

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

**FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS**

**MARCH 31, 2005 AND 2004**

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These English financial statements and report of independent accountants were translated from the financial statements and report of independent accounts originally prepared in Chinese language.

## **Report of Independent Accountants**

(05) R.F014.7621

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

We have reviewed the accompanying balance sheets of Gamania Digital Entertainment Co., Ltd. as of March 31, 2005 and 2004, and the related statements of income and of cash flows for the three-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

Except as explained in the following paragraph, our review was made in accordance with the "Review of Financial Statements" in the Republic of China. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The financial statements included long-term investments in certain investees companies, accounted for under the equity method, stated at \$694,906,000 and \$630,163,000 as of March 31, 2005 and 2004, respectively, and the related investment loss of \$11,270,000 and \$75,645,000 for the three-month periods then ended, respectively, as described in Note 4(7). These investments were accounted for under the equity method based on the financial statements of the investees which have not been reviewed. Information of certain investees disclosed in Note 11 was based on the financial statements of these investees which have not been reviewed.

Based on our review, except for the effects on the financial statements of such adjustments and disclosure information of investee companies, if any, as might have been determined to be necessary had the financial statements of the investee companies been reviewed as explained in the preceding paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements referred to above in order for the them to be in conformity with the “Rules Governing the Preparation of Financial Statements of Securities Issuers” and generally accepted accounting principles in the Republic of China.

As discussed in Note 3 effective in the fourth quarter of 2004, the Company adopted R.O.C. Statement of Financial Accounting Staudards No. 35,” Accounting for Impairment of Assets”. As a result of the change in accounting principle, total assets and stockholders’ equity were decreased by \$321,770,000, respectively, as of March 31, 2005. However, there is no impact to the first quarter net income of 2005.

April 29, 2005

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The accompanying financial statements are not intended to present the financial position and practices 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 SHEET**  
 March 31, 2005 AND 2004  
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

|   | 2005                |            | 2004                |            |  | 2005                |            | 2004                |            |
|---|---------------------|------------|---------------------|------------|--|---------------------|------------|---------------------|------------|
|   | Amount              | %          | Amount              | %          |  | Amount              | %          | Amount              | %          |
|   | (Review Only)       |            | (Review Only)       |            |  | (Review Only)       |            | (Review Only)       |            |
| <b>ASSETS</b>   |                     |            |                     |            | <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                      |                     |            |                     |            |
| <u>Current Assets</u>   |                     |            |                     |            | <u>Current Liabilities</u>                                       |                     |            |                     |            |
| Cash and cash equivalents (Note 4(1))                         | \$ 80,084           | 2          | \$ 270,910          | 8          | Short-term loans (Note 4(11))                                    | \$ 30,000           | 1          | \$ 50,000           | 1          |
| Short-term investments (Note 4(2))                            | 868,700             | 26         | 643,174             | 18         | Commercial paper payables (Note 4(12))                           | -                   | -          | 29,981              | 1          |
| Notes receivable – third parties – net (Note 4(3))            | 54,223              | 2          | 134,032             | 4          | Notes payable  | 68,532              | 2          | 45,780              | 1          |
| Notes receivable – related parties – net (Note 5)             | 1,710               | -          | -                   | -          | Notes payable – related parties (Note 5)                         | 61,737              | 2          | 8,847               | -          |
| Accounts receivable – net (Note 4(4))                         | 510,870             | 15         | 525,005             | 15         | Accounts payable   | 46,047              | 1          | 57,727              | 2          |
| Other receivables – third parties (Note 4(5))                 | 154,362             | 5          | 7,356               | -          | Income tax payable (Note 4(20))                                  | 35,191              | 1          | 12,463              | -          |
| Other receivables – related parties (Note 5)                  | 40,674              | 1          | 25,670              | 1          | Accrued expenses   | 72,557              | 2          | 50,759              | 2          |
| Other financial assets – current (Note 6)                     | -                   | -          | 765                 | -          | Other payables – related parties (Note 5)                        | 164,895             | 5          | 32,005              | 1          |
| Inventories (Note 4(6))                                       | 12,986              | -          | 9,221               | -          | Other payables – third parties                                   | 16,762              | 1          | 19,625              | 1          |
| Prepaid expenses  | 14,212              | 1          | 21,931              | 1          | Unearned revenue collected in advance                            | 75,469              | 2          | 103,676             | 3          |
| Deferred income tax assets – current (Note 4(20))             | 36,488              | 1          | 50,590              | 1          | Current portion of long-term liabilities (Notes 4(13) and 4(14)) | 52,801              | 2          | 60,216              | 2          |
|   | <u>1,774,309</u>    | <u>53</u>  | <u>1,688,654</u>    | <u>48</u>  | Other current liabilities  | 5,388               | -          | 5,826               | -          |
|   |                     |            |                     |            |  | <u>629,379</u>      | <u>19</u>  | <u>476,905</u>      | <u>14</u>  |
| <u>Long-term Investments (Note 4(7))</u>                      |                     |            |                     |            | <u>Long-term Liabilities</u>                                     |                     |            |                     |            |
| Long-term investments – accounted for under the equity method | 694,906             | 21         | 630,163             | 18         | Long-term loans (Note 4(13))                                     | 341,461             | 10         | 359,228             | 10         |
| Long-term investment – accounted for under the cost method    | 26,846              | 1          | 94,941              | 3          | Long-term notes payable (Note 4(14))                             | -                   | -          | 7,770               | -          |
|   | <u>721,752</u>      | <u>22</u>  | <u>725,104</u>      | <u>21</u>  |  | <u>341,461</u>      | <u>10</u>  | <u>366,998</u>      | <u>10</u>  |
| <u>Property, Plant and Equipment (Notes 4(8) and 6)</u>       |                     |            |                     |            | <u>Other Liabilities</u>   |                     |            |                     |            |
| Cost  |                     |            |                     |            | Accrued pension liabilities (Note 4(15))                         | 3,851               | -          | -                   | -          |
| Land  | 147,751             | 5          | 117,270             | 3          | Guarantee deposits   | 34                  | -          | 528                 | -          |
| Buildings   | 145,828             | 4          | 123,015             | 4          | Deferred income tax liability – non-current (Note 4(20))         | -                   | -          | 32,309              | 1          |
| Machinery and equipment                                       | 533,407             | 16         | 504,879             | 15         |  | <u>3,885</u>        | <u>-</u>   | <u>32,837</u>       | <u>1</u>   |
| Transportation equipment                                      | 1,700               | -          | 5,238               | -          | Total Liabilities  | <u>974,725</u>      | <u>29</u>  | <u>876,740</u>      | <u>25</u>  |
| Computer and communication equipment                          | 94,759              | 3          | 98,550              | 3          | <u>Stockholders' Equity</u>                                      |                     |            |                     |            |
| Leasehold improvement   | 80,975              | 3          | 84,456              | 2          | Common stock   | 1,529,177           | 46         | 1,587,997           | 45         |
| Other equipment   | 5,349               | -          | 5,349               | -          | Capital reserve (Note 4(17))                                     | -                   | -          | -                   | -          |
| Cost and appraisal increment                                  | 1,009,769           | 31         | 938,757             | 27         | Paid-in capital in excess of par                                 | 1,339,117           | 40         | 1,390,640           | 40         |
| Less: Accumulated depreciation                                | (393,431)           | (12)       | (280,306)           | (8)        | Treasury stock transaction (Note 4(21))                          | 20,145              | 1          | -                   | -          |
|   | <u>616,338</u>      | <u>19</u>  | <u>658,451</u>      | <u>19</u>  | Gain on disposal of property, plant and equipment                | 221                 | -          | 221                 | -          |
|   |                     |            |                     |            | Retained earnings  |                     |            |                     |            |
| <u>Intangible Assets</u>                                      |                     |            |                     |            | Legal reserve (Note 4(18))                                       | 103,066             | 3          | 103,066             | 3          |
| Other intangible asset (Note 4(9))                            | -                   | -          | 38,298              | 1          | Accumulated deficit (Note 4(19))                                 | (370,711)           | (11)       | (183,298)           | (5)        |
|   |                     |            |                     |            | Cumulative translation adjustments                               | 18,613              | 1          | 20,261              | 1          |
| <u>Other Assets</u>   |                     |            |                     |            | Treasury stock (Note 4(22))                                      | (302,140)           | (9)        | (302,140)           | (9)        |
| Refundable deposits   | 6,802               | -          | 13,308              | -          | Total Stockholders' Equity                                       | <u>2,337,488</u>    | <u>71</u>  | <u>2,616,747</u>    | <u>75</u>  |
| Deferred charges (Note 4(10))                                 | 120,058             | 4          | 369,672             | 11         | Commitments and Contingent Liabilities (Notes 5 and 7)           |                     |            |                     |            |
| Deferred income tax assets – non-current (Note 4(20))         | 72,954              | 2          | -                   | -          |  |                     |            |                     |            |
|   | <u>199,814</u>      | <u>6</u>   | <u>382,980</u>      | <u>11</u>  |  |                     |            |                     |            |
| <b>TOTAL ASSETS</b>   | <b>\$ 3,312,213</b> | <b>100</b> | <b>\$ 3,493,487</b> | <b>100</b> | <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                | <b>\$ 3,312,213</b> | <b>100</b> | <b>\$ 3,493,487</b> | <b>100</b> |

