

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

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

**DECEMBER 31, 2007 AND 2006**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## **Report of Independent Accountants Translated from Chinese**

(08) R.F014.07000553

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, 2007 and 2006, and the related consolidated statements of income, 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 \$621,972 thousand and \$713,846 thousand, constituting 18.73% and 21.4% of the related consolidated totals as of December 31, 2007 and 2006, respectively, and total operating revenues of \$593,997 thousand and \$1,006,393 thousand, constituting 16.97% and 27.35% 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 an investee accounted for under the equity method. This long-term investment amounted to \$32,589 thousand and \$29,832 thousand, constituting 0.98% and 0.89% of the consolidated total assets as of December 31, 2007 and 2006, respectively, and the related investment loss amounted to \$12,197 thousand and \$14,788 thousand, constituting 3.18% and 3.40% 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 the Examination of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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, 2007 and 2006, 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.

PricewaterhouseCoopers

March 6, 2008

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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.

As the consolidated financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

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

	2007	2006		2007	2006
<b><u>ASSETS</u></b>			<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b><u>Current Assets</u></b>			<b><u>Current Liabilities</u></b>		
Cash and cash equivalents (Note 4 (1))	\$ 1,129,676	\$ 1,031,180	Short-term loans (Note 4 (10))	\$ 10,000	\$ 30,000
Notes receivable – third parties – net (Note 4 (2))	89,004	112,694	Notes payable – third parties	138,700	75,479
Accounts receivable – third parties – net (Note 4 (3))	867,538	871,225	Accounts payable – third parties	169,883	98,986
Other receivables (Note 4 (13))	13,030	3,803	Accounts payable – related party (Note 5 (2))	-	38,316
Other receivables – related party (Note 5 (2))	-	226	Income tax payable (Note 4 (13))	9,730	45,643
Inventories – net (Note 4 (4))	15,109	22,990	Accrued expenses	197,485	213,579
Prepaid expenses (Note 4 (14))	25,186	17,833	Other payables – third parties	124,518	48,890
Deferred income tax assets – current (Note 4 (13))	36,078	57,093	Unearned revenue collected in advance	104,357	222,470
Other current assets	3,217	2,381	Current portion of long-term liabilities (Notes 4 (11) and 4 (12))	25,000	120,128
	<u>2,178,838</u>	<u>2,119,425</u>	Other current liabilities	29,724	13,873
				<u>809,397</u>	<u>907,364</u>
<b><u>Long-term Investments</u></b>			<b><u>Long-term Liability</u></b>		
Financial assets carried at cost – non-current (Note 4 (5))	114,294	91,453	Long-term loans (Note 4 (11))	-	25,000
Long-term investments – accounted for under the equity method (Note 4 (6))	37,028	29,832			
	<u>151,322</u>	<u>121,285</u>	<b><u>Other Liability</u></b>		
<b><u>Property, Plant and Equipment – net</u></b> (Notes 4 (7) and 6 )			Accrued pension liabilities (Note 4 (14))	4,839	5,212
Cost			Guarantee deposits	1,281	950
Land	147,751	147,751	Other liabilities – other	295	950
Buildings	156,375	155,946		<u>6,415</u>	<u>7,112</u>
Machinery and equipment	634,217	829,717	<b>Total Liabilities</b>	<u>815,812</u>	<u>939,476</u>
Office equipment	76,246	93,683			
Leased assets	5,122	1,535	<b><u>Stockholders' Equity</u></b>		
Leasehold improvements	30,235	40,319	Common stock (Notes 1 and 4 (15))	1,530,678	1,468,787
Other equipment	1,496	11,067	Capital reserve (Note 4 (16))		
Total Cost	<u>1,051,442</u>	<u>1,280,018</u>	Paid-in capital in excess of par	740,670	736,166
Less: Accumulated depreciation	( 474,859)	( 607,419)	Gain on disposal of property, plant and equipment	221	221
Accumulated impairment	( 6,049)	( 18,713)	Retained earnings		
Construction in progress and prepayments for equipment	-	1,205	Legal reserve (Notes 4 (17) and 4 (18))	24,132	-
	<u>570,534</u>	<u>655,091</u>	Retained earnings (Note 4 (18))	371,621	241,323
			Financial instruments' unrealized gain	92	65
<b><u>Intangible assets</u></b>			Cumulative translation adjustments	24,282	20,561
Trademark	262	290	Treasury stock (Note 4 (20))	( 200,788)	( 155,765)
Goodwill	2,880	2,885		<u>2,490,908</u>	<u>2,311,358</u>
Deferred pension cost (Note 4 (14))	451	468	Minority interest	14,121	84,448
Other intangible assets – net (Note 4 (8))	440	775		<u>2,505,029</u>	<u>2,395,806</u>
	<u>4,033</u>	<u>4,418</u>			
<b><u>Other Assets</u></b>			<b>Commitments and Contingent Liabilities (Note 7)</b>		
Refundable deposits	32,164	31,169			
Deferred charges – net (Note 4 (9))	211,350	200,164			
Deferred income tax assets – non-current (Note 4 (13))	172,426	203,730			
Other assets – other	174	-			
	<u>416,114</u>	<u>435,063</u>			
<b>TOTAL ASSETS</b>	<u>\$ 3,320,841</u>	<u>\$ 3,335,282</u>	<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 3,320,841</u>	<u>\$ 3,335,282</u>

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated March 6, 2008.

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

	<u>2007</u>	<u>2006</u>
Operating revenues		
Sales revenue	\$ 3,578,793	\$ 3,801,222
Sales returns	( 98,354)	( 78,213)
Sales allowances	( 62,886)	( 58,258)
Net sales revenue	3,417,553	3,664,751
Service revenue	83,204	15,184
Operating revenues	<u>3,500,757</u>	<u>3,679,935</u>
Operating costs		
Cost of goods sold (Notes 4 (22) and 5)	( 1,795,073)	( 2,100,029)
Gross profit	<u>1,705,684</u>	<u>1,579,906</u>
Operating expenses (Notes 4 (22) and 10)		
Selling expenses	( 333,661)	( 366,574)
General and administrative expenses	( 716,444)	( 708,002)
Research and development expenses	( 167,913)	( 141,312)
Total operating expenses	( 1,218,018)	( 1,215,888)
Operating income	<u>487,666</u>	<u>364,018</u>
Non-operating income		
Interest income	10,480	5,418
Gain on valuation of financial assets	6,655	6,100
Dividend income	5,231	-
Gain on disposal of property, plant and equipment	-	338
Gain on sale of investments (Notes 4 (5) and 4 (6))	20,681	9,600
Foreign exchange gain	-	1,555
Rental income	2,801	224
Miscellaneous income	6,942	6,790
Total non-operating income	<u>52,790</u>	<u>30,025</u>
Non-operating expenses		
Interest expense	( 2,742)	( 10,845)
Investment loss accounted for under the equity method (Note 4 (6))	( 12,758)	( 14,788)
Other investment loss (Note 4 (5))	-	( 12,551)
Loss on disposal of property, plant and equipment	( 3,959)	( 7,198)
Loss on physical count of inventories	( 36)	( 1,506)
Foreign exchange loss	( 1,866)	-
Loss on decline in market value of obsolete inventories	( 26,824)	( 13,396)
Miscellaneous losses	( 19,675)	( 20,937)
Total non-operating expenses	( 67,860)	( 81,221)
Income before income tax (Note 4 (13))	472,596	312,822
Income tax (expense) benefit	( 89,671)	89,503
Consolidated net income	<u>\$ 382,925</u>	<u>\$ 402,325</u>
Attributable to:		
Equity holders of the Company	\$ 383,785	\$ 434,711
Minority interest	( 860)	( 32,386)
	<u>\$ 382,925</u>	<u>\$ 402,325</u>

	<u>2007</u>		<u>2006</u>	
	<u>Before income tax</u>	<u>After income tax</u>	<u>Before income tax</u>	<u>After income tax</u>
Basic earnings per share (in dollars) (Note 4 (19))				
Profit attributable to equity holders of the Company	\$ 3.20	\$ 2.59	\$ 2.37	\$ 2.99
Minority interest loss	( 0.01)	( 0.01)	( 0.22)	( 0.22)
Consolidated net income	<u>\$ 3.19</u>	<u>\$ 2.58</u>	<u>\$ 2.15</u>	<u>\$ 2.77</u>
Basic earnings per share (in dollars) (Note 4 (19))				
Profit attributable to equity holders of the Company	\$ 3.14	\$ 2.55	\$ 2.37	\$ 2.99
Minority interest loss	( 0.01)	( 0.01)	( 0.22)	( 0.22)
Consolidated net income	<u>\$ 3.13</u>	<u>\$ 2.54</u>	<u>\$ 2.15</u>	<u>\$ 2.77</u>

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated March 6, 2008.

