

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS**

DECEMBER 31, 2006 AND 2005

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

Report of Independent Accountants

(07) R.F014.06000574

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

We have audited the accompanying consolidated balance sheets of Gamania Digital Entertainment Co., Ltd. (the “Company”) and its subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, of changes in stockholders’ equity and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain investee companies, which statements reflect total assets of \$713,846 thousand and \$733,667 thousand, constituting 21.4% and 22.17% of the related consolidated totals as of December 31, 2006 and 2005, respectively, and total operating revenues of \$1,006,393 thousand and \$1,188,254 thousand, constituting 27.35% and 39.85% of the related consolidated totals for the years then ended, respectively. In addition, as explained in Note 4(6), we did not audit the financial statements of investees accounted for under the equity method. These long-term investments amounted to \$29,832 thousand and \$62,956 thousand, constituting 0.89% and 1.96% of the consolidated total assets as of December 31, 2006 and 2005, respectively, and their related investment loss amounted to \$14,788 thousand and \$4,558 thousand, constituting 3.40% and 1.75% of the consolidated net income attributable to equity holders of the Company for the years then ended, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these investee companies and the information disclosed in Note 11(2) relative to these long-term investments, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gamania Digital Entertainment Co., Ltd. and its subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, “Business Entity Accounting Law”, “Regulation on Business Entity Accounting Handling” and generally accepted accounting principles in the Republic of China.

As discussed in Notes 3 and 4(10), effective in the fourth quarter of 2004, the Company adopted R.O.C. Statement of Financial Accounting Standards No. 35, “Accounting for Assets Impairment”. As a result of the adoption of SFAS No. 35, total assets and stockholders’ equity decreased by \$321,770 thousand as of December 31, 2005. The adoption had no significant effect on net income for the year ended December 31, 2005.

As disclosed in Note 4(10), due to the adjustment in market value, certain assets were impaired which resulted to a decrease in the 2005 income of \$176,610 thousand.

As described in Notes 1, 2 and 3, effective January 1, 2005, the Company adopted the newly amended Statement of Financial Accounting Standards No. 7 “Consolidated Financial Statements” which require the consolidation of all majority-owned subsidiaries.

April 4, 2007

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows of the Company in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices utilized in the Republic of China governing the audit of such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated 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. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2006	2005		2006	2005
ASSETS			LIABILITIES AND STOCKHOLDERS' EQUITY		
<u>Current Assets</u>			<u>Current Liabilities</u>		
Cash and cash equivalents (Note 4 (1))	\$ 1,031,180	\$ 985,048	Short-term loans (Note 4 (11))	\$ 30,000	\$ 84,376
Notes receivable – third parties – net (Note 4 (2))	112,694	84,878	Notes payable – third parties	75,479	105,672
Accounts receivable – third parties – net (Note 4 (3))	871,225	822,819	Accounts payable – third parties	98,986	79,154
Other receivables (Note 4 (14))	3,803	4,846	Accounts payable – related party (Note 5)	38,316	46,478
Other receivables – related parties (Note 5)	226	520	Income tax payable (Note 4 (14))	45,643	20,640
Other financial assets – current (Note 6)	-	30,000	Accrued expenses	213,579	204,832
Inventories – net (Note 4 (4))	22,990	15,936	Other payables – third parties	48,890	57,178
Prepaid expenses	17,833	29,958	Unearned revenue collected in advance	222,470	179,083
Deferred income tax assets – current (Note 4 (14))	57,093	38,491	Current portion of long-term liabilities (Notes 4 (12) and 4 (13))	120,128	31,431
Other current assets – other	2,381	6,313	Other current liabilities	13,873	27,520
	<u>2,119,425</u>	<u>2,018,809</u>		<u>907,364</u>	<u>836,364</u>
<u>Long-term Investments</u>			<u>Long-term Liabilities</u>		
Financial assets carried at cost – non-current (Note 4 (5))	91,453	12,551	Long-term loans (Note 4 (12))	25,000	313,634
Long-term investments – accounted for under the equity method (Note 4 (6))	29,832	62,956	Capital lease obligation – non-current (Note 4 (13))	-	129
Prepayment for investment (Note 4 (5))	-	99,999		<u>25,000</u>	<u>313,763</u>
	<u>121,285</u>	<u>175,506</u>			
Other financial assets – non-current (Note 6)	-	2,327	<u>Other Liabilities</u>		
	<u>-</u>	<u>-</u>	Accrued pension liabilities (Note 4 (15))	5,212	7,630
<u>Property, Plant and Equipment – net</u> (Notes 4 (7), 4 (10) and 6)			Guarantee deposits	950	1,338
Cost			Other liabilities – other	950	64
Land	147,751	147,751		<u>7,112</u>	<u>9,032</u>
Buildings	155,946	151,961	Total Liabilities	<u>939,476</u>	<u>1,159,159</u>
Machinery and equipment	829,717	878,560	<u>Stockholders' Equity</u>		
Transportation equipment	-	3,378	Common stock (Notes 1 and 4 (16))	1,468,787	1,518,787
Office equipment	93,683	151,753	Capital reserve (Note 4 (17))	-	-
Leasehold assets	1,535	43,487	Paid-in capital in excess of par	736,166	1,037,644
Leasehold improvements	40,319	93,110	Treasury stock (Note 4 (21))	-	27,162
Other equipment	11,067	11,317	Gain on disposal of property, plant and equipment	221	221
Total Cost	1,280,018	1,481,317	Retained earnings	-	-
Less: Accumulated depreciation	(607,419)	(660,723)	Retained earnings (accumulated deficit) (Notes 4 (14) and 4 (19))	241,323	(267,318)
Accumulated impairment	(18,713)	(31,665)	Financial instruments' unrealized gain	65	-
Construction in progress and prepayments for equipment	1,205	16,735	Cumulative translation adjustments	20,561	21,208
	<u>655,091</u>	<u>805,664</u>	Treasury stock (Note 4 (21))	(155,765)	(302,140)
<u>Intangible assets</u>			Minority interest	84,448	114,434
Trademark	290	338	Total Stockholders' Equity	<u>2,395,806</u>	<u>2,149,998</u>
Goodwill (Note 4 (10))	2,885	2,893	Commitments and Contingent Liabilities (Note 7)		
Deferred pension cost (Note 4 (15))	468	549	Subsequent Event (Note 9)		
Other intangible assets – net (Notes 4 (8) and 4 (10))	775	1,288			
	<u>4,418</u>	<u>5,068</u>			
<u>Other Assets</u>					
Refundable deposits	31,169	38,085			
Deferred charges – net (Notes 4 (9) and 4 (10))	200,164	171,913			
Deferred income tax assets – non-current (Note 4 (14))	203,730	90,718			
Other assets – other	-	1,067			
	<u>435,063</u>	<u>301,783</u>			
TOTAL ASSETS	\$ 3,335,282	\$ 3,309,157	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,335,282	\$ 3,309,157

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated April 4, 2007.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>2006</u>	<u>2005</u>
Operating revenues		
Sales revenue	\$ 3,801,222	\$ 3,100,020
Sales returns	(78,213)	(97,060)
Sales allowances	(58,258)	(36,582)
Net sales revenue	3,664,751	2,966,378
Service revenue (Note 5)	15,184	15,454
Operating revenues	<u>3,679,935</u>	<u>2,981,832</u>
Operating costs		
Cost of goods sold (Notes 4 (23) and 5)	(2,078,095)	(1,667,350)
Gross profit	<u>1,601,840</u>	<u>1,314,482</u>
Operating expenses (Notes 4 (23) and 10)		
Selling expenses	(388,508)	(380,066)
General and administrative expenses	(733,230)	(824,693)
Research and development expenses	(116,084)	(107,885)
Total operating expenses	(1,237,822)	(1,240,644)
Operating income	<u>364,018</u>	<u>73,838</u>
Non-operating income		
Interest income	5,418	2,102
Gain on adjustment of financial assets	6,100	-
Gain on disposal of property, plant and equipment	338	-
Gain on sale of investments (Note 4 (6))	9,600	9,698
Foreign exchange gain	1,555	5
Rental income	224	220
Miscellaneous income	6,790	11,984
Total non-operating income	<u>30,025</u>	<u>24,009</u>
Non-operating expenses		
Interest expense	(10,845)	(12,874)
Investment loss accounted for under the equity method (Note 4 (6))	(14,788)	(4,558)
Other investment loss (Note 4 (5))	(12,551)	(14,295)
Loss on disposal of property, plant and equipment	(7,198)	(28,693)
Loss on physical count of inventories	(1,506)	-
Loss on decline in market value of obsolete inventories	(13,396)	(14,038)
Impairment loss (Note 4 (10))	-	(176,610)
Miscellaneous losses	(20,937)	(10,382)
Total non-operating expenses	(81,221)	(261,450)
Income (loss) before income tax	312,822	(163,603)
Income tax benefit (expense) (Notes 4 (14) and 7)	89,503	(68,965)
Consolidated net income (loss)	<u>\$ 402,325</u>	<u>(\$ 232,568)</u>
Attributable to:		
Equity holders of the Company	\$ 434,711	(\$ 260,033)
Minority interest	(32,386)	27,465
	<u>\$ 402,325</u>	<u>(\$ 232,568)</u>

	<u>2006</u>		<u>2005</u>	
Basic earnings (loss) per share (in dollars) (Note 4 (20))	<u>Before income tax</u>	<u>After income tax</u>	<u>Before income tax</u>	<u>After income tax</u>
Profit (loss) attributable to equity holders of the Company	\$ 2.47	\$ 3.11	(\$ 1.30)	(\$ 1.77)
Minority interest (loss) income	(0.23)	(0.23)	0.19	0.19
Consolidated net income (loss)	<u>\$ 2.24</u>	<u>\$ 2.88</u>	<u>(\$ 1.11)</u>	<u>(\$ 1.58)</u>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated April 4, 2007.

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

	Capital Reserve				Retained Earnings		Other Adjustment Items			Minority interest	Total
	Common Stock	Paid-in Capital in Excess of Par	Treasury Stock Transaction	Capital Surplus from Gain on Disposal of Assets	Legal Reserve	(Accumulated Deficit) Retained Earnings	Financial Instruments' Unrealized Gain	Cumulative Translation Adjustments	Treasury stock		
Balance at January 1, 2005	\$ 1,539,897	\$ 1,348,505	\$ 17,111	\$ 221	\$ 103,066	(\$ 394,267)	\$ -	\$ 21,810	(\$ 319,214)	\$ 79,067	\$ 2,396,196
Acquisition of treasury stock	-	-	-	-	-	-	-	-	(13,645)	-	(13,645)
Retirement of treasury stock	(21,110)	(19,660)	10,051	-	-	-	-	-	30,719	-	-
Paid-in capital and legal reserve compensation for accumulated deficit	-	(291,201)	-	-	(103,066)	394,267	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-	-	-	(602)	-	-	(602)
Effect of change in ownership percentage of investee company	-	-	-	-	-	(7,285)	-	-	-	-	(7,285)
Changes in minority interest	-	-	-	-	-	-	-	-	-	7,902	7,902
Consolidated net loss for 2005	-	-	-	-	-	(260,033)	-	-	-	27,465	(232,568)
Balance at December 31, 2005	<u>\$ 1,518,787</u>	<u>\$ 1,037,644</u>	<u>\$ 27,162</u>	<u>\$ 221</u>	<u>\$ -</u>	<u>(\$ 267,318)</u>	<u>\$ -</u>	<u>\$ 21,208</u>	<u>(\$ 302,140)</u>	<u>\$ 114,434</u>	<u>\$ 2,149,998</u>
Balance at January 1, 2006	\$ 1,518,787	\$ 1,037,644	\$ 27,162	\$ 221	\$ -	(\$ 267,318)	\$ -	\$ 21,208	(\$ 302,140)	\$ 114,434	\$ 2,149,998
Acquisition of treasury stock	-	-	-	-	-	-	-	-	(155,765)	-	(155,765)
Retirement of treasury stock	(50,000)	(34,160)	(27,162)	-	-	(190,818)	-	-	302,140	-	-
Paid-in capital compensation for accumulated deficit	-	(267,318)	-	-	-	267,318	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-	-	-	(647)	-	-	(647)
Effect of change in ownership percentage of investee company	-	-	-	-	-	(2,570)	-	-	-	-	(2,570)
Effect of investee's unrealized gain or loss on financial instruments	-	-	-	-	-	-	65	-	-	-	65
Changes in minority interest	-	-	-	-	-	-	-	-	-	2,400	2,400
Consolidated net income for 2006	-	-	-	-	-	434,711	-	-	-	(32,386)	402,325
Balance at December 31, 2006	<u>\$ 1,468,787</u>	<u>\$ 736,166</u>	<u>\$ -</u>	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ 241,323</u>	<u>\$ 65</u>	<u>\$ 20,561</u>	<u>(\$ 155,765)</u>	<u>\$ 84,448</u>	<u>\$ 2,395,806</u>

The accompanying notes are an integral part of these consolidated financial statements.