The accompanying notes are an integral part of the financial statements.  
 See report of independent accountants dated April 29, 2005.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.  
STATEMENTS OF INCOME  
THREE-MONTH PERIODS ENDED MARCH 31,  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT EARNINGS PER SHARE DATA)  
(REVIEW ONLY)

|  | <u>2005</u>      |           | <u>2004</u>      |           |
|--|------------------|-----------|------------------|-----------|
|  | <u>Amount</u>    | <u>%</u>  | <u>Amount</u>    | <u>%</u>  |
| Operating revenues   | (Review Only)    |           | (Review Only)    |           |
| Sales revenue  | \$ 446,270       | 98        | \$ 526,561       | 100       |
| Sales returns  | ( 24,367)        | ( 5)      | ( 4,266)         | ( 1)      |
| Sales allowances   | ( 10,990)        | ( 2)      | ( 1,813)         | -         |
| Net sales revenue  | 410,913          | 91        | 520,482          | 99        |
| Service revenue (Note 5)                                       | <u>41,883</u>    | <u>9</u>  | <u>6,833</u>     | <u>1</u>  |
| Operating revenues   | 452,796          | 100       | 527,315          | 100       |
| Operating costs  |                  |           |                  |           |
| Cost of goods sold (Note 4(24))                                | ( 218,267)       | ( 48)     | ( 257,024)       | ( 48)     |
| Gross profit   | <u>234,529</u>   | <u>52</u> | <u>270,291</u>   | <u>52</u> |
| Operating expenses (Note 4(24))                                |                  |           |                  |           |
| Selling expenses (Note 5)                                      | ( 43,157)        | ( 10)     | ( 49,470)        | ( 9)      |
| General and administrative expenses                            | ( 98,043)        | ( 22)     | ( 94,974)        | ( 18)     |
| Research and development expenses                              | ( 19,319)        | ( 4)      | ( 18,787)        | ( 4)      |
| Total operating expenses                                       | ( 160,519)       | ( 36)     | ( 163,231)       | ( 31)     |
| Operating income   | <u>74,010</u>    | <u>16</u> | <u>107,060</u>   | <u>21</u> |
| Non-operating income   |                  |           |                  |           |
| Interest income  | 47               | -         | 39               | -         |
| Gains on sale of investments                                   | 383              | -         | 294              | -         |
| Foreign exchange gain  | -                | -         | 1,169            | -         |
| Rental income (Note 5)   | 1,392            | 1         | 665              | -         |
| Miscellaneous income   | <u>1,159</u>     | <u>-</u>  | <u>9,083</u>     | <u>2</u>  |
| Total non-operating income                                     | <u>2,981</u>     | <u>1</u>  | <u>11,250</u>    | <u>2</u>  |
| Non-operating expenses   |                  |           |                  |           |
| Interest expense   | ( 1,638)         | -         | ( 2,004)         | ( 1)      |
| Investment loss accounted for under equity method (Note 4 (7)) | ( 11,270)        | ( 3)      | ( 75,645)        | ( 14)     |
| Loss on decline in market value of obsolete inventories        | ( 2,099)         | ( 1)      | -                | -         |
| Miscellaneous losses   | ( 1,689)         | -         | ( 389)           | -         |
| Total non-operating expenses                                   | ( 16,696)        | ( 4)      | ( 78,038)        | ( 15)     |
| Income before income tax                                       | 60,295           | 13        | 40,272           | 8         |
| Income tax expense (Note 4 (20))                               | ( 32,813)        | ( 7)      | ( 3,226)         | ( 1)      |
| Net income   | <u>\$ 27,482</u> | <u>6</u>  | <u>\$ 37,046</u> | <u>7</u>  |

|   | <u>2005</u>              |                         | <u>2004</u>              |                         |
|---|--------------------------|-------------------------|--------------------------|-------------------------|
|   | <u>Before income tax</u> | <u>After income tax</u> | <u>Before income tax</u> | <u>After income tax</u> |
| Basic earnings per share<br>(in dollars) (Note 4(21)) |                          |                         |                          |                         |
| Net Income  | <u>\$ 0.41</u>           | <u>\$ 0.19</u>          | <u>\$ 0.26</u>           | <u>\$ 0.24</u>          |

The accompanying notes are an integral part of the financial statements.  
See report of independent accountants dated April 29, 2005

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.  
STATEMENTS OF CASH FLOWS  
THREE-MONTH PERIODS ENDED MARCH 31,  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

|   | <u>2005</u>    | <u>2004</u>    |
|---|----------------|----------------|
|   | (Review Only)  | (Review Only)  |
| <u>Cash flows from operating activities</u>   |                |                |
| Net income  | \$ 27,482      | \$ 37,046      |
| Adjustments to reconcile net income to net cash provided by operating activities:             |                |                |
| Provision (reversal of provision) for bad debts and sales returns                             | 6,306          | ( 9,013)       |
| Gain on disposal of investments   | ( 383)         | ( 294)         |
| Provision (reversal of provision) for decline in market value and obsolescence on inventories | 2,099          | ( 3,141)       |
| Depreciation expenses   | 33,488         | 32,780         |
| Amortization expenses   | 17,419         | 10,843         |
| Deferred charges transfer to expense  | -              | 1,243          |
| Gain on disposal of fixed assets  | 6              | -              |
| Investment loss accounted for under equity method   | 11,270         | 75,645         |
| Changes in assets and liabilities   |                |                |
| (Increase) decrease:  |                |                |
| Notes receivable  | 16,408         | ( 1,831)       |
| Accounts receivable - third parties   | 9,201          | ( 18,684)      |
| Accounts receivable - related parties   | 1,843          | -              |
| Other receivables - third parties   | ( 37,653)      | ( 2,981)       |
| Other receivables - related parties   | ( 3,127)       | ( 16,109)      |
| Notes receivable - related parties  | ( 1,710)       | -              |
| Other financial assets-current  | -              | ( 765)         |
| Inventories   | ( 5,713)       | 1,350          |
| Prepaid expenses  | ( 1,292)       | 1,838          |
| Deferred income tax assets  | 16,204         | ( 4,246)       |
| (Increase) decrease:  |                |                |
| Notes payable   | 23,301         | ( 8,935)       |
| Notes payable – related parties   | 61,737         | 8,847          |
| Accounts payable  | ( 40,348)      | ( 9,145)       |
| Income tax payable  | 16,606         | 7,444          |
| Accrued expenses  | ( 28,237)      | ( 22,735)      |
| Other payables – related parties  | ( 3,623)       | 30,520         |
| Other payables  | 11,432         | ( 4,353)       |
| Unearned revenue collected in advance   | ( 19,372)      | 55,488         |
| Other current liabilities   | ( 2,359)       | ( 2,478)       |
| Accrued pension liabilities   | 606            | -              |
| Net cash provided by operating activities   | <u>111,591</u> | <u>158,334</u> |

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.  
STATEMENTS OF CASH FLOWS (CONTINUED)  
THREE-MONTH PERIODS ENDED MARCH 31,  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

|  | <u>2005</u>       | <u>2004</u>       |
|--|-------------------|-------------------|
|  | (Review Only)     | (Review Only)     |
| <u>Cash flows from investing activities</u>  |                   |                   |
| Increase in short-term investments   | (\$ 1,245,700)    | (\$ 1,548,406)    |
| Proceeds from disposal of short - term investments   | 377,383           | 905,526           |
| Decrease in pledged assets, net  | -                 | 15,000            |
| Increase in long-term investments - subsidiary   | ( 57,295)         | ( 43,089)         |
| Acquisition of subsidiary  | -                 | ( 221,292)        |
| Acquisition of property, plant and equipment   | ( 21,959)         | ( 1,129)          |
| Increase in deferred charges   | ( 24,986)         | ( 5,521)          |
| Proceeds from disposal of property, plant and equipment  | 3,283             | -                 |
| Decrease in refundable deposits, net   | 1,928             | -                 |
| Net cash used in investing activities  | <u>( 967,346)</u> | <u>( 898,911)</u> |
| <u>Cash flows from financing activities</u>  |                   |                   |
| Increase (Decrease) in short-term loans  | 30,000            | ( 50,000)         |
| Increase in other notes payable, net   | -                 | 3,898             |
| Decrease in long-term notes payable, net   | -                 | ( 2,917)          |
| Increase in long-term loans  | 148,214           | 177,555           |
| Increase in commercial paper payable, net  | -                 | 29,981            |
| Net cash provided by (used in) financing activities  | <u>178,214</u>    | <u>158,517</u>    |
| Net decrease in cash   | ( 677,541)        | ( 582,060)        |
| Cash and cash equivalents at beginning of period   | <u>757,625</u>    | <u>852,970</u>    |
| Cash and cash equivalents at end of period   | <u>\$ 80,084</u>  | <u>\$ 270,910</u> |
| <u>Supplemental disclosure of cash flow information</u>  |                   |                   |
| Cash paid during the period for:   |                   |                   |
| Interest   | <u>\$ 1,809</u>   | <u>\$ 2,286</u>   |
| Income taxes   | <u>\$ 3</u>       | <u>\$ 28</u>      |
| <u>Cash paid for purchase of property, plant and equipment:</u>  |                   |                   |
| Property, plant and equipment acquired   | \$ 19,659         | \$ 948            |
| Payable at end of period   | ( 2,584)          | ( 184)            |
| Payable at beginning of period   | 4,884             | 365               |
| Cash paid  | <u>\$ 21,959</u>  | <u>\$ 1,129</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   | -                 | 68,910            |
| Current liabilities  | -                 | ( 128,874)        |
| Long-term liabilities  | -                 | ( 13,480)         |
| Minority interest  | -                 | ( 49,383)         |
| 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 April 29, 2005

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2005 AND 2004

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,

EXCEPT AS INDICATED. REVIEWED ONLY.)