**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	Treasury Stock	Capital Surplus from	Legal Reserve	Retained Earnings	Financial	Cumulative	Treasury Stock		
		Excess of Par	Transaction	Gain on Disposal			Instruments'	Translation			
						Unrealized Gain	Adjustments				
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	-	-
Offset of paid-in capital in excess of par against 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 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>
Balance at January 1, 2007	\$ 1,468,787	\$ 736,166	\$ -	\$ 221	\$ -	\$ 241,323	\$ 65	\$ 20,561	(\$ 155,765)	\$ 84,448	\$ 2,395,806
Distribution of 2006 earnings:											
Legal reserve	-	-	-	-	24,132	( 24,132)	-	-	-	-	-
Capital increase from employees' bonuses	21,719	-	-	-	-	( 21,719)	-	-	-	-	-
Capital increase from retained earnings	38,189	-	-	-	-	( 38,189)	-	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	-	( 4,340)	-	-	-	( 4,340)	( 4,340)
Cash dividends	-	-	-	-	-	( 152,140)	-	-	-	( 152,140)	( 152,140)
Transfer of treasury stock	-	-	-	-	-	( 432)	-	-	155,765	-	155,333
Acquisition of treasury stock	-	-	-	-	-	-	-	( 200,788)	-	( 200,788)	( 200,788)
Exercise of employees' stock options	1,983	4,504	-	-	-	-	-	-	-	-	6,487
Cumulative translation adjustments	-	-	-	-	-	-	-	3,721	-	-	3,721
Effect of change in ownership percentage of investee company	-	-	-	-	-	( 12,535)	-	-	-	-	( 12,535)
Effect of investee's unrealized gain on financial instruments	-	-	-	-	-	-	27	-	-	-	27
Changes in minority interest	-	-	-	-	-	-	-	-	-	( 69,467)	( 69,467)
Consolidated net income for 2007	-	-	-	-	-	383,785	-	-	-	( 860)	382,925
Balance at December 31, 2007	<u>\$ 1,530,678</u>	<u>\$ 740,670</u>	<u>\$ -</u>	<u>\$ 221</u>	<u>\$ 24,132</u>	<u>\$ 371,621</u>	<u>\$ 92</u>	<u>\$ 24,282</u>	<u>(\$ 200,788)</u>	<u>\$ 14,121</u>	<u>\$ 2,505,029</u>

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

See report of independent accountants dated March 6, 2008.

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)

	2007	2006
<u>Cash flows from operating activities</u>		
Consolidated net income	\$ 382,925	\$ 402,325
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Gain on valuation of financial assets	( 6,655)	( 6,100)
Gain on sale of investments	( 20,681)	( 9,600)
Provision for bad debts and sales returns	5,743	10,836
Provision for decline in market value and obsolescence of inventories and inventories written - off	5,758	760
Investment loss on financial assets carried at cost - non-current	-	12,551
Dividends received from financial assets carried at cost recorded as a reduction of investment cost	-	8,547
Investment loss accounted for under equity method	12,758	14,788
Depreciation and amortization	234,165	288,250
Loss on disposal of property, plant and equipment and other intangible assets	3,959	6,860
Amortization of trademark	43	43
Amortization of other intangible assets	334	368
Deferred charges charged to cost - other expense and other loss	18,186	27,796
Changes in assets and liabilities:		
(Increase) decrease in:		
Notes receivable - third parties	23,690	( 27,816)
Accounts receivable - third parties	( 1,381)	( 59,242)
Other receivables - third parties	( 9,947)	1,043
Other receivables - related party	-	294
Inventories	1,804	( 7,814)
Prepaid expenses	( 5,961)	12,125
Other current assets	( 1,315)	3,932
Deferred income tax assets	41,230	( 131,614)
Increase (decrease) in:		
Notes payable - third parties	68,379	( 30,193)
Accounts payable - third parties	71,263	19,832
Accounts payable - related party	( 26,168)	( 8,162)
Income tax payable	( 35,211)	25,003
Accrued expenses	19,491	8,747
Other payables - third parties	48,600	8,862
Unearned revenue collected in advance	( 42,445)	43,387
Other current liabilities	20,692	( 13,647)
Accrued pension liabilities	( 3,307)	( 2,337)
Net cash provided by operating activities	805,949	599,824

(Continued on next page)

**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>2007</u>	<u>2006</u>
<b><u>Cash flows from investing activities</u></b>		
Increase in financial assets held for trading - bond funds	(\$ 2,996,000)	(\$ 2,583,000)
Proceeds from disposal of financial assets held for trading - bond funds	3,002,530	2,589,100
Increase in available-for-sale financial assets	( 24,000)	-
Proceeds from disposal of available-for-sale financial assets	24,125	-
Increase in long-term investment	( 28,151)	-
Proceeds from disposal of long-term investments	75,499	28,000
Acquisition of property, plant and equipment	( 109,307)	( 97,719)
Increase in deferred charges	( 132,958)	( 128,453)
Proceeds from disposal of property, plant and equipment and deferred charges	3,996	8,112
Decrease in other financial assets – current	-	30,000
Decrease in other financial assets – non-current	-	2,327
(Increase) decrease in refundable deposits, net	( 6,365)	6,916
(Increase) decrease in other assets – other	( 174)	1,067
Net cash used in investing activities	<u>( 190,805)</u>	<u>( 143,650)</u>
<b><u>Cash flows from financing activities</u></b>		
Increase (decrease) in short-term loans	10,000	( 54,376)
Decrease in long-term loans	( 120,128)	( 199,937)
Decrease in capital lease obligation – non-current	-	( 129)
(Decrease) increase in other liabilities – other	( 655)	886
Increase (decrease) in guarantee deposits	931	( 388)
Acquisition of treasury stock	( 200,788)	( 155,765)
Transfer of treasury stock	155,333	-
Payment of directors' and supervisors' remuneration	( 4,340)	-
Exercise of employee stock options	6,487	-
Payment of cash dividends	( 152,140)	-
Changes in minority interest	4,933	2,400
Net cash used in financing activities	<u>( 300,367)</u>	<u>( 407,309)</u>
Effect of exchange rate changes on cash and cash equivalents	( 887)	( 2,733)
Effect of changes in consolidated subsidiaries	<u>( 215,394)</u>	<u>-</u>
Net increase in cash and cash equivalents	98,496	46,132
Cash and cash equivalents at beginning of year	1,031,180	985,048
Cash and cash equivalents at end of year	<u>\$ 1,129,676</u>	<u>\$ 1,031,180</u>
<b><u>Supplemental disclosures of cash flow information</u></b>		
Cash paid during the year for:		
Interest	<u>\$ 2,825</u>	<u>\$ 11,345</u>
Income tax	<u>\$ 88,884</u>	<u>\$ 16,851</u>
<b><u>Cash paid for the acquisition of property, plant and equipment:</u></b>		
Property, plant and equipment acquired	\$ 137,219	\$ 80,569
Payable at end of year	( 30,003)	( 2,975)
Payable at beginning of year	2,091	20,125
Cash paid	<u>\$ 109,307</u>	<u>\$ 97,719</u>
<b>Non-cash flows from financing activities</b>		
Capital increase from retained earnings and employees' bonuses	<u>\$ 59,908</u>	<u>\$ -</u>

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

See report of independent accountants dated March 6, 2008.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(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, 2007, the total authorized capital was \$2,500,000, consisting of 250 million shares of common stock (including 22 million shares of employee stock options), at a par value of \$10 (NT dollars) per share, and issued and outstanding capital was \$1,530,678. The Company is engaged in software services, TV programming and magazine publications. As of December 31, 2007, the Company and its consolidated subsidiaries had 960 employees.