See report of independent accountants dated April 4, 2007.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2006	2005
<u>Cash flows from operating activities</u>		
Consolidated net income (loss)	\$ 402,325	(\$ 232,568)
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Gain on sale of investments	(15,700)	(9,698)
Provision for bad debts and sales returns	10,836	15,567
Provision for decline in market value and obsolescence of inventories and inventories written – off	760	60
Investment loss accounted for under equity method	14,788	4,558
Investment loss on financial assets carried at cost – non-current	12,551	14,295
Dividends received from financial assets carried at cost recorded as a reduction of investment cost	8,547	-
Depreciation and amortization	288,250	436,592
Loss on disposal of property, plant and equipment and other intangible assets	6,860	28,693
Amortization of trademark	43	39
Amortization of goodwill	-	18,286
Amortization of other intangible assets	368	-
Impairment loss	-	176,610
Deferred charges charged to cost	22,864	-
Loss on disposal of deferred charges	4,932	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Notes receivable - third parties	(27,816)	(14,231)
Accounts receivable - third parties	(59,242)	(125,994)
Other receivables - third parties	1,043	1,233
Other receivables - related party	294	12,284
Inventories	(7,814)	(2,501)
Prepaid expenses	12,125	2,869
Deferred income tax assets	(131,614)	46,553
Other current assets - other	3,932	(3,774)
Increase (decrease) in:		
Notes payable - third parties	(30,193)	50,438
Accounts payable - third parties	19,832	19,858
Accounts payable - related party	(8,162)	(33,834)
Income tax payable	25,003	2,055
Accrued expenses	8,747	53,062
Other payables - third parties	8,862	(4,751)
Unearned revenue collected in advance	43,387	(47,770)
Other current liabilities	(13,647)	3,432
Accrued pension liabilities	(2,337)	3,729
Net cash provided by operating activities	599,824	415,092

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

	<u>2006</u>	<u>2005</u>
<u>Cash flows from investing activities</u>		
Increase in financial assets held for trading - bond funds	(\$ 2,583,000)	(\$ 2,882,700)
Proceeds from disposal of financial assets held for trading - bond funds	2,589,100	2,892,330
Increase in long-term investment – subsidiary	-	(154,400)
Proceeds from disposal of long-term investments	28,000	-
Acquisition of property, plant and equipment	(97,719)	(237,205)
Proceeds from disposal of property, plant and equipment	8,112	7,883
Increase in deferred charges	(128,453)	(191,494)
Increase in trademark	-	(70)
Increase in other intangible assets	-	(23,284)
Decrease (increase) in refundable deposits, net	6,916	(704)
Decrease (increase) in other financial assets – current	30,000	(30,000)
Decrease in other financial assets – non-current	2,327	9,309
Decrease (increase) in other assets – other	<u>1,067</u>	<u>(1,067)</u>
Net cash used in investing activities	<u>(143,650)</u>	<u>(611,402)</u>
<u>Cash flows from financing activities</u>		
(Decrease) increase in short-term loans	(54,376)	39,502
(Decrease) increase in long-term loans	(199,937)	81,355
Decrease in capital lease obligation – non-current	(129)	(18,542)
Increase in other liabilities - other	886	65
(Decrease) increase in guarantee deposits	(388)	631
Acquisition of treasury stock	(155,765)	(13,645)
Changes in minority interest	<u>2,400</u>	<u>7,902</u>
Net cash (used in) provided by financing activities	<u>(407,309)</u>	<u>97,268</u>
Effect of exchange rate changes in cash and cash equivalents	(2,733)	17,511
Effect of changes in consolidated subsidiaries	<u>-</u>	<u>138,929</u>
Net increase in cash and cash equivalents	46,132	57,398
Cash and cash equivalents at beginning of year	<u>985,048</u>	<u>927,650</u>
Cash and cash equivalents at end of year	<u>\$ 1,031,180</u>	<u>\$ 985,048</u>
<u>Supplemental disclosures of cash flow information</u>		
Cash paid during the year for:		
Interest	<u>\$ 11,345</u>	<u>\$ 12,320</u>
Income taxes	<u>\$ 16,851</u>	<u>\$ 14,707</u>
<u>Cash paid for the acquisition of property, plant and equipment:</u>		
Property, plant and equipment acquired	\$ 80,569	\$ 239,306
Payable at end of year	(2,975)	(20,125)
Payable at beginning of year	<u>20,125</u>	<u>18,024</u>
Cash paid	<u>\$ 97,719</u>	<u>\$ 237,205</u>

The accompanying notes are an integral part of these consolidated financial statements.

See report of independent accountants dated April 4, 2007.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

(1) Gamania Digital Entertainment Co., Ltd. (the Company) was incorporated in June 1995 under the provisions of the Company Law of the Republic of China (R.O.C.) as a company limited by shares. As of December 31, 2006, the total authorized capital was \$2,500,000, consisting of 250 million shares of common stock (including 15 million shares of employee stock options), at a par value of \$10 (NT dollars) per share, and issued and outstanding capital was \$1,468,787. The Company is engaged in software services, TV programming and magazine publications. As of December 31, 2006, the Company and its consolidated subsidiaries had 1,083 employees.

(2) Consolidated subsidiaries

<u>Name of company</u>	<u>Relationship</u>	<u>Main activities</u>	<u>% of shares held as of</u>	
			<u>2006</u>	<u>2005</u>
Gamania Holdings Ltd.	Note A	Investment holding company	100%	100%
NC Taiwan Co., Ltd.	Note A	Design and sale of software	51.00%	51.00%
Taiwan Index Co., Ltd.	Note A	Software service	96.60%	96.60%
Gamania Asia Investments Co., Ltd.	Note A	Investment	100%	100%
Gamania Korea Co., Ltd.	Note A	Design and sale of software	100%	100%
Alibangbang Games Co., Ltd.	Note A	Design and research of software	96.36%	95.56%
Gamania Digital Entertainment Labuan Holdings, Ltd.	Note A	Investment holding company	100%	100%
Gamania International Holding Ltd.	Note B	Investment holding company	100%	100%
Gamania Digital Entertainment (Japan) Co., Ltd.	Note C	Design and sale of software; sale of hardware	100%	100%
Gamania China Holdings Ltd.	Note C	Investment holding company	92.92%	92.57%
Gamania Digital Entertainment (H.K.) Co., Ltd.	Note D	Design and sale of software	92.92%	92.57%
G. A. Co., Limited	Note D	Design and sale of software	92.92%	92.57%
Gamania Digital Entertainment Sino Holdings Co., Ltd.	Note D	General investment	92.92%	92.57%
Gamania Digital Entertainment (Beijing) Co., Ltd.	Note E	Design and sale of software	92.92%	92.57%

Note A: Majority-owned subsidiary

Note B: A majority-owned subsidiary of Gamania Holdings Ltd.

Note C: A majority-owned subsidiary of Gamania International Holding Ltd.

Note D: A majority-owned subsidiary of Gamania China Holdings Ltd.

Note E: A majority-owned subsidiary of Gamania Digital Entertainment Sino Holdings
Co., Ltd.

- (3) Changes in the consolidated subsidiaries: None.
- (4) Majority-owned subsidiaries not consolidated: None.
- (5) Difference in accounting period among the Company and the subsidiaries: None.
- (6) Difference in the accounting policies adopted among the Company and the subsidiaries: None.
- (7) Special operation risk of foreign subsidiaries: None.
- (8) Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.
- (9) The Company's and its subsidiaries' earnings distribution are restricted by enactment or contract: None.
- (10) The amortization method and terms of the difference between the acquisition cost and the net equity of the subsidiary: None.
- (11) Other consequential items or the properly exposition to the consolidated financial statements: None.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", "Business Entity Accounting Law", "Regulation on Business Entity Accounting Handling" and generally accepted accounting principles in the Republic of China. The significant accounting policies of the Group are summarized below:

(1) Principles of consolidation

- (A) Effective January 1, 2005, all majority-owned subsidiaries or controlled entities, which meet the criteria of the amended Statement of Financial Accounting Standards No. 7 "Consolidated Financial Statements", are included in the consolidated financial statements, although the Company owns less than 50% of the voting rights of the investee companies directly or indirectly. All significant

intercompany balances and transactions are eliminated in the consolidation.

- (B) The results of operations of a subsidiary is included in the consolidated financial statements from the date of acquisition. Effective January 1, 2005, under the amended SFAS No. 7, the results of operations of such subsidiary is excluded from the consolidated statements of income effective the date on which the Company loses control over the subsidiary. For the initial year of adoption of SFAS No. 7, restatement of prior year's financial statements is not required.

(2) Translation of financial statements of foreign subsidiaries

Assets and liabilities of the foreign subsidiaries are translated into New Taiwan dollars using the exchange rate at the balance sheet date; equity accounts are translated at historical rates, except for beginning retained earnings which is transferred from prior year's ending retained earnings, and profit and loss accounts which are translated using weighted-average rate. Exchange differences are recorded as cumulative translation adjustments and are included as a component of stockholders' equity.

(3) Foreign currency transactions

The accounts of the Group 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 results of operations.

(4) Criteria for classifying current or non-current assets and liabilities

- A) Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
- a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle ;
 - b) Assets held mainly for trading purposes;
 - c) Assets that are expected to be realized within 12 months from the balance sheet date; and
 - d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged and used to pay off liabilities more than 12 months after the balance sheet date.

B) Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- a) Liabilities arising from operating activities that are expected to be paid within the normal operating cycle;
- b) Liabilities arising mainly from trading activities;
- c) Liabilities that are to be paid within 12 months from the balance sheet date; and
- d) Liabilities for which the repayment date cannot be extended unconditionally to more than 12 months after the balance sheet date.

(5) Cash equivalents

Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risk of change in value because of changes in interest rates.

The consolidated statement of cash flows is prepared on the basis of cash and cash equivalents.

(6) Financial assets at fair value through profit or loss

A) Financial assets at fair value through profit or loss for equity stocks are recognized as of the trade date at fair value. Financial assets at fair value through profit or loss for bonds, beneficial certificates and derivative instruments are recognized as of the settlement date at fair value.

B) These financial instruments are subsequently remeasured and stated at fair value, and the gain or loss is recognized as profit or loss. The fair value of listed stocks, closed-end mutual funds and depositary receipts is based on latest quoted fair prices of the accounting period. The fair value of open-end mutual funds is based on the net asset value at the balance sheet date.

C) The accounting policies before December 31, 2005 are described in Note 3.

(7) Financial assets carried at cost

A) Investments in unlisted equity instruments is recognized initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

B) If there is any objective evidence that the financial asset is impaired, the impairment loss is recognized in profit or loss. Such impairment loss cannot be reversed.

C) The accounting policies before December 31, 2005 are described in Note 3.

(8) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on a review of the collectibility of receivables. The Group determines the amount for doubtful accounts by examining the collectibility of ending balances of notes, accounts and other receivables (including balances from related parties), and the aging analysis of receivables.

(9) Inventories

The Group uses the perpetual inventory system and the original cost is the cost to obtain the assets. 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, when necessary.

(10) Long-term equity investments accounted for under the equity method

A) Long-term equity investments in which the Group holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net asset value of the investee attributable to goodwill is no longer amortized and carries on tests of impairment every year, effective January 1, 2006. Retroactive adjustment of the amount of goodwill amortized in previous years is not required.

B) 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 differences resulting from translation is deferred in the cumulative translation adjustment account in the stockholders' equity.

C) The capital reserve and long-term investment amounts are adjusted by the variance between the investment cost and net assets of the investee due to the disproportionate acquisition or decrease of shares in connection with the capital increase or decrease by the investee company. If the balance of capital reserve from long-term investment is not sufficient, then retained earnings is debited.

D) The accounting policy on impairment of long-term investments accounted for under the equity method is described in Note 2(14).

(11) 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. The subsidiaries' property, plant and equipment are depreciated on a straight-line basis according to the estimated useful lives of the assets less the estimated salvage value. The estimated useful lives are 55 years for buildings, 15 years for leasehold improvements and 3 to 8 years for the other property, plant and equipment.
- B) When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in current non-operating income (expense).
- C) Major renewals or betterments are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred.
- D) Rents paid for capital leases are capitalized and liabilities on lease obligations are recognized accordingly.
- E) The accounting policy on impairment of property, plant and equipment is described in Note 2(14).