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 March 31, 2005, the total authorized 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 of \$10 (dollars) per share, and issued and outstanding capital was \$1,529,177. The Company engages in software services, TV programming and magazine publications. As of March 31, 2005, the Company had 531 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.

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 are debited.

(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 of 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 result.
- C) Major renewals or betterments are capitalized. Maintenance and repairs are charged to expense as incurred.

(7) Deferred charges

- A) Cost of software copyright is capitalized and amortized under the straight-line basis over the estimated useful lives.
- B) Agency fee consists of prepayment for royalties for online game software and is stated at cost. The agency fee is amortized based on a percentage of future sales.

(8) Other intangible assets

Other intangible assets consist primarily of prepayments for developing game software are stated at cost. The accounts are used to offset against future agency fee that is based on 2% of net sales.

(9) Impairment of assets

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.

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 compensation 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 under "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) The Company has a non-contributory and funded defined benefit retirement plan (the Plan) covering all regular employees. The Company recognizes minimum pension liability for the excess of accumulated benefit obligation over the fair value of plan assets and pension costs based on actuarial valuation. Pension cost components include service cost, interest cost, expected return on plan assets and amortization of net obligation at transition. The unrecognized net transition obligation is amortized equally over 15 years.
- B) For interim financial statements, the Company recognized its minimum pension liabilities and the actuarial pension reports, the measurement dates of which was December 31, 2004 and 2003 and adjusted for pension cost and contributions to the independent fund during the three-month period ended 31, March, 2005 and 2004.

(13) Treasury Stock

- A) Treasury stocks acquired are stated at cost using the weighted average method. 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.
- B) All subsidiaries holding the Company’s stocks are treated as treasury stocks.

(14) 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.

(15) 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 dilative affect of the employee stock options.

(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 reported amounts of revenue, cost of revenue and expenses during the reporting 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 first quarter 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 Impairment of Assets”. 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 for impact on the net income first quarter of 2005.

### 4. DESCRIPTION OF SIGNIFICANT ACCOUNTS

#### (1) Cash

|               | <u>March 31,</u> |                   |
|---------------|------------------|-------------------|
|               | <u>2005</u>      | <u>2004</u>       |
| Cash on hand  | \$ 395           | \$ 403            |
| Cash in banks | <u>79,689</u>    | <u>270,507</u>    |
|               | <u>\$ 80,084</u> | <u>\$ 270,910</u> |

#### (2) Short-term investments

|            | <u>March 31,</u>  |                   |
|------------|-------------------|-------------------|
|            | <u>2005</u>       | <u>2004</u>       |
| Bond funds | <u>\$ 868,700</u> | <u>\$ 643,174</u> |

(3) Notes receivable - net

|                                       | <u>March 31,</u> |                   |
|---------------------------------------|------------------|-------------------|
|                                       | <u>2005</u>      | <u>2004</u>       |
| Notes receivable                      | \$ 54,239        | \$ 134,048        |
| Less: Allowance for doubtful accounts | ( 16)            | ( 16)             |
|                                       | <u>\$ 54,223</u> | <u>\$ 134,032</u> |

(4) Accounts receivables - net

|                                       | <u>March 31,</u>  |                   |
|---------------------------------------|-------------------|-------------------|
|                                       | <u>2005</u>       | <u>2004</u>       |
| Accounts receivables                  | \$ 559,605        | \$ 585,317        |
| Less: Allowance for doubtful accounts | ( 39,893)         | ( 47,781)         |
| Allowance for sales returns           | ( 8,842)          | ( 12,531)         |
|                                       | <u>\$ 510,870</u> | <u>\$ 525,005</u> |

(5) Other receivables-net

|                                       | <u>March 31,</u>  |                 |
|---------------------------------------|-------------------|-----------------|
|                                       | <u>2005</u>       | <u>2004</u>     |
| Commissions receivable (Note)         | \$ 164,149        | \$ -            |
| Others                                | 2,102             | 7,356           |
| Less: Allowance for doubtful accounts | ( 11,889)         | -               |
|                                       | <u>\$ 154,362</u> | <u>\$ 7,356</u> |

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

(6) Inventories

|   | <u>March 31,</u> |                 |
|---|------------------|-----------------|
|   | <u>2005</u>      | <u>2004</u>     |
| Inventories   | \$ 35,534        | \$ 30,569       |
| Less: Reserve for loss on decline in<br>market value and obsolescence | ( 22,548)        | ( 21,348)       |
|   | <u>\$ 12,986</u> | <u>\$ 9,221</u> |

(7) Long-term investments

A) List of long-term investments

| <u>Name of investee</u>                                   | <u>March 31, 2005</u> |                                 |                   | <u>Investment loss of<br/>three-month period<br/>ended March 31, 2005</u> |
|---|-----------------------|---------------------------------|-------------------|---|
|   | <u>Original cost</u>  | <u>Ownership<br/>Percentage</u> | <u>Balance</u>    |   |
| Accounted for under the<br>equity method:                 |                       |                                 |                   |   |
| Gamania Holdings Ltd.                                     | \$ 862,737            | 100%                            | \$ 217,994        | (\$ 9,123)  |
| Gamania Korea<br>Co., Ltd.                                | 80,189                | 100%                            | 130,981           | 37  |
| Alibangbang Digital<br>Games Co., Ltd.                    | 60,000                | 93.33%                          | 13,759            | ( 6,504)  |
| NC Taiwan Co., Ltd.                                       | 71,400                | 51%                             | 85,305            | 16,832  |
| Taiwan Index Co., Ltd.                                    | 208,200               | 69.40%                          | 161,755           | ( 4,784)  |
| Gamania Asia<br>investment Co., Ltd.                      | 90,000                | 100%                            | 77,567            | ( 2,058)  |
| Gamania Digital<br>Entertainment Labuan<br>Holdings, Ltd. | 67                    | 100%                            | 96                | ( 5)  |
| Soga Interactive Co.,<br>Ltd.                             | <u>13,600</u>         | 40%                             | <u>7,449</u>      | ( <u>5,665</u> )  |
|   | <u>1,386,193</u>      |                                 | <u>694,906</u>    | ( <u>11,270</u> )   |
| Accounted for under the<br>cost method:                   |                       |                                 |                   |   |
| Buybooks Digital<br>Technology Corp. Ltd.                 | 2,995                 | 3.74%                           | 2,995             | -   |
| ECD Interactive<br>Corporation                            | 34,200                | 18.55%                          | 5,200             | -   |
| Joyon Entertainment<br>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>-</u>  |
|   | <u>107,941</u>        |                                 | <u>26,846</u>     | <u>-</u>  |
| Total   | <u>\$ 1,494,134</u>   |                                 | <u>\$ 721,752</u> | ( <u>\$ 11,270</u> )  |



B) List of long-term investments

| <u>Name of investee</u>                                    | <u>March 31, 2004</u> |                                 |                   | <u>Investment loss for<br/>three-month period<br/>ended March 31, 2005</u> |
|--|-----------------------|---------------------------------|-------------------|--|
|  | <u>Original cost</u>  | <u>Ownership<br/>Percentage</u> | <u>Balance</u>    |  |
| Accounted for under the equity method:                     |                       |                                 |                   |  |
| Gamania Holdings Ltd.                                      | \$ 703,941            | 100.00%                         | \$ 214,853        | (\$ 47,734)  |
| Gamania Korea<br>Co., Ltd.                                 | 80,189                | 100.00%                         | 145,696           | 6,204  |
| Mogamer Interactive<br>Co., Ltd.                           | 35,960                | 89.90%                          | 3,945             | ( 87)  |
| Clicklit Interactive<br>Co., Ltd.                          | 91,163                | 68.85%                          | 1,038             | ( 292)   |
| Alibangbang Digital<br>Games Co., Ltd.                     | 30,000                | 86.67%                          | 11,479            | ( 4,007)   |
| NC Taiwan Co., Ltd.  | 71,400                | 51.00%                          | 35,986            | ( 25,603)  |
| Taiwan Index Co., Ltd                                      | <u>221,292</u>        | 73.76%                          | <u>217,166</u>    | <u>( 4,126)</u>  |
|  | <u>1,233,945</u>      |                                 | <u>630,163</u>    | <u>( 75,645)</u>   |
| Accounted for under the cost method:                       |                       |                                 |                   |  |
| Buybooks Digital<br>Technology Corp. Ltd.                  | 2,995                 | 3.74%                           | 2,995             | -  |
| ECD Interactive<br>Corporation                             | 34,200                | 18.55%                          | 21,200            | -  |
| Joyon Entertainment<br>Co., Ltd.                           | 9,851                 | 17.86%                          | 9,851             | -  |
| Game Factory Digital<br>Entertainment Studios<br>Co., Ltd. | 8,800                 | 8.69%                           | 8,800             | -  |
| Zona Inc.  | <u>52,095</u>         | 10.34%                          | <u>52,095</u>     | <u>-</u>   |
|  | <u>107,941</u>        |                                 | <u>94,941</u>     | <u>-</u>   |
| Total  | <u>\$ 1,341,886</u>   |                                 | <u>\$ 725,104</u> | <u>(\$ 75,645)</u>   |

- C) The related investment loss for the three-month periods ended March 31, 2005 and 2004 under equity method was based on their respective financial statements which were not audited or reviewed by independent accountants.
- D) Clicklit Interactive Co., Ltd. and Mogamer Interactive Co., Ltd., long - term investments accounted for under the equity method, were liquidated in July, 2004.
- E) In 2004, Game Factory Digital Entertainment Studios Co., Ltd. was renamed, as RAVA Indeologie Inc.