(2) Consolidated subsidiaries

<u>Name of company</u>	<u>Relationship</u>	<u>Main activities</u>	<u>% of shares held as of December 31,</u>	
			<u>2007</u>	<u>2006</u>
Gamania Holdings Ltd.	Note A	Investment holdings	100%	100%
Taiwan Index Co., Ltd.	Note A	Software services	96.64%	96.60%
Gamania Asia Investments Co., Ltd.	Note A	Investment holdings	100%	100%
Gamania Korea Co., Ltd.	Note A	Design and sales of software	100%	100%
Alibangbang Games Co., Ltd.	Note A	Design and research of software	98.60%	96.36%
Foundation Digital Entertainment Co., Ltd.	Note A	Publishing of magazines and periodicals	100%	-
Gamania Digital Entertainment Labuan Holdings, Ltd.	Note A	Investment holdings	100%	100%
Gamania International Holding Ltd.	Note B	Investment holdings	100%	100%
Gamania Digital Entertainment (Japan) Co., Ltd.	Note C	Design and sales of software; sales of hardware	100%	100%
Gamania China Holdings Ltd.	Note C	Investment holdings	93.55%	92.92%
Gamania Digital Entertainment (H.K.) Co., Ltd.	Note D	Design and sales of software	93.55%	92.92%
G. A. Co., Limited	Note D	Design and sales of software	93.55%	92.92%
Gamania Digital Entertainment Sino Holdings Co., Ltd.	Note D	General investment	93.55%	92.92%
Gamania Digital Entertainment (Beijing) Co., Ltd.	Note E	Design and sales of software	93.55%	92.92%

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:

1. Majority-owned subsidiary that was newly included in the consolidated financial statements

<u>Name of company</u>	<u>Relationship</u>	<u>Main activities</u>	<u>% of shares held as of December 31,</u>		<u>Note</u>
			<u>2007</u>	<u>2006</u>	
Fundation Digital Entertainment Co., Ltd.	Note A	Publishing of magazines and periodicals	100%	-	Note B

Note A: Majority-owned subsidiary.

Note B: The company was established in 2007.

2. Majority-owned subsidiary that was deconsolidated from the consolidated financial statements

<u>Name of company</u>	<u>Relationship</u>	<u>Main activities</u>	<u>% of shares held as of December 31,</u>		<u>Note</u>
			<u>2007</u>	<u>2006</u>	
NC Taiwan Co., Ltd.	Note A	Design and sales of software	15%	51%	Note B

Note A: Financial assets carried at cost - non-current.

Note B: Percentage of shares held by the Company decreased from 51% to 15% in January 2007.

(4) Majority-owned subsidiaries not being 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 distributions are restricted by enactment or contract: None.

- (10) The subsidiaries hold the Company's stocks and bonds: None.
- (11) Convertible bonds and new stocks are issued by the subsidiaries: None.
- (12) The amortization method and terms of the difference between the acquisition cost and the net equity of the subsidiary: None.
- (13) Other consequential items 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 are 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 are 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 are translated using the 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 changes 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 are recognized as of the trade date at fair value for equity stocks. Financial assets at fair value through profit or loss are recognized as of the settlement date at fair value for bonds, beneficiary certificates and derivative instruments.
- B) These financial instruments are subsequently remeasured and stated at fair value, and the gain or loss is recognized in 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.

(7) Financial assets carried at cost

- A) Investments in unlisted equity instruments are 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.

(8) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on a review of the collectibility of accounts receivable. 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 Company 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) 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.
- C) 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. Except for leasehold improvements, which are based on the shorter of the contract period or the life of the asset, the estimated useful lives are 55 years for buildings and 3 to 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 are 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 less than the book value due to changes in 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 of 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 at net amount. Valuation allowance on deferred income tax assets is recognized to the extent that 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) The Company's overseas subsidiaries' income tax are subject to their local regulations.
- E) In accordance with 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.
- F) In accordance with the "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 less 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. Minimum pension liability in the interim financial statements is adjusted in accordance with the net periodic pension cost and funds contributed.
- 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 the 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.

E) Costs and expenses are recognized as incurred.

F) 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 period.

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 year. Actual results could differ from those estimates.

### 3. CHANGES IN ACCOUNTING PRINCIPLES

#### (1) 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 these SFAS, net income increased by \$7,091 and earnings per share increased by \$0.0508 for the year ended December 31, 2006.

#### (2) Financial instruments

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". These changes in accounting principles had no significant impact on the consolidated financial statements as of and for the year ended December 31, 2006.

### 4. DETAILS OF SIGNIFICANT ACCOUNTS

#### (1) Cash and cash equivalents

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Cash on hand	\$ 518	\$ 1,210
Cash in banks	577,546	945,160
Time deposits	543,796	64,774
Cash equivalents	<u>7,816</u>	<u>20,036</u>
	<u>\$ 1,129,676</u>	<u>\$ 1,031,180</u>

#### (2) Notes receivable - net

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Notes receivable	\$ 89,020	\$ 112,710
Less: Allowance for doubtful accounts	( 16)	( 16)
	<u>\$ 89,004</u>	<u>\$ 112,694</u>

(3) Accounts receivable - net

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Accounts receivable	\$ 953,313	\$ 951,944
Less: Allowance for doubtful accounts	( 72,716)	( 74,460)
Allowance for sales returns	( 13,059)	( 6,259)
	<u>\$ 867,538</u>	<u>\$ 871,225</u>

(4) Inventories - net

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Inventories	\$ 43,989	\$ 47,809
Less: Reserve for loss on decline in market value and obsolescence	( 28,880)	( 24,819)
	<u>\$ 15,109</u>	<u>\$ 22,990</u>

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

	<u>December 31,</u>	
<u>Items</u>	<u>2007</u>	<u>2006</u>
Unlisted stocks		
Nice Finance Co., Ltd.	\$ 91,453	\$ 91,453
NC Taiwan Co., Ltd.	22,841	-
	<u>\$ 114,294</u>	<u>\$ 91,453</u>

A) The above investments were measured at cost since their fair value cannot be measured reliably.

B) 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 (in dollars) 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, the said investment was reclassified as "Financial asset carried at cost – non-current" instead of "Long-term investment accounted for under the equity method".

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

A) List of long-term investments

<u>Name of investee</u>	<u>December 31, 2007</u>			<u>Investment loss for the year ended December 31, 2007</u>
	<u>Original cost</u>	<u>Ownership percentage</u>	<u>Balance</u>	
Playcoo Co.	\$ 63,151	36.72%	\$ 32,589	(\$ 12,197)
Taiwan e-sports Co., Ltd.	5,000	25%	4,439	( 561)
	<u>\$ 68,151</u>		<u>\$ 37,028</u>	<u>(\$ 12,758)</u>
<u>Name of investee</u>	<u>December 31, 2006</u>			<u>Investment loss for the year ended December 31, 2006</u>
	<u>Original cost</u>	<u>Ownership percentage</u>	<u>Balance</u>	
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>

- B) Long-term investment in Playcoo Co. accounted for under the equity method was based on financial statements audited by other auditors for the year ended December 31, 2007 and 2006.
- C) The related investment loss in Taiwan e-sports Co., Ltd. was based on its unaudited financial statements for the year ended December 31, 2007 because its authorized shares of common stock was below \$30,000, its operating revenues was below \$50,000 and it did not consist 10% of the Company's operating revenues.
- D) 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

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
<u>Cost</u>		
Land	\$ 147,751	\$ 147,751
Buildings	156,375	155,946
Machinery and equipment	634,217	829,717
Office equipment	76,246	93,683
Leased assets	5,122	1,535
Leasehold improvements	30,235	40,319
Other equipment	<u>1,496</u>	<u>11,067</u>
	<u>1,051,442</u>	<u>1,280,018</u>
<u>Accumulated depreciation</u>		
Buildings	( 16,486)	( 12,513)
Machinery and equipment	( 409,501)	( 521,520)
Office equipment	( 38,551)	( 41,336)
Leased assets	( 2,705)	( 991)
Leasehold improvements	( 6,775)	( 25,958)
Other equipment	<u>( 841)</u>	<u>( 5,101)</u>
	<u>( 474,859)</u>	<u>( 607,419)</u>
Construction in progress and prepayments for equipment	-	1,205
Less: Accumulated impairment	<u>( 6,049)</u>	<u>( 18,713)</u>
	<u>\$ 570,534</u>	<u>\$ 655,091</u>

(8) Other intangible assets

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Prepayments for franchises	\$ 38,738	\$ 41,460
Less: Accumulated impairment	<u>( 38,298)</u>	<u>( 40,685)</u>
	<u>\$ 440</u>	<u>\$ 775</u>

