

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.

**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS**

JUNE 30, 2004 AND 2003

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

Report of Independent Accountants

(04) R.F014.4064

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

We have audited the accompanying balance sheets of Gamania Digital Entertainment Co., Ltd. as of June 30, 2004, and 2003, and the related statements of income, of changes in stockholders' equity and of cash flows for the six-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The financial statements include long-term investments in certain investees, accounted for under the equity method, stated at \$731,816,000 and \$471,416,000 as of June 30, 2004 and 2003, and related investment loss of \$155,550,000 and \$229,628,000 for the six-month periods then ended, respectively, as described in Note 4 (7). These amounts and the related information disclosed in Note 11, were based on the investees' unaudited financial statements.

In our opinion, except for the effects on the financial statements and note disclosures of such adjustments, if any, as might have been determined to be necessary had the financial statements of the investee companies been audited as explained in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Gamania Digital Entertainment Co., Ltd. as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the six-month periods then ended, in conformity with the “Rules Governing the Preparation of the Financial Statements of Securities Issuers” and generally accepted accounting principles in the Republic of China.

August 17, 2004

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

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.
BALANCE SHEETS
JUNE 30, 2004 AND 2003
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2004		2003			2004		2003	
<u>ASSETS</u>	Amount	%	Amount	%	<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	Amount	%	Amount	%
<u>Current Assets</u>					<u>Current Liabilities</u>				
Cash and cash equivalents (Note 4(1))	\$ 563,466	17	\$ 596,073	18	Short-term loans (Note 4(10))	\$ -	-	\$ 220,000	7
Short-term investments (Note 4(2))	-	-	250,000	8	Notes payable	33,806	1	58,937	2
Notes receivable - net (Notes 4(3) and 5(2))	88,050	3	136,361	4	Accounts payable	59,772	2	61,556	2
Accounts receivable - net (Note 4(4))	549,681	17	522,498	16	Income tax payable (Note 4(17))	7,364	-	5,277	-
Accounts receivable - net - third parties (Note 5(2))	2,751	-	-	-	Accrued expenses	61,181	2	61,415	2
Other receivables - third parties (Note 4 (5))	94,361	3	1,257	-	Other payables - third parties (Note 5 (2))	129,071	4	-	-
Other receivables - related parties (Note 5(2))	11,306	-	38,961	1	Other payables	29,523	1	42,753	1
Other financial assets-current (Note 6)	987	-	16,312	1	Unearned revenue collected in advance	126,874	4	17,206	-
Inventories (Note 4(6))	7,159	-	9,646	-	Current portion of long-term liabilities (Notes 4(11) and (12))	47,565	1	20,432	1
Prepaid expenses	24,025	1	15,951	-	Other current liabilities	4,134	-	5,398	-
Deferred income tax assets-current (Note 4(17))	34,145	1	33,653	1	Total Current Liabilities	499,290	15	492,974	15
Total Current Assets	1,375,931	42	1,620,712	49	<u>Long-term Liability</u>				
<u>Long-term Investments (Note 4(7))</u>					Long-term loans (Note 4(11))	157,386	5	121,618	4
Long-term investments accounted for under the equity method	719,816	22	463,395	14	Long-term notes payable (Note 4(12))	-	-	16,522	-
Long-term investments accounted for under the cost method	94,941	3	47,046	1	Total Long-term Liabilities	157,386	5	138,140	4
Prepayments for long-term investments	12,000	-	60,116	2	<u>Other Liability</u>				
Total Long-term Investments	826,757	25	570,557	17	Accrued pension liabilities (Note 4(13))	1,656	-	-	-
<u>Property, Plant and Equipment (Notes 4(8) and 6)</u>					Guarantee deposits	1,459	-	-	-
Cost					Deferred tax liabilities-non-current (Note 4(17))	-	-	25,413	1
Land	147,751	4	117,270	4	Total Other Liabilities	3,115	-	25,413	1
Buildings	143,514	4	108,977	3	<u>Total Liabilities</u>	659,791	20	656,527	20
Machinery equipment	504,879	15	383,452	11	<u>Stockholders' Equity</u>				
Transportation equipment	1,700	-	5,237	-	Common stock (Note 1)	1,587,997	48	1,587,997	48
Computers and communication equipment	96,166	3	97,648	3	Capital reserve (Note 4 (14))				
Leasehold improvements	84,456	3	84,162	3	Paid-in capital in excess of par	1,390,640	42	1,390,640	42
Other equipment	5,349	-	5,349	-	Gain on disposal of property, plant and equipment	221	-	221	-
Cost and appraisal increment	983,815	29	802,095	24	Retained earnings (Notes 4 (15) (16))				
Less: Accumulated depreciation	(308,164)	(9)	(188,931)	(6)	Legal reserve	103,066	3	103,066	3
Construction in progress and prepayments for equipment	-	-	51,634	2	Undistributed earnings (accumulated deficit)	(140,523)	(4)	(114,545)	(4)
Total Property, Plant and Equipment	675,651	20	664,798	20	Cumulative translation adjustments	20,812	-	11,795	-
<u>Intangible Asset</u>					Treasury stock (Note 4(19))	(302,140)	(9)	(302,140)	(9)
Other intangible asset	38,298	1	34,798	1	Total Stockholders' Equity	2,660,073	80	2,677,034	80
Total Intangible Asset	38,298	1	34,798	1	<u>Commitments and Contingent Liabilities (Notes 5 and 7)</u>				
<u>Other Asset</u>					Subsequent Events (Note 9)				
Refundable deposits	17,182	-	10,109	-					
Deferred charges (Note 4(9))	365,771	11	432,587	13					
Deferred tax assets (Note 4 (17))	20,274	1	-	-					
Total Other Asset	403,227	12	442,696	13					
TOTAL ASSETS	\$ 3,319,864	100	\$ 3,333,561	100	<u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>	\$ 3,319,864	100	\$ 3,333,561	100

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated August 17, 2004.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.
STATEMENTS OF INCOME
SIX-MONTH PERIODS ENDED JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT EARNINGS PER SHARE)

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Operating revenues				
Sales revenue	\$ 1,001,687	101	\$ 1,057,733	113
Sales returns	(15,143)	(2)	(117,898)	(13)
Sales allowances	(19,648)	(2)	(718)	(-)
Net sales revenue	966,896	97	939,117	100
Service revenue (Note 5)	27,995	3	-	-
Operating revenues	<u>994,891</u>	<u>100</u>	<u>939,117</u>	<u>100</u>
Operating costs				
Cost of goods sold (Note 4 (21))	(503,198)	(51)	(505,206)	(54)
Gross profit	<u>491,693</u>	<u>49</u>	<u>433,911</u>	<u>46</u>
Operating expenses (Note 4 (21))				
Selling expenses	(60,560)	(6)	(122,691)	(13)
General and administrative expenses	(193,913)	(19)	(218,737)	(23)
Research and development expenses	(36,617)	(4)	(37,734)	(4)
Total operating expenses	<u>(291,090)</u>	<u>(29)</u>	<u>(379,162)</u>	<u>(40)</u>
Operating income	<u>200,603</u>	<u>20</u>	<u>54,749</u>	<u>6</u>
Non-operating income				
Interest income	114	-	582	-
Gain on disposal of fixed asset	203	-	-	-
Gains on sale of investments	4,177	1	3,630	-
Foreign exchange gain	-	-	440	-
Rental income	1,774	-	109	-
Miscellaneous income	8,099	1	5,799	1
Total non-operating income	<u>14,367</u>	<u>2</u>	<u>10,560</u>	<u>1</u>
Non-operating expenses				
Interest expense	(4,188)	-	(3,653)	-
Investment loss accounted for equity method (Note 4(7))	(155,550)	(16)	(229,628)	(25)
Miscellaneous losses	(740)	-	(171)	-
Total non-operating expenses	<u>(160,478)</u>	<u>(16)</u>	<u>(233,452)</u>	<u>(25)</u>
Income (Loss) before income tax	54,492	6	(168,143)	(18)
Income tax benefit (expense) (Note 4 (17))	30,043	3	21,673	2
Net income (loss)	<u>\$ 84,535</u>	<u>9</u>	<u>(\$ 146,470)</u>	<u>(16)</u>

	<u>2004</u>		<u>2003</u>	
	<u>Before income tax</u>	<u>After income tax</u>	<u>Before income tax</u>	<u>After income tax</u>
Simple earnings (loss) per share (in dollars) (Note 4(18))				
Net Income (loss)	<u>NT\$ 0.35</u>	<u>NT\$ 0.55</u>	<u>(NT\$ 1.09)</u>	<u>(NT\$ 0.95)</u>

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

See report of independent accountants dated August 17, 2004.