(12) Deferred charges

- A) Costs of software and copyrights are capitalized and amortized under the straight-line basis over the estimated useful lives.
- B) Royalty payments for operating online game software is capitalized and amortized based on the period of the contract or deducted based on actual units of play.
- C) The accounting policy on impairment of deferred charges is described in Note 2(14).

(13) Other intangible assets

- A) Franchises for game development are recorded at acquisition cost and amortized using the straight-line method over the estimated service life. Franchises could be deducted from franchises payable amounting to 2% based on sales revenues.
- B) The accounting policy on impairment of other intangible assets is described in Note 2(14).

(14) Impairment of non-financial assets

- A) Impairment loss is recognized when the recoverable amount is below the book value due to changes of environment or occurrences of some events. Recoverable amount is the higher of net fair value or value in use of an asset. Net fair value is the selling price of an asset in an arm's-length transaction between

knowledgeable and willing parties, less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset.

- B) If there is an indication that an asset has recovered its value of the impairment loss recognized in the prior period, a gain is recognized to the extent of the impairment loss recognized. No recovery in impairment loss is recognized for goodwill.

(15) Employee stock option plan

The Company adopted Regulation No. 72 “Accounting for Employee Stock Option Plan” issued by the Accounting Research and Development Foundation in Taiwan on March 17, 2003 for grant date of employee stock option or amended date of employee stock option plan, effective January 1, 2004. The cost of employee stock option plan is determined using the “intrinsic value method”. In addition, the Company discloses the pro forma net income and earnings per share as if the “fair-value-based method” has been adopted.

(16) Deferred income tax assets and income tax

- A) Income tax of the Company and its domestic subsidiaries are 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 on 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 purchases, technology acquisitions, research and development expenditures, training expenses and long-term equity investments, etc. of the Company and its domestic subsidiaries are recognized as current income tax benefit when 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, any 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 approve a resolution to retain the earnings.
- E) According to “Income Basic Tax Act”, effective January 1, 2006, income tax is

accounted for based on the income tax law or other regulations when income tax is equal or more than the basic tax. When income tax is lower than the basic tax, income tax due shall be equal to the basic tax. The difference cannot be deducted from investment credits based on other regulations.

(17) Retirement plan

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

(18) Treasury Stock

- A) Treasury stocks acquired are stated at cost using the weighted-average method and reported as a deduction from stockholders' equity in the balance sheet.
- B) Upon disposal, the related gain is credited to "capital reserve-treasury stock transaction" and any loss is offset against this capital reserve account. However, when the balance of this capital reserve account is insufficient to offset the loss, then the remaining amount is charged against retained earnings.
- C) Upon registration of cancellation, except for the book value sum of "common stock" and "capital reserve-additional paid-in", which is in proportion to shareholding, 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.

(19) Revenues, costs and expenses

- A) Costs from development of software for sale are recognized as research expense before establishing technical feasibility.
- B) Revenue from prepaid cards for on-line games is deferred and is recognized based on points consumed.
- C) Revenue from software and other merchandise is recognized when the earning process is substantially completed and the revenue is realized or realizable.
- D) Sales returns are estimated based on a percentage of sales. Costs and expenses are recognized as incurred.

E) Commissions received on prepaid cards from the on-line game providers is deferred and recognized as revenue when services are rendered.

(20) 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 year.

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

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

(21) Use of estimates

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

3. CHANGES IN ACCOUNTING PRINCIPLES

(1) Impairment of non-financial assets

Effective in the fourth quarter of 2004, the Group adopted the newly issued R.O.C. Statement of Financial Accounting Standards No. 35, “Accounting for Assets Impairment”. As a result of this change in accounting principle, net income and total assets decreased by \$321,770 in 2004.

(2) Goodwill

Effective January 1, 2006, the Group adopted the amended R.O.C. SFAS No. 1, No. 5, No. 7, No. 25 and No. 35 which discontinued the amortization of goodwill. As a result of the adoption of the newly issued SFAS, net income increased by \$7,091 and earnings per share increased by \$0.0508 for the year ended December 31, 2006.

(3) Changes in the consolidated subsidiaries

Pursuant to the amended R.O.C. Statement of Financial Accounting Standards No. 7, “Consolidated Financial Statements”, effective January 1, 2005, all the Company’s majority-owned and controlled subsidiaries are included in the consolidated financial statements. Such a change in the accounting principle resulted in increases in consolidated total assets and consolidated operating revenues by \$86,794 and \$43,898, respectively, as of and for the year ended December 31, 2005, constituting 2.62% and 1.47% of the respective consolidated totals. The consolidated net income attributable to equity holders of the Company for the year ended December 31, 2005 was not affected by this change in accounting principle.

(4) Financial instruments

A) Effective January 1, 2006, the Group adopted the R.O.C. SFAS No. 34, “Accounting for Financial Instruments”, and No. 36, “Disclosure and Presentation of Financial Instruments” and reclassified certain accounts of the financial statements as of December 31, 2005.

B) Certain accounting policies prior to December 31, 2005 are as follows:

a) 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 is determined based on average closing prices of the last month before the balance sheet date. The market value of open-end mutual funds or balance funds is determined based on the net asset value at the balance sheet date.

b) Long-term investments accounted for under the cost method

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 Group’s voting rights in the investee company is below 20% and if the Group has no significant influence on 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.

C) The adoption of these changes in accounting principles had no impact on the Group.

4. DESCRIPTION OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Cash on hand	\$ 1,210	\$ 1,290
Cash in banks	945,160	961,126
Time deposits	64,774	22,632
Cash equivalents	20,036	-
	<u>\$ 1,031,180</u>	<u>\$ 985,048</u>

(2) Notes receivable

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Notes receivable	\$ 112,710	\$ 84,894
Less: Allowance for doubtful accounts	(16)	(16)
	<u>\$ 112,694</u>	<u>\$ 84,878</u>

(3) Accounts receivable

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Accounts receivable	\$ 951,944	\$ 892,702
Less: Allowance for doubtful accounts	(74,460)	(52,547)
Allowance for sales returns	(6,259)	(17,336)
	<u>\$ 871,225</u>	<u>\$ 822,819</u>

(4) Inventories

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Inventories	\$ 47,809	\$ 39,995
Less: Reserve for loss on decline in market value and obsolescence	(24,819)	(24,059)
	<u>\$ 22,990</u>	<u>\$ 15,936</u>

(5) Financial assets carried at cost – non-current

Items	December 31,	
	2006	2005
Unlisted stocks		
Buybooks Digital Technology Corp. Ltd.	\$ -	\$ -
ECD Interactive Corporation	-	2,700
Joyon Entertainment Co., Ltd.	-	9,851
RAVA Ideologie Inc.	-	-
Nice Finance Co., Ltd.	91,453	-
	<u>91,453</u>	<u>12,551</u>
Prepayment for investment		
Nice Finance Co., Ltd.	-	99,999
	<u>\$ 91,453</u>	<u>\$ 112,550</u>

- A) The investments were measured at cost since their fair value cannot be measured reliably.
- B) The Company recognized a permanent impairment loss in Buybooks Digital Technology Corp. Ltd., RAVA Ideologie Inc. and ECD Interactive Corporation in the amounts of \$2,995, \$8,800 and \$2,500, respectively, for the year ended December 31, 2005 because the above investees' unaudited financial statements showed that value had been impaired and the chance of recovery was remote. In addition, RAVA Ideologie Inc. began liquidation process in September 2005 but has not yet been completed as of December 31, 2006.
- C) The Company recognized other investment loss in ECD interactive Corporation and Joyon Entertainment Co., Ltd. in the amount of \$12,551 for the year ended December 31, 2006 because the Company has assessed that its investment has no value.

(6) Long-term investments accounted for under the equity method

A) List of long-term investments

Name of investee	Original cost	December 31, 2006		Investment loss for the year ended December 31, 2006
		Ownership Percentage	Balance	
Soga Interactive Co., Ltd.	\$ 28,000	40%	\$ -	(\$ 5,103)
Playcoo Co.	40,000	30.30%	29,832	(9,685)
	<u>\$ 68,000</u>		<u>\$ 29,832</u>	<u>(\$ 14,788)</u>

Name of investee	December 31, 2005			Investment loss for the year ended December 31, 2005
	Original cost	Ownership Percentage	Balance	
Soga Interactive Co., Ltd.	\$ 28,000	40%	\$ 23,504	(\$ 4,010)
Playcoo Co.	40,000	30.30%	39,452	(548)
	<u>\$ 68,000</u>		<u>\$ 62,956</u>	<u>(\$ 4,558)</u>

B) Long-term investments in Soga Interactive Co., Ltd. and Playcoo Co. accounted for under the equity method were based on financial statements audited by other auditors as of and for the years ended December 31, 2006 and 2005.

C) In December 2006, the Company sold 2,800,000 common shares of Soga Interactive Co., Ltd. to Sony Online Entertainment LLC at a cost of \$10 per share, and recognized a gain on disposal of \$9,600.

(7) Property, plant, and equipment

	December 31,	
	2006	2005
<u>Cost</u>		
Land	\$ 147,751	\$ 147,751
Buildings	155,946	151,961
Machinery and equipment	829,717	878,560
Transportation equipment	-	3,378
Office equipment	93,683	151,753
Leasehold assets	1,535	43,487
Leasehold improvements	40,319	93,110
Other equipment	11,067	11,317
	<u>1,280,018</u>	<u>1,481,317</u>
<u>Accumulated depreciation</u>		
Buildings	(12,513)	(8,625)
Machinery and equipment	(521,520)	(448,927)
Transportation equipment	-	(2,240)
Office equipment	(41,336)	(88,915)
Leasehold assets	(991)	(36,799)
Leasehold improvements	(25,958)	(69,013)
Other equipment	(5,101)	(6,204)
	<u>(607,419)</u>	<u>(660,723)</u>
Construction in progress and prepayments for equipment	1,205	16,735
Less: Accumulated impairment	(18,713)	(31,665)
	<u>\$ 655,091</u>	<u>\$ 805,664</u>

(8) Other intangible assets

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Prepayments for franchises	\$ 41,460	\$ 60,552
Less: Accumulated impairment	(40,685)	(59,264)
	<u>\$ 775</u>	<u>\$ 1,288</u>

(9) Deferred charges

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Royalty payments	\$ 421,327	\$ 432,173
Unamortized expense	104,693	95,114
	526,020	527,287
Less: Accumulated impairment	(325,856)	(355,374)
	<u>\$ 200,164</u>	<u>\$ 171,913</u>

(10) Assets impairment

A) The Group adopted SFAS No. 35 "Accounting for Assets Impairment" at the beginning of the fourth quarter of 2004.

The details for 2005 are as follows:

	<u>Recognized in statement of operations</u>	<u>Recognized in stockholders' equity</u>
Impairment loss - goodwill	\$ 54,103	\$ -
Impairment loss - property, plant and equipment	30,519	-
Impairment loss - other intangible assets	20,170	-
Impairment loss - other assets - deferred charges	71,818	-
	<u>\$ 176,610</u>	<u>\$ -</u>

B) The Group has no segmental financial information and impairment losses all pertain to the Group's general assets.

C) The market value of certain long-term investments was less than its book value, therefore, the Group recognized impairment loss of \$54,103 in 2005 on the excess of its investment cost over the equity net value amounting to \$82,736. The Group adopted net fair value as the recoverable amount of its long-term investment. The basis of net fair value is the best estimate at the balance sheet date.

D) The impairment loss on property, plant and equipment of \$30,519 was recognized in 2005, because the market value of certain property, plant and equipment was less than the present value of expected future cash flows. The recoverable amount is the net fair value of such assets. The basis of net fair value is the best estimate

at the balance sheet date.

E) As shown above, the deferred charges pertain to the dealership of the games. The other intangible assets represent prepayments for technology fee. The Group determined that such assets had been impaired, after revising the marketing strategies and evaluating the products' benefits, and accordingly recognized an impairment loss of \$91,988 and \$321,770 in 2005 and 2004, respectively. The recoverable amount is the net fair value of the above other assets and intangible assets. The basis of net fair value is the best estimate at the balance sheet date.