(9) Deferred charges

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Royalties payments	\$ 431,441	\$ 421,327
Unamortized expense	<u>105,919</u>	<u>104,693</u>
	537,360	526,020
Less: Accumulated impairment	<u>( 326,010)</u>	<u>( 325,856)</u>
	<u>\$ 211,350</u>	<u>\$ 200,164</u>

(10) Short-term loans

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Short-term bank loans	\$ 10,000	\$ 30,000
Annual interest rates	<u>2.85% ~ 4.85%</u>	<u>2.5% ~ 2.9%</u>
Credit lines	\$ 75,000	\$ 395,000

(11) Long-term loans

<u>Bank</u>	<u>Total Credit Lines</u>	<u>Period/Terms of Repayment</u>	<u>December 31,</u>	
			<u>2007</u>	<u>2006</u>
Mega International Commercial Bank	\$ 150,000	08.30.2004 ~ 07.20.2007 Principal due on maturity	\$ -	\$ 50,000
Mega International Commercial Bank	150,000	12.31.2004 ~ 07.20.2007 Principal due on maturity	-	20,000
Chang Hwa Bank	150,000	02.14.2005 ~ 02.14.2008 First year grace period, 12 equal semi-annual installments starting from year 2 (Note )	<u>25,000</u>	<u>75,000</u>
			25,000	145,000
Less: Current portion			( <u>25,000</u> )	( <u>120,000</u> )
			<u>\$ -</u>	<u>\$ 25,000</u>

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

(12) Long-term liabilities on lease obligations

	<u>Period/Terms of Repayment</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
ORIX Asia Ltd.	03.24.2006 ~ 04.24.2007 12 equal monthly installments	\$ -	\$ 128
		-	128
Less: current portion		( - )	( 128 )
		<u>\$ -</u>	<u>\$ -</u>

(13) Income tax payable

A) Income tax payable and income tax expense for the years ended December 31, 2007 and 2006 are reconciled as follows:

	<u>For the years ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Current year income tax expense (benefit)	\$ 89,591	(\$ 90,219)
Additional 10% corporate income tax on undistributed earnings	<u>80</u>	<u>716</u>
	89,671	( 89,503)
Add (Less): Net change in deferred income tax assets	( 41,230)	131,614
Prepaid income tax	( 35,389)	( 452)
Under provision of prior year's income tax	( 16,473)	( 76)
Income tax payable of prior year	7,377	4,050
Income tax refundable (accounted in "other receivables")	5,840	8
Effect of exchange rate	( <u>66</u> )	<u>2</u>
Income tax payable	<u>\$ 9,730</u>	<u>\$ 45,643</u>

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

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Deferred income tax assets - current	\$ 43,487	\$ 61,588
Deferred income tax assets - non-current	<u>271,660</u>	<u>285,368</u>
	315,147	346,956
Less: Valuation allowance – current	( 7,409)	( 4,495)
Valuation allowance – non-current	( <u>99,234</u> )	( <u>81,638</u> )
	<u>\$ 208,504</u>	<u>\$ 260,823</u>

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

	December 31,			
	2007		2006	
	<u>Amount</u>	<u>Tax effect</u>	<u>Amount</u>	<u>Tax effect</u>
Current items:				
Over provision of allowance				
for bad debts	\$ 13,191	\$ 3,298	\$ 10,139	\$ 2,535
Allowance for decline in market				
value and inventory obsolescence	30,386	7,596	26,709	6,677
Allowance for sales returns	13,060	3,265	6,711	1,677
Welfare expenses	100	25	1,100	275
Unrealized gross profit	-	-	349	87
Loss carryforwards	3,238	809	25,632	6,408
Others	451	113	-	-
Investment tax credits		<u>28,381</u>		<u>43,929</u>
		43,487		61,588
Less: Valuation allowance		<u>( 7,409)</u>		<u>( 4,495)</u>
		<u>\$ 36,078</u>		<u>\$ 57,093</u>
Non-current items:				
Welfare expenses	\$ -	\$ -	\$ 167	\$ 42
Investment loss on financial assets				
carried at cost – non-current	9,851	2,463	9,851	2,463
Impairment loss on deferred				
charges and intangible assets	13,313	3,328	133,884	33,471
Loss on foreign investments	87,001	21,750	-	-
Reserve for foreign investments	( 63,539)	( 15,885)	( 237,303)	( 59,326)
Reduction in capital of subsidiaries				
to cover accumulated deficit	672,643	168,161	785,541	196,385
Loss carryforwards	266,456	66,614	300,921	74,662
Depreciation allowances in excess				
of related depreciation	( 11,619)	( 2,033)	-	-
Retirement fund expense, but not				
deposited with Bank of Taiwan	422	106	-	-
Others	67	17	528	132
Investment tax credits		<u>27,139</u>		<u>37,539</u>
		271,660		285,368
Less: Valuation allowance		<u>( 99,234)</u>		<u>( 81,638)</u>
		<u>\$ 172,426</u>		<u>\$ 203,730</u>

D) As of December 31, 2007 and 2006, the balance of shareholders account of deductible tax was as follows:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Balance of shareholders account of deductible tax	\$ 66,687	\$ 39,024
2007 Estimated creditable tax ratio		<u>17.94%</u>
2006 Actual creditable tax ratio		<u>21.45%</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>2007</u>	<u>2006</u>
On or after January 1, 1998		
a. Earnings not subjected to 10% income tax	\$ 383,785	\$ 434,711
b. Earnings subjected to 10% income tax	( 12,164)	( 193,388)
	<u>\$ 371,621</u>	<u>(\$ 241,323)</u>

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

- (a) As of December 31, 2007, 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 2001 income tax return. The Company had temporarily recognized the assessment in the financial statements and filed an appeal in April 2007. In August 2007, the Ministry of Finance upheld the re-examination assessment by the Tax Authority as the Company did not have a legitimate certificate as support for its investment loss. Consequently, the Company filed an administrative litigation with the Taipei High Administrative Court in October 2007, which is pending as of the report date.
- (c) The Tax Authority imposed additional tax amounting to \$127,204 on the Company's 2002 income tax return. The Company paid \$4,050 and contested the remaining balance imposed by the Tax Authority. The Company filed for re-examination in February 2006. The re-examination is still pending as of the report date.

G) The incremental income associated with the Company's investments in the

development of its internet-based computer games qualifies with the Regulation No. 8-1 of “Statute for Upgrading Industries”, and its non-taxable income is exempt from income tax for five years (2002 to 2006). The tax exempt income amounted to \$46,544 for the year ended December 31, 2006.

H) As of December 31, 2007, 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 \$122,943 to offset against taxable income for the next four to five 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	\$ 70,083	\$ 44,788	2008~2011
Machinery and equipment	5,362	5,362	2008~2011
Employees training	5,370	5,370	2009~2011
Loss carryforwards	67,423	67,423	2008~2012
	<u>\$ 148,238</u>	<u>\$ 122,943</u>	

(14) Accrued pension liability

A) The Company has a non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees before the implementation of the Labor Pension Act on July 1, 2005. Under the defined benefit plan, two units are accrued for each year of service for the first 15 years and one unit for each additional 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 Bank of Taiwan (formerly Central Trust of China) under the name of the independent retirement fund committee. The balance of the retirement fund deposited with Bank of Taiwan is not reflected in the consolidated financial statements.

