTS

Based on a resolution adopted by the Board of Directors on February 15, 2006, the Company will reduce its share capital on February 16, 2006 by retiring 5,000,000 shares of treasury stock. After the retirement of treasury stock, the additional paid-in capital- in excess of par value were decreased by \$34,160, the additional paid-in capital-treasury stock transaction were decreased by \$27,162 and accumulated deficit was increased by

\$190,818. As of March 15, 2005, the registration procedure is in progress.

## 10. OTHERS

### A. Information on derivative transactions

None.

### B. Non-derivative financial instruments

	<u>December 31, 2005</u>	
<u>Assets</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets with book value approximating their fair value	\$ 1,621,551	\$ 1,621,551
Long-term investments	532,043	532,043
Refundable deposits	6,141	6,111
<u>Liabilities</u>		
Financial liabilities with book value approximating their fair value	\$ 592,212	\$ 592,212
Current portion of long-term liabilities	28,769	28,769
Long-term loans	313,634	313,634
Accrued pension liabilities	4,768	5,622
Guarantee deposits	42	42
	<u>December 31, 2004</u>	
<u>Assets</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets with book value approximating their fair value	\$ 1,510,732	\$ 1,510,732
Long-term investments	682,850	682,850
Refundable deposits	8,730	8,674
<u>Liabilities</u>		
Financial liabilities with book value approximating their fair value	\$ 434,900	\$ 434,900
Current portion of long-term liabilities	56,230	56,230
Long-term loans	189,818	189,818
Accrued pension liabilities	3,245	9,853

The method and assumptions to estimate the fair values of the financial instruments are summarized as follows:

- A) The carrying amounts of short-term non-derivative financial assets and liabilities including cash and cash equivalents, notes and accounts receivable (included related parties), other receivables (included related parties), other financial assets-current short-term loans, notes and accounts payable (included related parties), income tax payable, accrued expenses, other payable (included related parties), current portion of long-term liabilities and other current liabilities approximate their fair value because of their short-term maturates.
- B) The fair values of marketable securities and long-term investments are their market values or the underlying equity in the net assets and/or their financial information, if market value is not available.
- C) The fair value of refundable deposits is estimated using discounted future cash flows with a discount rate based on the one-year time deposit interest rate at year-end.
- D) The fair value of long-term notes payable are the present value of expected future flows.
- E) The fair value of accrued pension liabilities is based on the actuarial pension report, the measurement date of which was December 31, 2005 and 2004, respectively.
- F) The fair value of guarantee deposits is the book value since the amount is in significant.
- G) Off-balance sheet financial instruments with credit risk:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
	<u>Contract Amount</u>	<u>Contract Amount</u>
Guarantee for loans borrowed by related parties.	<u>\$ 30,000</u>	<u>\$ 30,000</u>

According to the Company's credit policy, guarantees can be provided for the loans borrowed by the subsidiaries in which the Company directly or indirectly holds more than 50% voting rights and over which the Company can exercise controlling power. No collaterals have been requested from these subsidiaries as the Company is able to monitor their credit standing. Should these subsidiaries default, the losses incurred by the Company approximate to the amount of the guarantees provided by

the Company.

- C. For the year ended December 31, 2005 and 2004, the Company donated inventories, magazines, etc. amounting to \$17,445 and \$20,021, respectively, to political parties, charities, and educational institutes that are accredited by the government, without significant appointed considerations.
- D. Certain accounts in the financial statements of year ended December 31, 2004 have been reclassified to conform with the presentation adopted for the year ended December 31, 2005.

11. DISCLOSURE INFORMATION

(1) Related information of significant transactions

- A) Financing activities to any company or person: None
- B) Guarantee information:

Unit: Thousands of New Taiwan Dollars

The Company or investee companies		Parties being guaranteed		Maximum of guarantee for such party (Note 4)	Maximum outstanding guarantee amount for the year ended December 31, 2005	Outstanding guarantee amount at December 31, 2005	Amount of guarantee with collateral placed	Ratio of accumulated guarantee amount to net value of the Company	Ceiling of the outstanding guarantee to the respective party (Note 3)
Number (Note 1)	Name	Name	Relationship with the Company (Note 2)						
0	The Company	Gamania Korea Co., Ltd.	2	\$ 30,000	\$ 30,000	\$ 30,000	None	1.47%	\$ 455,636 (30% of the Company's capital)
0	The Company	NC Taiwan Co., Ltd.	2	\$ 30,000	\$ 30,000	\$ -	None	0.00%	\$ 455,636 (30% of the Company's capital)

Note 1: Number 0 represents the Company.