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

	Capital Reserve			Retained Earnings		Other Adjustment Items		Total
	Common Stock	Paid-in capital in Excess of Par	Capital Surplus from Gain on Disposal of Assets	Legal Reserve	Undistributed Earnings	Cumulative Translation Adjustments	Treasury stock	
Balance at January 1, 2003	\$ 1,080,270	\$ 1,390,640	\$ 221	\$ 37,609	\$ 656,031	\$ 11,841	(\$ 225,226)	\$ 2,951,386
Appropriation of 2002 net income:								
Legal reserve	-	-	-	65,457	(65,457)	-	-	-
Stock dividends	410,503	-	-	-	(410,503)	-	-	-
Employees' stock bonus	97,224	-	-	-	(97,224)	-	-	-
Cash dividends declared	-	-	-	-	(21,605)	-	-	(21,605)
Directors' and supervisors' remuneration	-	-	-	-	(10,802)	-	-	(10,802)
Net loss for the period	-	-	-	-	(146,470)	-	-	(146,470)
Cumulative translation adjustments	-	-	-	-	-	(46)	-	(46)
Purchase of treasury stock	-	-	-	-	-	-	(76,914)	(76,914)
Effect of change in ownership percentage of investee company	-	-	-	-	(18,515)	-	-	(18,515)
Balance at June 30, 2003	<u>\$ 1,587,997</u>	<u>\$ 1,390,640</u>	<u>\$ 221</u>	<u>\$ 103,066</u>	<u>(\$ 114,545)</u>	<u>\$ 11,795</u>	<u>(\$ 302,140)</u>	<u>\$ 2,677,034</u>
Balance at January 1, 2004	\$ 1,587,997	\$ 1,390,640	\$ 221	\$ 103,066	(\$ 216,514)	\$ 24,123	(\$ 302,140)	\$ 2,587,393
Net income for the period	-	-	-	-	84,535	-	-	84,535
Cumulative translation adjustments	-	-	-	-	-	(3,311)	-	(3,311)
Effect of change in ownership percentage of investee company	-	-	-	-	(8,544)	-	-	(8,544)
Balance at June 30, 2004	<u>\$ 1,587,997</u>	<u>\$ 1,390,640</u>	<u>\$ 221</u>	<u>\$ 103,066</u>	<u>(\$ 140,523)</u>	<u>\$ 20,812</u>	<u>(\$ 302,140)</u>	<u>\$ 2,660,073</u>

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated August 17, 2004.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.
STATEMENTS OF CASH FLOWS
SIX-MONTH PERIODS ENDED JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>2004</u>	<u>2003</u>
<u>Cash flows from operating activities</u>		
Net income (loss)	\$ 84,535	(\$ 146,470)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on disposal of investments	(4,177)	(3,630)
Reversal of bad debt expense and sales returns	(9,014)	(8,117)
Recovery of decline in market value and obsolescence on inventories	(4,465)	(4,079)
Depreciation expenses and amortization expenses	88,002	72,639
(Gain) loss on disposal of fixed asset	(203)	74
Investment loss accounted for under the equity method	155,550	229,628
Changes in assets and liabilities:		
(Increase) decrease in:		
Notes receivable - third parties	45,337	120,363
Note receivable - related parties	(1,187)	-
Accounts receivable - third parties	(43,358)	(96,446)
Accounts receivable - related parties	(2,751)	-
Other receivables - third parties	(89,986)	441
Other receivables - related parties	(1,745)	(28,898)
Inventories	4,736	14,564
Prepaid expenses	(256)	(1,800)
Other financial assets-current	(988)	10,695
Deferred income tax assets	(40,383)	(458)
Increase (decrease) in:		
Notes payable	(20,910)	7,099
Accounts payable	(7,100)	(58,845)
Income tax payable	2,345	(23,833)
Accrued expenses	(12,313)	4,608
Other payables	5,730	(66,829)
Other payables – related parties	127,586	-
Unearned revenue collected in advance	78,686	(14,242)
Other current liabilities	(4,170)	(5,951)
Accrued pension liabilities	1,656	-
Net cash provided by operating activities	<u>351,157</u>	<u>513</u>

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.
STATEMENTS OF CASH FLOWS (CONTINUED)
SIX-MONTH PERIODS ENDED JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>2004</u>	<u>2003</u>
<u>Cash flows from investing activities</u>		
Proceeds from disposal of property, plant and equipment	\$ 2,039	\$ 2,969
Increase in short-term investments	(1,804,412)	(1,365,000)
Proceeds from disposal of short - term investments	1,808,589	1,118,630
Decrease (Increase) in pledged assets, net	15,000	(15,000)
Increase in long-term investments – subsidiary capital infusion	(228,810)	(136,601)
Increase in long-term investments – acquisition of subsidiary	(221,292)	(52,095)
Acquisition of property, plant and equipment	(52,766)	(66,190)
Increase in other intangible assets	-	(34,798)
Increase in deferred charges	(12,339)	(85,170)
Increase in refundable deposits, net	(3,874)	350
Net cash used in investing activities	<u>(497,865)</u>	<u>(632,905)</u>
<u>Cash flows from financing activities</u>		
Purchase of treasury stock	-	(76,914)
Decrease in short-term loans, net	(100,000)	-
Decrease in long-term loans, net	(33,039)	(3,760)
Decrease in long-term notes payable, net	(10,687)	(5,835)
Increase in refundable deposits	930	-
Net cash used in financing activities	<u>(142,796)</u>	<u>(86,509)</u>
Net decrease in cash	(289,504)	(718,901)
Cash and cash equivalents at beginning of period	852,970	1,314,974
Cash and cash equivalents at end of period	<u>\$ 563,466</u>	<u>\$ 596,073</u>
<u>Supplemental disclosure of cash flow information</u>		
Cash paid during the period for:		
Interest	<u>\$ 4,258</u>	<u>\$ 3,587</u>
Income taxes	<u>\$ 5,566</u>	<u>\$ 2,618</u>
The related fair market values of assets and liabilities of the acquired subsidiary are as follows:		
Cash and bank deposits	\$ 93,096	\$ -
Securities	15,581	-
Other current assets	171,020	-
Property, plant and equipment	49,455	-
Other assets	14,967	-
Goodwill	68,910	-
Current liabilities	(128,874)	-
Long-term liabilities	(13,480)	-
Minority interest	(49,383)	-
Cash paid from purchase of subsidiary	<u>\$ 221,292</u>	<u>\$ -</u>

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

See report of independent accountants dated August 17, 2004.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS INDICATED)

1. HISTORY AND ORGANIZATION

Gamania Digital Entertainment Co., Ltd. (the "Company") was incorporated in June 1995 under the provisions of the Company Law of the Republic of China (R.O.C.) as a company limited by shares. As of June 30, 2004, the total authorized shares of common stock was \$2,500,000 (including 15,000 thousands of employee stock options) and issued and outstanding capital was \$1,587,997, consisted of 1,587,996,900 shares at par value NT\$10, per share. The Company engages in software services, TV programming and magazine publications. As of June 30, 2004, there were 491 employees in the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Foreign currency transactions

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

(2) Short-term investments

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

(3) Allowance for doubtful accounts

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

(4) Inventories

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

(5) Long-term investments

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

- B) Long-term investments in which the Company owns at least 20% of the investee company's voting rights, and has the ability to exercise significant influence on the investee company, are accounted for under the equity method.