(8) Property, plant, and equipment

|                                      | <u>March 31,</u>  |                   |
|--------------------------------------|-------------------|-------------------|
|                                      | <u>2005</u>       | <u>2004</u>       |
| <u>Cost</u>                          |                   |                   |
| Land                                 | \$ 147,751        | \$ 117,270        |
| Buildings                            | 145,828           | 123,015           |
| Machinery and equipment              | 533,407           | 504,879           |
| Transportation equipment             | 1,700             | 5,238             |
| Computer and communication equipment | 94,759            | 98,550            |
| Leasehold improvements               | 80,975            | 84,456            |
| Other equipment                      | <u>5,349</u>      | <u>5,349</u>      |
|                                      | <u>1,009,769</u>  | <u>938,757</u>    |
| <u>Accumulated depreciation</u>      |                   |                   |
| Buildings                            | ( 6,306)          | ( 3,790)          |
| Machinery and equipment              | ( 260,470)        | ( 175,007)        |
| Transportation equipment             | ( 874)            | ( 2,998)          |
| Computer and communication equipment | ( 63,472)         | ( 49,825)         |
| Leasehold improvements               | ( 58,464)         | ( 46,115)         |
| Other equipment                      | <u>( 3,845)</u>   | <u>( 2,571)</u>   |
|                                      | <u>( 393,431)</u> | <u>( 280,306)</u> |
|                                      | <u>\$ 616,338</u> | <u>\$ 658,451</u> |

(9) Other intangible assets

|   | <u>March 31,</u>  |                  |
|---|-------------------|------------------|
|   | <u>2005</u>       | <u>2004</u>      |
| Prepayment for developing game software | \$ 38,298         | \$ 38,298        |
| Less: accumulated impairment            | ( <u>38,298</u> ) | <u>-</u>         |
|   | <u>\$ -</u>       | <u>\$ 38,298</u> |

In the fourth quarter of 2004, the Company adopted the R.O.C. statement of Financial of Accounting standards No. 35, "Accounting for Impairment of Assets" and recognized a loss of \$38,298. As of March 31, 2005, total accumulated loss recognized for intangible assets is \$38,298.

(10) Deferred charges

|                              | <u>March 31,</u>   |                   |
|------------------------------|--------------------|-------------------|
|                              | <u>2005</u>        | <u>2004</u>       |
| Agency fees                  | \$ 343,802         | \$ 327,544        |
| Unamortized expense          | <u>59,728</u>      | <u>42,128</u>     |
|                              | \$ 403,530         | \$ 369,672        |
| Less: accumulated impairment | ( <u>283,472</u> ) | <u>-</u>          |
|                              | <u>\$ 120,058</u>  | <u>\$ 369,672</u> |

In the fourth quarter of 2004, the Company adopted the R.O.C. Statement of Financial of Accounting standards No. 35, "Accounting for Impairment of Assets" and recognized a loss of \$283,472. As of March 31, 2005, total accumulated loss recognized for deferred charges is \$283,472.

(11) Short-term loans

|                       | <u>March 31,</u>  |                   |
|-----------------------|-------------------|-------------------|
|                       | <u>2005</u>       | <u>2004</u>       |
| Short-term bank loans | <u>\$ 30,000</u>  | <u>\$ 50,000</u>  |
| Annual interest rates | <u>1.51%</u>      | <u>1.40%</u>      |
| Credit lines          | <u>\$ 399,000</u> | <u>\$ 567,000</u> |

(12) Commercial papers payable

|                            | <u>March 31,</u> |                  |
|----------------------------|------------------|------------------|
|                            | <u>2005</u>      | <u>2004</u>      |
| Commercial papers payable  | \$ -             | \$ 30,000        |
| Less: Unamortized discount | <u>-</u>         | <u>( 19)</u>     |
|                            | <u>\$ -</u>      | <u>\$ 29,981</u> |
| Interest rate              | <u>-</u>         | <u>1.10%</u>     |

The commercial paper payable are guaranteed by certain banks and financial institutions.

(13) Long-term Loans

| <u>Financial</u>                  | <u>Total</u>        | <u>Period/Terms</u>  | <u>March 31,</u>     |                      |
|-----------------------------------|---------------------|--|----------------------|----------------------|
| <u>Bank</u>                       | <u>Credit Lines</u> | <u>of Repayment</u>  | <u>2005</u>          | <u>2004</u>          |
| International Bank of Taipei      | \$ 49,000           | 03.28.2002 ~ 03.28.2017<br>Two year grace period, 52 equal quarterly installments starting from year 3 | \$ 45,231            | \$ 49,000            |
| International Bank of Taipei      | 51,000              | 08.19.2002 ~ 08.19.2017<br>Two year grace period, 52 equal quarterly installments starting from year 3 | 49,031               | 51,000               |
| FuBon Bank                        | 37,600              | 05.09.2002 ~ 05.09.2017<br>20 equal quarterly installments   | -                    | 24,440               |
| Chiao Tung Bank                   | 200,000             | 08.30.2004 ~ 08.30.2007<br>Full payment at maturity  | 50,000               | -                    |
| Chiao Tung Bank                   | 200,000             | 12.31.2004 ~ 12.31.2007<br>Full payment at maturity  | 100,000              | -                    |
| Chang Hwa Bank                    | 100,000             | 08.18.2004 ~ 08.18.2006<br>6 equal semi-annual installments  | -                    | 83,334               |
| Chang Hwa Bank                    | 150,000             | 02.14.2005 ~ 02.14.2009<br>Full payment at maturity  | 150,000              | -                    |
| Taishin Bank                      | 200,000             | 03.10.2005 ~ 03.10.2006  | -                    | 200,000              |
| Less: Portion due within one year |                     | Lump sum payment at end of term  | 394,262              | 407,774              |
|                                   |                     |  | ( <u>52,801</u> )    | ( <u>48,546</u> )    |
|                                   |                     |  | ( <u>\$341,461</u> ) | ( <u>\$359,228</u> ) |

(Note) The long-term loans from Taisin Bank, Chang Hwa Band and Fu Bon Bank were repaid in advance on April 30, 2004, September 2, 2004, and December 30, 2004, respectively.

(14) Long-term notes payable

| <u>Financial</u>                            | <u>Total</u>        | <u>Period/Terms</u>                                      | <u>March 31,</u> |                 |
|---|---------------------|--|------------------|-----------------|
| <u>Bank</u>                                 | <u>Credit Lines</u> | <u>of Repayment</u>                                      | <u>2005</u>      | <u>2004</u>     |
| Shanghai<br>Commercial<br>& Savings<br>Bank | \$ 51,000           | 11.11.2002 ~ 11.11.2005<br>36 equal monthly installments | \$ -             | \$ 19,440       |
| Less: portion due within one year           |                     |  | -                | ( 11,670)       |
|   |                     |  | <u>\$ -</u>      | <u>\$ 7,770</u> |

(15) Retirement plan

A) Under the terms of the Company's retirement plan, the pension benefits payable to employees are determined retirement as follows:

- (a) Two months of average monthly salary will be paid for each year of service for the first fifteen years.
- (b) For the service period over 15 years, one month of average monthly salary will be paid per year.
- (c) The maximum number of months accumulable is 45 months.
- (d) Average monthly salary is determined based on the retiree's salary six months prior to their retirement.

B) As of March 31, 2005 and 2004, the balance of the pension fund, with Central Trust of China, the trustee, was \$15,773 and \$11,241, respectively. Total pension expense was \$2,189 and \$1,032 for three-month periods ended March 31, 2005 and 2004, respectively.

(16) Common Stock

On March 18, 2005, the Company's Board of Directors passed a resolution to decrease its paid-in capital to \$1,529,177 by retiring 1,072 thousand shares of treasury stocks. As of April 29, 2005, the process of retiring the above mentioned treasury stocks has been completed.

(17) Capital reserve

Share premiums from the issuance of new shares for cash and donation income 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.

(18) 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.

(19) Undistributed earnings/special reserve

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, 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. These resolutions have not been adopted by the shareholders. For current status on these resolutions, please visit the Taiwan Stock Exchange website.
- D) The Company incurred net loss in 2003, accordingly the shareholders passed a resolution not to distribute any dividends, employee bonus, and directors' remuneration.