(11) Short-term loans

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Short-term bank loans	\$ 30,000	\$ 84,376
Annual interest rates	<u>2.5% ~ 2.9%</u>	<u>1.6596%~6.5%</u>
Credit lines	<u>\$ 395,000</u>	<u>\$ 494,376</u>

(12) Long-term loans

<u>Bank</u>	<u>Total Credit Lines</u>	<u>Period/Terms of Repayment</u>	<u>December 31,</u>	
			<u>2006</u>	<u>2005</u>
Bank SinoPac	\$ 49,000	03.28.2002 ~ 03.28.2017 Two year grace period, 52 equal quarterly installments starting from year 3 (Note 1)	\$ -	\$ 42,403
Mega International Commercial Bank	150,000	08.30.2004 ~ 07.20.2007 Principal due on maturity	50,000	50,000
Mega International Commercial Bank	150,000	12.31.2004 ~ 07.20.2007 Principal due on maturity (Note 2)	20,000	100,000
Chang Hwa Bank	150,000	02.14.2005 ~ 02.14.2009 First year grace period, 12 equal semi-annual installments starting from year 2 (Note 2)	<u>75,000</u>	<u>150,000</u>
			145,000	342,403
Less: Current portion			(<u>120,000</u>)	(<u>28,769</u>)
			<u>\$ 25,000</u>	<u>\$313,634</u>

Note 1: Total principal amount was repaid before due date.

Note 2: Part of the principal amount was repaid before due date.

(13) Long-term liabilities on lease obligations

	<u>Period/Terms of Repayment</u>	<u>December 31, 2006</u>	<u>December 31, 2005</u>
International Business Machines Corporation	02.28.2004 ~ 02.28.2006 8 equal quarterly installments	\$ -	\$ 1,696
ORIX Asia Ltd.	11.24.2004 ~ 05.23.2006 18 equal monthly installments	-	156
ORIX Asia Ltd.	08.24.2004 ~ 05.23.2006 18 equal monthly installments	-	34
ORIX Asia Ltd.	03.24.2006 ~ 04.24.2007 12 equal monthly installments	128	905
		128	2,791
Less: current portion		(128)	(2,662)
		<u>\$ -</u>	<u>\$ 129</u>

(14) Income tax payable

A) Income tax payable and income tax expense for the years ended December 31, 2006 and 2005 are reconciled as follows:

	<u>For the years ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Current year income tax (benefit) expense	(\$ 90,219)	\$ 49,963
Additional 10% corporate income tax on undistributed earnings	716	19,002
	(89,503)	68,965
Add (Less): Net change in deferred income tax assets	131,614	(54,169)
Prepaid income tax	(452)	(50)
(Under) over provision of prior year's income tax	(76)	5,898
Income tax payable of prior year	4,050	-
Effect of exchange rate	2	(13)
	<u>\$ 45,635</u>	<u>\$ 20,631</u>
Income tax receivable	(\$ 8)	(9)
Income tax payable	45,643	20,640
	<u>\$ 45,635</u>	<u>\$ 20,631</u>

B) Deferred income tax assets and liabilities are as follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Deferred income tax assets - current	\$ 57,093	\$ 38,491
Deferred income tax assets - non-current	203,730	90,718
	<u>\$ 260,823</u>	<u>\$ 129,209</u>

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

	December 31,			
	2006		2005	
	<u>Amount</u>	<u>Tax effect</u>	<u>Amount</u>	<u>Tax effect</u>
Current items:				
Over provision of allowance for bad debts	\$ 10,139	\$ 2,535	\$ 45,483	\$ 11,371
Allowance for decline in market value and inventory obsolescence	26,709	6,677	22,922	5,731
Allowance for sales returns	6,711	1,677	17,336	4,334
Welfare expenses	1,100	275	1,083	270
Unrealized exchange gain	-	-	205	51
Unrealized gross profit	349	87	489	122
Pension liability without disbursement	-	-	981	245
Loss carryforwards	25,632	6,408	-	-
Investment tax credits		<u>43,929</u>		<u>19,424</u>
		61,588		41,548
Less: Valuation allowance		(4,495)		(3,057)
		<u>\$ 57,093</u>		<u>\$ 38,491</u>
Non-current items:				
Welfare expenses	\$ 167	\$ 42	\$ 1,367	\$ 343
Investment loss on financial assets carried at cost – non-current	9,851	2,463	-	-
Impairment loss on deferred charges and intangible assets	133,884	33,471	274,399	68,600
Reserve for foreign investments	(237,303)	(59,326)	(219,236)	(54,809)
Reduction in capital of subsidiaries to cover accumulated deficit	785,541	196,385	-	-
Loss carryforwards	300,921	74,662	217,573	54,393
Investment tax credits		37,539		59,862
Others	528	<u>132</u>		<u>-</u>
		285,368		128,389
Less: Valuation allowance		(81,638)		(37,671)
		<u>\$ 203,730</u>		<u>\$ 90,718</u>

D) As of December 31, 2006 and 2005, the balance of shareholders account of deductible tax was as follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Balance of shareholders account of deductible tax	\$ 39,024	\$ 22,065
2006 Estimated creditable tax ratio		<u>22.24%</u>
2005 Actual creditable tax ratio		<u>-</u>

E) The Company, in accordance with Regulation No. 273 issued by the Accounting Research and Development Foundation in Taiwan on December 31, 1998, discloses the following information:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
On or after January 1, 1998		
a. Earnings not subjected to 10% income tax	\$ 434,711	(\$ 260,033)
b. Earnings subjected to 10% income tax	(193,388)	(7,285)
	<u>(\$ 241,323)</u>	<u>(\$ 267,318)</u>

F) The Company's assessed and approved income tax returns are as follows:

- (a) As of December 31, 2006, the Company's income tax returns through 2002 have been assessed and approved by the Tax Authority.
- (b) The Tax Authority imposed additional tax and interests amounting to \$3,327 on the Company's re-examination of the 2001 income tax return. The Company has temporarily recognized the assessment in the financial statements and will file an appeal in April 2007.
- (c) The Tax Authority imposed additional tax amounting to \$127,204 on the Company's 2002 income tax return. The Company reassessed that part of expenses indeed exceeded the limited amount of tax law, and the Company had recognized \$4,050 payable. The Company contested the remaining balance imposed by the Tax Authority and filed for re-examination in February 2006.

G) The two incremental income associated with the Company's investments in the development of its PC-based and internet-based computer games conforms with the Regulation No. 8-1 of "Statute for Upgrading Industries", and its non-taxable income are exempt from income tax for five years (2001 to 2005 and 2002 to 2006). The tax exempt income amounted to \$46,544 and \$38,670 for the years

ended December 31, 2006 and 2005, respectively.

- H) The incremental income associated with the NC Taiwan Co., Ltd.'s investment in the development of internet-based computer games conforms with the Regulation No. 8-1 of "Statute for Upgrading Industries", and its new non-taxable income are exempt from income tax for 5 years from the start of the Company's investment (2005 to 2009). The tax exempt income amounted to \$0 and \$18,467 for the years ended December 31, 2006 and 2005, respectively.
- I) As of December 31, 2006, according to "Income Tax Law" and "Statute for Upgrading Industries," the Company and its domestic subsidiaries had investment tax credits and loss carryforwards in the amount of \$162,538 to offset against taxable income for the next four years. The details are as follows:

<u>Deductible item</u>	<u>Total credits</u>	<u>Unused balance</u>	<u>Year of expiration</u>
Research and development expenditures	\$ 72,279	\$ 59,580	2008~2011
Machinery and equipment	18,623	18,623	2007~2011
Employees training	3,265	3,265	2009~2010
Loss carryforwards	81,463	81,070	2007~2011
	<u>\$ 175,630</u>	<u>\$ 162,538</u>	

(15) Accrued pension liability

- A) The Company has a non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees before the implementation of the Labor Pension Act on July 1, 2005. Under the defined benefit plan, two units are accrued for each year of service for the first 15 years and one unit for each year thereafter with a maximum of 45 units. Retirement benefits are based on the number of units accrued and the average monthly salaries and wages of the last six months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Central Trust of China under the name of the independent retirement fund committee.
- B) Gamania Digital Entertainment (Japan) Co., Ltd., Gamania Korea Co., Ltd. and Gamania Digital Entertainment (H.K.) Co., Ltd. provide pension reserves annually for their employees in accordance with the local regulations. The net pension costs were \$1,323 and \$3,161 for the years ended December 31, 2006 and 2005, respectively.

- C) Gamania Digital Entertainment (Beijing) Co., Ltd. provides an old-age pension and insurance monthly based on 20% of the employees' salaries and wages in accordance with the local regulations. The net pension and insurance cost was \$1,290 and \$1,616 for the years ended December 31, 2006 and 2005, respectively.
- D) Effective July 1, 2005, the Company and its subsidiaries, Taiwan Index Co., Ltd., NC Taiwan Co., Ltd. and Alibangbang Digital Games Co., Ltd. adopted a defined contribution pension plan (the "New Plan"). Under the New Plan, employees have the option to choose the New Plan. The Company and its subsidiaries, Taiwan Index Co., Ltd., NC Taiwan Co., Ltd. and Alibangbang Games Co., Ltd. contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts deposited with the Bureau of Labor Insurance. Benefits accrued under the New Plan are portable when the employees leave the company. The net pension costs recognized by the Company and its subsidiaries, Taiwan Index Co., Ltd., NC Taiwan Co., Ltd. and Alibangbang Digital Games Co., Ltd. under the defined contribution plan for the years ended December 31, 2006 and 2005 amounted to \$24,448 and \$11,918, respectively.
- E) The Company's subsidiary, Alibangbang Games Co., Ltd., is the newly consolidated subsidiary under the Statement of Financial Accounting Standards No. 7 "Consolidated Financial Statements". Under the Statement of Financial Accounting Standards No. 18, the investee's pension costs shall be calculated before December 31, 2005, and amortized starting January 1, 2006.
- F) Gamania Holdings Ltd., Gamania Asia Investment Co., Ltd., Gamania Digital Entertainment Labuan Holdings Ltd., Gamania International Holdings Ltd. and Gamania China Holdings Ltd. do not have an employee retirement plan.
- G) The related assumptions used to calculate the periodic pension cost were as follows:

	<u>2006</u>	<u>2005</u>
Discount rate	3.50%~3.75%	3.50%~3.75%
Expected return rate on plan assets	2.50%~3.50%	2.50%~3.50%
Average ratio of salary increase	3.00%~3.50%	2.50%~3.50%

H) The reconciliation of the funded status to accrued pension liability is summarized as follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Vested benefit obligation	\$ -	\$ -
Non-vested benefit obligation	(14,532)	(15,876)
Accumulated benefit obligation	(14,532)	(15,876)
Additional benefits based on future salary increases	(12,541)	(14,110)
Projected benefit obligation	(27,073)	(29,986)
Fair value of plan assets	<u>24,875</u>	<u>20,388</u>
Funded status	(2,198)	(9,598)
Unrecognized transition obligation	3,198	3,314
Unrecognized net (gain) loss	(2,867)	1,085
Additional pension liability	(468)	(549)
Accrued pension liability – old policy	(2,335)	(5,748)
Accrued pension liability – new policy	(2,877)	(1,882)
Total accrued pension liability	(\$ 5,212)	(\$ 7,630)
Vested obligation	<u>\$ -</u>	<u>\$ -</u>

The components of net pension cost were as follows:

	<u>2006</u>	<u>2005</u>
Service cost	\$ 367	\$ 5,286
Interest cost	1,017	1,008
Expected return on plan assets	(532)	(415)
Unrecognized transition obligation	116	365
Amortization of pension gain	(12)	-
Unrecognized net loss	<u>-</u>	<u>322</u>
Net pension cost	<u>\$ 956</u>	<u>\$ 6,566</u>

(16) Common stock

On March 18, 2005, August 30, 2005 and February 15, 2006, the Company's Board of Directors adopted the resolutions to reduce its paid-in capital to \$1,468,787 by retiring 1,072,000 shares, 1,039,000 shares and 5,000,000 shares of treasury stocks on March 18, 2005, September 1, 2005 and February 16, 2006, respectively.

(17) Capital reserve

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

(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) Retained earnings (Accumulated deficit)

- 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 in next year's shareholders' meeting. 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, 2006, the Company had a retained earnings of \$241,323. As of April 4, 2007, no earnings distribution has been proposed by the Board of Directors. For current status of the resolution, please visit the Taiwan Stock Exchange website.
- D) As of December 31, 2005, the Company had an accumulated deficit of \$267,318. The Company's stockholders approved not to distribute dividends, employee bonus, and directors' remuneration. In addition, the stockholders during their meeting adopted a resolution to use \$267,318 of capital reserve to cover the accumulated deficit.