- C) Long-term investments in foreign investee companies accounted for under the equity method and denominated in foreign currency are translated into New Taiwan dollars at the exchange rate prevailing at the balance sheet date. The unrealized exchange loss resulting from translation is deferred in the cumulative translation adjustment account in the stockholders' equity.

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

- E) When the accumulated investment losses of an investee accounted for under the equity method exceeds the Company's original investment cost, the Company recognizes its investment losses up to the original investment cost. However, if the Company intends to continue supporting the investee or considers the losses of the investee as temporary, based on sufficient evidence that the investee will turn profitable in the near future, the Company continues to recognize investment loss in excess of its investment cost. The negative investment balance is presented as a liability in the balance sheet.

(6) Property, plant and equipment

- A) Depreciation is provided on the straight-line method using the estimated useful lives of the assets plus one year as salvage value, except for leasehold improvements, which are based on contract period or the life for the asset, whichever is shorter. The estimated useful lives are 55 years for buildings and 3 to 5 years for the other fixed assets.

- 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) Significant renewals or betterments are capitalized. Maintenance and repairs are charged to expense as incurred.
- D) When it becomes evidently clear that operating property, plant and equipment have suffered a critical impairment in value, loss is recognized in the current year's income.

(7) Deferred charges

- A) Costs of software and copyrights are capitalized and amortized under the straight-line basis over the estimated useful lives.
- B) Agency fee is prepayment for agency rights of online game software and are stated at cost, It can be offset against the future agency fees to be paid which is determined based on a percentage of future sales.
- C) When it becomes evidently clear that the agency right has suffered a critical impairment in value , loss is recognized in the current year's income.

(8) Other intangible assets

Prepayments for developing game software are stated at cost, and can be offset against the agency fee that is determined based on 2% of sales in the future.

(9) Income tax

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

- B) Tax credits resulting from equipment purchase, technology acquisition, research and development expenditure, training expense and long-term equity investment, etc. are recognized as current income tax benefit when incurred.
- C) Over or under provision of prior years' income tax liabilities is included in the current year's income tax expense.
- D) According to the Taiwan imputation tax system, undistributed current earnings, on a tax basis of a company derived on or after January 1, 1998 are 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 following year when the stockholders approve a resolution to retain the earnings.

(10) Retirement plan

- A) The Company has a non-contributory and funded defined benefit retirement plan covering all regular employees. The Company recognizes minimum pension liability for the excess of accumulated benefit obligation over the fair value of plan assets and pension costs based on an actuarial valuation. Pension cost components include service cost, interest cost, expected return on plan assets and amortization of net obligation at transition. The unrecognized net transition obligation is amortized equally over 15 years.
- B) For interim financial statements, the Company recognized its minimum pension liabilities based on the actuarial pension report, the measurement dates of which were December 31, 2003 and 2002, respectively, and adjusted for pension cost and contributions to the independent fund during the six-month periods ended June 30, 2004 and 2003.

(11) Treasury Stock

- A) Treasury stock acquired is stated at cost using the weighted average method. Upon disposal, the related gain is credited to "capital reserve-treasury stock transaction" and any loss is offset against this capital reserve account. However, when the balance of this capital reserve account is insufficient to offset the loss, then the remaining amount is charged against retained earnings.

B) All investments in the Company's stock made by subsidiaries are treated as treasury stock transactions.

(12) Revenue, costs and expenses

- A) Revenue from prepaid cards for on-line games is deferred and is recognized based on points consumed.
- B) Revenue from software and other merchandise is recognized upon sale and delivery of goods to retailers.
- C) Sales returns are estimated based on a percentage of sales.
- D) Costs and expenses are recognized as incurred.

(13) Use of estimates

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

3. CHANGE IN ACCOUNTING PRINCIPLE

None.

4. DESCRIPTION OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	June 30,	
	2004	2003
Cash on hand	\$ 271	\$ 418
Cash in banks	563,195	595,655
	<u>\$ 563,466</u>	<u>\$ 596,073</u>

(2) Short-term investments

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Bond funds	<u>\$ -</u>	<u>\$ 250,000</u>

(3) Notes receivable-Net

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Notes receivable	\$ 88,066	\$ 140,075
Less: Allowance for doubtful accounts	(16)	(3,714)
	<u>\$ 88,050</u>	<u>\$ 136,361</u>

(4) Accounts receivable-Net

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Accounts receivable	\$ 609,991	\$ 603,664
Less: Allowance for doubtful accounts	(51,781)	(66,387)
Allowance for sales returns	(8,529)	(14,779)
	<u>\$ 549,681</u>	<u>\$ 522,498</u>

(5) Other receivable

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Commission sale accounts receivable (Note)	\$ 87,248	\$ -
Others	<u>7,113</u>	<u>1,257</u>
	<u>\$ 94,361</u>	<u>\$ 1,257</u>

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

(6) Inventories

	June 30,	
	2004	2003
Inventories	\$ 27,182	\$ 29,161
Less: Reserve for loss on decline in market value and obsolescence	(20,023)	(19,515)
	<u>\$ 7,159</u>	<u>\$ 9,646</u>

(7) Long-term investments

(A) List of long-term investments

Name of investee	Original cost	June 30, 2004		Investment (loss) gain for six-month period ended June 30, 2004
		Ownership Percentage	Balance	
Accounted for under the equity method:				
Gamania Holdings Ltd.	\$ 801,780	100%	\$ 241,131	(\$ 113,933)
Gamania Korea Co., Ltd.	80,189	100%	146,199	4,661
Mogamer Interactive Co., Ltd.	35,960	80.90%	3,553	(478)
Clicklit Interactive Co., Ltd.	91,163	68.85%	1,014	(316)
Alibangbang Digital Games Co., Ltd.	40,000	90.00%	15,461	(9,178)
NC Taiwan Co., Ltd.	71,400	51.00%	44,917	(16,671)
Gamania Asia Investment Co., Ltd.	78,000	100.00%	78,000	-
Taiwan Index Co., Ltd.	209,176	69.40%	189,541	(19,635)
	<u>1,407,668</u>		<u>719,816</u>	<u>(155,550)</u>
Accounted for under the cost method:				
Buybooks Digital Technology Corp. Ltd.	2,995	3.74%	2,995	-
ECD Interactive Corporation	34,200	18.55%	21,200	-
Joyon Entertainment Co., Ltd.	9,851	17.86%	9,851	-
RAVA Ideologie Inc.	8,800	8.69%	8,800	-
Zona Inc.	52,095	10.34%	52,095	-
	<u>107,941</u>		<u>94,941</u>	<u>-</u>
Prepayments for long-term investments:				
Gamania Asia Investment Co., Ltd.	12,000		12,000	-
Total	<u>\$ 1,527,609</u>		<u>\$ 826,757</u>	<u>(\$ 155,550)</u>