Note 2: Number 2 means the Company directly owns over 50% of the shares of the subsidiary.

Note 3: In accordance with the Company's policy, the total guarantee amount of the Company may not exceed 30% of the Company's capital.

Note 4: \$30,000, and should not exceed the guaranteed company's capital.

C) Marketable securities held at December 31, 2005:

Unit: Thousands of New Taiwan Dollars / Thousands of Shares

Company	Type of marketable securities (Note (1))	Name of marketable securities	Relationship of the issuers with the security holders	General ledger account	December 31, 2005				
					Number of shares	Book value	Percentage	Market value (Note (2))	Note
The Company	Common Stock	Gamania Holdings Ltd.	Subsidiary	Long-term investment	26,191	\$ 107,154	100%	\$ 107,154	None
"	"	Gamania Korea Co., Ltd.	"	"	394	13,793	100%	13,793	"
"	"	Alibangbang Digital Games Co., Ltd.	"	"	8,600	19,221	95.56%	19,221	"
"	"	NC Taiwan Co., Ltd.	"	"	7,140	111,007	51.00%	111,007	"
"	"	Taiwan Index Co., Ltd.	"	"	17,350	68,415	69.40%	68,415	"
"	"	Gamania Asia Investmet Co., Ltd.	"	"	19,000	136,776	100%	136,776	"
"	"	Gamania Digital Entertainment Labuan Holdings, Ltd.	"	"	10	170	100%	170	"
"	"	Soga Interactive Co., Ltd.	Investee company accounted for under equity method	"	2,800	23,504	40%	23,504	"
"	"	Playcoo Co.	"	"	4,000	39,452	30.30%	39,452	"
"	"	Buybooks Digital Technology Co., Ltd.	Investee company accounted for under the cost method	"	300	-	3.74%	-	"
"	"	ECD Interactive Corporation	"	"	2,040	2,700	18.55%	2,700	"

Unit: Thousands of New Taiwan Dollars / Thousands of Shares

Company	Type of marketable securities (Note (1))	Name of marketable securities	Relationship of the issuers with the security holders	General ledger account	December 31, 2005				
					Number of shares	Book value	Percentage	Market value (Note (2))	Note
The Company	Common Stock	Joyon Entertainment Co., Ltd.	Investee company accounted for under the cost method	Long-term investment	697	\$ 9,851	11.47%	9,851	None
"	"	RAVA Ideologie Inc.	"	"	880	-	8.69%	-	"
"	"	Zona Inc.	"	"	1,000	-	10.34%	-	"

Note (1): Market securities consist of stocks, bonds, beneficiary certificates and their derivative instruments.

Note (2): The market value of listed equity securities and closed-end mutual funds is determined based on average closing price of the last month before periods-end date. The market value of open-end mutual funds is determined based on the net assets par value as of balance sheet date.

D) Marketable securities acquired or sold during the period ended December 31, 2005 in excess of \$100,000 or 20% of capital:

Investor	Type and name of marketable securities	General ledger account	Name and relationship of counter-party	Beginning balance (Note)		Addition		Disposal			Disposal gain (loss)	Ending balance (Note)	
				Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Cost		Number of shares	Amount
The Company	Gamania Asia Investment Co., Ltd.	Long-term investment	Initial Investment at inception/ subsidiary	9,000	\$ 90,000	10,000	\$ 100,000	-	\$ -	\$ -	\$ -	19,000	\$ 190,000
"	Fund 1	Short-term investment	Initial Investment at inception/None	-	-	8,596	119,000	8,596	119,510	119,000	510	-	-
"	Fund 2	"	"	-	-	8,401	100,000	8,401	100,231	100,000	231	-	-
"	Fund 3	"	"	-	-	9,650	100,000	9,650	100,558	100,000	558	-	-
"	Fund 4	"	"	-	-	9,054	110,000	9,054	110,367	110,000	367	-	-
"	Fund 5	"	"	-	-	8,263	125,000	8,263	125,272	125,000	272	-	-
"	Fund 6	"	"	-	-	10,944	151,000	10,944	151,291	151,000	291	-	-
"	Fund 7	"	"	-	-	8,941	123,000	8,941	123,117	123,000	117	-	-
"	Fund 8	"	"	-	-	9,364	117,000	9,364	117,313	117,000	313	-	-
"	Fund 9	"	"	-	-	9,875	105,000	9,875	105,532	105,000	532	-	-
"	Fund 10	"	"	-	-	9,875	110,000	9,875	110,463	110,000	463	-	-
"	Fund 11	"	"	-	-	7,572	109,700	7,572	110,513	109,700	813	-	-

Note: Original investment cost.

- E) Acquired real estate in excess of \$100,000 or 20% of capital: None.  
 F) Disposal of real estate in excess of \$100,000 or 20% of capital: None.  
 G) Sales to or purchases from related parties in excess of \$100,000 or 20% of capital: None.  
 H) Receivable from related parties in excess of \$100,000 or 20% of capital: None.  
 I) Information on derivative transaction: None.

(2) Information of investee companies

A) Information of investee companies:

Unit: Thousands of New Taiwan Dollars / Thousands of Shares

Company	Name of investee	Location	Main operating activities	Original investment cost		Held by the Company			(Loss) Gain incurred by the Investee	Investment (loss) gain recognized by the Company	Note
				2005.12.31	2004.12.31	Number of Shares	Percentage	Book value			
The Company	Gamania Holdings Ltd.	3F, Harbour Center, Box 1348, George Town, Grand Cayman, Cayman Islands, British West Indies	Investment holding company	\$ 892,188	\$ 815,442	26,191	100%	\$107,154	(\$147,815)	(\$147,815)	Subsidiary
"	Gamania Korea Co., Ltd	3F, NO.75-6 Soodang B/D, Samsung-Dong Kang Nam-Gu, Seoul Korea	Design and sale of software	80,189	80,189	394	100%	13,793	( 119,265)	( 119,265)	"
"	Alibangbang Digital Games Co., Ltd.	18F, No. 736 Chang-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan	Design and research and development of software	90,000	50,000	8,600	95.56%	19,221	( 30,846)	( 29,762)	"
"	NC Taiwan Co., Ltd.	"	Design and sale of software	71,400	71,400	7,140	51%	111,007	83,395	42,535	"
"	Taiwan Index Co., Ltd.	"	Software service	208,200	208,200	17,350	69.40%	68,415	( 72,384)	( 61,962)	"
"	Gamania Asia Investment Co., Ltd.	"	Investment	190,000	90,000	19,000	100%	136,776	( 42,849)	( 42,849)	"
"	Gamania Digital Entertainment Labuan Holdings, Ltd.	Level 9F, Main Office Tower, Financial Park, 87000 Labuan FT Labuan, Malaysia	Investment Holding Company	329	67	10	100%	170	( 194)	( 194)	"