(20) Earnings (loss) per share

For the year ended December 31, 2006				
<u>Amount</u>		<u>Weighted average number of outstanding common shares (In thousands of shares)</u>	<u>Earnings per share (Note)</u>	
<u>Before income tax</u>	<u>After income tax</u>		<u>Before income tax</u>	<u>After income tax</u>

Earnings per share:

Net income	<u>\$ 345,208</u>	<u>\$ 434,711</u>	<u>139,559</u>	<u>\$ 2.47</u>	<u>\$ 3.11</u>
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As of December 31, 2006, the outstanding employee stock options have no dilutive effect.

For the year ended December 31, 2005				
<u>Amount</u>		<u>Weighted average number of outstanding common shares (In thousands of shares)</u>	<u>Loss per share (Note)</u>	
<u>Before income tax</u>	<u>After income tax</u>		<u>Before income tax</u>	<u>After income tax</u>

Loss per share:

Net loss	<u>(\$ 191,068)</u>	<u>(\$ 260,033)</u>	<u>147,297</u>	<u>(\$ 1.30)</u>	<u>(\$ 1.77)</u>
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As of December 31, 2005, the outstanding employee stock options have no dilutive effect.

Note: In New Taiwan Dollars.

(21) Treasury Stock

A) Purpose

<u>Purpose</u>	<u>For the year ended December 31, 2006</u>			
	<u>Beginning shares (Note)</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending shares (Note)</u>
Employees stock options	<u>5,000</u>	<u>10,000</u>	<u>(5,000)</u>	<u>10,000</u>

<u>Purpose</u>	<u>For the year ended December 31, 2005</u>			
	<u>Beginning shares (Note)</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending shares (Note)</u>
Employees stock options	5,000	-	-	5,000
To enhance Company's credit standing and shareholders' equity	<u>1,072</u>	<u>1,039</u>	<u>(2,111)</u>	<u>-</u>
	<u>6,072</u>	<u>1,039</u>	<u>(2,111)</u>	<u>5,000</u>

Note: In thousands of shares.

B) The maximum and ending balances of treasury stock for the years ended December 31, 2006 and 2005 are as follows:

<u>December 31, 2006</u>		<u>December 31, 2005</u>	
<u>Maximum balance</u>	<u>Ending balance</u>	<u>Maximum balance</u>	<u>Ending balance</u>
<u>\$ 302,140</u>	<u>\$ 155,765</u>	<u>\$ 319,214</u>	<u>\$ 302,140</u>

C) The procedure for the write-off of treasury stocks purchased on February 16, 2006 had been completed. As a result, the additional paid in capital-in excess of par decreased by \$34,160, additional paid in capital-treasury stock transaction decreased by \$27,162 and accumulated deficit increased by \$190,818. In addition, 10,000,000 shares were purchased continually since March 20, 2006.

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

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

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

G) According to the R.O.C. Security Exchange Act, treasury shares for the purpose of enhancing the Company's credit standing and shareholders' equity shall be retired within six months; treasury stocks for all other purposes shall be reissued within three years from the month of acquisition, for those which can't be reissued within the said period shall be retired.

(22) 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 10,000,000 units of options that can be converted to one share of common stock per unit. 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 an exercise period of six years. Employees will be able to exercise these options after two years 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 years ended December 31, 2006 and 2005 were as follows:

	For the years ended December 31,			
	2006		2005	
Stock Options	Units (in thousands)	Weighted-average exercise price (in dollars) (Note)	Units (in thousands)	Weighted-average exercise price (in dollars) (Note)
Beginning balance	10,000	\$ 32.80	10,000	\$ 32.80
Number of options granted	-	-	-	-
Adjustment due to issuance of stock dividends	-	-	-	-
Exercised	-	-	-	-
Cancelled	(4,790)	-	-	-
Ending balance	<u>5,210</u>	\$ 32.80	<u>10,000</u>	\$ 32.80
Exercisable at the end of the year	<u>2,605</u>		<u>-</u>	
Authorized but unissued at the end of the year	<u>-</u>		<u>-</u>	

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

C) As of December 31, 2006 and 2005, the details of outstanding stock options are as follows:

December 31, 2006					
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	5,210	3.083	\$ 32.80	2,605	\$ 32.80

December 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	4.083	\$ 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:

Black-Scholes model assumptions	For the year ended December 31, 2006	For the year ended December 31, 2005
Dividend yield	0%	0%
Volatility (Note)	62.02%	62.02%
Risk-free interest rate	1.95%	1.95%
Expected life of the options	6 years	6 years
Exercise price	\$ 32.8 (in dollars)	\$ 32.8 (in dollars)
Amortization period	2~3 years	2~3 years

Note: The Company started trading in OTC on May 21, 2002, so it adopted the stock price from May 21, 2002 to February 10, 2004 (the date options were given). Also, the stock prices mentioned above had considered the effect of earnings distribution every year.

(c) Result of evaluation:

	<u>For the year ended December 31, 2006</u>	<u>For the year ended December 31, 2005</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"	30,332	35,296

(d) Pro forma information:

		<u>For the year ended December 31, 2006</u>	<u>For the year ended December 31, 2005</u>
Net income	Net income (loss)	\$ 434,711	(\$ 260,033)
	Pro forma net income (loss)	404,379	(295,329)
Basic earnings per share	EPS	3.11 (in dollars)	(1.77) (in dollars)
	Pro forma EPS	2.90 (in dollars)	(2.00) (in dollars)
Diluted earnings per share	EPS	3.11 (in dollars)	(1.77) (in dollars)
	Pro forma EPS	2.90 (in dollars)	(2.00) (in dollars)

(23) Personnel, depreciation and amortization expenses

	<u>For the year ended December 31, 2006</u>		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Personnel expenses			
Salaries	\$ 151,910	\$ 429,128	\$ 581,038
Labor and health insurances	7,191	37,646	44,837
Pension	4,112	23,905	28,017
Others	4,389	30,378	34,767
	<u>\$ 167,602</u>	<u>\$ 521,057</u>	<u>\$ 688,659</u>
Depreciation	\$ 159,977	\$ 56,326	\$ 216,303
Amortization	45,884	25,433	71,317
	<u>\$ 205,861</u>	<u>\$ 81,759</u>	<u>\$ 287,620</u>

	<u>For the year ended December 31, 2005</u>		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Personnel expenses			
Salaries	\$ 115,509	\$ 432,520	\$ 548,029
Labor and health insurances	5,753	36,912	42,665
Pension	2,481	20,780	23,261
Others	3,768	28,097	31,865
	<u>\$ 127,511</u>	<u>\$ 518,309</u>	<u>\$ 645,820</u>
Depreciation	\$ 136,375	\$ 95,078	\$ 231,453
Amortization	173,258	50,206	223,464
	<u>\$ 309,633</u>	<u>\$ 145,284</u>	<u>\$ 454,917</u>

(24) Preparation of financial statements

The Company, in accordance with Article 12 of “Statute for Upgrading Industries”, may set aside 20% of overseas investments as allowance for investment losses for income tax purposes. The balance amounted to \$237,303 as of December 31, 2006. However, to comply with generally accepted accounting principles in Republic of China, the allowance had been reversed in the financial statements as of December 31, 2006.

<u>Amount as of January 1, 2006</u>	<u>Additions</u>	<u>Amount as of December 31, 2006</u>
\$ 219,236	\$ 18,067	\$ 237,303

5. RELATED PARTY TRANSACTIONS

(1) Names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Soga Interactive Co., Ltd. (Soga)	Investee accounted for under the equity method (Note)
NCsoft Corporation (NCsoft)	NC Taiwan Co., Ltd. is an investee of NCsoft accounted for under the equity method

(Note) The Company disposed all the shares in December 2006.

(2) Significant transactions with related parties

A) Other receivables

	<u>December 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Amount</u>	<u>% of net other receivables</u>	<u>Amount</u>	<u>% of net other receivables</u>
NCsoft	\$ 226	6	\$ 41	-
Soga	-	-	479	-
	<u>\$ 226</u>	<u>6</u>	<u>\$ 520</u>	<u>-</u>

Other receivables consist of payments for miscellaneous expenses on behalf of related parties.

B) Accounts payable

	<u>December 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Amount</u>	<u>% of net accounts payable</u>	<u>Amount</u>	<u>% of net accounts payable</u>
NCsoft	\$ 38,316	28	\$ 46,478	37

The above amount represents the royalties payable for the on-line games developed by the related party. The terms are negotiated by both parties.

C) Others

(a) The Company and its subsidiary, NC Taiwan Co., Ltd. have been engaged to sell the on-line games developed by NCsoft and are required to pay NCsoft royalties based on the negotiated proportion of the amount of the games consumed. For the years ended December 31, 2006 and 2005, the royalties paid to NCsoft amounted to \$640,260 and \$744,528, respectively, which were included in “operating costs”.

(b) For the year ended December 31, 2006, a subsidiary, NC Taiwan Co., Ltd., paid \$3,014 to NCsoft for the security service fee for on-line games, which was included in “operating costs”.

6. DETAILS OF PLEDGED OR RESTRICTED ASSETS

<u>Assets</u>	<u>December 31,</u>		<u>Purpose</u>
	<u>2006</u>	<u>2005</u>	
Time deposits (shown in other financial assets - current)	\$ -	\$ 30,000	Short-term loans / Credit lines
Time deposits (shown in other financial assets - non-current)	-	2,327	Performance bonds
Land	141,717	141,717	Long-term loans / Credit lines
Buildings	104,156	106,167	"
Machinery and equipment	<u>20,506</u>	<u>27,807</u>	"
	<u>\$ 266,379</u>	<u>\$ 308,018</u>	

7. COMMITMENTS AND CONTINGENT LIABILITIES

A) As of December 31, 2006, the total future rental payments for the next 3 years under non-cancelable operating lease agreements for the Group’s office building was \$61,221.

B) The Company contracted the use of cable lines, T1 and T3, with rental charges based on utilization. In addition, the Company contracted with several on-line game vendors and will pay royalty based on actual usage.

C) As of December 31, 2006, the Company’s subsidiary, NC Taiwan Co., Ltd. had signed a contract to purchase certain fixed assets amounting to \$810, of which \$405 had already been paid.

D) As stated in Note 4(14), the Tax Authority imposed additional tax and interests amounting to \$3,327 on the Company’s re-examination of 2001 income tax return. The Company has temporarily recognized the assessment in the financial statements and will file an appeal in April 2007.

E) As stated in Note 4(14), the Tax Authority imposed additional tax amounting to \$127,204 on the Company's 2002 income tax return. The Company reassessed that part of expenses exceeded the limited amount of tax law and deemed its additional liability to be \$4,050. The Company filed for re-examination in February 2006 to contest the balance of tax and penalties.

F) For the period from January 1, 2007 to December 31, 2007, First Commercial Bank has provided guarantee for merchandise transactions on behalf of the Company to Wisdom Distribution Service Corporation. The Company guarantees that if the amount of sales to Wisdom Distribution Service Corporation is lower than the amount of sales returns, the Company should pay the guarantee of \$4,000 to First Commercial Bank and Wisdom Distribution Service Corporation would get implicative guarantee from First Commercial Bank.

8. MAJOR CATASTROPHE

None.

9. SUBSEQUENT EVENTS

In January 2007, the Company sold 5,040,000 common shares of NC Taiwan Co., Ltd. to NCsoft Corporation at a cost of \$14.98 per share and recognized a gain on disposal of \$20,681. After the disposal, the Company's ownership in NC Taiwan Co., Ltd. decreased from 51% to 15%. Accordingly, NC Taiwan Co., Ltd. will not be included in the consolidated financial statements starting 2007.

10. OTHERS

(1) Financial statement presentation

Certain accounts in the 2005 consolidated financial statements were reclassified to conform with the 2006 consolidated financial statement presentation.

(2) The fair values of the financial instruments

	December 31, 2006			December 31, 2005		
	Fair value			Fair value		
	Book value	Quotations in an active market	Estimated value	Book value	Quotations in an active market	Estimated value
<u>Financial instruments</u>						
Non-derivative financial instruments						
Assets						
Financial assets with fair values equal to book values	\$2,021,509	(NoteA)	\$2,021,509	\$1,936,751	(NoteA)	\$1,936,751
Financial assets carried at cost	91,453	-	-	112,550	-	-
Refundable deposits	31,169	-	31,033	38,085	-	38,056
Liabilities						
Financial liabilities with fair values equal to book values	\$ 684,894	(NoteA)	\$ 684,894	\$ 657,281	(NoteA)	\$ 657,281
Long-term loans	25,000	-	24,099	313,634	-	282,632
Guarantee deposits	950	-	950	1,338	-	1,338

The methods and assumptions used to estimate the fair values of the financial instruments are summarized below:

- A) For short-term instruments, the book value is approximate to the fair value because of their short-term maturities. This applies to cash and cash equivalents, notes and accounts receivable, other receivables (including related parties), other financial assets-current, other current assets-other, other financial assets-non-current, short-term loans, notes and accounts payable (including related parties), income tax payable, accrued expenses, other payables, current portion of long-term liabilities and other current liabilities.
- B) The fair value of refundable deposits is based on the present value of expected cash flow amounts. The discount rate was the one-year deposit rate of the Directorate General of Postal Remittances and Savings Bank.
- C) The fair value of long-term loans is based on the present value of expected cash flow amounts. The discount rate was another instrument which the Company could acquire similar terms ranging from 2.645% to 3.24%.