(20) Income tax payable

- A) Income tax payable and income tax expense for the periods ended March 31, 2005 and 2004 are reconciled as follows:

|   | <u>Three-month periods ended March 31,</u> |                  |
|---|--|------------------|
|   | <u>2005</u>                                | <u>2004</u>      |
| Current year income tax expense                               | \$ 9,262                                   | \$ 838           |
| Additional 10% corporate income tax on undistributed earnings | <u>23,551</u>                              | <u>2,388</u>     |
|   | 32,813                                     | 3,226            |
| Add (Less): Net change in deferred income tax assets          | ( 16,204)                                  | 4,246            |
| Tax payable due to prior year                                 | 18,585                                     | 5,019            |
| Prepaid income tax  | ( <u>3</u> )                               | ( <u>28</u> )    |
| Income tax payable  | <u>\$ 35,191</u>                           | <u>\$ 12,463</u> |



B) Deferred income tax assets (liability) are as follows:

|   | <u>March 31,</u>  |                  |
|---|-------------------|------------------|
|   | <u>2005</u>       | <u>2004</u>      |
| Deferred income tax assets - current          | \$ 36,488         | \$ 50,590        |
| Deferred income tax assets-non-current        | 113,856           | 136              |
| Deferred income tax liabilities - non-current | ( 40,902)         | ( 32,445)        |
|   | <u>\$ 109,442</u> | <u>\$ 18,281</u> |

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

|  | <u>March 31,</u> |                   |               |                    |
|--|------------------|-------------------|---------------|--------------------|
|  | <u>2005</u>      |                   | <u>2004</u>   |                    |
|  | <u>Amount</u>    | <u>Tax effect</u> | <u>Amount</u> | <u>Tax effect</u>  |
| Current items:   |                  |                   |               |                    |
| Allowance for loss on<br>decline in market value and<br>obsolescence inventories | \$ 22,548        | \$ 5,638          | \$ 21,348     | \$ 5,337           |
| Allowance for sales returns  | 8,842            | 2,210             | 12,531        | 3,133              |
| Over provision of allowance<br>for bad debts                                     | 47,639           | 11,910            | 36,984        | 9,246              |
| Welfare expenses   | 1,464            | 366               | 535           | 134                |
| Income tax credit  |                  | <u>16,364</u>     |               | <u>32,740</u>      |
|  |                  | <u>\$ 36,488</u>  |               | <u>\$ 50,590</u>   |
| Non-current items:   |                  |                   |               |                    |
| Welfare expenses   | \$ 1,750         | \$ 437            | \$ 545        | \$ 136             |
| Impairment losses  | 294,956          | 73,739            | -             | -                  |
| Reserve for foreign<br>investment  | ( 163,608)       | ( 40,902)         | ( 129,780)    | ( 32,445)          |
| Income tax credit  |                  | <u>39,680</u>     |               | <u>-</u>           |
|  |                  | <u>\$ 72,954</u>  |               | <u>(\$ 32,309)</u> |

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

|   | <u>March 31,</u> |                 |
|---|------------------|-----------------|
|   | <u>2005</u>      | <u>2004</u>     |
| The balance of shareholders account of deductible tax | <u>\$ 7,387</u>  | <u>\$ 2,298</u> |
| 2004 Estimated creditable tax ratio                   | <u>-</u>         |                 |
| 2003 Actual creditable tax ratio                      | <u>-</u>         |                 |

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

|   | <u>March 31,</u>      |                       |
|---|-----------------------|-----------------------|
|   | <u>2005</u>           | <u>2004</u>           |
| On or after January 1, 1998                 |                       |                       |
| a. Earnings not subjected to 10% income tax | \$ 27,482             | (\$ 233,738)          |
| b. Earnings subjected to 10% income tax     | ( <u>398,193</u> )    | <u>50,440</u>         |
|   | ( <u>\$ 370,711</u> ) | ( <u>\$ 183,298</u> ) |

F) As of March 31, 2005, the Company's income tax returns for the years through 2001 have been assessed and approved by the Tax Authority. 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 court has rendered an unfavorable judgment and the Company had prepaid all of the additional income tax (stated under other receivables), as well as, filed a second appeal to the higher court.

G) The Company's tax return for the year 2001 has been accessed by the Tax Authority and \$26,293 additional tax was imposed. The Company has reviewed each adjustment by the tax authority and determined that only \$244 additional tax was due. The Company has accrued this additional tax liability in the first quarter 2005 financial statements, and has filed an appeal in April 2005.

H) The incremental income associated with the Company’s investments in the development of its PC –based and internet –based computer games is exempt from income tax for five years (2001 to 2006).

I) As of March 31, 2005, according to “Income Tax Law” and “Statute for Upgrading Industries”, the Company had income tax credits in the amount of \$69,006 to offset taxable income for the next four years. The details are as follows:

| Deductible item                       | Total Credits | Un-utilized<br>balance | Year of<br>expiration |
|---------------------------------------|---------------|------------------------|-----------------------|
| Research and development expenditures | \$ 12,532     | \$ 11,241              | 2008                  |
| Research and development expenditures | 3,655         | 3,655                  | 2009                  |
| Machinery and equipment               | 23,469        | 23,469                 | 2007                  |
| Machinery and equipment               | 17,388        | 17,388                 | 2008                  |
| Machinery and equipment               | 291           | 291                    | 2009                  |
|                                       | \$ 57,335     | \$ 56,044              |                       |

(21) Earnings per share

| Three-month period ended March 31, 2005 |                  |  |                             |                  |         |
|---|------------------|--|-----------------------------|------------------|---------|
| Amount                                  |                  | Weighted<br>average<br>outstanding<br>common<br>shares | Earnings per share (Note 1) |                  |         |
| Before income tax                       | After income tax |  | Before income tax           | After income tax |         |
| Earnings per share:                     |                  |  |                             |                  |         |
| Net income                              | \$ 60,295        | \$ 27,482  | 147,918                     | \$ 0.41          | \$ 0.19 |

As of March 31, 2005, the outstanding employee stock option has no dilution effect.

| Three-month period ended March 31, 2004 |                   |                  |  |                             |                  |
|---|-------------------|------------------|--|-----------------------------|------------------|
|   | Amount            |                  | Weighted average outstanding common shares | Earnings per share (Note 1) |                  |
|   | Before income tax | After income tax |  | Before income tax           | After income tax |
| Earning per share                       |                   |                  |  |                             |                  |
| Net income                              | \$ 40,272         | \$ 37,046        | 153,800                                    | \$ 0.26                     | \$ 0.24          |

Note1: In New Taiwan Dollars.

(22) Treasury Stock

| Three-month period ended March 31, 2005              |                        |           |                 |                     |
|--|------------------------|-----------|-----------------|---------------------|
| A) Purposes  | Beginning share (Note) | Additions | Disposals       | Ending share (Note) |
| Employees stock options                              | 5,000                  | -         | -               | 5,000               |
| To enhance Company's credit and shareholders' equity | 1,072                  | -         | ( 1,072)        | -                   |
|  | <u>6,072</u>           | <u>-</u>  | <u>( 1,072)</u> | <u>5,000</u>        |

| Three-month period ended March 31, 2004 |                        |           |           |                     |
|---|------------------------|-----------|-----------|---------------------|
| Purposes                                | Beginning share (Note) | Additions | Disposals | Ending share (Note) |
| Employees stock options                 | 5,000                  | -         | -         | 5,000               |

Note: Amount in thousands of shares.

B) The maximum and ending balances of treasury stock for the period ended March 31, 2005 and 2004 are as follow:

| March 31, 2005  |                | March 31, 2004  |                |
|-----------------|----------------|-----------------|----------------|
| Maximum balance | Ending balance | Maximum balance | Ending balance |
| \$ 319,214      | \$ 302,140     | \$ 302,140      | \$ 302,140     |

- C) According to the R.O.C Security Exchange Act, the percentage of the number of shares of treasury stocks may not exceed 10% of the total shares of common stocks 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. As of March 31, 2005 and 2004, the Company's treasury stock balance amounted to \$302,140.
- D) According to the R.O.C Security Exchange Act, treasury stocks held by the Company can not be pledged, and shall bear no right of shareholders until reissued.
- E) According to the R.O.C. Security Exchange Act. The shares bought back by the Company, except for the purpose of maintaining Company credit and shareholders' equity which amendment of the registration shall be filed within six months from date of repurchase, must be transferred within three years from the date of repurchase. Shares not transferred within the fine limit shall be deemed as unissued and application for amendment of the registration shall be filed.