Company	Name of investee	Location	Main operating activities	Original investment cost		Held by the Company			(Loss)gain incurred by the Investee	Investment( loss) gain recognized by the Company	Note
				2005.12.31	2004.12.31	Number of Shares	Percentage	Book value			
The Company	Soga Interactive Co., Ltd.	18F, No.736 Chang-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan	Design and research of software	\$ 28,000	\$ 13,600	2,800	40%	\$ 23,504	(\$ 10,027)	(\$ 4,010)	Investee company accounted for under equity method
"	Playcoo Co.	4F-4, No. 215 Cheng-de Rd., Taipei Country, Taiwan	Supply Software Service and electric information	40,000	-	4,000	30.3%	39,452	( 26,316)	( 548)	"
Gamania Asia Investment Co., Ltd	Taiwan Index Co., Ltd.	18F, No.736 Chang-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan	Design and sale of software	80,625	80,625	6,800	27.20%	27,564	( 72,384)	( 24,814)	"
Gamania Holdings Ltd.	Gamania International Holdings Ltd.	3F, Harbour Center, Box 1348, George Town, Grand Cayman, Cayman Islands, British West Indies	Investment holding company	USD26,191 thousand	USD23,791 thousand	26,191	100%	USD3,287 thousand	(USD 4,595 thousand)	(USD 4,595 thousand)	Subsidiary
Gamania International Holdings Ltd.	Gamania Digital Entertainment (Japan.) Co., Ltd.	Ebisu East Bldg. 2F 1-13-7 Hiroo, Shibuya-Ku, Tokyo 150-0012 Japan	Design and sale of software; Sale of hardware	USD12,240 thousand	USD12,240 thousand	17	100%	USD1,953 thousand	(USD 1,313 thousand)	(USD 1,313 thousand)	"
Gamania International Holdings Ltd.	Gamania China Holdings Ltd.	3F, Harbour Center, Box 1348, George Town, Grand Cayman, Cayman Islands, British West Indies	Investment holding company	USD16,750 thousand	USD14,350 thousand	16,024	92.57%	USD1,340 thousand	(USD 3,561 thousand)	(USD 3,282 thousand)	"
Gamania China Holdings Ltd.	Gamania Sino Holdings Ltd.	4F, One Capital Place, P.O. box 847 gt, Grand Cayman, Cayman Islands, British West Indies	General Investment	USD14,250 thousand	USD11,850 thousand	N/A	100%	USD277 thousand	(USD4,238 thousand)	(USD4,269 thousand)	"

Company	Name of investee	Location	Main operating activities	Original investment cost		Held by the Company			(Loss)gain incurred by the Investee	Investment( loss) gain recognized by the Company	Note
				2005.12.31	2004.12.31	Number of Shares	Percentage	Book value			
Gamania Sino Holdings Ltd.	Gamania Digital Entertainment (Beijing) Co., Ltd.	No 88, Jian Guo Rd., 11F, Bldg C, SOHO New Town, Beijing 100022, China	Design and sale of software	USD11,480 thousand	USD9,480 thousand	N/A	100%	USD160 Thousand	(USD 3,801 thousand)	(USD 3,801 thousand)	Subsidiary
Gamania China Holdings Ltd.	Gamania Digital Entertainment (H.K.) Co., Ltd.	50F, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong	Design and sale of software	USD3,009 thousand	USD3,009 thousand	35,500	100%	USD1,173 thousand	USD 709 thousand	USD 709 thousand	"
Gamania China Holdings Ltd.	G.A. Co., Limited.	50F, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong	Design and sale of software	Note	Note	N/A	100%	(USD 6 thousand)	USD 2 thousand	USD 2 thousand	"

Note: The original investment cost is \$HK2.

B) Financing activities to any company or person: None

C) Guarantee information: None.

D) Marketable securities held at December 31, 2005:

Issuer	Type of marketable securities (Note (1))	Name of marketable securities	Relationship with the security holders	General ledger account	December 31, 2005				
					Number of shares	Book value	Percentage	Market value (Note (2))	Note
Gamania Holdings Ltd.	Common Stock	Gamanina International Holdings Ltd.	Subsidiary	Long-term investments	26,191	USD3,287 thousand	100%	USD3,287 thousand	None
Gamania International Holdings Ltd.	"	Gamania Digital Entertainment (Japan) Co., Ltd.	"	"	17	USD1,953 thousand	100%	USD1,953 thousand	"
Gamania International Holdings Ltd.	"	Gamania China Holdings Ltd.	"	"	16,024	USD1,340 thousand	92.57%	USD1,340 thousand	"
Gamania China Holdings Ltd.	"	G.A. Co., Limited.	"	"	N/A	(USD6 thousand)	100%	(USD6 thousand)	"
Gamania China Holdings Ltd.	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	"	"	35,500	USD1,173 thousand	100%	USD1,173 thousand	"
Gamania China Holdings Ltd.	"	Gamania Sino Holdings Ltd.	"	"	N/A	USD277 thousand	100%	USD277 thousand	"
Gamania Sino Holdings Co., Ltd.	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	"	"	N/A	USD160 thousand	100%	USD160 thousand	"
Gamania Asia Investment Co., Ltd.	"	Taiwan Index Co., Ltd.	Investee company accounted for under the equity method	"	6,800	\$27,564	27.20%	\$27,564	"

Note (1): Marketable securities consist of stocks, bonds, beneficiary certificates and their derivative instruments.