- D) The fair value of guarantee deposits is the book value since the amount is insignificant.
- E) Off-balance sheet financial instruments with credit risk: None.

(3) Procedure of financial risk control and hedge

The Group's activities expose it to a variety of financial risks, including market risk, credit risk, liquidity risk and cash flow interest rate risk.

The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Group's risk management program considers the effect of economic environment, competition and market value risk. The Group attains to the best risk position, holds appropriate liquidity position and centers on management of all the market risks.

To reach the objective of risk management, the Group's hedged activities are focused on the market value risk and the cash flow risk.

(4) Information of financial risk

A) Financial instruments of equity

<u>Item</u>	<u>December 31, 2006</u>
Financial assets carried at cost-non-current	<u>\$ 91,453</u>

(A) Market risk

The Group's trading of financial assets is affected by market price. The Group does not expect to have significant market risk because the Group has set a stop loss limit.

(B) Credit risk

The Group has evaluated credit standing of the counterparties and does not expect any non-fulfillment of the terms of the contract, so the chance of credit risk is low.

(C) Liquidity risk

There is no active market for equity financial instruments of the Group, so the Group expects to have liquidity risk.

(D) Cash flow interest rate risk

As the Group has no significant interest-bearing assets, cash flows are substantially independent of changes in market interest rates.

B) Receivables

<u>Items</u>	<u>December 31, 2006</u>
Accounts receivable	\$ 871,225
Notes receivable	112,694
Other receivables	<u>4,029</u>
	<u>\$ 987,948</u>

(A) Market risk

The Group's receivables are due within one year, so the Group expects no significant market risk.

(B) Credit risk

The debtors of the Group have good credit standing, so the Group expects no significant credit risk.

(C) Liquidity risk

The Group's receivables are due within one year, so the Group expects no significant liquidity risk.

(D) Cash flow interest rate risk

The Group's receivables are due within one year, so the Group expects no significant cash flow interest risk.

C) Loans

<u>Items</u>	<u>December 31, 2006</u>
Long-term loans (including current portion of long-term liabilities)	<u>\$ 145,000</u>

(A) Market risk

As interest rate of the loans for working capital is floating, the Group expects no significant market risk.

(B) Credit risk

None.

(C) Liquidity risk

The working capital of the Group is sufficient to cover the loans, so it expects no significant liquidity risk.

(D) Cash flow interest risk

As floating interest for loans is adopted by the Group, effective interest will vary with fluctuations in market interest and it will change future cash flows.

- (5) For the years ended December 31, 2006 and 2005, the Company donated cash and magazines amounting to \$29,111 and \$17,445, respectively, to political parties, charities and educational institutions that are accredited by the government, without significant appointed considerations.

(6) Inter-company transactions eliminated

	For the year ended December 31, 2006							
	Gamania Digital Entertainment Co., Ltd.	Gamania Holdings Ltd. and its subsidiaries	NC Taiwan Co., Ltd.	Taiwan Index Co., Ltd.	Gamania Asia Investment Co., Ltd.	Gamania Korea Co., Ltd.	Gamania Digital Entertainment Labuan Holdings Ltd.	Alibangbang Digital Games Co., Ltd.
1. Long-term investments and stockholders' equity eliminated	(\$ 508,906)	\$ 171,128	\$ 78,608	\$ 106,370	\$ 109,099	\$ 36,954	\$ 61	\$ 6,686
2. Receivables and payables eliminated	(177,514)	(17,399)	139,489	54,831	6	729	(142)	-
3. Profit and loss accounts eliminated								
(1) Sale and purchase transactions	101,778	9,485	(104,252)	(7,011)	-	-	-	-
(2) Royalty income and publishing cost	(2,580)	2,580	-	-	-	-	-	-
(3) Other operating revenue and service expense	(1,687)	-	-	1,687	-	-	-	-
(4) Publishing cost and royalty income	1,446	-	(1,446)	-	-	-	-	-
(5) Advertising expense and revenue	7,657	-	-	(7,657)	-	-	-	-
(6) Rent revenue and expense	(20,417)	2,937	5,248	9,977	-	2,255	-	-
(7) Other revenue and expense	(1,124)	-	575	549	-	-	-	-
(8) Realized (unrealized) gross profit on inter-company transactions	1,718	1,542	(3,767)	507	-	-	-	-

For the year ended December 31, 2005

	Gamania Digital Entertainment Co., Ltd.	Gamania Holdings Ltd. and its subsidiaries	NC Taiwan Co., Ltd.	Taiwan Index Co., Ltd.	Gamania Asia Investment Co., Ltd.	Gamania Korea Co., Ltd.	Gamania Digital Entertainment Labuan Holdings Ltd.	Alibangbang Digital Games Co., Ltd.
1. Long-term investments and stockholders' equity eliminated	(\$ 456,536)	\$ 107,154	\$ 111,007	\$ 95,979	\$ 109,212	\$ 13,793	\$ 170	\$ 19,221
2. Receivables and payables eliminated	(167,301)	(23,536)	162,959	36,927	6	(9,037)	-	(18)
3. Profit and loss accounts eliminated								
(1) Sale and purchase transactions	61,834	2,173	(25,910)	(38,097)	-	-	-	-
(2) Royalty income and publishing expense	(3,432)	3,432	-	-	-	-	-	-
(3) Other operating revenue and service expense	(3,719)	3,683	-	36	-	-	-	-
(4) Publishing expense and royalty income	3,546	-	(3,253)	(293)	-	-	-	-
(5) Advertising expense and revenue	5,177	-	-	(5,177)	-	-	-	-
(6) Rent revenue and expense	(31,995)	5,874	5,344	16,268	-	4,509	-	-
(7) Other revenue and expense	(509)	-	44	463	-	2	-	-
(8) Realized (unrealized) gross profit on inter-company transactions	443	10	3	(456)	-	-	-	-

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		Limit of guarantee for each party (Note 4)	Maximum outstanding guarantee amount for the year ended December 31, 2006	Outstanding guarantee amount at December 31, 2006	Amount of guarantee with collateral placed	Ratio of accumulated guarantee amount to net value of the Company	Maximum amount available for guarantee (Note 3)
Number (Note 1)	Name	Name	Relationship with the Company (Note 2)						
0	The Company	Gamania Korea Co., Ltd.	2	\$ 30,000	\$ 23,940 (USD \$900,000)	\$ -	None	-	\$ 440,636 (30% of the Company's capital)

Note 1: Number 0 represents the Company.

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

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

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

C) Marketable securities held at December 31, 2006:

Unit: Thousands of New Taiwan Dollars / Thousands of Shares

Company	Type of marketable securities (Note (1))	Name of marketable securities	Relationship of the issuers with the security holders	General ledger account	December 31, 2006				
					Number of shares	Book value	Percentage	Market value (Note (2))	Note
The Company	Common Stock	Gamania Holdings Ltd.	Subsidiary	Long-term investment	29,108	\$ 171,128	100%	\$ 171,128	Note (3)
"	"	Gamania Korea Co., Ltd.	"	"	732	36,954	100%	36,954	"
"	"	Alibangbang Digital Games Co., Ltd.	"	"	10,600	6,686	96.36%	6,686	"
"	"	NC Taiwan Co., Ltd.	"	"	7,140	78,608	51.00%	78,608	"
"	"	Taiwan Index Co., Ltd.	"	"	17,350	76,023	69.40%	76,023	"
"	"	Gamania Asia Investmet Co., Ltd.	"	"	19,000	139,466	100%	139,466	"
"	"	Gamania Digital Entertainment Labuan Holdings, Ltd.	"	"	10	61	100%	61	"
"	"	Playcoo Co.	Investee company accounted for under the equity method	"	4,000	29,832	30.30%	29,832	None
"	"	Buybooks Digital Technology Corp., Ltd.	Investee company accounted under financial assets carried at cost	Financial assets carried at cost-non-current	300	-	3.74%	-	"
"	"	ECD Interactive Corporation	"	"	2,040	-	18.55%	-	"
"	"	Joyon Entertainment Co., Ltd.	"	"	697	-	11.47%	-	"
"	"	RAVA Ideologie Inc.	"	"	880	-	8.69%	-	"

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

Note (2): The market value of listed equity securities and closed-end mutual funds is determined based on closing price at the balance sheet date and net asset value of funds, respectively. The market value of open-end mutual funds is determined based on the net asset par value at the balance sheet date.

Note (3): The transaction has been eliminated in the consolidated financial statements.

D) Marketable securities acquired or sold during the year ended December 31, 2006 in excess of \$100,000 or 20% of capital:

Investor	Type and name of marketable securities	General ledger account	Name and relationship of counterparty	Beginning balance (Note)		Addition		Disposal			Disposal gain	Ending balance (Note)	
				Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Cost		Number of shares	Amount
The Company	ABN Bond Fund	Financial asset held for trading-bond funds	Initial investment at inception/None	-	-	10,387	\$ 155,000	10,387	\$ 155,531	\$ 155,000	\$ 531	-	-
"	SK Bond Fund	"	"	-	-	11,408	188,000	11,408	188,422	188,000	422	-	-
"	MEGA Bond Fund	"	"	-	-	14,014	160,000	14,014	160,236	160,000	236	-	-
"	MT Bond Fund	"	"	-	-	7,550	102,000	7,550	102,093	102,000	93	-	-
"	FBS Bond Fund	"	"	-	-	9,244	120,000	9,244	120,196	120,000	196	-	-
"	CSC Bond Fund	"	"	-	-	7,198	106,000	7,198	106,633	106,000	633	-	-
"	NITC Bond Fund	"	"	-	-	7,525	105,000	7,525	105,323	105,000	323	-	-
"	FHS Bond Fund	"	"	-	-	14,352	190,000	14,352	190,340	190,000	340	-	-
"	SKFHC Bond Fund	"	"	-	-	10,329	105,000	10,329	105,152	105,000	152	-	-
"	ABN AMRO Select Bond Fund	"	"	-	-	9,607	108,000	9,607	108,322	108,000	322	-	-
"	UPAMC James Bond Fund	"	"	-	-	8,491	130,000	8,491	130,069	130,000	69	-	-
"	JF (Taiwan) Bond Fund	"	"	-	-	6,809	103,000	6,809	103,305	103,000	305	-	-
"	Prudential Financial Bond Fund	"	"	-	-	6,897	100,000	6,897	100,353	100,000	353	-	-

Note : Original investment cost.

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

(2) Information of investee companies

A) Information of investee companies:

(The information on investee companies, Gamania Korea Co., Ltd., NC Taiwan Co., Ltd., Taiwan Index Co., Ltd., Gamania Asia Investment Co., Ltd., Gamania Digital (Japan) Co., Ltd., Gamania Digital Entertainment (H.K.) Co., Ltd., and Playcoo Co., were based on financial statements audited by other auditors. The information on Gamania Entertainment Labuan Holdings Ltd. and G.A. Co., Limited were based on unaudited financial statements. The others were audited by us.)