<u>Name of investee</u>	<u>June 30, 2003</u>			<u>Investment (loss) gain for six-month period ended June 30, 2004</u>
	<u>Original cost</u>	<u>Ownership Percentage</u>	<u>Balance</u>	
Accounted for under the equity method:				
Gamania Holdings Ltd.	\$ 600,912	100%	\$ 298,120	(\$ 176,965)
Gamania Korea Co., Ltd.	58,623	100%	115,467	(18,297)
Clicklit Interactive Co., Ltd.	91,163	68.85%	21,189	(14,270)
Mogamer Interactive Co., Ltd.	35,960	89.90%	12,488	(5,866)
POPcode Digital Entertainment Co., Ltd.	18,000	70%	2,359	(9,508)
Alibangbang Digital Games Co., Ltd.	20,000	80%	13,772	(4,722)
	<u>824,658</u>		<u>463,395</u>	<u>(229,628)</u>
Accounted for under the cost method:				
Buybooks Digital Technology Corp. Ltd.	5,990	3.74%	2,995	-
ECD Interactive Corporation	34,200	18.55%	34,200	-
Joyon Entertainment Co., Ltd.	19,702	17.86%	9,851	-
	<u>59,892</u>		<u>47,046</u>	<u>-</u>
Prepayments for long-term investments:				
Gamania Korea Co., Ltd.	8,092		8,021	-
Zona Inc.	52,095		52,095	-
	<u>60,187</u>		<u>60,116</u>	<u>-</u>
Total	<u>\$ 944,737</u>		<u>\$ 570,557</u>	<u>(\$ 229,628)</u>

- (B) These investments were accounted for under the equity method based on the financial statements of the investees, which have not been audited by independent accountants.
- (C) Among those companies which are accounted for under the equity method, POPcode Digital Entertainment Co., Ltd., Mogamer interactive Co., Ltd. and Clicklit Interactive Co., Ltd. were liquidated on July, 2004.
- (D) In 2004, Game Factory Co., Ltd. was renamed RAVA Ideologie Inc.

(8) Property, plant, and equipment

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
<u>Cost</u>		
Land	\$ 147,751	\$ 117,270
Buildings	143,514	108,977
Machinery equipment	504,879	383,452
Transportation equipment	1,700	5,237
Computer and communication equipment	96,166	97,648
Leasehold improvements	84,456	84,162
Other equipment	<u>5,349</u>	<u>5,349</u>
	<u>983,815</u>	<u>802,095</u>
<u>Accumulated depreciation</u>		
Buildings	(4,370)	(2,185)
Machinery equipment	(196,030)	(117,798)
Transportation equipment	(661)	(2,343)
Computer and communication equipment	(53,128)	(33,864)
Leasehold improvements	(51,086)	(31,126)
Other equipment	<u>(2,889)</u>	<u>(1,615)</u>
	<u>(308,164)</u>	<u>(188,931)</u>
Construction in progress and prepayments for equipment	-	51,634
	<u>\$ 675,651</u>	<u>\$ 664,798</u>

(9) Deferred charges

	June 30,	
	2004	2003
Agency fees	\$ 333,183	\$ 384,627
Unamortized expense	<u>32,588</u>	<u>47,960</u>
	<u>\$ 365,771</u>	<u>\$ 432,587</u>

(10) Short-term loans

	June 30,	
	2004	2003
Short-term bank loans	<u>\$ -</u>	<u>\$ 220,000</u>
Annual interest rates	<u>-</u>	<u>1.666%~2.65%</u>
Credit lines	<u>\$ 527,000</u>	<u>\$ 605,000</u>

(11) Long-term Loans

Financial Bank	Total Credit Lines	Period/Terms of Repayment	June 30,	
			2004	2003
International Bank of Taipei	\$ 49,000	03.28.2002 ~ 03.28.2017 Two year grace period, equal quarterly installments starting from year 3	\$ 48,058	\$ 49,000
International Bank of Taipei	51,000	08.20.2002 ~ 08.20.2017 Two year grace period, equal quarterly installments starting from year 3	51,000	51,000
FuBon Bank	37,600	05.09.2002 ~ 05.09.2017 20 equal quarterly installments	22,560	30,080
Chang Hwa Bank	100,000	08.18.2003 ~ 08.18.2006 6 equal semi-annual installments	<u>83,333</u> 204,951	<u>-</u> 130,080
Less: portion due within one year			(47,565)	(8,462)
			<u>\$157,386</u>	<u>\$121,618</u>

(Note) The long-term loan from Taishin Bank borrowed on March, 10, 2004, was repaid in advance on April 30, 2004.

(12) Long-term notes payable

<u>Financial Bank</u>	<u>Total Credit Lines</u>	<u>Period/Terms of Repayment</u>	<u>June 30,</u>	
			<u>2004</u>	<u>2003</u>
Shanghai Commercial & Savings Bank	51,000	11.11.2002 ~ 11.11.2005 36 equal monthly installments	\$ -	\$ 28,192
FuBon Bank	2,400	08.10.2001 ~ 08.10.2003 8 equal quarterly installments	-	300
			-	28,492
Less: portion due within one year			-	(11,970)
			<u>\$ -</u>	<u>\$ 16,522</u>

(13) Retirement plans

A) As stipulated in the Company's Retirement Plan, the pension benefits payable to employees are determined as follows:

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

B) As of June 30, 2004 and 2003, the balance of the pension fund, with Central Trust of China, the trustee, was \$12,260 and \$8,324, respectively. The fund balance is not reflected in the financial statements. Total pension expense was \$3,737 and \$2,272 for six-month periods ended June 30, 2004 and 2003, respectively.

(14) Capital reserve

Share premium resulting from the issuance of new shares for cash and donation income may be used to increase capital stock if the Company has surplus 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.

(15) 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.

(16) Undistributed earnings/special reserve

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

- (a) Pay 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 must appropriate an amount equal to the negative items in the stockholders' equity from retained earnings as special reserve.
- (e) Interest on capital.
- (f) After deducting items (a) to (e), 10%~15% of the remaining earnings is appropriated as employees' bonuses and up to 2% as remuneration to directors and supervisors.

- (g) The remaining amount is to be distributed to stockholders in accordance with the resolution adopted at the stockholders' meeting.
- B) The Taiwan imputation tax system requires that any undistributed current earnings of a company derived on or after January 1, 1998 be subject to an additional corporate income tax if the earnings are not distributed before a specific time. This 10% additional tax on undistributed earnings paid by the company may be used as a tax credit by shareholders, including foreign shareholders, against the withholding tax on dividends. In addition, the domestic shareholders can claim a proportionate share of the company's corporate income tax as a tax credit against their individual income tax liability effective 1998.
- C) As of June 30, 2004, the Company is in an accumulated loss position and has been recognized in the shareholder's meeting on April 29, 2004. For current status of the resolution please visit the Taiwan Stock Exchange website.