(23) 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 option 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 three-month periods ended March 31, 2005 and 2004 are as follows:

|   | For the three-month periods ended March 31, |   |                             |   |
|---|---|---|-----------------------------|---|
|   | 2005  |   | 2004                        |   |
| Stock Options                                     | <u>Units (in thousands)</u>                 | <u>Weighted-average exercise price (in dollars)</u><br>(Note) | <u>Units (in thousands)</u> | <u>Weighted-average exercise price (in dollars)</u><br>(Note) |
| Beginning outstanding balance (Note)              | 10,000                                      | \$ 32.80  | -                           | \$ -  |
| Number of options granted                         | -   | -   | 10,000                      | 32.8  |
| Adjustment due to issuance of stock dividends     | -   | -   | -                           | -   |
| Exercised   | -   | -   | -                           | -   |
| Cancelled   | -   | -   | -                           | -   |
| Ending outstanding balance (Note)                 | <u>10,000</u>                               | 32.80   | <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 March 31, 2005 and 2004, the details of outstanding stock options are as follows:

|                             | For the three-month periods ended March 31, 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   | 4.83                                   | \$ 32.80                                     | -                         | \$ -   |  |

| For the three-month periods ended March 31, 2004 |                         |  |   |                         |   |
|--|-------------------------|--|---|-------------------------|---|
| Outstanding stock options                        |                         |  | Exercisable stock options                           |                         |   |
| Exercise price<br>(in dollars)                   | Units<br>(in thousands) | Weighted- average<br>remaining life (year) | Weighted- average<br>exercise price<br>(in dollars) | Units<br>(in thousands) | Weighted- average<br>exercise price<br>(in dollars) |
| \$ 32.80   | 10,000                  | 5.83                                       | \$ 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>For the three-month period<br/>ended March 31, 2005</u> | <u>For the three-month period<br/>ended March 31, 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>For the three-month period<br/>ended March 31, 2005</u> | <u>For the three-month period<br/>ended March 31, 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”             | 16,028   | 10,034   |

(d) Pro forma information:

|                               |                      | For the three-month period<br>ended March 31, 2005 | For the three-month period<br>ended March 31, 2004 |
|-------------------------------|----------------------|--|--|
| Net income                    | Net income           | \$ 27,482  | \$ 37,046  |
|                               | Pro forma net income | 11,454   | 27,012   |
| Basic earnings<br>per share   | EPS                  | 0.19 (in dollars)                                  | 0.24 (in dollars)                                  |
|                               | Pro forma EPS        | 0.08 (in dollars)                                  | 0.18 (in dollars)                                  |
| Diluted earnings<br>per share | EPS                  | 0.19 (in dollars)                                  | 0.24 (in dollars)                                  |
|                               | Pro forma EPS        | 0.08 (in dollars)                                  | 0.18 (in dollars)                                  |

(24) Personnel, Depreciation and Amortization Expenses

|                             | Three-month period ended<br>March 31, |                  |
|-----------------------------|---------------------------------------|------------------|
|                             | 2005                                  | 2004             |
| Personnel expenses          |                                       |                  |
| Salaries                    | \$ 72,127                             | \$ 64,932        |
| Labor and health insurances | 5,156                                 | 5,445            |
| Pension                     | 2,189                                 | 1,032            |
| Other                       | 4,719                                 | 4,820            |
|                             | <u>\$ 84,191</u>                      | <u>\$ 76,229</u> |
| Depreciation expense        | \$ 33,488                             | \$ 32,780        |
| Amortization                | 17,419                                | 10,843           |
|                             | <u>\$ 50,907</u>                      | <u>\$ 43,623</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.   | "   |
| 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)                                     | Investment Company accounted for under equity method. |

(2) Significant transactions with related parties

A) Service revenue

|              | For the three-month periods ended March 31, |                             |                 |                             |
|--------------|---|-----------------------------|-----------------|-----------------------------|
|              | 2005  |                             | 2004            |                             |
|              | Amount                                      | % of net<br>service revenue | Amount          | % of net<br>service revenue |
| NC Taiwan    | \$ 31,486                                   | 75                          | \$ 6,833        | 100                         |
| Taiwan Index | 9,892                                       | 24                          | -               | -                           |
|              | <u>\$ 41,378</u>                            | <u>99</u>                   | <u>\$ 6,833</u> | <u>100</u>                  |

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

B) Advertising expense

|              | For the three-month periods ended March 31, |                                 |             |                                 |
|--------------|---|---------------------------------|-------------|---------------------------------|
|              | 2005  |                                 | 2004        |                                 |
|              | Amount                                      | % of net<br>advertising expense | Amount      | % of net<br>advertising expense |
| Taiwan Index | <u>\$ 1,451</u>                             | <u>9</u>                        | <u>\$ -</u> | <u>-</u>                        |

C) Rent revenue

|           | For the three-month periods ended March 31, |                          |             |                          |
|-----------|---|--------------------------|-------------|--------------------------|
|           | 2005  |                          | 2004        |                          |
|           | Amount                                      | % of net<br>rent revenue | Amount      | % of net<br>rent revenue |
| NC Taiwan | \$ 1,354                                    | 97                       | \$ -        | -                        |
| Others    | 6   | 1                        | -           | -                        |
|           | <u>\$ 1,360</u>                             | <u>98</u>                | <u>\$ -</u> | <u>-</u>                 |

D) Note receivable

|           | For the three-month periods ended March 31, |                             |             |                             |
|-----------|---|-----------------------------|-------------|-----------------------------|
|           | 2005  |                             | 2004        |                             |
|           | Amount                                      | % of net<br>note receivable | Amount      | % of net<br>note receivable |
| NC Taiwan | \$ 1,587                                    | 3                           | \$ -        | -                           |
| Others    | 123   | -                           | -           | -                           |
|           | <u>\$ 1,710</u>                             | <u>3</u>                    | <u>\$ -</u> | <u>-</u>                    |

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

E) Other receivables

|                   | <u>March 31, 2005</u> |                          | <u>March 31, 2004</u> |                          |
|-------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                   | % of net              |                          | % of net              |                          |
|                   | <u>Amount</u>         | <u>other receivables</u> | <u>Amount</u>         | <u>other receivables</u> |
| Soga              | \$ 16,187             | 8                        | \$ -                  | -                        |
| Gamania (H.K.)    | 8,375                 | 4                        | 4,773                 | 15                       |
| NC Taiwan         | 6,598                 | 3                        | 18,852                | 57                       |
| Gamania (Japan)   | 3,713                 | 2                        | 251                   | 1                        |
| Gamania (Beijing) | 1,941                 | 1                        | -                     | -                        |
| Taiwan Index      | 1,575                 | 1                        | -                     | -                        |
| Others            | <u>2,285</u>          | <u>1</u>                 | <u>1,794</u>          | <u>5</u>                 |
|                   | <u>\$ 40,674</u>      | <u>20</u>                | <u>\$ 25,670</u>      | <u>78</u>                |

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

F) Note payable

|              | <u>March 31, 2005</u> |                     | <u>March 31, 2004</u> |                     |
|--------------|-----------------------|---------------------|-----------------------|---------------------|
|              | % of net              |                     | % of net              |                     |
|              | <u>Amount</u>         | <u>note payable</u> | <u>Amount</u>         | <u>note payable</u> |
| NC Taiwan    | \$ 58,650             | 45                  | \$ 8,847              | 16                  |
| Taiwan Index | <u>3,087</u>          | <u>2</u>            | <u>-</u>              | <u>-</u>            |
|              | <u>\$ 61,737</u>      | <u>47</u>           | <u>\$ 8,847</u>       | <u>16</u>           |

Note payable are payments due to subsidiaries for sales proceeds collected on behalf of subsidiaries.

G) Other payables

|                   | <u>March 31, 2005</u> |                       | <u>March 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         | \$ 111,043            | 61                    | \$ 32,005             | 62                    |
| Taiwan Index      | 49,420                | 27                    | -                     | -                     |
| Gamania (Japan)   | 2,228                 | 1                     | -                     | -                     |
| Gamania (Beijing) | 1,617                 | 1                     | -                     | -                     |
| Others            | <u>587</u>            | <u>-</u>              | <u>-</u>              | <u>-</u>              |
|                   | <u>\$ 164,895</u>     | <u>90</u>             | <u>\$ 32,005</u>      | <u>62</u>             |

Other payable consists of sales of products and expenses incurred on behalf of the subsidiaries.

H) Commitments

The Company provided the following guarantees for the bank loans of its related party.

|           | <u>March 31,</u> |             |
|-----------|------------------|-------------|
|           | <u>2005</u>      | <u>2004</u> |
| NC Taiwan | <u>\$ 30,000</u> | <u>\$ -</u> |

6. DETAILS OF PLEDGED OR RESTRICTED ASSETS

| <u>Assets</u>       | <u>March 31,</u>  |                   | <u>Purpose</u>                       |
|---------------------|-------------------|-------------------|--------------------------------------|
|                     | <u>2005</u>       | <u>2004</u>       |                                      |
| Land                | \$ 141,717        | 117,270           | Long-term loans /<br>Credit lines    |
| Buildings           | 48,123            | 97,824            | "                                    |
| Machinery equipment | <u>33,285</u>     | <u>23,827</u>     | Long-term loans/<br>Short term loans |
|                     | <u>\$ 223,125</u> | <u>\$ 238,921</u> |                                      |

## 7. COMMITMENTS AND CONTINGENT LIABILITIES

- (1) As of March 31, 2005, the total future rental payments for the next 3 years under non-cancellable operating lease agreements for the Company's office building was \$21,145.
- (2) 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 consumer usage.
- (3) As of March 31, 2005, the total contract for accounting software and its related consulting services totaled \$30,860, of which \$27,086 had been paid.
- (4) As described in Note 4(20), the Tax Authority assessed the Company with additional income tax of \$963 for 1999, and in 2003, the Company filed an appeal to contest the assessment.

