

GAMANIA DIGITAL ENTERTAINMENT CO., LTD.

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

MARCH 31, 2011 AND 2010

For the convenience of readers and for information purpose only, the auditors' report and the accompanying consolidated 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.

Review Report of Independent Accountants Translated from Chinese

PWCR10000424

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

We have reviewed the accompanying consolidated balance sheets of Gamania Digital Entertainment Co., Ltd. and its subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income and of cash flows for the three-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Except as explained in the following paragraph, our reviews were made in accordance with the Generally Accepted Auditing Standards No. 36, "Review of Financial Statements" in the Republic of China. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note 1 (2), the consolidated financial statements include unreviewed financial statements of certain consolidated subsidiaries, which statements reflect total assets of \$1,636,527 thousand and \$1,144,223 thousand as of March 31, 2011 and 2010, respectively, and total operating revenues of \$368,717 thousand and \$410,000 thousand for the three-month periods then ended, respectively. In addition, as explained in Note 4 (8), the consolidated financial statements include long-term investments accounted for under the equity method amounting to \$5,253 thousand and \$4,770 thousand as of March 31, 2011 and 2010, respectively, and the related investment loss was \$1,492 thousand and \$1,025 thousand for the three-month periods then ended, respectively. These amounts and the information disclosed in Note 11 were based on their respective financial statements which were not reviewed by independent accountants.

Based on our reviews, except for the effect of such adjustments, if any, as might have been determined to be necessary had the financial statements of these investee companies been reviewed by independent accountants as explained in the preceding paragraph, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above in order for them to be in conformity with the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers, Taiwan

April 21, 2011

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 review 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 review report of the independent accountants are not intended for use by those who are not informed about the accounting principles or review 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
MARCH 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