(17) Income tax payable

- A) Income tax payable and income tax expense for the periods ended June 30, 2004 and 2003 are reconciled as follows:

	Six-month	
	<u>periods ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Current year income tax expense	(\$ 41,235)	(\$ 33,360)
Additional 10% corporate income tax on undistributed earnings	<u>11,192</u>	<u>11,687</u>
	(30,043)	(21,673)
Add (Less): Net changes in deferred income tax assets	40,384	458
Prepaid income tax	(34)	(566)
(Under) over provision of prior year's income tax	<u>(2,943)</u>	<u>27,058</u>
Income tax payable	<u>\$ 7,364</u>	<u>\$ 5,277</u>

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

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Deferred income tax assets – current	\$ 34,145	\$ 33,653
Deferred income tax assets (liability) – non-current	<u>20,274</u>	<u>(25,413)</u>
	<u>\$ 54,419</u>	<u>\$ 8,240</u>

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

	<u>June 30,</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Tax effect</u>	<u>Amount</u>	<u>Tax effect</u>
Current items:				
Allowance for loss on decline in market value and inventories obsolescence	\$ 20,023	\$ 5,006	\$ 19,515	\$ 4,878
Allowance for sales returns	8,529	2,132	14,779	3,695
Over provision of allowance for bad debts	44,808	11,202	70,100	17,525
Welfare expenses	4,035	1,009	535	134
Unrealized profit on inter-company sales	-	-	903	226
Investment tax credit		<u>14,796</u>		<u>7,195</u>
		<u>\$ 34,145</u>		<u>\$ 33,653</u>
Non-current items:				
Welfare expenses	\$ 328	\$ 82	\$ 948	\$ 237
Investment tax credit		55,270		-
Reserve for foreign investment	(140,314)	(35,078)	(102,600)	(25,650)
		<u>\$ 20,274</u>		<u>(\$ 25,413)</u>

D) As of June 30, 2004 and 2003, the balance of shareholders account of deductible tax was as follows:

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
The balance of shareholders account of deductible tax	<u>\$ 2,298</u>	<u>\$ 2,293</u>
2003 Actual creditable tax ratio		<u>- %</u>
2002 Actual creditable tax ratio		<u>3.48%</u>

E) As of June 30, 2004 and 2003, the information regarding the undistributed earnings is as follows:

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
On or after January 1, 1998		
a. Earnings not subjected to 10% income tax	\$ 75,991	(\$ 146,470)
b. Earnings subjected to 10% income tax	(<u>216,514</u>)	<u>31,925</u>
	<u>(\$ 140,523)</u>	<u>(\$ 114,545)</u>

F) As of June 30, 2004, the Company's income tax returns for the years through 2000 have been assessed and approved by the Tax Authority. The Company was assessed \$963 in additional tax for the year 1999, and in 2002, the Company filed an appeal to contest the assessment. The court has rendered an unfavorable judgment and the Company has paid 1/2 of the additional income tax as well as filed a second appeal to a higher court.

G) The incremental income associated with the Company's investments in the development of its PC - based and internet - based computer games is exempt from income tax for five years (2000 to 2005).

H) As of June 30, 2004, the Company had investment tax credits in the amount of \$70,067 to offset taxable income for the next four years. The details are as follows:

<u>Qualified expenditures</u>	<u>Total credits</u>	<u>Unused balance</u>	<u>Year of expiry</u>
Research and development expense	\$ 15,279	\$ 15,279	2007
Research and development expense	5,687	5,687	2008
Machinery and equipment	12,233	9,593	2006
Machinery and equipment	23,469	23,469	2007
Machinery and equipment	14,607	14,607	2008
Employees training	1,432	1,432	2007
	<u>\$ 72,707</u>	<u>\$ 70,067</u>	

(18) Earnings (loss) per share

<u>For the six-month period ended June 30, 2004</u>					
	<u>Amount</u>		<u>Weighted average outstanding common shares</u>	<u>Earnings per share (Note 1)</u>	
	<u>Before income tax</u>	<u>After income tax</u>		<u>Before income tax</u>	<u>After income tax</u>
Earnings per share:					
Net income	<u>\$ 54,492</u>	<u>\$ 84,535</u>	<u>153,800</u>	<u>\$ 0.35</u>	<u>\$ 0.55</u>

<u>For the six-month period ended June 30, 2003</u>					
	<u>Amount</u>		<u>Weighted average outstanding common shares</u>	<u>Loss per share (Note 1)</u>	
	<u>Before income tax</u>	<u>After income tax</u>		<u>Before income tax</u>	<u>After income tax</u>
Loss per share:					
Net loss	<u>(\$ 168,143)</u>	<u>(\$ 146,470)</u>	<u>153,847</u>	<u>(\$ 1.09)</u>	<u>(\$ 0.95)</u>

Note 1: In New Taiwan Dollars.

(19) Treasury Stock

	<u>For the six-month period ended June 30, 2004</u>			
a) <u>Reason for acquisition</u>	<u>Beginning shares (Note)</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending shares</u>
Stock option to employees	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>

	<u>For the six-month period ended June 30, 2003</u>			
<u>Reason for acquisition</u>	<u>Beginning shares (Note)</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending shares</u>
Stock option to employees	<u>3,776</u>	<u>1,224</u>	<u>-</u>	<u>5,000</u>

Note: Amount in thousands of shares.

- b) The maximum and ending balances of treasury stock for the period ended June 30, 2004 and 2003 are as follows:

<u>June 30, 2004</u>		<u>June 30, 2003</u>	
<u>Maximum balance</u>	<u>Ending balance</u>	<u>Maximum balance</u>	<u>Ending balance</u>
<u>\$ 302,140</u>	<u>\$ 302,140</u>	<u>\$ 302,140</u>	<u>\$ 302,140</u>

- c) According to the ROC Security Exchange Act, the percentage of the number of shares of treasury stock can not exceed 10% of the total shares of common stock issued by the Company and the total amount of treasury stock should not exceed the total amount of retained earnings, paid-in capital in excess of par value, and realized capital reserve. As of June 30, 2004, the Company's treasury stock balance amounted to \$302,140.
- d) According to the ROC Security Exchange Act, treasury stock held by the Company can not be pledged, and bear no shareholders' rights.
- e) According to the ROC Security Exchange Act, the above mentioned treasury stock must be disposed of within three years after acquisition.

(20) Employee Stock Option Plan

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

b) The amount and weighted average exercise price for the six-month period ended June 30, 2004 employee stock option plan is as follows:

Stock Options	Six-month period ended	
	June 30, 2004	
	<u>Units</u>	<u>Weighted Average Price</u>
Beginning outstanding balance	-	-
Additions	-	-
Free issuance or adjustments	-	-
Exercised	-	-
Cancelled	-	-
Ending outstanding balance	<u>-</u>	
Exercisable stock options at end of period	<u>-</u>	
Stock options not yet issued at end of year	<u>10,000</u>	

(21) Personnel , Depreciation and Amortization Expenses

	Six-month periods ended	
	June 30,	
	<u>2004</u>	<u>2003</u>
Personnel expenses		
Salaries	\$ 126,974	\$ 135,953
Insurances	12,411	12,492
Pension	3,736	2,272
Other	<u>8,665</u>	<u>3,287</u>
	<u>\$ 151,786</u>	<u>\$ 154,004</u>
Depreciation expense	\$ 65,562	\$ 53,339
Amortization	<u>22,440</u>	<u>19,300</u>
	<u>\$ 88,002</u>	<u>\$ 72,639</u>

(22) Other

In accordance with the Statute for Upgrading Industries, the Company recognized provision for loss on foreign investment amounting to 20% of certain foreign investment for income tax saving purposes. As of June 30, 2004, the balance of such account was \$140,314 which was reversed in the report to conform with R.O.C. GAAP.