The Tax Authority rejected the appeal. The Company disagrees with the result and had prepaid all of the additional income tax, as well as, filed a second appeal to the higher court.

- (5) For the period from March 16, 2005 to December 31, 2005, First Commercial Bank provided guarantee on behalf the Company to a customer.

## 8. MAJOR CATASTROPHE

None.

## 9. SUBSEQUENT EVENTS

None.

## 10. OTHERS

### (1) Information on derivative transactions

None.

(2) Non-derivative financial instruments

| <u>Assets</u>   | <u>March 31, 2005</u> |                   |
|---|-----------------------|-------------------|
|   | <u>Book value</u>     | <u>Fair value</u> |
| Financial assets with book value<br>approximating their fair value      | \$ 841,923            | \$ 841,923        |
| Short-term investments  | 868,700               | 870,829           |
| Long-term investments   | 721,752               | 652,780           |
| Refundable deposits   | 6,802                 | 6,242             |
| <u>Liabilities</u>  |                       |                   |
| Financial liabilities with book value<br>approximating their fair value | 501,109               | 501,109           |
| Long-term liabilities-current portion                                   | 52,801                | 52,801            |
| Accrued pension liabilities   | 3,851                 | 10,677            |
| Long-term loans payable   | 341,461               | 341,461           |
| Deposits received   | 34                    | 34                |

| <u>Assets</u>   | <u>March 31, 2004</u> |                   |
|---|-----------------------|-------------------|
|   | <u>Book value</u>     | <u>Fair value</u> |
| Financial assets with book value<br>approximating their fair value      | \$ 963,738            | \$ 963,738        |
| Short-term investments  | 643,174               | 644,679           |
| Long-term investments   | 725,104               | 653,288           |
| Refundable deposits   | 13,308                | 13,308            |
| <u>Liabilities</u>  |                       |                   |
| Financial liabilities with book value<br>approximating their fair value | 313,013               | 313,013           |
| Long-term liabilities-current portion                                   | 60,216                | 60,216            |
| Accrued pension liabilities   | -                     | 5,439             |
| Long-term notes and accounts payable                                    | 7,770                 | 7,770             |
| Long-term loans payable   | 359,228               | 359,228           |
| Deposits received   | 528                   | 528               |

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

- A) Financial assets and liabilities with book value approximating fair value. The carrying amounts of short-term non-derivative financial assets and liabilities, which include cash and cash equivalents, notes and accounts receivable (included related parties), other receivables (included related parties), other financial assets-current, short-term loans, commercial paper payable, notes payable (included related parties), 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 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 and long-term loans payable are the present value of expected future flows.
- E) The fair value of accrued pension liabilities is based on the actuarial pension report and the measurement dates are December 31, 2004 and 2003 and adjusted for pension cost and contributions to the independent fund during the three-month periods ended March 31, 2005 and 2004.
- F) The fair value of guarantee deposits is the book value since the amount is on significant.
- G) Off-balance sheet financial instruments with credit risk:

|   | <u>March 31,</u> |             |
|---|------------------|-------------|
|   | <u>2005</u>      | <u>2004</u> |
| Guarantee provided to secure related parties' loans | <u>\$ 30,000</u> | <u>\$ -</u> |

Guarantees made by the Company are in compliance with the Company's "Procedures to Provide Guarantees" and are provided only majority owned subsidiaries. Because the Company is able to control the credit status of these related parties, no collateral was provided. In the event that the related parties fail to comply with the loan agreement, the maximum loss is the total amount of the guarantee.

- (3) For the three-month periods ended March 31, 2005 and 2004, the Company donated inventories, magazines and related products amounting to \$3,865 and \$8,378, respectively, to political parties, charities, and educational institutes that are accredited by the government, without considerations.
- (4) Certain accounts in the financial statements of three-month period ended March 31, 2004 have been reclassified to conform with the presentation adopted for the three-month period ended March 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 three-month period ended March 31, 2005 | Outstanding guarantee amount at March 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 | NC Taiwan Co., Ltd.      | 3                                      | \$ 30,000                                    | \$ 30,000  | \$ 30,000                                      | None                                       | 1.28%   | \$ 458,753<br><br>(30% of the Company's net assets)                   |

Note 1: Number 0 represents the Company.

Note 2: Number 3 means the Company directly or indirectly 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 March 31, 2005:

Unit: Thousands of New Taiwan Dollars / Thousands of Shares

| Company     | Type of marketable securities<br>(Note (1)) | Name of marketable securities                       | Relationship of the issuers with the security holders  | General ledger account | March 31, 2005   |            |            |                            |      |
|-------------|---|---|--|------------------------|------------------|------------|------------|----------------------------|------|
|             |   |   |  |                        | Number of shares | Book value | Percentage | Market value<br>(Note (2)) | Note |
| The Company | Common Stock                                | Gamania Holdings Ltd.                               | Subsidiary   | Long-term investment   | 25,291           | \$ 217,994 | 100%       | \$ 217,994                 | None |
| "           | "   | Gamania Korea Co., Ltd.                             | "  | "                      | 394              | 130,981    | 100%       | 130,981                    | "    |
| "           | "   | Alibangbang Digital Games Co., Ltd.                 | "  | "                      | 5,600            | 13,759     | 93.33%     | 11,187                     | "    |
| "           | "   | NC Taiwan Co., Ltd.                                 | "  | "                      | 7,140            | 85,305     | 51.00%     | 85,305                     | "    |
| "           | "   | Taiwan Index Co., Ltd.                              | "  | "                      | 17,350           | 161,755    | 69.40%     | 117,140                    | "    |
| "           | "   | Gamania Aisa Investment Co., Ltd.                   | "  | "                      | 9,000            | 77,567     | 100%       | 55,782                     | "    |
| "           | "   | Gamania Digital Entertainment Labuan Holdings, Ltd. | "  | "                      | 2                | 96         | 100%       | 96                         | "    |
| "           | "   | Soga Interactive Co., Ltd.                          | Investee company accounted for under the equity method | "                      | 1,360            | 7,449      | 40.00%     | 7,449                      | "    |
| "           | "   | Buybooks Digital Technology Co., Ltd.               | Investee company accounted for under the cost method   | "                      | 300              | 2,995      | 3.74%      | 2,995                      | "    |
| "           | "   | ECD Interactive Corporation                         | "  | "                      | 2,040            | 5,200      | 18.55%     | 5,200                      | "    |
| "           | "   | Joyon Entertainment Co., Ltd.                       | "  | "                      | 700              | 9,851      | 17.86%     | 9,851                      | "    |
| "           | "   | RAVA Ideologie Inc.                                 | "  | "                      | 880              | 8,800      | 8.69%      | 8,800                      | "    |
| "           | "   | Zona Inc.   | "  | "                      | 1,000            | -          | 10.34%     | -                          | "    |

| Company     | Type of marketable securities<br>(Note (1)) | Name of marketable securities | Relationship of the issuers with the security holders | General ledger account | March 31, 2005   |            |            |                            |      |
|-------------|---|-------------------------------|---|------------------------|------------------|------------|------------|----------------------------|------|
|             |   |                               |   |                        | Number of shares | Book value | Percentage | Market value<br>(Note (2)) | Note |
| The Company | Bond Funds                                  | Fund 1                        | None  | Short-term investment  | 1,997            | \$ 20,000  | -          | \$ 20,004                  | None |
| "           | "   | Fund 2                        | "   | "                      | 4,850            | 67,000     | -          | 67,138                     | "    |
| "           | "   | Fund 3                        | "   | "                      | 375              | 5,000      | -          | 5,003                      | "    |
| "           | "   | Fund 4                        | "   | "                      | 2,267            | 25,000     | -          | 25,039                     | "    |
| "           | "   | Fund 5                        | "   | "                      | 2,199            | 25,000     | -          | 25,039                     | "    |
| "           | "   | Fund 6                        | "   | "                      | 2,531            | 30,000     | -          | 30,099                     | "    |
| "           | "   | Fund 7                        | "   | "                      | 665              | 10,000     | -          | 10,032                     | "    |
| "           | "   | Fund 8                        | "   | "                      | 2,024            | 30,000     | -          | 30,099                     | "    |
| "           | "   | Fund 9                        | "   | "                      | 2,131            | 30,000     | -          | 30,099                     | "    |
| "           | "   | Fund 10                       | "   | "                      | 3,518            | 50,000     | -          | 50,074                     | "    |
| "           | "   | Fund 11                       | "   | "                      | 4,194            | 50,000     | -          | 50,155                     | "    |
| "           | "   | Fund 12                       | "   | "                      | 2,908            | 30,000     | -          | 30,134                     | "    |
| "           | "   | Fund 13                       | "   | "                      | 398              | 6,000      | -          | 6,009                      | "    |
| "           | "   | Fund 14                       | "   | "                      | 4,136            | 59,700     | -          | 59,920                     | "    |
| "           | "   | Fund 15                       | "   | "                      | 1,454            | 20,000     | -          | 20,006                     | "    |
| "           | "   | Fund 16                       | "   | "                      | 455              | 5,000      | -          | 5,008                      | "    |
| "           | "   | Fund 17                       | "   | "                      | 1,402            | 20,000     | -          | 20,024                     | "    |
| "           | "   | Fund 18                       | "   | "                      | 2,251            | 28,000     | -          | 28,093                     | "    |
| "           | "   | Fund 19                       | "   | "                      | 2,396            | 26,000     | -          | 26,073                     | "    |
| "           | "   | Fund 20                       | "   | "                      | 4,135            | 50,000     | -          | 50,168                     | "    |
| "           | "   | Fund 21                       | "   | "                      | 4,579            | 50,000     | -          | 50,164                     | "    |
| "           | "   | Fund 22                       | "   | "                      | 4,015            | 50,000     | -          | 50,172                     | "    |
| "           | "   | Fund 23                       | "   | "                      | 4,923            | 50,000     | -          | 50,168                     | "    |
| "           | "   | Fund 24                       | "   | "                      | 2,781            | 32,000     | -          | 32,085                     | "    |
| "           | "   | Fund 25                       | "   | "                      | 4,712            | 50,000     | -          | 50,036                     | "    |
| "           | "   | Fund 26                       | "   | "                      | 4,011            | 45,000     | -          | 45,018                     | "    |
| "           | "   | Fund 27                       | "   | "                      | 500              | 5,000      | -          | 5,000                      | "    |