| | <u>2011</u> | <u>2010</u> | | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|--|---------------------|---------------------|
| ASSETS | | | LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| <u>Current Assets</u> | | | <u>Current Liabilities</u> | | |
| Cash and cash equivalents (Note 4 (1)) | \$ 1,162,662 | \$ 1,097,618 | Short-term loans (Note 4 (12)) | \$ 182,100 | \$ 130,000 |
| Financial assets at fair value through profit or loss – current (Note 4 (2)) | 200,000 | - | Notes payable – third parties | 8,102 | 10,282 |
| Notes receivable – third parties – net (Note 4 (3)) | 309,797 | 70,263 | Accounts payable – third parties | 347,889 | 239,834 |
| Accounts receivable – third parties – net (Note 4 (4)) | 1,473,209 | 1,346,045 | Accounts payable – related party (Note 5) | 62,332 | - |
| Other receivables | 26,997 | 38,618 | Income tax payable (Note 4 (15)) | 53,708 | 34,576 |
| Other financial assets – current (Note 6) | - | 2,000 | Accrued expenses | 351,407 | 330,442 |
| Inventories – net (Note 4 (5)) | 68,502 | 76,712 | Other payables – third parties | 237,692 | 238,194 |
| Prepaid expenses | 70,510 | 39,586 | Unearned revenue collected in advance | 651,420 | 333,267 |
| Deferred income tax assets – current (Note 4 (15)) | 1,379 | 66,551 | Current portion of long-term loans (Note 4 (14)) | 28,654 | 21,715 |
| Other current assets | 6,455 | 2,939 | Deferred income tax liabilities – current (Note 4 (15)) | 1,645 | - |
| | <u>3,319,511</u> | <u>2,740,332</u> | Other current liabilities | 10,582 | 7,738 |
| | | | | <u>1,935,531</u> | <u>1,346,048</u> |
| <u>Long-term Investments</u> | | | <u>Long-term Liabilities</u> | | |
| Financial assets at fair value through profit or loss – non-current (Note 4 (6)) | 2,850 | - | Financial liabilities at fair value through profit or loss – non-current (Note 4 (13)) | 3,273 | - |
| Financial assets carried at cost – non-current (Note 4 (7)) | 114,294 | 114,294 | Long-term loans (Note 4 (14)) | 21,880 | 21,783 |
| Long-term investment – accounted for under the equity method (Note 4 (8)) | 5,253 | 4,770 | | <u>25,153</u> | <u>21,783</u> |
| | <u>122,397</u> | <u>119,064</u> | | | |
| <u>Property, Plant and Equipment – net (Notes 4 (9) and 6)</u> | | | <u>Other Liabilities</u> | | |
| Cost | | | Accrued pension liabilities (Note 4 (16)) | 8,750 | 9,429 |
| Land | 157,066 | 147,751 | Guarantee deposits | 12 | 380 |
| Buildings | 213,536 | 170,495 | Other liabilities – other | 250 | 447 |
| Machinery and equipment | 790,525 | 559,004 | | <u>9,012</u> | <u>10,256</u> |
| Transportation equipment | 327 | - | Total Liabilities | <u>1,969,696</u> | <u>1,378,087</u> |
| Office equipment | 158,815 | 226,694 | | | |
| Leasehold improvements | 38,996 | 37,838 | <u>Stockholders' Equity</u> | | |
| Other equipment | 15,126 | 5,669 | Common stock | | |
| Total Cost | 1,374,391 | 1,147,451 | Common stock (Note 1) | 1,657,020 | 1,604,951 |
| Less: Accumulated depreciation | (682,859) | (610,999) | Stock subscriptions received in advance (Note 4 (22)) | 24,263 | 51,425 |
| Accumulated impairment | (4,214) | (4,486) | Capital reserve (Note 4 (17)) | | |
| Construction in progress and prepayments for equipment | 57,456 | 11,568 | Paid-in capital in excess of par | 888,051 | 852,683 |
| | <u>744,774</u> | <u>543,534</u> | Gain on disposal of property, plant and equipment | 221 | 221 |
| <u>Intangible Assets</u> | | | Retained earnings | | |
| Goodwill | 90,132 | 76,757 | Legal reserve (Notes 4 (18) and (20)) | 117,649 | 86,730 |
| Deferred pension cost (Note 4 (16)) | 1,502 | 1,332 | Retained earnings (Notes 4 (19) and (20)) | 527,669 | 503,782 |
| Other intangible assets – net (Note 4 (10)) | 6,454 | 194 | Other adjustments to stockholders' equity | | |
| | <u>98,088</u> | <u>78,283</u> | Cumulative translation adjustments | 3,551 | 28,358 |
| <u>Other Assets</u> | | | Unrealized net loss | (1,126) | (565) |
| Refundable deposits | 50,507 | 46,072 | Treasury stock (Note 4 (21)) | (370,182) | (370,182) |
| Deferred charges – net (Notes 4 (11) and 5 (2)) | 471,423 | 605,904 | | 2,847,116 | 2,757,403 |
| Deferred income tax assets – non-current (Note 4 (15)) | 27,468 | 18,254 | Minority interest | 30,803 | 23,665 |
| Other asset – other (Note 4 (16)) | 13,447 | 7,712 | Total Stockholders' Equity | <u>2,877,919</u> | <u>2,781,068</u> |
| | <u>562,845</u> | <u>677,942</u> | | | |
| TOTAL ASSETS | <u>\$ 4,847,615</u> | <u>\$ 4,159,155</u> | Commitments and Contingent Liabilities (Note 7) | | |
| | | | TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 4,847,615</u> | <u>\$ 4,159,155</u> |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated April 21, 2011.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE-MONTH PERIODS ENDED MARCH 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Operating revenues | | |
| Sales revenue | \$ 1,833,711 | \$ 1,432,219 |
| Sales returns | (5,799) | (46,002) |
| Sales allowances | (6,471) | (9,610) |
| Net sales revenue | 1,821,441 | 1,376,607 |
| Service revenue | 27,946 | 19,280 |
| Operating revenue | <u>1,849,387</u> | <u>1,395,887</u> |
| Operating costs (Notes 4 (23) and 5 (2)) | | |
| Cost of goods sold | (1,034,761) | (709,855) |
| Gross profit | <u>814,626</u> | <u>686,032</u> |
| Operating expenses (Notes 4 (23) and 5 (2)) | | |
| Selling expenses | (179,208) | (159,002) |
| General and administrative expenses | (311,468) | (237,655) |
| Research and development expenses | (145,210) | (94,063) |
| Total operating expenses | <u>(635,886)</u> | <u>(490,720)</u> |
| Operating income | <u>178,740</u> | <u>195,312</u> |
| Non-operating income | | |
| Interest income | 524 | 267 |
| Foreign exchange gain | - | 1,951 |
| Rental income | 1,990 | 92 |
| Gain on adjustment of financial assets | 60 | 127 |
| Miscellaneous income | 8,277 | 1,600 |
| Total non-operating income | <u>10,851</u> | <u>4,037</u> |
| Non-operating expenses | | |
| Interest expense | (784) | (1,176) |
| Investment loss accounted for under the equity method (Note 4 (8)) | (1,492) | (1,025) |
| Loss on disposal of property, plant and equipment | (160) | (5,328) |
| Foreign exchange loss | (1,451) | - |
| Miscellaneous losses | (4,022) | (33,551) |
| Total non-operating expenses | <u>(7,909)</u> | <u>(41,080)</u> |
| Income before income tax | 181,682 | 158,269 |
| Income tax expense (Note 4 (15)) | (51,962) | (46,004) |
| Consolidated net income | <u>\$ 129,720</u> | <u>\$ 112,265</u> |
| Attributable to: | | |
| Equity holders of the Company | \$ 129,764 | \$ 109,841 |
| Minority interest | (44) | 2,424 |
| | <u>\$ 129,720</u> | <u>\$ 112,265</u> |