5. RELATED PARTY TRANSACTIONS

(1) Names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Gamania Digital Entertainment (Japan) Co., Ltd. (Gamania Japan))	A subsidiary of the Company
Gamania China Holdings Ltd.	"
Gamania Digital Entertainment (H.K.) Co., Ltd. (Gamania (H.K.))	"
Gamania Korea Co., Ltd. (Gamania (Korea))	"
Gamania Holdings Ltd.	"
Gamania International Holdings Ltd.	"
Gamania Sino Holdings Ltd.	"
NC Taiwan Co., Ltd.	"
Alibangbang Digital Games Co., Ltd.	"
Gamania Digital Entertainment (Beijing) Co., Ltd. (Gamania (Beijing))	"
Taiwan Index Co., Ltd	"
Gamania Asia Investment Co., Ltd.	"

(2) Significant transactions with related parties

A) Service revenue

	Six-month periods ended 30,			
	2004		2003	
	Amount	% of net service revenue	Amount	% of net service revenue
NC Taiwan Co., Ltd	\$ 23,267	83	\$ -	-
Taiwan Index Co., Ltd	4,728	17	-	-
	<u>\$ 27,995</u>	<u>100</u>	<u>\$ -</u>	<u>-</u>

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

B) Sales revenue

	Six-month periods ended 30,			
	2004		2003	
	Amount	% of net sales revenue	Amount	% of net sales revenue
Gamania (H.K.)	\$ 2,751	-	\$ -	-

C) Rent revenue

	Six-month periods ended 30,			
	2004		2003	
	Amount	% of net rent revenue	Amount	% of net rent revenue
Taiwan Index Co., Ltd	\$ 589	34	\$ -	-
Others	11	1	-	-
	<u>\$ 600</u>	<u>35</u>	<u>\$ -</u>	<u>-</u>

The collection term is to collect 12 long-term notes receivables in advance with each note monthly.

D) Account receivable

	Six-month periods ended 30,			
	2004		2003	
	Amount	% of net account receivables	Amount	% of net account receivables
Gamania (H.K.)	\$ 2,751	1	\$ -	-

E) Note receivable

	Six-month periods ended 30.			
	2004		2003	
	% of net		% of net	
	<u>Amount</u>	<u>note receivables</u>	<u>Amount</u>	<u>note receivables</u>
Twain Index Co., Ltd	\$ 1,096	1	\$ -	-
Others	30	-	-	-
	<u>\$ 1,126</u>	<u>1</u>	<u>\$ -</u>	<u>-</u>

The collection term is to collect 12 long-term notes receivables in advance with each note due per month.

F) Other receivables

	June 30, 2004		June 30, 2003	
	% of net		% of net	
	<u>Amount</u>	<u>other receivables</u>	<u>Amount</u>	<u>other receivables</u>
Gamania (H.K.)	\$ 8,261	8	\$ -	-
Game (Japan)	729	1	14,723	37
RAVA Ideologie Inc.	4	-	8,800	22
Gamania (Beijing)	463	-	4,315	11
NC Taiwan Co., Ltd.	111	-	3,232	8
Others	1,738	2	7,891	19
	<u>\$ 11,306</u>	<u>11</u>	<u>\$ 38,961</u>	<u>97</u>

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

G) Other payable

	June 30, 2004		June 30, 2003	
	% of net		% of net	
	<u>Amount</u>	<u>other payable</u>	<u>Amount</u>	<u>other payable</u>
NC Taiwan Co., Ltd.	\$ 104,835	66	\$ -	-
Taiwan Index Co., Ltd.	18,575	12	-	-
Gamania (H.K.)	5,661	4	-	-
	<u>\$ 129,071</u>	<u>82</u>	<u>\$ -</u>	<u>-</u>

Other payable is generated from the account receivables of selling goods of subsidiary company and expenses our subsidiary company paid on behalf of the Company.

H) Commitments

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

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Gamania (H.K.)		HK 3,000
	<u>-</u>	<u>Thousand</u>

6. DETAILS OF PLEDGED OR RESTRICTED ASSETS

<u>Assets</u>	<u>June 30,</u>		<u>Purpose</u>
	<u>2004</u>	<u>2003</u>	
Time deposits (shown in other financial assets-current)	\$ -	\$ 15,000	Short-term loans/Credit lines
Land	147,751	117,270	Long-term loans/Credit lines
Buildings	119,578	93,391	"
Machinery equipment	<u>1,650</u>	<u>29,720</u>	Long-term loans/Short-term loans
	<u>\$ 268,979</u>	<u>\$ 255,381</u>	

7. COMMITMENTS AND CONTINGENT LIABILITIES

- A) As of June 30, 2004, the total future rental payments for the next 3 years under non-cancellable operating lease agreements for the Company's office building was \$35,546.
- B) The Company contracted the use of cable lines, T1 and T3, with rental charges based on utilization. In addition, the Company has contracted with several on-line game vendors, and will pay royalty based on actual consumer usage .
- C) As of June 30, 2004, the Company had contracted for accounting software and related consulting services totaling \$28,614, of which \$24,840 have been paid.

D) As described in Note 4 (17), the Tax Authority assessed the Company with additional income tax of \$963 for 1999 due to the following two reasons:

- (1) The purpose of R&D project is to revise the original version of a computer game instead of creating a new product.
- (2) The official employment date did not match with the first working date of production.

The Company appealed in 2003 with the following explanations:

- (1) The program language was re-written for Version-Two which is totally different from Version-One.
- (2) The producer is the person who only documented the projects but not the person in-charge of the project. Because the Company's employment policy is that a new employee must undergo a probationary period, therefore, the first working date is earlier than the official date of employment.

The result of the appeal was unsuccessful. Tax Authority ruled that the producer is unqualified due to lack of professional experience and that software design is unqualified for research and development costs for income tax deduction purposes. The Company disagrees with the result and has paid 1/2 of the additional income tax, as well as filed a second appeal to a higher court.

E) For the period from June 6, 2003 to December 31, 2004, First Commercial Bank will provide guarantee for the Company to a customer as required under the agreement between the Company and the customer.

8. MAJOR CATASTROPHE

None.

9. SUBSEQUENT EVENTS

Based on a resolution adopted by the Board of Directors on July 26, 2004, the Company will purchase 5,000 thousand shares of its own shares as treasury stock during the period from July 27, 2004 to September 26, 2004, at a cost between NT\$11.9 to \$27.9 per share. If the stock price is lower than NT\$11.9, the Company will continue to buy back the stocks. As of August 17, 2004, the Company has purchased 1,078 thousand shares at cost of \$16, 872 for treasury stock.

10. OTHERS

A. Information on derivative transactions

None.

B. Non-derivative financial instruments

	<u>June 30, 2004</u>	
<u>Assets</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets with book value approximating their fair value	\$ 1,310,603	\$ 1,310,603
Long-term investments	826,757	762,876
Refundable deposits	17,182	17,077
<u>Liabilities</u>		
Financial liabilities with book value approximating their fair value	320,717	320,717
Current portion long-term liabilities	47,565	47,565
Long-term loans	157,386	157,386
Accrued pension liability	1,656	7,344
Guarantee deposits	1,459	1,459

<u>Assets</u>	<u>June 30, 2003</u>	
	<u>Book value</u>	<u>Fair value</u>
Financial assets with book value approximating their fair value	\$ 1,311,462	\$ 1,311,462
Short-term investments	250,000	251,403
Long-term investments	570,557	560,916
Refundable deposits	10,109	10,096
<u>Liabilities</u>		
Financial liabilities with book value approximating their fair value	\$ 466,403	\$ 466,403
Long-term notes payable	16,522	16,522
Long-term Loans	121,618	121,618
Accrued pension liability	-	3,722

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

- A) Financial assets and liabilities with book value approximating fair value. The carrying amounts of short-term non-derivative financial assets and liabilities, which include cash and cash equivalents, notes and accounts receivable (included related parties), other receivables (included related parties), other financial assets-current, short-term loans, notes and accounts payable (included related parties), income tax payable, accrued expenses, other payable (included related parties), current portion of long-term liabilities and other current liabilities, approximate their fair value because of their short-term maturities.
- B) The fair values of marketable securities and long-term investments are their market values or the equity in the net assets and/or their financial information, if market value is not available.