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 period-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 March 31, 2005 in excess of \$100,000 or 20% of capital: None
- 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       |
|-------------|---|--|------------------------------|--------------------------|------------|---------------------|------------|------------|--------------------------------------|--|------------|
|             |   |  |                              | 2005.3.31                | 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 | \$ 862,737               | \$815,442  | 25,291              | 100%       | \$217,994  | (\$ 9,123)                           | (\$ 9,123)                                       | 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%       | 130,981    | 37                                   | 37   | "          |
| "           | Alibangbang Digital Games Co., Ltd.                 | 18F, No. 736 Chung-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan                          | Design and sale of software  | 60,000                   | 50,000     | 5,600               | 93.33%     | 13,759     | ( 6,823)                             | ( 6,504)   | "          |
| "           | NC Taiwan Co., Ltd.                                 | 18F, No. 736 Chung-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan                          | "                            | 71,400                   | 71,400     | 7,140               | 51%        | 85,305     | 33,005                               | 16,832   | "          |
| "           | Taiwan Index Co., Ltd                               | 18F, No. 736 Chung-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan                          | Software Service             | 208,200                  | 208,200    | 17,350              | 69.40%     | 161,755    | ( 2,834)                             | ( 4,784)   | "          |
| "           | Gamania Asia Investment Co., Ltd.                   | 18F, No. 736 Chung-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan                          | Investment                   | 90,000                   | 90,000     | 9,000               | 100%       | 77,567     | ( 2,058)                             | ( 2,058)   | "          |
| "           | Gamania Digital Entertainment Labuan Holdings, Ltd. | Level 7E, Main Office Tower, Financial Park, 87000 Labuan, FT Labuan, Malaysia               | Investment 、 holding company | 67                       | 67         | 2                   | 100%       | 96         | ( 5)                                 | ( 5)   | "          |

| 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   |
|-------------------------------------|---|--|---|--------------------------|--------------------|---------------------|------------|-------------------|-------------------------------------|--|--|
|                                     |   |  |   | 2005.3.31                | 2004.12.31         | Number of Shares    | Percentage | Book value        |                                     |  |  |
| The Company                         | Soga Interactive Co., Ltd.                        | 18F, No. 736 Chung-Cheng Rd., Chung-Ho City Taipei Country, Taiwan                                       | Design and research of software               | \$ 13,600                | \$ 13,600          | 1,360               | 40%        | \$ 7,449          | (\$ 14,163)                         | (\$ 5,665)                                       | Investment company accounted for under equity method |
| Gamania Asia Investment Co., Ltd.   | Taiwan Index Co., Ltd.                            | 18F, No. 736 Chung-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan                                      | Design and sale of software                   | 80,625                   | 80,625             | 6,800               | 27.20%     | 68,266            | ( 2,834)                            | ( 2,052)   | "  |
| Gamania Holdings Ltd.               | Gamania International Holdings Ltd.               | 3F, Harbour Center, Box 1348, George Town, Grand Cayman, Cayman Islands, British West Indies             | Investment holding company                    | USD25,291 Thousand       | USD23,791 thousand | 25,291              | 100%       | USD6,937 thousand | ( USD 289 thousand)                 | ( USD 289 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%       | USD3,514 Thousand | USD 36 thousand                     | USD 36 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                    | USD15,850 thousand       | USD14,350 Thousand | 15,124              | 92.16%     | USD3,430 Thousand | (USD 355 thousand)                  | (USD 325 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                            | USD13,350 thousand       | USD11,850 thousand | N/A                 | 100%       | USD3,005 Thousand | (USD 580 thousand)                  | (USD 580 thousand)                               | "  |
| Gamania Sino Holdings Ltd.          | Gamania Digital Entertainment (Beijing) Co., Ltd. | 21 JIU XIAN QIAO Road, Chaoyang District, Beijing, 100022 China (登) 11F, Bldg C, SOHO New Town, Jian Guo | Design and sale of software                   | USD10,980 Thousand       | USD9,480 Thousand  | N/A                 | 100%       | USD2,961 Thousand | (USD 470 thousand)                  | (USD 470 thousand)                               | "  |
| 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%       | USD716 thousand   | USD 256 thousand                    | USD 256 thousand                                 | "  |
| Gamania China Holdings Ltd.         | Gamania Alliance, Co., Limited                    | 50F, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong  | Design and sale of software                   | Note                     | Note               | N/A                 | 100%       | (USD8 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 March 31, 2005:

| Issuer                              | Type of marketable securities<br>(Note (1)) | Name of marketable securities                     | Relationship with the security holders                   | General ledger account | March 31, 2005   |                   |            |                            |      |
|-------------------------------------|---|---|--|------------------------|------------------|-------------------|------------|----------------------------|------|
|                                     |   |   |  |                        | Number of shares | Book value        | Percentage | Market value<br>(Note (2)) | Note |
| Gamania Holdings Ltd.               | Common Stock                                | Gamanina International Holdings Ltd.              | Subsidiary   | Long-term investment   | 25,291           | USD6,937 thousand | 100%       | USD6,937 thousand          | None |
| Gamania International Holdings Ltd. | "   | Gamania Digital Entertainment (Japan) Co., Ltd.   | "  | "                      | 17               | USD3,514 Thousand | 100%       | USD3,514 thousand          | "    |
| Gamania International Holdings Ltd. | "   | Gamania China Holdings Ltd.                       | "  | "                      | 15,124           | USD3,430 Thousand | 92.16%     | USD3,430 Thousand          | "    |
| Gamania China Holdings Ltd.         | "   | Gamania Alliance, Co., Limited                    | "  | "                      | 2(Note(3))       | (USD8 thousand)   | 100%       | (USD8 thousand)            | "    |
| Gamania China Holdings Ltd.         | "   | Gamania Digital Entertainment (H.K.) Co., Ltd.    | "  | "                      | 35,500           | USD716 thousand   | 100%       | (USD716 thousand)          | "    |
| Gamania China Holdings Ltd.         | "   | Gamania Sino Holdings Ltd.                        | "  | "                      | N/A              | USD3,005 Thousand | 100%       | USD3,005 thousand          | "    |
| Gamania Sino Holdings Co., Ltd.     | "   | Gamania Digital Entertainment (Beijing) Co., Ltd. | "  | "                      | N/A              | USD2,961 thousand | 100%       | USD2,961 thousand          | "    |
| Gamania Asia Investment Co., Ltd.   | "   | Taiwan index Co., Ltd.                            | Investment company accounted for under the equity method | "                      | 6,800            | 68,266            | 27.2%      | 46,481                     | "    |

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 March 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 | \$ 169,693                                 | N/A           | \$ -               | N/A                                 | \$ 10,000              | \$ -                                     |

- 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 March 31, 2005 | Remitted or received investment amount during the period |          | Accumulated investment as of March 31, 2005 | Direct and indirect percentage of ownership | Investment loss recognized during the period (Note (3)) | Balance of investment at March 31, 2005 | Accumulated investment income received as of March 31, 2005 |
|---|-----------------------------|------------------------------------|-------------------|---|--|----------|---|---|---|---|---|
|   |                             |                                    |                   |   | Remitted   | Received |   |   |   |   |   |
| Gamania Digital Entertainment (Beijing) Co., Ltd. | Design and sale of software | (RMB 90,778 thousand)<br>\$347,529 | (Note (2))        | (USD7,350 thousand)<br>\$233,069            | (USD1,500 thousand)<br>\$47,295                          | \$ -     | (USD8,850 thousand)<br>\$279,218            | 92.16%                                      | (USD431 thousand)<br>(\$13,601)                         | (USD2,729 thousand)<br>\$86,100         | \$ -  |

| Accumulated amount of investment in Mainland China as of March 31, 2005 | Related investment amount approved by FIA | The upper limit of investment in Mainland China |
|---|---|---|
| \$ 279,218(USD8,850 thousand)   | \$393,795 (Note (1))                      | \$934,995                                       |

Note (1): Related total investment amount approved by FIA is USD12,481,600 or NTD 393,795 thousand based on 31.55exchange 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 unaudited financial statements of the investee.

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