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 \$1,794 and \$1,323 for the years ended December 31, 2007 and 2006, 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 \$2,522 and \$1,290 for the years ended December 31, 2007 and 2006, respectively.
- D) Effective July 1, 2005, the Company and its subsidiaries, Taiwan Index Co., Ltd., NC Taiwan Co., Ltd., Alibangbang Digital Games Co., Ltd. and Foundation Digital Entertainment Co., Ltd. (established on February 8, 2007), 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., Alibangbang Digital Games Co., Ltd. and Foundation Digital Entertainment 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., Alibangbang Digital Games Co., Ltd. and Foundation Digital Entertainment Co., Ltd. under the defined contribution plan for the year ended December 31, 2007 amounted to \$22,414. 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 year ended December 31, 2006 amounted to \$24,488.
- E) 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.
- F) The related assumptions used to calculate the periodic pension cost were as follows:

	<u>2007</u>	<u>2006</u>
Discount rate	3.50%	3.50%~3.75%
Expected return rate on plan assets	2.75%~3.50%	2.50%~3.50%
Average ratio of salary increase	2.50%~3.50%	3.00%~3.50%

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

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Vested benefit obligation	\$ -	\$ -
Non-vested benefit obligation	( 15,865)	( 14,532)
Accumulated benefit obligation	( 15,865)	( 14,532)
Additional benefits based on future salary increases	( 12,916)	( 12,541)
Projected benefit obligation	( 28,781)	( 27,073)
Fair value of plan assets	<u>28,720</u>	<u>24,875</u>
Funded status	( 61)	( 2,198)
Unrecognized transition obligation	1,703	3,198
Unrecognized net loss (gain)	101	( 2,867)
Additional pension liability	( 451)	( 468)
Prepaid pension (Accrued pension liability)	<u>\$ 1,292</u>	<u>(\$ 2,335)</u>
Accrued pension liability	(\$ 1,590)	(\$ 2,335)
Prepaid pension (Accrued pension liability)	<u>2,882</u>	<u>-</u>
	<u>\$ 1,292</u>	<u>(\$ 2,335)</u>
Accrued pension liability – new policy	<u>\$ 3,249</u>	<u>\$ 2,877</u>
Vested obligation	<u>\$ -</u>	<u>\$ -</u>

The components of net pension cost were as follows:

	<u>2007</u>	<u>2006</u>
Service cost	\$ 505	\$ 367
Interest cost	903	1,017
Expected return on plan assets	( 652)	( 532)
Unrecognized transition obligation	121	116
Amortization of pension gain	( 42)	( 12)
Unrecognized net loss	<u>217</u>	<u>-</u>
Net pension cost	<u>\$ 1,052</u>	<u>\$ 956</u>

(15) Common stock

A) 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.

B) As approved by the stockholders during their meeting on June 13, 2007, the Company issued 5,991 thousand new shares for employees' bonus of \$21,719 and stock dividends of \$38,189. The Company has completed the amendment procedures for registration in September 2007.

C) As of December 31, 2007, the total issued and outstanding common stocks were 153,067,791 shares (including 198,315 shares of warrant bonds converted), with a par value \$10 (in dollars) per share, totaling \$1,530,678.

(16) 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.

(17) Legal reserve

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

(18) Retained earnings

A) As stipulated in the Company's Articles of Incorporation, the current earnings, if any, shall be distributed in the following order:

- a. Paying all 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, 2007, the Company had retained earnings of \$371,621. As of March 6, 2008, no earnings distribution has been proposed by the Board of Directors.
- D) On June 13, 2007, the Company's stockholders approved to distribute 2006 earnings which include legal reserve of \$24,132, employee bonuses of \$21,719, cash dividends of \$152,754 (which is \$614 different from the actual distribution of \$152,140 due to fractional shares), stock dividends of \$38,189 and directors' and supervisors' remuneration of \$4,340. The effects on earnings per share after taking into account the distribution of employees' bonuses and directors' and supervisors' remuneration are set forth below (unit: in dollars):

	<u>Earnings per share for the year ended December 31, 2006</u>	
	<u>Basic</u>	<u>Diluted</u>
Original EPS	\$ 3.11	\$ 3.11
Effect of employees' bonuses and directors' and supervisors' remuneration	( 0.19)	( 0.19)
Imputed EPS	<u>\$ 2.92</u>	<u>\$ 2.92</u>

- E) For current status of the resolution, please visit the Taiwan Stock Exchange website.

(19) Earnings per share

	For the year ended December 31, 2007				
	Amount		Weighted average number of outstanding common shares (In thousands of shares)	Earnings per share (Note 1)	
	Before income tax	After income tax		Before income tax	After income tax
Basic earnings per share:					
Net income	\$ 473,456	\$ 383,785	148,109	<u>\$ 3.20</u>	<u>\$ 2.59</u>
Dilutive effect:					
Stock options	-	-	2,604		
Diluted earnings per share:					
Net income	<u>\$ 473,456</u>	<u>\$ 383,785</u>	<u>150,713</u>	<u>\$ 3.14</u>	<u>\$ 2.55</u>
	For the year ended December 31, 2006				
	Amount		Weighted average number of outstanding common shares (In thousands of shares)	Earnings per share (Note 1)	
	Before income tax	After income tax		Before income tax	After income tax
	Basic earnings per share before retroactive adjustment:				
Net income	\$ 345,208	\$ 434,711	139,559	<u>\$ 2.47</u>	<u>\$ 3.11</u>
Dilutive effect:					
Stock options (Note 2)	-	-	-		
Diluted 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>
Basic earnings per share after retroactive adjustment:					
Net income	\$ 345,208	\$ 434,711	145,549	<u>\$ 2.37</u>	<u>\$ 2.99</u>
Dilutive effect:					
Stock options (Note 2)	-	-	-		
Diluted earnings per share:					
Net income	<u>\$ 345,208</u>	<u>\$ 434,711</u>	<u>145,549</u>	<u>\$ 2.37</u>	<u>\$ 2.99</u>

Note 1: In New Taiwan Dollars.

Note 2: As of December 31, 2006, the outstanding employee stock options have no dilutive effect.

(20) Treasury stock

Changes in the treasury stock for the years ended December 31, 2007 and 2006 are set forth below (in thousands of shares):

	<u>For the year ended December 31, 2007</u>			
(A) Reason for reacquisition	<u>Beginning shares</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending shares</u>
Employee stock options	<u>10,000</u>	<u>6,887</u>	<u>( 10,000)</u>	<u>6,887</u>

  

	<u>For the year ended December 31, 2006</u>			
Reason for reacquisition	<u>Beginning shares</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending shares</u>
Employee stock options	<u>5,000</u>	<u>10,000</u>	<u>( 5,000)</u>	<u>10,000</u>

B) The maximum and ending balances of treasury stock for the years ended December 31, 2007 and 2006 were as follows:

<u>December 31, 2007</u>		<u>December 31, 2006</u>	
<u>Maximum balance</u>	<u>Ending balance</u>	<u>Maximum balance</u>	<u>Ending balance</u>
<u>\$ 200,788</u>	<u>\$ 200,788</u>	<u>\$ 302,140</u>	<u>\$ 155,765</u>

C) The procedure for the write-off of treasury stocks purchased on February 16, 2006 had been completed. As a result, 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. On August 31, 2007, the Company transferred 10,000,000 shares of treasury stocks to employees. Further, since November 16, 2007, the Company continually acquired treasury stocks totaling 6,887,000 shares.

D) In accordance with the R.O.C. Securities and 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.

E) In accordance with the R.O.C. Securities and Exchange Act, treasury stocks held by the Company shall not be pledged, and shall bear no right of shareholders until reissued.

F) In accordance with the R.O.C. Securities and Exchange Act, treasury shares for the purpose of enhancing the Company's credit standing and shareholders' equity not reissued within six months shall be retired, treasury stocks for all other purposes shall be reissued within three years from the month of acquisition.

(21) Employee stock option plan

A) On December 25, 2003 and November 14, 2007, the board of directors approved the employee stock option plans which provide for the issuance of 10,000,000 units and 12,000,000 units of options, respectively, 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, 2007 and 2006 are as follows:

	For the years ended December 31,			
	2007		2006	
<u>Stock Options</u>	<u>Units (in thousands)</u>	<u>Weighted-average exercise price (in dollars) (Note 1)</u>	<u>Units (in thousands)</u>	<u>Weighted-average exercise price (in dollars) (Note 1)</u>
Beginning balance	5,210	\$ 32.80	10,000	\$ 32.80
Number of options granted (Note 2)	12,064	-	-	-
Exercised	( 198)	-	-	-
Cancelled	( 358)	-	( 4,790)	-
Ending balance	<u>16,718</u>	\$ 29.21	<u>5,210</u>	\$ 32.80
Exercisable at the end of the year	<u>4,718</u>		<u>2,605</u>	
Authorized but unissued at the end of the year	<u>-</u>		<u>-</u>	

Note 1: The exercise price has been adjusted in accordance with the terms of the plan.

Note 2: On December 7, 2007, the Financial Supervisory Commission, Executive Yuan approved the Company's plan to issue 12,000,000 units of employee stock options. These options were subsequently issued by the Company on December 17, 2007.