Note (2): The market value of listed equity securities and closed-end mutual funds is determined based on average closing price of the last month before period-end date. The market value of open-end mutual funds is determined based on the net asset value as of the balance sheet date.

Note (3): Unit:Share.

- E) Marketable securities acquired or sold during the period ended December 31, 2005 in excess of \$100,000 or 20% of capital: None
- F) Acquired real estate in excess of \$100,000 or 20% of capital: None.
- G) Disposal of real estate in excess of \$100,000 or 20% of capital: None.
- H) Sale to or purchases from related parties in excess of \$100,000 or 20% of capital: None
- I) Receivable from related parties in excess of \$100,000 or 20% of capital:

Name of creditor	Transaction parties	Relationship	Balance of receivable from related parties	Turnover rate	Overdue receivable		Subsequent Collections	Allowance for doubtful accounts provided
					Amount	Action adopted for overdue accounts		
NC Taiwan Co., Ltd.	The Company	Parent Company	\$ 171,696	N/A	\$ -	N/A	\$ 88,690	\$ -

- J) Information on derivative transactions: None.

(3) DISCLOSURE OF INFORMATION ON INVESTMENT IN MAINLAND CHINA

Name of investee in Mainland China	Main activities	Capital	Investment method	Accumulated investment as of December 31, 2005	Remitted or received investment amount during the period		Accumulated investment as of December 31, 2005	Direct and indirect percentage of ownership	Investment loss recognized during the period (Note (3))	Balance of investment at December 31, 2005	Accumulated investment income received as of December 31, 2005
					Remitted	Received					
Gamania Digital Entertainment (Beijing) Co., Ltd.	Design and sale of software	(RMB 94,815 thousand) \$385,947	(Note (2))	(USD7,350 thousand) \$241,448	(USD2,000 thousand) \$65,700	\$ -	(USD9,350 thousand) \$307,148	92.57%	(USD3,503 thousand) \$112,692	(USD148 thousand) \$4,862	\$ -

Accumulated amount of investment in Mainland China as of December 31, 2005	Related investment amount approved by FIA	The upper limit of investment in Mainland China
\$ 307,148(USD9,350thousand)	\$409,968 (Note (1))	\$ 814,226

Note (1): Related total investment amount approved by FIA is USD12,480,000 or NTD 409,968 thousand based on 32.85exchange rate.

Note (2): Investment through a holding company registered in a country other than Taiwan or Mainland China.

Note (3): Investment loss recognized in the period is calculated based on the percentage of indirect ownership using the financial statements of the investee, which was audited.

The Company has no significant transactions with the holding Company or its subsidiaries in Mainland China.

## 12. SEGMENTAL FINANCIAL INFORMATION

### (1) Financial information by industry segments

The Company operates in one single industry – the software service and trade. Accordingly, no different industry information is presented.

### (2) Financial information by geographic areas

The Company does not have overseas division, therefore no geographic area information is presented in 2005 and 2004.

### (3) Information regarding export sales

The Company does not export sales exceed 10% of operating revenue in 2005 and 2004.

### (4) Information regarding major customers

Year 2005

<u>Customer Name</u>	<u>Sales</u>	<u>The % of net sales</u>
Customer A	\$ 632,644	29
Customer B	517,453	23
Customer C	226,953	10
	<u>\$ 1,377,050</u>	<u>62</u>

Year 2004

<u>Customer Name</u>	<u>Sales</u>	<u>The % of net sales</u>
Customer A	\$ 749,792	32
Customer B	551,024	23
Customer C	262,748	11
	<u>\$ 1,563,564</u>	<u>66</u>