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
				2006.12.31	2005.12.31	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	\$ 987,151	\$ 892,188	29,108	100%	\$171,128	(\$ 26,941)	(\$ 26,941)	Subsidiary (Note 2)
"	Gamania Korea Co., Ltd.	3F, NO.75-6 Soodang B/D, Samsung-Dong Kang Nam-Gu, Seoul Korea	Design and sale of software	137,352	80,189	732	100%	36,954	(35,662)	(35,662)	"
"	Alibangbang Digital Games Co., Ltd.	18F, No. 736 Chang-Cheng Rd., Chung-Ho City, Taipei County, Taiwan	Design and research and development of software	110,000	90,000	10,600	96.36%	6,686	(33,161)	(31,826)	"
"	NC Taiwan Co., Ltd.	"	Design and sale of software	71,400	71,400	7,140	51%	78,608	(56,141)	(32,399)	"
"	Taiwan Index Co., Ltd.	"	Software service	208,200	208,200	17,350	69.40%	76,023	10,231	7,607	"
"	Gamania Asia Investment Co., Ltd.	"	Investment	190,000	190,000	19,000	100%	139,446	2,670	2,670	"
"	Gamania Digital Entertainment Labuan Holdings, Ltd.	Level 9F, Main Office Tower, Financial Park, 87000 Labuan FT Labuan, Malaysia	Investment holding company	329	329	10	100%	61	(107)	(107)	"

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
				2006.12.31	2005.12.31	Number of shares	Percentage	Book value			
The Company	Soga Interactive Co., Ltd.	18F, No.736 Chang-Cheng Rd., Chung-Ho City, Taipei County, Taiwan	Design and research of software	\$ -	\$ 28,000	-	-	\$ -	\$ -	(\$ 5,103)	Investee company accounted for under equity method (Note 3)
"	Playcoo Co.	4F-4, No.215 Cheng-de Rd., Taipei City, Taiwan	Supply software service and electronic information	40,000	40,000	4,000	30.30%	29,832	(31,964)	(9,685)	Investee company accounted for under equity method
Gamania Asia Investment Co., Ltd.	Taiwan Index Co., Ltd.	18F, No.736 Chang-Cheng Rd., Chung-Ho City, Taipei County, Taiwan	Design and sale of software	80,625	80,625	6,800	27.20%	30,347	10,231	2,783	Investee company accounted for under equity method (Note 2)
Gamania Holdings Ltd.	Gamania International Holdings Ltd.	3F, Harbour Center, Box 1348, George Town, Grand Cayman, Cayman Islands, British West Indies	Investment holding company	USD 29,108 thousand	USD 26,191 thousand	29,108	100%	USD 5,277 Thousand	(USD 825 thousand)	(USD 825 thousand)	Subsidiary (Note 2)
Gamania International Holdings Ltd.	Gamania Digital Entertainment (Japan) Co., Ltd.	Sumitomo Ooimachi Bldg (North) 4F, 1-20-6 Ooi, Shinagawa-Ku, Tokyo, Japan 140-0014	Design and sale of software; sale of hardware	USD 14,298 thousand	USD 12,240 thousand	19	100%	USD 2,886 thousand	(USD 1,086 thousand)	(USD 1,086 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	USD 18,171 thousand	USD 16,750 thousand	18,171	92.92%	USD 2,587 thousand	USD 285 Thousand	USD 285 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	USD 15,110 thousand	USD 14,250 thousand	N/A	100%	(USD 243 thousand)	(USD 1,347 thousand)	(USD 1,347 thousand)	"

Company	Name of investee	Location	Main operating activities	Original investment cost		Held by the Company			(Loss) gain incurred by the investee	Investment (loss) gain recognized by the Company	Note
				2006.12.31	2005.12.31	Number of shares	Percentage	Book value			
Gamania Sino Holdings Ltd.	Gamania Digital Entertainment (Beijing) Co., Ltd.	Rm2106, Bldg No.5 Soho New Town, No.88, Jian Guo Re Beijing, 1000022 China	Design and sale of software	USD\$11,980 thousand	USD\$11,480 thousand	N/A	100%	(USD\$ 298 Thousand)	(USD\$ 955 thousand)	(USD\$ 955 thousand)	Subsidiary (Note 2)
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	USD 3,009 thousand	USD 3,009 thousand	35,500	100%	USD2,797 thousand	USD 1,630 thousand	USD 1,630 thousand	"
Gamania China Holdings Ltd.	G.A. Co., Limited	50F, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong	Design and sale of software	Note1	Note1	N/A	100%	-	USD 6 thousand	USD 6 thousand	"

Note 1: The original investment cost is \$HK2.

Note 2: The transaction has been eliminated in the consolidated financial statements.

Note 3: The Company disposed the total shares in Soga Interactive Co., Ltd.

B) Financing activities to any company or person: None.

C) Guarantee information: None.

D) Marketable securities held at December 31, 2006:

Issuer	Type of marketable securities (Note (1))	Name of marketable securities	Relationship with the security holders	General ledger account	December 31, 2006				
					Number of shares	Book value	Percentage	Market value (Note (2))	Note
Gamania Holdings Ltd.	Common Stock	Gamania International Holdings Ltd.	Subsidiary	Long-term investments – accounted for under the equity method	29,108	USD\$ 5,277 thousand	100%	USD\$ 5,277 thousand	Note (3)
Gamania International Holdings Ltd.	"	Gamania Digital Entertainment (Japan) Co., Ltd.	"	"	19	USD 2,886 thousand	100%	USD 2,886 thousand	"
Gamania International Holdings Ltd.	"	Gamania China Holdings Ltd.	"	"	18,171	USD 2,587 thousand	92.92%	USD 2,587 thousand	"
Gamania China Holdings Ltd.	"	G.A. Co., Limited	"	"	N/A	-	100%	-	"
Gamania China Holdings Ltd.	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	"	"	35,500	USD 2,797 thousand	100%	USD 2,797 thousand	"
Gamania China Holdings Ltd.	"	Gamania Sino Holdings Ltd.	"	"	N/A	(USD 243 Thousand)	100%	(USD 243 Thousand)	"
Gamania Sino Holdings Co., Ltd.	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	"	"	N/A	(USD 298 thousand)	100%	(USD 298 thousand)	"
Gamania Asia Investment Co., Ltd.	"	Taiwan Index Co., Ltd.	Investee company accounted for under the equity method	"	6,800	30,347	27.20%	30,347	"
Gamania Asia Investment Co., Ltd.	"	Nice Finance Co., Ltd.	Investee company accounted under financial assets carried at cost	Financial assets carried at cost	8,718	91,453	14.60%	91,453	None

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

Note (2): The market value of listed equity securities and closed-end mutual funds is determined based on closing price at the balance sheet date and net asset value of funds, respectively.
The market value of open-end mutual funds is determined based on the net asset par value at the balance sheet date.

Note (3): The transaction has been eliminated in the consolidated financial statements.

Note (4): Unit: Share

- E) Marketable securities acquired or sold during the year ended December 31, 2006 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	\$ 145,440	(Note (1))	\$ -	N/A	\$ 45,859	\$ -

Note (1): This rate represents the turnover rate on the receivables from the Company for the merchandise sold by the Company. As the payments are made to NC Taiwan Co., Ltd. within three months after the Company receives the payments, the turnover rate is not applicable.

Note (2): The transaction has been eliminated in the consolidated financial statements.

- J) Information on derivative transactions: None.

(3) DISCLOSURE OF INFORMATION ON INVESTMENT IN MAINLAND CHINA

a.

Name of investee in Mainland China	Main activities	Capital	Investment method	Accumulated investment as of January 1, 2006	Remitted or received investment amount during the year		Accumulated investment as of December 31, 2006	Direct and indirect percentage of ownership	Investment loss recognized during the year (Note (3))	Balance of investment at December 31, 2006	Accumulated investment income received as of December 31, 2006
					Remitted	Received					
Gamania Digital Entertainment (Beijing) Co., Ltd.	Design and sale of software	(RMB 98,811 thousand) \$413,952	(Note (2))	(USD 9,350 thousand) \$304,810	(USD 500 thousand) \$16,300	\$ -	(USD 9,850 thousand) \$321,110	92.92%	(USD 887 thousand) (\$28,854)	(USD 277 thousand) (\$9,030)	\$ -

Accumulated amount of investment in Mainland China as of December 31, 2006	Related investment amount approved by FIA	The upper limit of investment in Mainland China
\$ 321,110 (USD 9,850 thousand)	\$455,748 (Note (1))	\$ 924,543

Note (1): Related total investment amount approved by FIA is USD13,980,000 or NTD 455,748 thousand based on 32.6 exchange 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 year is calculated based on the percentage of indirect ownership using the audited financial statements of the investee.

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

c. The transaction has been eliminated in the consolidated financial statements.

(4) The relationship and significant transactions between the Company and its subsidiaries

For the year ended December 31, 2006.

Number (Note (1))	Name of counterparty	Name of transaction parties	Relationship (Note (2))	Transaction terms			Percentage of total combined revenue or total assets (Note (3))
				Subject	Amount	Transaction terms	
0	Gamania Digital Entertainment Co., Ltd.	Taiwan Index Co., Ltd.	1	Service revenue	\$ 1,920	Note (4)	-%
0	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	1	Royalty income	2,580	Note (4)	-%
0	"	Taiwan Index Co., Ltd.	1	Other operating revenue	1,687	Note (4)	-%
0	"	NC Taiwan Co., Ltd.	1	Purchases	98,126	Note (4)	3%
0	"	Taiwan Index Co., Ltd.	1	Purchases	3,652	Note (4)	-%
0	"	NC Taiwan Co., Ltd.	1	Publishing costs	1,446	Note (4)	-%
0	"	Taiwan Index Co., Ltd.	1	Advertising expense	7,657	Note (4)	-%
0	"	Taiwan Index Co., Ltd.	1	Rent revenue	9,977	Note (4)	-%
0	"	NC Taiwan Co., Ltd.	1	Rent revenue	5,248	Note (4)	-%
0	"	Gamania Korea Co., Ltd.	1	Rent revenue	2,255	Note (4)	-%
0	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	1	Rent revenue	2,205	Note (4)	-%
0	"	Taiwan Index Co.	1	Notes receivable	1,106	Note (4)	-%
0	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	1	Other receivables	7,574	Note (4)	-%
0	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	1	Other receivables	6,943	Note (4)	-%
0	"	NC Taiwan Co., Ltd.	1	Other receivables	5,441	Note (4)	-%
0	"	Gamania Digital Entertainment (Japan) Co., Ltd.	1	Other receivables	3,916	Note (4)	-%
0	"	Gamania International Holdings Ltd.	1	Other receivables	1,080	Note (4)	-%
0	"	Gamania Holdings Ltd.	1	Other receivables	1,354	Note (4)	-%

For the year ended December 31, 2006 (Continued)

Number (Note (1))	Name of counterparty	Name of transaction parties	Relationship (Note (2))	Transaction terms			Percentage of total combined revenue or total assets (Note (3))
				Subject	Amount	Transaction terms	
0	Gamania Digital Entertainment Co., Ltd.	NC Taiwan Co., Ltd.	1	Notes payable	92,785	Note (4)	3%
0	"	NC Taiwan Co., Ltd.	1	Other payables	52,644	Note (4)	2%
0	"	Taiwan Index Co., Ltd.	1	Other payables	56,679	Note (4)	2%
0	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	1	Other payables	2,249	Note (4)	-%
0	"	Gamania Digital Entertainment (Japan) Co., Ltd.	1	Other payables	1,639	Note (4)	-%
0	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	1	Sale of assets	3,380	Note (4)	-%
0	"	Gamania Digital Entertainment (Japan) Co., Ltd.	1	Sale of assets	1,097	Note (4)	-%
1	NC Taiwan Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Sales revenue	98,126	Note (4)	3%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Sales revenue	1,446	Note (4)	-%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Operating costs	5,248	Note (4)	-%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Accrued expenses	5,441	Note (4)	-%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Notes receivable	92,785	Note (4)	3%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Accounts receivable	52,644	Note (4)	2%
1	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	3	Accounts receivable	11,845	Note (4)	-%
1	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	3	Sales revenue	6,126	Note (4)	-%

For the year ended December 31, 2006 (Continued)

Number (Note (1))	Name of counterparty	Name of transaction parties	Relationship (Note (2))	Transaction terms			Percentage of total combined revenue or total assets (Note (3))
				Subject	Amount	Transaction terms	
2	Taiwan Index Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Service expense	\$ 1,920	Note (4)	-%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Service expense	1,687	Note (4)	-%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Sales revenue	3,652	Note (4)	-%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Operating revenue	7,657	Note (4)	-%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Operating costs	9,977	Note (4)	-%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Notes payable	1,106	Note (4)	-%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Accounts receivable	56,679	Note (4)	2%
2	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	3	Accounts receivable	1,243	Note (4)	-%
3	Gamania Korea Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Rent expense	2,255	Note (4)	-%
3	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	3	Other payables	3,435	Note (4)	-%
4	Gamania Digital Entertainment (H.K.) Co., Ltd.	NC Taiwan Co., Ltd.	3	Purchases	6,126	Note (4)	-%
4	"	Gamania Digital Entertainment Co., Ltd.	2	Publishing costs	2,580	Note (4)	-%
4	"	Gamania Digital Entertainment Co., Ltd.	2	Other payables	6,943	Note (4)	-%
4	"	Gamania Digital Entertainment Co., Ltd.	2	Other receivables	2,249	Note (4)	-%
4	"	Gamania Korea Co., Ltd.	3	Other receivables	3,435	Note (4)	-%
4	"	Gamania Sino Holdings Ltd.	3	Other receivables	6,709	Note (4)	-%

For the year ended December 31, 2006 (Continued)

Number (Note (1))	Name of counterparty	Name of transaction parties	Relationship (Note (2))	Transaction terms		Transaction terms	Percentage of total combined revenue or total assets (Note (3))
				Subject	Amount		
4	Gamania Digital Entertainment (H.K) Co., Ltd.	NC Taiwan Co., Ltd.	3	Other payables	\$ 11,845	Note (4)	-%
4	"	Taiwan Index Co., Ltd.	3	Other payables	1,243	Note (4)	-%
5	Gamania Digital Entertainment (Japan) Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Other payables	3,916	Note (4)	-%
5	"	Gamania Digital Entertainment Co., Ltd.	2	Other receivables	1,639	Note (4)	-%
6	Gamania Digital Entertainment (Beijing) Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Rent expense	2,205	Note (4)	-%
6	"	Gamania Digital Entertainment Co., Ltd.	2	Other payables	7,574	Note (4)	-%
6	"	Gamania Sino Holdings Ltd.	3	Other payables	7,386	Note (4)	-%
7	Gamania International Holdings Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Other payables	1,080	Note (4)	-%
8	Gamania Holdings Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Other payables	1,354	Note (4)	-%
9	Gamania Sino Holdings Ltd.	Gamania Digital Entertainment (H.K) Co., Ltd.	3	Other payables	6,709	Note (4)	-%
9	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	3	Other receivables	7,386	Note (4)	-%

Note (1): The transaction information of the Company and its consolidated subsidiaries should be noted in column "Number". The number means:

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Note (2): The relationships with the transaction parties are as follows:

1. The Company to the consolidated subsidiary.
2. The consolidated subsidiary to the Company.
3. The consolidated subsidiary to another consolidated subsidiary.