C) As of December 31, 2007 and 2006, the details of outstanding stock options are as follows:

For the year ended December 31, 2007					
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)
\$ 31.40	4,718	2.08	\$ 31.40	4,718	\$ 31.40
\$ 28.35	12,000	5.92	\$ 28.35	-	\$ -

  

For the year ended 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	3.08	\$ 32.80	2,605	\$ 32.80

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

(a) Model: The Black-Scholes model

(b) Assumptions:

<u>Black-Scholes model assumptions</u>	<u>2007 stock options</u>	<u>2004 stock options</u>
Dividend yield	0%	0%
Volatility (Note 1)	43.58%	62.02%
Risk-free interest rate	2.65%	1.95%
Expected life of the options	4.3 years	6 years
Exercise price (Note 2)	\$ 28.35 (in dollars)	\$ 31.4 (in dollars)
Amortization period	2~3 years	2~3 years

Note 1: 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 considered the effect of earnings distribution every year.

Note 2: Exercise price of the stock options mentioned above considered the effect of the 2006 earnings distribution and was readjusted to \$31.4.

(c) Result of evaluation:

	For the year ended		For the year ended
	December 31, 2007		December 31, 2006
	<u>2007 stock options</u>	<u>2004 stock options</u>	<u>2004 stock options</u>
Weighted average fair value of \$	10.95	\$ 17.4656	\$ 17.4656
options granted to employees	(in dollars)	(in dollars)	(in dollars)
Compensation cost under "fair value method"	2,232	6,982	30,332

(d) Pro forma information:

		For the year ended	For the year ended
		December 31, 2007	December 31, 2006
Net income	Net income	\$ 383,785	\$ 434,711
	Pro forma net income	374,571	404,379
Basic earnings per share	EPS	2.59 (in dollars)	2.99 (in dollars)
	Pro forma EPS	2.53 (in dollars)	2.78 (in dollars)
Diluted earnings per share	EPS	2.55 (in dollars)	2.99 (in dollars)
	Pro forma EPS	2.49 (in dollars)	2.78 (in dollars)

(22) Personnel, depreciation and amortization expenses

	For the year ended December 31, 2007		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Personnel expenses			
Salaries	\$ 60,596	\$ 481,977	\$ 542,573
Labor and health insurances	141	41,359	41,500
Pension	91	27,691	27,782
Others	-	36,812	36,812
	<u>\$ 60,828</u>	<u>\$ 587,839</u>	<u>\$ 648,667</u>
Depreciation	\$ 77,130	\$ 62,027	\$ 139,157
Amortization	77,868	21,418	99,286
	<u>\$ 154,998</u>	<u>\$ 83,445</u>	<u>\$ 238,443</u>

	For the year ended December 31, 2006		
	<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>

(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 \$63,539 as of December 31, 2007. 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, 2007.

The allowance for investment loss is as follows:

<u>Amount as of January 1, 2007</u>	<u>Additions</u>	<u>Recovery</u>	<u>Amount as of December 31, 2007</u>
\$ 237,303	\$ 15,949	(\$ 189,713)	\$ 63,539

5. RELATED PARTY TRANSACTIONS

(1) Names and relationship of related parties

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

(Note) The Company’s ownership in NC Taiwan Co., Ltd. decreased from 51% to 15% in January 2007, therefore it was no longer the Company’s related party in 2007.

(2) Significant transactions with related parties

A) Other receivables

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	% of net		% of net	
	<u>Amount</u>	<u>other receivables</u>	<u>Amount</u>	<u>other receivables</u>
NCsoft	\$ -	-	\$ 226	6

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

B) Accounts payable

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	% of net		% of net	
	<u>Amount</u>	<u>accounts payable</u>	<u>Amount</u>	<u>accounts payable</u>
NCsoft	\$ -	-	\$ 38,316	28

The above amount represents the royalty 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 percentage of the amount of the games consumed. For the year ended December 31, 2006, the royalties paid to NCSoft amounted to \$640,240, which was 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>2007</u>	<u>2006</u>	
Land	\$ 111,236	\$ 141,717	Long-term loans / Credit lines
Buildings	92,246	104,156	”
Machinery and equipment	-	20,506	”
	<u>\$ 203,482</u>	<u>\$ 266,379</u>	

7. COMMITMENTS AND CONTINGENT LIABILITIES

A) As of December 31, 2007, the total future rental payments for the next 3 years under non-cancelable operating lease agreements for the Group’s office building was \$92,973.

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

C) As stated in Note 4(13), the Tax Authority imposed additional tax amounting to \$127,204 on the Company’s 2002 income tax return. The Company reassessed the 2002 income tax return 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. The re-examination is still pending as of the report date.

D) Mediaweb filed a lawsuit against the Company’s subsidiary, Gamania Korea Co., Ltd., in May 2006, alleging that Mediaweb had incurred losses since Gamania Korea Co., Ltd. terminated the marketing services of Mediaweb prior to the end of the contract. Accordingly, Mediaweb is claiming for damages as a result of the breach of contract. The case proceedings are ongoing and a final judgment is expected in 2008. If the Court will render judgment in favor of Mediaweb, Gamania Korea Co., Ltd. will have to compensate Mediaweb KRW349,000 thousand (NT\$12,180 thousand).

E) For the period from January 1, 2008 to December 31, 2008, First Commercial Bank provides 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 less 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

None.

10. OTHERS

(1) Financial statement presentation

Certain accounts in the 2006 consolidated financial statements were reclassified to conform with the 2007 consolidated financial statement presentation.

(2) The fair values of the financial instruments

	<u>December 31, 2007</u>			<u>December 31, 2006</u>		
	<u>Book value</u>	<u>Fair value</u>		<u>Book value</u>	<u>Fair value</u>	
		<u>in an active market</u>	<u>Estimated value</u>		<u>in an active market</u>	<u>Estimated value</u>
<u>Financial instruments</u>						
Non-derivative financial instruments						
Assets						
Financial assets with fair values equal to book values	\$ 2,102,465	(Note A)	\$ 2,102,465	\$ 2,021,509	(Note A)	\$ 2,021,509
Financial assets carried at cost	114,294	-	-	91,453	-	-
Refundable deposits	32,164	-	31,310	31,169	-	31,033
Liabilities						
Financial liabilities with fair values equal to book values	\$ 705,040	(Note A)	\$ 705,040	\$ 684,894	(Note A)	\$ 684,894
Long-term loans	-	-	-	25,000	-	24,099
Guarantee deposits	1,281	-	1,281	950	-	950

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 current assets, 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 Group 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 : Financial assets carried at cost — non-current

(A) Market risk

The Group's trading of financial assets has no market price, so the Group expects no significant market risk.

(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: Notes and accounts receivable and other receivables (including related parties)

(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: Short-term loans and long-term loans (including current portion of long-term loans)

(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, 2007 and 2006, the Group donated cash and magazines amounting to \$2,220 and \$29,111, respectively, to political parties, charities and educational institutions that are accredited by the government, without significant appointed considerations.

(6) Intercompany transactions eliminated

For the year ended December 31, 2007

	Gamania Digital Entertainment Co., Ltd.	Gamania Holdings Ltd. and its subsidiaries	Fundation Digital Entertainment 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	(\$ 517,470)	\$ 221,907	\$ 20,193	\$ 113,607	\$ 114,384	\$ 26,407	(\$ 40)	\$ 21,012
2. Receivables and payables eliminated	( 42,991)	( 15,373)	( 1,491)	55,401	6	4,745	( 301)	4
3. Profit and loss accounts eliminated								
(1) Sale and purchase transactions	46,331	1,680	( 19,155)	( 28,856)	-	-	-	-
(2) Royalty income and publishing cost	( 1,873)	1,873	-	-	-	-	-	-
(3) Other operating revenue and service expense	( 1,920)	-	-	1,920	-	-	-	-
(4) Advertising expense and revenue	9,000	-	( 74)	( 8,926)	-	-	-	-
(5) Rent revenue and expense	( 5,075)	-	362	4,713	-	-	-	-
(6) Other revenue and expense	( 882)	73	170	639	-	-	-	-
(7) Realized (unrealized) gross profit on intercompany transactions	( 1,143)	( 32)	-	1,175	-	-	-	-

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 intercompany transactions	1,718	1,542	( 3,767)	507	-	-	-	-