| | <u>2011</u> | | <u>2010</u> | |
|--|-------------------|-------------------|-------------------|-------------------|
| | <u>Before</u> | <u>After</u> | <u>Before</u> | <u>After</u> |
| Earnings per share (in dollars) (Note 4 (20)) | <u>income tax</u> | <u>income tax</u> | <u>income tax</u> | <u>income tax</u> |
| Basic earnings per share (in dollars) | | | | |
| Profit attributable to equity holders of the Company | \$ 1.18 | \$ 0.84 | \$ 1.03 | \$ 0.73 |
| Minority interest income | - | - | 0.20 | 0.20 |
| Consolidated net income | <u>\$ 1.18</u> | <u>\$ 0.84</u> | <u>\$ 1.23</u> | <u>\$ 0.93</u> |
| Diluted earnings per share (in dollars) | | | | |
| Profit attributable to equity holders of the Company | \$ 1.15 | \$ 0.82 | \$ 0.99 | \$ 0.70 |
| Minority interest income | - | - | 0.20 | 0.20 |
| Consolidated net income | <u>\$ 1.15</u> | <u>\$ 0.82</u> | <u>\$ 1.19</u> | <u>\$ 0.90</u> |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated April 21, 2011.

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

| | <u>2011</u> | <u>2010</u> |
|---|------------------|---------------|
| <u>Cash flows from operating activities</u> | | |
| Consolidated net income | \$ 129,720 | \$ 112,265 |
| Adjustments to reconcile consolidated net income to net cash (used in) provided by operating activities: | | |
| Reversal of allowance (provision) for sales returns | (784) | 436 |
| Provision for doubtful accounts | 4,784 | 4,707 |
| Provision for decline in market value of inventories | 731 | 1,196 |
| Investment loss accounted for under the equity method | 1,492 | 1,025 |
| Depreciation and amortization | 126,449 | 101,290 |
| Loss on disposal of property, plant and equipment | 160 | 5,328 |
| Fixed assets and deferred charges transferred to other loss | 3,324 | 28,214 |
| Deferred income tax assets | 23,570 | 22,996 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Financial assets at fair value through profit or loss | | |
| – current | (200,000) | - |
| Notes receivable – third parties | (185,388) | 42,740 |
| Accounts receivable – third parties | (282,296) | (228,736) |
| Other receivables – third parties | 2,315 | 609 |
| Inventories | (39,239) | (17,324) |
| Prepaid expenses | (14,486) | (8,842) |
| Other current assets | (2,146) | (293) |
| Increase (decrease) in: | | |
| Notes payable – third parties | 8,047 | 226 |
| Accounts payable – third parties | 110,631 | 23,103 |
| Accounts payable – related party | 62,332 | - |
| Income tax payable | 15,254 | 21,994 |
| Other payables – third parties | (83,212) | 75,102 |
| Accrued expenses | (85,604) | (56,061) |
| Unearned revenue collected in advance | 334,039 | (31,806) |
| Other current liabilities | 414 | (51,095) |
| Accrued pension liabilities | (495) | 764 |
| Net cash (used in) provided by operating activities | <u>(70,388)</u> | <u>47,838</u> |

(Continued on next page)