- C) The fair value of refundable deposits is estimated using discounted future cash flows with a discount rate based on the one-year time deposit interest rate at year-end.
- D) The fair value of long-term notes payable and long-term loans is the present value of expected future cash flows.
- E) The fair value of accrued pension liabilities is based on the actuarial pension report, the measurement date of which was December 31, 2003 and 2002, respectively, and adjusted for pension cost and contributions to the independent fund during the six-month periods ended June 30, 2004 and 2003.
- F) The fair value of guarantee deposits is the book value since the amount is insignificant.
- G) Off-balance sheet financial instruments with credit risk

	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Guarantee provided to secure related parties' loans	-	HK 3,000 <u>thousand</u>

Guarantees made by the Company are in compliance with the Company's "Procedures to Provide Guarantees" and are provided only to related parties which the Company owns more than 50% of and has the ability to exercise significant influence on. Because the Company is able to control the credit status of these related parties, no collateral was asked to be provided. In the event that the related parties fail to comply with the loan agreement, the maximum loss is the total amount of the guarantee.

- C. The Company donated inventories, magazines, etc. amounting to \$11,197 to political parties, charities, and educational institutes that are accredited by the government, without any conditions.

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 June 30, 2004:

Unit: Thousands of New Taiwan Dollars / Thousands of Shares

Company	Type of marketable securities (Note (1))	Name of marketable securities	The relationship of the issuers with the security holders	General ledger account	June 30, 2004				
					Number of shares	Book value	Percentage	Market value (Note (2))	Note
The Company	Common Stock	Gamania Holdings Ltd.	Subsidiary	Long-term investment	23,391	\$ 241,131	100%	\$ 241,131	None
"	"	Gamania Korea Co., Ltd.	"	"	394	146,199	100%	146,199	"
"	"	Alibangbang Digital Games Co., Ltd.	"	"	3,600	15,461	90.00%	12,208	"
"	"	Mogamer Interactive Co., Ltd.	"	"	3,596	3,553	89.90%	3,553	"
"	"	Clicklit Interactive Co., Ltd.	"	"	8,950	1,014	68.85%	1,014	"
"	"	NC Taiwan Co., Ltd.	"	"	7,140	44,917	51.00%	44,917	"
"	"	Gamania Asia Investment Co., Ltd.	"	"	7,800	78,000	100.00%	78,000	"
"	"	Gamania Asia Investment Co., Ltd.	"	Prepayment for long-term investments	N/A	12,000	N/A	12,000	"
"	"	Taiwan Index Co., Ltd.	"	Long-term investment	17,350	189,541	69.40%	128,913	"
"	"	Buybooks Digital Technology Co., Ltd.	Investee company accounted for under the cost method	"	300	2,995	3.74%	2,995	"
"	"	ECD Interactive Corporation	"	"	2,040	21,200	18.55%	21,200	"
"	"	Joyon Entertainment Co., Ltd.	"	"	700	9,851	17.86%	9,851	"
"	"	RAVA Ideologie Inc.	"	"	880	8,800	8.69%	8,800	"
"	"	Zona Inc.	"	"	1,000	52,095	10.34%	52,095	"

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

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

D) Marketable securities acquired or sold during the period ended June 30, 2004 in excess of \$100,000 or 20% of capital:

Investor	Type and name of marketable securities	General ledger account	Name and relationship of counter-party	Beginning balance (Note 1)		Addition		Disposal			Disposal gain (loss)	Ending balance (Note 1)	
				Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Cost		Number of shares	Amount
The Company	Taiwan Index Co., Ltd.	Long-term investment	TFN Investment Co. Ltd and individuals. /None	-	-	17,350	\$ 209,176	-	\$ -	\$ -	\$ -	17,350	\$ 209,176
"	Fund 1	Short-term investment	Initial Investment at inception/ None	-	-	7,390	118,000	7,390	118,336	118,000	336	-	-
"	Fund 2	"	"	-	-	9,105	100,000	9,105	100,287	100,000	287	-	-

Note 1: Original investment cost.

E) Acquired real estate in excess of \$100,000 or 20% of capital: None.

F) Disposal of real estate in excess of \$100,000 or 20% of capital: None.

G) Sales to or purchases from related parties in excess of \$100,000 or 20% of capital: None.

H) Receivable from related parties in excess of \$100,000 or 20% of capital: None.

I) Information on derivative transaction: None.

(2) Information of investee companies

A) Information of investee companies:

Unit: Thousands of New Taiwan Dollars / Thousands of Shares

Company	Name of investee	Location	Main operating activities	Original investment cost		Held by the Company			(Loss) Gain incurred by the Investee	Investment (loss) gain recognized by the Company	Note
				2004.6.30	2003.12.31	Number of Shares	Percentage	Book value			
The Company	Gamania Holdings Ltd.	3F, Harbour Center, Box 1348, George Town, Grand Cayman, Cayman Islands, British West Indies	Investment, holding company	\$ 801,780	\$670,851	23,391	100%	\$241,131	(\$113,933)	(\$113,933)	Subsidiary
"	Gamania Korea Co., Ltd.	3F, NO.75-6 uniwide B/D, Samsung-Dong Kang Nam-Gu, Seoul Korea	Design and sale of software	80,189	80,189	394	100%	146,199	4,661	4,661	"
"	Mogamer Interactive Co., Ltd. (Note (2))	6F, No. 112 Yian Rd., Chung-Ho City, Taipei Country, Taiwan	Software tradings	35,960	35,960	3,596	89.90%	3,553	(532)	(478)	"
"	Clicklit Interactive Co., Ltd. (Note (2))	"	On-line reading technology development	91,163	91,163	8,950	68.85%	1,014	(460)	(316)	"
"	Alibangbang Digital Games Co., Ltd.	18F, No. 736 Chung-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan	Design and sale of software	40,000	20,000	3,600	90.00%	15,461	(10,263)	(9,178)	"
"	NC Taiwan Co., Ltd.	18F, No. 736 Chung-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan	"	71,400	71,400	7,140	51%	44,917	(31,294)	(16,671)	"
"	Taiwan Index Co., Ltd.	18F, No. 736 Chung-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan	Software Service	209,176	-	17,350	69.40%	189,541	(43,053)	(19,635)	"
"	Gamania Asia Investment Co., Ltd.	18F, No. 736 Chung-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan	Investment	90,000	-	7,800	100.00%	90,000	(16)	-	"
Gamania Asia Investment Co., Ltd.	Taiwan Index Co., Ltd.	18F, No. 736 Chung-Cheng Rd., Chung-Ho City, Taipei Country, Taiwan	Design and sale of software	80,625	-	6,800	27.20%	80,625	(43,053)	-	Investee company accounted for under equity method