## 11. DISCLOSURE INFORMATION

### (1) Related information of significant transactions

- A) Financing activities to any company or person: None
- B) Guarantee information: None.
- C) Marketable securities held at December 31, 2007:

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, 2007				
					Number of shares	Book value	Percentage	Market value (Note (2))	Note
The Company	Common Stock	Gamania Holdings Ltd.	Subsidiary	Long-term investment	30,878	\$ 221,907	100%	\$ 221,907	Note (3)
"	"	Gamania Korea Co., Ltd.	"	"	329	26,407	100%	26,407	"
"	"	Alibangbang Digital Games Co., Ltd.	"	"	5,423	21,012	98.6%	21,012	"
"	"	Taiwan Index Co., Ltd.	"	"	7,750	81,567	69.44%	81,567	"
"	"	Gamania Asia Investmet Co., Ltd.	"	"	13,945	146,424	100%	146,424	"
"	"	Gamania Digital Entertainment Labuan Holdings, Ltd.	"	"	10	( 40)	100%	( 40)	"
"	"	Foundation Digital Entertainment Co., Ltd.	"	"	4,000	20,193	100%	20,193	"
"	"	Playcoo Co.	Investee company accounted for under the equity method	"	6,315	32,589	36.72%	32,589	None
"	"	Taiwan e-sports Co., Ltd.	"	"	500	4,439	25%	4,439	"
"	"	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%	-	"
"	"	NC Taiwan Co., Ltd.	"	"	2,100	22,841	15.00%	22,841	"

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

Note (2): The market value of listed equity securities and closed-end mutual funds is determined based on closing price and net asset value of funds at the balance sheet date, 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, 2007 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 (loss)	Ending balance (Note)	
				Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Cost		Number of shares	Amount
The Company	TIIM High Yield Fund	Financial asset held for trading-bond funds	Initial Investment at inception/None	-	-	17,616	\$ 220,000	17,616	\$ 220,459	\$ 220,000	\$ 459	-	-
"	FGIT Wantai Bond Fund	"	"	-	-	14,226	200,000	14,226	200,528	200,000	528	-	-
"	HSBC Taiwan Dragon Fund	"	"	-	-	12,887	200,000	12,887	200,385	200,000	385	-	-
"	Polaries De-Bao Fund	"	"	-	-	9,006	100,000	9,006	100,311	100,000	311	-	-
"	Fuban Ju-I III Fund	"	"	-	-	8,159	100,000	8,159	100,359	100,000	359	-	-
"	CITC Safe Income Fund	"	"	-	-	6,701	100,000	6,701	100,347	100,000	347	-	-
"	NITC Tawan Bond Fund	"	"	-	-	14,100	200,000	14,100	200,346	200,000	346	-	-
"	NITC Bond Fund	"	"	-	-	631	104,000	631	104,180	104,000	180	-	-
"	Fuh-Hwa Bond Fund	"	"	-	-	14,830	199,000	14,830	199,547	199,000	547	-	-
"	Fuh-Hwa Yuli Bond Fund	"	"	-	-	8,025	100,000	8,025	100,133	100,000	133	-	-
"	JF Taiwan First Bond Fund	"	"	-	-	13,024	184,000	13,024	184,300	184,000	300	-	-
"	JF (Taiwan) Bond Fund	"	"	-	-	6,540	100,000	6,540	100,170	100,000	170	-	-
"	Prudential Financial Bond Fund	"	"	-	-	9,624	141,000	9,624	141,248	141,000	248	-	-
"	MEGA Diamond Bond Fund	"	"	-	-	12,974	150,000	12,974	150,407	150,000	407	-	-

Investor	Type and name of marketable securities	General ledger account	Name and relationship of counterparty	Beginning balance (Note)		Addition		Disposal			Disposal gain (loss)	Ending balance (Note)	
				Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Cost		Number of shares	Amount
The Company	IBT Ta-Chong Equity Fund	Financial asset held for trading-bond funds	Initial Investment at inception/None	-	-	10,304	\$ 135,000	10,304	\$ 135,489	\$ 135,000	\$ 489	-	-
"	UPAMC James Bond Fund	"	"	-	-	7,087	110,000	7,087	110,106	110,000	106	-	-
"	Polaris De Li Fund	"	"	-	-	6,567	100,000	6,567	100,245	100,000	245	-	-

Note: Original investment cost.

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

(2) Information of investee companies

A) Information of investee companies:

(The information on investee companies, Gamania Korea Co., Ltd., Taiwan Index Co., Ltd., Gamania Asia Investment Co., Ltd., Gamania Digital Entertainment (Japan) Co., Gamania Digital Entertainment (H.K.) Co., Ltd., Playcoo Co., and Foundation Digital Entertainment CO., Ltd., were based on financial statements audited by other auditors. The information on Gamania Entertainment Labuan Holdings Ltd., Taiwan e-spots Co., Ltd. and G.A. Co., Limited were based on unaudited financial statements. The others were audited by the Company's independent accountants.)

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
				2007.12.31	2006.12.31	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 holdings	\$1,045,789	\$ 987,151	30,878	100%	\$221,907	(\$ 8,587)	(\$ 8,587)	Subsidiary (Note 3)
"	Gamania Korea Co., Ltd.	3F, NO.75-6 Soodang B/D, Samsung-Dong Kang Nam-Gu, Seoul Korea	Design and sales of software	158,457	137,352	329	100%	26,407	( 31,383)	( 31,383)	"
"	Alibangbang Digital Games Co., Ltd.	18F, No. 736 Chang-Cheng Rd., Chung-Ho City, Taipei County, Taiwan	Design and research and development of software	160,000	110,000	5,423	98.60%	21,012	( 35,584)	( 34,626)	"
"	Taiwan Index Co., Ltd.	"	Software service	208,248	208,200	7,750	69.44%	81,567	6,226	5,496	"
"	Gamania Asia Investment Co., Ltd.	"	Investment holdings	190,000	190,000	13,945	100%	146,424	6,979	6,979	"
"	Gamania Digital Entertainment Labuan Holdings, Ltd.	Level 9F, Main Office Tower, Financial Park, 87000 Labuan FT Labuan, Malaysia	Investment holdings	329	329	10	100%	( 40)	( 103)	( 103)	"
"	Foundation Digital Entertainment CO., Ltd.	18F, No. 736 Chang-Cheng Rd., Chung-Ho City, Taipei County, Taiwan	Sales and publishing of magazines and periodicals	40,000	-	4,000	100%	20,193	( 19,807)	( 19,807)	"

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
				2007.12.31	2006.12.31	Number of shares	Percentage	Book value			
The Company	Playcoo Co.	4F-4, No. 215 Cheng-de Rd., Taipei City, Taiwan	Supply of software services and electronic information	\$ 63,151	\$ 40,000	6,315	36.72%	\$ 32,589	(\$ 34,889)	(\$ 12,197)	Investee company accounted for under equity method
"	Taiwan e-sports Co., Ltd.	9F, No. 176 Chung Hsiao East Rd. Section 4, Taipei City, Taiwan	Supply of software services and electronic information	5,000	-	500	25%	4,439	( 2,243)	( 561)	"
Gamania Asia Investment Co., Ltd.	Taiwan Index Co., Ltd.	18F, No. 736 Chang-Cheng Rd., Chung-Ho City, Taipei County, Taiwan	Design and sales of software	80,625	80,625	3,036	27.20%	32,040	6,226	1,693	" (Note 3)
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 30,878 thousand	USD 29,108 thousand	30,878	100%	USD 6,883 thousand	(USD 249 thousand)	(USD 249 thousand)	Subsidiary (Note 3)
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 sales of software; sales of hardware	USD 14,298 thousand	USD 14,298 thousand	19	100%	USD 2,486 thousand	(USD 554 thousand)	(USD 554 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 16,880 thousand	USD 15,110 thousand	16,880	100%	USD 740 thousand	(USD 855 thousand)	(USD 855 thousand)	"
Gamania Sino Holdings Ltd.	Gamania Digital Entertainment (Beijing) Co., Ltd.	Rm 2106, Bldg No. 5 Soho New Town, No. 88, Jian Guo Re Beijing, 1000022 China	Design and sales of software	USD 13,550 thousand	USD 11,980 thousand	N/A	100%	USD 614 thousand	(USD 647 thousand)	(USD 647 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
				2007.12.31	2006.12.31	Number of shares	Percentage	Book value			
Gamania China Holdings Ltd.	Gamania Digital Entertainment (H.K.) Co., Ltd.	Flat 504-507, 5F, Conic Investment Building, 13 Hok Yuen Street, Hung Hom, Kowloon, Hong Kong	Design and sales of software	USD 3,009 thousand	USD 3,009 thousand	35,500	100%	USD\$ 3,977 thousand	USD\$ 1,189 thousand	USD\$ 1,189 thousand	Subsidiary (Note 3)
Gamania China Holdings Ltd.	G.A. Co., Limited	Flat 504-507, 5F, Conic Investment Building, 13 Hok Yuen Street, Hung Hom, Kowloon, Hong Kong	Design and sales of software	(Note 1)	(Note 1)	N/A	100%	(Note 2)	-	-	"

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

Note 2: Under liquidation since December 2006.