Note (3): Ratios of asset/liability accounts are divided by consolidated total assets, and ratios of gain/loss accounts are divided by consolidated sales revenue.

Note (4): There is no similar transaction to compare with. It will follow the agreed price and transaction terms.

Note (5): The disclosure standard reaches above \$1,000 for the transaction amount.

For the year ended December 31, 2005

Transaction terms

Number (Note (1))	Name of counterparty	Name of transaction parties	Relationship (Note (2))	Subject	Amount	Transaction terms	Percentage of total combined revenue or total assets (Note (3))
0	Gamania Digital Entertainment Co., Ltd.	NC Taiwan Co., Ltd.	1	Service revenue	\$ 67,701	Note (4)	2%
0	"	Taiwan Index Co., Ltd.	1	Service revenue	60,126	Note (4)	2%
0	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	1	Royalty income	3,432	Note (4)	-%
0	"	Gamania Digital Entertainment (Japan) Co., Ltd.	1	Other operating revenue	2,180	Note (4)	-%
0	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	1	Other operating revenue	1,028	Note (4)	-%
0	"	Taiwan Index Co., Ltd.	1	Purchases	35,924	Note (4)	1%
0	"	NC Taiwan Co., Ltd.	1	Purchases	25,910	Note (4)	1%
0	"	NC Taiwan Co., Ltd.	1	Publishing costs	3,253	Note (4)	-%
0	"	Taiwan Index Co., Ltd.	1	Advertising expense	5,177	Note (4)	-%
0	"	Taiwan Index Co., Ltd.	1	Rent revenue	16,268	Note (4)	1%
0	"	NC Taiwan Co., Ltd.	1	Rent revenue	5,344	Note (4)	-%
0	"	Gamania Korea Co., Ltd.	1	Rent revenue	4,509	Note (4)	-%
0	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	1	Rent revenue	4,410	Note (4)	-%
0	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	1	Rent revenue	1,464	Note (4)	-%
0	"	NC Taiwan Co., Ltd.	1	Notes receivable	1,790	Note (4)	-%
0	"	Gamania Digital Entertainment (Japan) Co., Ltd.	1	Other receivables	17,769	Note (4)	1%
0	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	1	Other receivables	11,951	Note (4)	-%
0	"	NC Taiwan Co., Ltd.	1	Other receivables	5,468	Note (4)	-%
0	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	1	Other receivables	4,487	Note (4)	-%
0	"	Gamania Korea Co., Ltd.	1	Other receivables	4,449	Note (4)	-%
0	"	Gamania International Holdings Ltd.	1	Other receivables	1,081	Note (4)	-%

For the year ended December 31, 2005 (Continued)

Number (Note (1))	Name of counterparty	Name of transaction parties	Relationship (Note (2))	Transaction terms			Percentage of total combined revenue or total assets (Note (3))
				Subject	Amount	Transaction terms	
0	Gamania Digital Entertainment Co., Ltd.	Gamania Digital Entertainment (Japan) Co., Ltd.	1	Other receivables	\$ 1,559	Note (4)	-%
0	"	NC Taiwan Co., Ltd.	1	Notes payable	88,900	Note (4)	3%
0	"	NC Taiwan Co., Ltd.	1	Other payables	82,796	Note (4)	2%
0	"	Taiwan Index Co., Ltd.	1	Other payables	38,750	Note (4)	1%
0	"	Gamania Digital Entertainment (Japan) Co., Ltd.	1	Other payables	4,367	Note (4)	-%
0	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	1	Other payables	2,394	Note (4)	-%
0	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	1	Other payables	1,782	Note (4)	-%
1	NC Taiwan Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Operating costs	67,701	Note (4)	2%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Sales revenue	25,910	Note (4)	1%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Royalty income	3,253	Note (4)	-%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Rent expense	5,344	Note (4)	-%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Notes payable	1,790	Note (4)	-%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Accrued expenses	5,468	Note (4)	-%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Notes receivable	88,900	Note (4)	3%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Accounts receivable	82,796	Note (4)	2%
1	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	3	Accounts receivable	4,028	Note (4)	-%
2	Taiwan Index Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Service expense	60,126	Note (4)	2%

For the year ended December 31, 2005 (Continued)

Number (Note (1))	Name of counterparty	Name of transaction parties	Relationship (Note (2))	Transaction terms			Percentage of total combined revenue or total assets (Note (3))
				Subject	Amount	Transaction terms	
2	Taiwan Index Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Sales revenue	\$ 35,924	Note (4)	1%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Advertising revenue	5,177	Note (4)	-%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Rent expense	16,268	Note (4)	1%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Accounts receivable	38,750	Note (4)	1%
2	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	3	Sales revenue	2,173	Note (4)	-%
3	Gamania Korea Co., Ltd. (Note (5))	Gamania Digital Entertainment Co., Ltd.	2	Rent expense	4,509	Note (4)	-%
3	"	Gamania Digital Entertainment Co., Ltd.	2	Other payables	4,449	Note (4)	-%
3	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	3	Other payables	4,755	Note (4)	-%
4	Gamania Digital Entertainment (H.K.) Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Publishing costs	3,432	Note (4)	-%
4	"	Gamania Digital Entertainment Co., Ltd.	2	Service expense	1,028	Note (4)	-%
4	"	Gamania Digital Entertainment Co., Ltd.	2	Rent expense	1,464	Note (4)	-%
4	"	Gamania Digital Entertainment Co., Ltd.	2	Other payables	11,951	Note (4)	-%
4	"	Gamania Digital Entertainment Co., Ltd.	2	Other receivables	1,782	Note (4)	-%
4	"	NC Taiwan Co., Ltd.	3	Other payables	4,028	Note (4)	-%
4	"	Taiwan Index Co., Ltd.	3	Operating costs	2,173	Note (4)	-%
4	"	Gamania Korea Co., Ltd. (Note (5))	3	Other receivables	4,755	Note (4)	-%
4	"	Gamania Sino Holdings Ltd.	3	Other receivables	1,766	Note (4)	-%

For the year ended December 31, 2005 (Continued)

Number (Note (1))	Name of counterparty	Name of transaction parties	Relationship (Note (2))	Transaction terms			Percentage of total combined revenue or total assets (Note (3))
				Subject	Amount	Transaction terms	
5	Gamania Digital Entertainment (Japan) Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Service expense	\$ 2,180	Note (4)	-%
5	"	Gamania Digital Entertainment Co., Ltd.	2	Accounts payable	2,011	Note (4)	-%
5	"	Gamania Digital Entertainment Co., Ltd.	2	Other payables	17,769	Note (4)	1%
5	"	Gamania Digital Entertainment Co., Ltd.	2	Other receivables	4,367	Note (4)	-%
6	Gamania Digital Entertainment (Beijing) Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Rent expense	4,410	Note (4)	-%
6	"	Gamania Digital Entertainment Co., Ltd.	2	Other payables	4,487	Note (4)	-%
6	"	Gamania Digital Entertainment Co., Ltd.	2	Other receivables	2,394	Note (4)	-%
6	"	Gamania Sino Holdings Ltd.	3	Other payables	2,547	Note (4)	-%
7	Gamania International Holdings Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Other payables	1,081	Note (4)	-%
8	Gamania Sino Holdings Ltd.	Gamania Digital Entertainment (H.K.) Co., Ltd.	3	Other payables	1,766	Note (4)	-%
8	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	3	Other receivables	2,547	Note (4)	-%

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Note (5): The disclosure standard reaches above \$1,000 for the transaction amount.

12. SEGMENTAL FINANCIAL INFORMATION

(1) Financial information by industry segments

The Company is engaged mainly in one single industry – the software service and trade. Accordingly, no industry information by segment is presented.

(2) Financial information by geographic areas

	<u>2006</u>			<u>Consolidated</u>
	<u>Asia</u>	<u>Taiwan</u>	<u>Adjustments and elimination</u>	
Operating revenues from unaffiliated customers	\$ 360,045	\$ 3,319,890	\$ -	\$ 3,679,935
Operating revenues from the Company and its consolidated subsidiaries	-	141,932	(141,932)	-
Total operating revenues	<u>\$ 360,045</u>	<u>\$ 3,461,822</u>	<u>(\$ 141,932)</u>	<u>\$ 3,679,935</u>
Segment profits	<u>\$ 128,490</u>	<u>\$ 1,081,452</u>	<u>\$ 3,390</u>	\$ 1,213,332
Investment loss accounted for under the equity method				(14,788)
General expense (including non-operating revenues and expenses)				(874,877)
Interest expense				(10,845)
Net income before income tax and minority interest				<u>\$ 312,822</u>
Identifiable assets	<u>\$ 366,954</u>	<u>\$ 3,102,689</u>	<u>(\$ 258,531)</u>	\$ 3,211,112
Financial assets carried at cost - non-current				91,453
Long-term investments - accounted for under the equity method				29,832
General assets				<u>2,885</u>
Total Assets				<u>\$ 3,335,282</u>

	2005			
	<u>Asia</u>	<u>Taiwan</u>	<u>Adjustments and elimination</u>	<u>Consolidated</u>
Operating revenues from unaffiliated customers	\$ 321,425	\$ 2,660,407	\$ -	\$ 2,981,832
Operating revenues from the Company and its consolidated subsidiaries	<u>5,856</u>	<u>75,239</u>	(<u>81,095</u>)	<u>-</u>
Total operating revenues	<u>\$ 327,281</u>	<u>\$ 2,735,646</u>	(<u>\$ 81,095</u>)	<u>\$ 2,981,832</u>
Segment profits	<u>\$ 98,410</u>	<u>\$ 877,936</u>	<u>\$ 30,070</u>	\$ 1,006,416
Investment loss accounted for under the equity method				(18,853)
General expense (including non-operating revenues and expenses)				(1,138,292)
Interest expense				(<u>12,874</u>)
Net loss before income tax and minority interest				(<u>\$ 163,603</u>)
Identifiable assets	<u>\$ 332,508</u>	<u>\$ 2,965,552</u>	(<u>\$ 167,301</u>)	\$ 3,130,759
Financial assets carried at cost - non-current				112,550
Long-term investments - accounted for under the equity method				62,955
General assets				<u>2,893</u>
Total Assets				<u>\$ 3,309,157</u>

(3) Information regarding export sales

The Company does not have export sales exceeding 10% of operating revenues in 2006 and 2005.

(4) Information regarding major customers

<u>Customer Name</u>	<u>2006</u>	
	<u>Sales</u>	<u>% of net sales</u>
Customer A	\$ 1,186,500	35
Customer B	521,428	15
Customer D	408,249	12
	<u>\$ 2,116,177</u>	<u>62</u>

<u>Customer Name</u>	<u>2005</u>	
	<u>Sales</u>	<u>% of net sales</u>
Customer A	\$ 632,644	23
Customer B	517,453	19
Customer C	226,953	8
	<u>\$ 1,377,050</u>	<u>50</u>