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
				2004.6.30	2003.6.30	Number of Shares	Percentage	Book value			
Gamania Holdings Ltd.	Gamania International Holdings Ltd.	3F, Harbour Center, Box 1348, George Town, Grand Cayman, Cayman Islands, British West Indies	Investment holding company	USD23,391 thousand	USD19,485 thousand	23,391	100%	USD7,163 thousand	(USD 3,412 thousand)	(USD 3,412 thousand)	Subsidiary
Gamania International Holdings Ltd.	Gamania Digital Entertainment (Japan.) Co., Ltd.	Ebisu East Bldg. 2F 1-13-7 Hiroo, Shibuya-Ku, Tokyo 150-0012 Japan	Design and sale of software; Sale of hardware	USD12,240 Thousand	USD10,879 thousand	17	100%	USD4,421 Thousand	(USD 2,053 thousand)	(USD 2,053 thousand)	"
Gamania International Holdings Ltd.	Gamania China Holdings Ltd.	3F, Harbour Center, Box 1348, George Town, Grand Cayman, Cayman Islands, British West Indies	Investment holding company	USD15,386 thousand	USD12,841 Thousand	13,224	91.13%	USD3,777 Thousand	(USD 1,511 thousand)	(USD 1,360 thousand)	"
Gamania International Holdings Ltd.	NC Gamania Co., Limited (Note (1))	45F, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong	Design and sale of software	\$ -	\$ -	9,800	49%	(USD1,029 thousand)	-	-	Investee company accounted for under equity method
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	USD11,450 thousand	USD9,290 thousand	N/A	100%	USD3,856 Thousand	(USD 1,306 thousand)	(USD 1,337 thousand)	Subsidiary
Gamania Sino Holdings Ltd.	Gamania Digital Entertainment (Beijing) Co., Ltd.	21 JIU XIAN QIAO Road, Chaoyang District, Beijing, 100022 China (登) 11F, Bldg C, SOHO New Town, Jian Guo	Design and sale of software	USD9,480 thousand	USD7,500 Thousand	N/A	100%	USD3,750 Thousand	(USD 1,060 thousand)	(USD 1,060 thousand)	"
Gamania China Holdings Ltd.	Gamania Digital Entertainment (H.K.) Co., Ltd.	50F, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong	Design and sale of software	USD3,009 thousand	USD2,625 thousand	35,500	100%	USD286 thousand	(USD 173 thousand)	(USD 173 thousand)	"
Gamania China Holdings Ltd.	Gamania Alliance, Co., Limited	50F, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong	Design and sale of software	Note (3)	Note (3)	N/A	100%	(USD6 thousand)	-	-	"
Gamania Alliance Co., Ltd.	Gamania Advertising Co., Limited	50F, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong	Design and sale of software	Note (3)	Note (3)	N/A	100%	(HK14 thousand)	-	-	"

Note (1): NC Gamania Co., Limited, originally an investee company of Gamania Digital Entertainment (H.K) Co, Ltd., was transferred to Gamania International Holdings Ltd. on May 12, 2003 due to corporate restructuring, and is expected to liquidate in 2004.

Note (2): See item 3 of Note4(7) for detail.

Note (3):The original investment cost is \$HK2.

B) Financing activities to any company or person:

Number (Note 1)	Company providing financing	Company receiving financing	General ledger account	Maximum balance during period	Balance at June 30, 2004	Interest rate	Type of financing activity	Amount for business transaction	Reason for short-term financing	Allowance for doubtful accounts	Pledged assets		Limit amount of financing to each company or person	Total limit amount of financing activities
											Item	Value		
1	Gamania Digital Entertainment (H.K.) Co., Ltd.	NC Gamania Company Limited	Intercompany receivable	HK 3,000 thousand (Note 2)	\$ - (Note 2)	4%	Short-term financing	N/A	For operation use	\$ -	-	-	\$ 399,011 (15% of the Company's net asset)	\$798,022 (30% of the Company's net assets)

Note 1: Number 0 represents the Company.

Represents the Company's subsidiaries starting with number 1.

Note 2: NC Gamania Company Limited has started the liquidation process and has no assets to be claimed. However, Gamania Digital Entertainment (H.K.) Co., Ltd. has already lend out HK 3,000 thousand in 2003 and provided for 100% of allowance for doubtful accounts. In addition, they have also agreed to give up obligations and has written off this accounts receivable in 2004 receivables.

C) Guarantee information: None.

D) Marketable securities held at June 30, 2004:

Issuer	Type of marketable securities (Note (1))	Name of marketable securities	The relationship with the security holders	General ledger account	June 30, 2004				
					Number of shares	Book value	Percentage	Market value (Note (2))	Note
Gamania Holdings Ltd.	Common Stock	Gamanina International Holdings Ltd.	Subsidiary	Long-term investment	23,391	USD7,163 thousand	100%	USD7,163 Thousand	None
Gamania International Holdings Ltd.	"	Gamania Digital Entertainment (Japan) Co., Ltd.	"	"	17	USD4,421 Thousand	100%	USD4,421 thousand	"
Gamania International Holdings Ltd.	"	Gamania China Holdings Ltd.	"	"	13,224	USD3,777 Thousand	91.13%	USD3,777 thousand	"
Gamania International Holdings Ltd.	"	NC Gamania Co., Limited	Investee company accounted for under the equity method	"	9,800	(USD1,029 thousand)	49%	(USD1,029 thousand)	"
Gamania China Holdings Ltd.	"	Gamania Alliance, Co., Limited	Subsidiary	"	2(Note(3))	(USD6 thousand)	100%	(USD6 thousand)	"
Gamania Alliance Co., Limited	"	Gamania Advertising Co., Limited	"	"	2(Note(3))	(HK14 thousand)	100%	(HK14 thousand)	"
Gamania China Holdings Ltd.	"	Gamania Digital Entertainment (H.K.) Co., Ltd.	"	"	35,500	USD286 thousand	100%	USD286 thousand	"
Gamania China Holdings Ltd.	"	Gamania Sino Holdings Ltd.	"	"	N/A	USD3,856 Thousand	100%	USD3,856 thousand	"
Gamania Sino Holdings Co., Ltd.	"	Gamania Digital Entertainment (Beijing) Co., Ltd.	"	"	N/A	USD3,750 thousand	100%	USD3,750 thousand	"
Gamania Asia Investment Co., Ltd.	"	Taiwan Index Co., Ltd.	Investee company accounted for under the equity method	"	6,800	\$ 80,625	27.2%	\$ 64,718	"

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

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

Note (3): Unit:Share.

- E) Marketable securities acquired or sold during the period ended June 30, 2004 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:

The Company with account receivables	Name of counter-party	Relationship	Balance of Accounts receivable-net-related parties	Turnover rate	Delinquent Accounts Receivables		Amount collected after balance sheet date	Amount of allowance for bad debts
					Amount	Method		
NC Taiwan Co., Ltd	The Company	Parent company	\$ 104,835	(Note)	\$ -	N/A	\$ -	-

Note: Account receivables is generated from the parent Company selling of goods on behalf of the Company. Parent company will pay within three months after receipts of A/R from customers, therefore, the turnover rate is not applicable. See Note 5 (2).

- J) Information on derivative transactions: None.

(3) DISCLOSURE OF INFORMATION ON INVESTMENT IN MAINLAND CHINA

Name of investee in Mainland China	Main activities	Capital	Investment method	Accumulated investment as of June 30, 2004	Remitted or received investment amount during the period		Accumulated investment as of June 30, 2004	Direct and indirect percentage of ownership	Investment loss recognized during the period (Note (3))	Balance of investment at June 30, 2004	Accumulated investment income received as of June 30, 2004
					Remitted	Received					
Gamania Digital Entertainment (Beijing) Co., Ltd.	Design and sale of software	(RMB 78,363 thousand) \$325,278	(Note (2))	(USD5,370 thousand) \$181,291	(USD1,980 thousand) \$66,845	\$ -	(USD7,350 thousand) \$248,136	91.13%	(USD954 thousand) (\$31,854)	(USD3,417 thousand) \$115,371	\$ -

Accumulated amount of investment in Mainland China as of June 30, 2004	Related investment amount approved by FIA	The upper limit of investment in Mainland China
\$ 248,136(USD7,350 thousand)	\$320,045 (Note (1))	\$1,064,029

Note (1): Related total investment amount approved by FIA is USD9,480,000 or NTD 320,045 thousand based on 33.76exchange rate.

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

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

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