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

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

C) Guarantee information: None.

D) Marketable securities held at December 31, 2007:

Issuer	Type of marketable securities (Note (1))	Name of marketable securities	Relationship with the security holders	General ledger account	December 31, 2007				
					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	30,878	USD\$ 6,883 thousand	100%	USD\$ 6,883 thousand	Note (4)
Gamania International Holdings Ltd.	"	Gamania Digital Entertainment (Japan) Co., Ltd.	"	"	19	USD 2,486 thousand	100%	USD 2,486 thousand	"
Gamania International Holdings Ltd.	"	Gamania China Holdings Ltd.	"	"	18,654	USD 4,720 thousand	93.55%	USD 4,720 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 3,977 thousand	100%	USD 3,977 thousand	"
Gamania China Holdings Ltd.	"	Gamania Sino Holdings Ltd.	"	"	16,800	USD 740 thousand	100%	USD 740 thousand	"
Gamania Sino Holdings Co., Ltd.	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	"	"	N/A	USD 614 thousand	100%	USD 614 thousand	"
Gamania Asia Investment Co., Ltd.	"	Taiwan Index Co., Ltd.	Investee company accounted for under the equity method	"	3,036	32,040	27.20%	32,040	"
Gamania Asia Investment Co., Ltd.	"	Nice Finance Co., Ltd.	Investee company accounted under financial assets carried at cost	Financial assets carried at cost	9,154	91,453	14.60%	91,453	None

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

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

Note (4): The transaction has been eliminated in the consolidated financial statements.

- E) Marketable securities acquired or sold during the year ended December 31, 2007 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: Note.
- 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, 2007	Remitted or received investment amount during the year		Accumulated investment as of December 31, 2007	Direct and indirect percentage of ownership	Investment loss recognized during the year (Note (3))	Balance of investment at December 31, 2007	Accumulated investment income received as of December 31, 2007
					Remitted	Received					
Gamania Digital Entertainment (Beijing) Co., Ltd.	Design and sale of software	(RMB 110,567 thousand) \$490,914	(Note (2))	(USD 9,850 thousand) \$319,436	(USD 1,520 thousand) \$49,294	\$ -	(USD11,370 thousand) \$368,729	93.55%	(USD 604 thousand) (\$19,588)	USD 574 thousand \$18,615	\$ -

Accumulated amount of investment in Mainland China as of December 31, 2007	Related investment amount approved by FIA	Upper limit of investment in Mainland China
\$ 368,729 (USD 11,370 thousand)	\$ 534,446 (Note (1))	\$ 996,363

Note (1): Related total investment amount approved by FIA is USD16,480,000 or NTD 534,446 thousand based on 32.43 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, 2007

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	1,873	Note (4)	-%
0	"	Taiwan Index Co., Ltd.	1	Purchases	27,301	Note (4)	-%
0	"	Foundation Digital Entertainment Co., Ltd.	1	Purchases	19,030	Note (4)	-%
0	"	Taiwan Index Co., Ltd.	1	Advertising expense	8,926	Note (4)	-%
0	"	Taiwan Index Co., Ltd.	1	Rent revenue	4,713	Note (4)	-%
0	"	Foundation Digital Entertainment Co., Ltd.	1	Notes receivable	1,194	Note (4)	-%
0	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	1	Other receivables	7,343	Note (4)	-%
0	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	1	Other receivables	4,970	Note (4)	-%
0	"	Gamania Holding Ltd.	1	Other receivables	1,896	Note (4)	-%
0	"	Gamania International Holdings Ltd.	1	Other receivables	1,242	Note (4)	-%
0	"	Taiwan Index Co., Ltd.	1	Other payables	57,861	Note (4)	2%
0	"	Gamania Korea Co., Ltd.	1	Other payables	1,323	Note (4)	-%
1	Foundation Digital Entertainment Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Sales revenue	19,030	Note (4)	-%
1	"	Gamania Digital Entertainment Co., Ltd.	2	Notes payable	1,194	Note (4)	-%
2	Taiwan Index Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Sales revenue	27,301	Note (4)	-%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Advertising revenue	8,926	Note (4)	-%

For the year ended December 31, 2007

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	Operating costs	\$ 4,713	Note (4)	-%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Service expense	1,920	Note (4)	-%
2	"	Gamania Digital Entertainment Co., Ltd.	2	Accounts receivable	57,861	Note (4)	2%
2	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	3	Accounts receivable	3,308	Note (4)	-%
3	Gamania Digital Entertainment (H.K.) Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Operating costs	1,873	Note (4)	-%
3	"	Gamania Digital Entertainment Co., Ltd.	2	Other payables	4,970	Note (4)	-%
3	"	Gamania Korea Co., Ltd.	3	Other receivables	3,437	Note (4)	-%
3	"	Taiwan Index Co., Ltd.	3	Accounts payable	3,308	Note (4)	-%
3	Gamania Digital Entertainment (Beijing) Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Other payables	7,343	Note (4)	-%
5	Gamania Holdings Ltd.	Gamaina Digital Entertainment Co., Ltd.	2	Other payables	1,896	Note (4)	-%
6	Gamania International Holdings Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Other payables	1,242	Note (4)	-%
7	Gamania Korea Co., Ltd.	Gamania Digital Entertainment Co., Ltd.	2	Other receivables	1,323	Note (4)	-%
7	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	3	Accounts payable	3,437	Note (4)	-%

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

1. Number 0 represents the Company.
2. The consolidated subsidiaries are in order from number 1.

Note (2): The relationship with the transaction parties is 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, 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:

1. Number 0 represents the Company.
2. The consolidated subsidiaries are in order from number 1.

Note (2): The relationship with the transaction parties is 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.

## 12. SEGMENTAL FINANCIAL INFORMATION

### (1) Financial information by industry segments

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

### (2) Financial information by geographic areas

	2007			
	<u>Asia</u>	<u>Taiwan</u>	<u>Adjustments and elimination</u>	<u>Consolidated</u>
Operating revenues from unaffiliated customers	\$ 404,524	\$ 3,096,233	\$ -	\$ 3,500,757
Operating revenues from the Company and its consolidated subsidiaries	-	64,883	( 64,883)	-
Total operating revenues	<u>\$ 404,524</u>	<u>\$ 3,161,116</u>	<u>(\$ 64,883)</u>	<u>\$ 3,500,757</u>
Segment profits	<u>\$ 164,413</u>	<u>\$ 1,214,486</u>	<u>\$ 6,876</u>	<u>\$ 1,372,023</u>
Investment loss accounted for under the equity method				( 12,758)
General expense (including non-operating revenues and expenses)				( 883,927)
Interest expense				( 2,742)
Net loss before income tax and minority interest				<u>\$ 472,596</u>
Identifiable assets	<u>\$ 406,873</u>	<u>\$ 2,847,845</u>	<u>(\$ 88,079)</u>	<u>\$ 3,166,639</u>
Financial assets carried at cost - non-current				114,294
Long-term investments - accounted for under the equity method				37,028
General assets				<u>2,880</u>
Total Assets				<u>\$ 3,320,841</u>

	2006			
	<u>Asia</u>	<u>Taiwan</u>	<u>Adjustments and elimination</u>	<u>Consolidated</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>

(3) Information regarding export sales

The Company does not have export sales exceeding 10% of operating revenues in 2007 and 2006.

(4) Information regarding major customers

<u>Customer Name</u>	<u>Year 2007</u>	
	<u>Sales</u>	<u>% of net sales</u>
Customer A	\$ 1,416,065	36
Customer B	476,317	12
Customer C	374,665	10
	<u>\$ 2,267,047</u>	<u>58</u>

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