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

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| <u>Cash flows from investing activities</u> | | |
| Increase in minority interest acquisition price | \$ - | (\$ 38,337) |
| Acquisition of property, plant and equipment | (80,098) | (39,027) |
| Increase in deferred charges | (42,527) | (53,161) |
| (Increase) decrease in refundable deposits | (2,310) | 1,018 |
| Increase in other assets – other | (4,643) | (345) |
| Net cash used in investing activities | <u>(129,578)</u> | <u>(129,852)</u> |
| <u>Cash flows from financing activities</u> | | |
| Increase (decrease) in short-term loans | 27,118 | (15,553) |
| Decrease in long-term loans (including current portion) | (8,175) | (6,495) |
| (Increase) decrease in other liabilities – other | (502) | 6 |
| Increase in guarantee deposits | 6 | - |
| Exercise of employee stock options | 43,746 | 102,356 |
| Changes in minority interest | <u>971</u> | <u>1,265</u> |
| Net cash provided by financing activities | <u>63,164</u> | <u>81,579</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>40,784</u> | <u>(6,958)</u> |
| Net decrease in cash and cash equivalents | (96,018) | (7,393) |
| Cash and cash equivalents at beginning of the period | <u>1,258,680</u> | <u>1,105,011</u> |
| Cash and cash equivalents at end of the period | <u>\$ 1,162,662</u> | <u>\$ 1,097,618</u> |
| <u>Supplemental disclosures of cash flow information</u> | | |
| Cash paid during the period for: | | |
| Interest | <u>\$ 855</u> | <u>\$ 1,135</u> |
| Income tax | <u>\$ 1,553</u> | <u>\$ 880</u> |
| <u>Cash paid for acquisition of property, plant and equipment</u> | | |
| Property, plant and equipment acquired | \$ 60,206 | \$ 42,559 |
| Payable at end of the period | (17,837) | (14,031) |
| Payable at beginning of period | <u>37,729</u> | <u>10,499</u> |
| Cash paid | <u>\$ 80,098</u> | <u>\$ 39,027</u> |

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated April 21, 2011.

GAMANIA DIGITAL ENTERTAINMENT CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

(UNAUDITED)

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 March 31, 2011, the total authorized capital was \$2,500,000, consisting of 250 million shares of common stock (including 22 million shares for employee stock options), at a par value of \$10 (NT dollars) per share, and the issued and outstanding capital was \$1,657,020. The Company is engaged in software services. As of March 31, 2011, the Company and its consolidated subsidiaries had approximately 1,670 employees.

(2) Consolidated subsidiaries

A)

| <u>Name of company</u> | <u>Relationship</u> | <u>Main activities</u> | <u>% of shares held as of March 31,</u> | |
|---|---------------------|--|---|-------------|
| | | | <u>2011</u> | <u>2010</u> |
| Gamania Holdings Ltd. | Note 1 | Investment holding company | 100% | 100% |
| Gamania International Holdings Ltd. | Note 2 | Investment holdings | 100% | 100% |
| Gamania Digital Entertainment (Japan) Co., Ltd. | Note 3 | Design and sales of software; sales of hardware | 100% | 100% |
| Gamania China Holdings Ltd. | Note 3 | Investment holdings | 98.37% | 97.91% |
| Gamania Western Holdings Ltd. | Note 3 | Investment holdings | 100% | 100% |
| Gamania Netherlands Holdings Cooperatief U.A. | Note 3 | Investment holdings | 100% | - |
| Firedog Studio Company Ltd. | Note 3 | Design and research and development of software | 100% | - |
| Gash Plus (Hong Kong) Company Ltd. | Note 3 | Software and electronic information services and sales | Note 9 | - |
| Gamania Digital Entertainment (H.K.) Co., Ltd. | Note 4 | Design and sales of software | 98.37% | 97.91% |
| Gamania Sino Holdings Ltd. | Note 4 | Investment holdings | 98.37% | 97.91% |
| Gamania Digital Entertainment (Europe) B.V. | Note 5 | Design and sales of software | 100% | - |
| Gamania Digital Entertainment (U.S.) Co., Ltd. | Note 6 | Design and sales of software | 100% | 100% |

| Name of company | Relationship | Main activities | % of shares held as of March 31, | |
|---|--------------|--|----------------------------------|--------|
| | | | 2011 | 2010 |
| Gamania Digital Entertainment (Beijing) Co., Ltd. | Note 7 | Design and sales of software | 98.37% | 97.91% |
| Gameastor Digital Entertainment Co., Ltd. (Note 8) | Note 1 | Software services and sales | 99.28% | 99.28% |
| Gamania Asia Investment Co., Ltd. | Note 1 | Investment holdings | 100% | 100% |
| Gamania Korea Ltd. | Note 1 | Design and sales of software | 100% | 100% |
| Fantasy Fish Digital Games Co., Ltd. | Note 1 | Design and research and development of software | 99.69% | 99.50% |
| Foundation Digital Entertainment Co., Ltd. | Note 1 | Sales and publishing of magazines and periodicals | 100% | 100% |
| Gamania Digital Entertainment Labuan Holdings, Ltd. | Note 1 | Investment holdings | 100% | 100% |
| Redgate Games Co., Ltd. | Note 1 | Design and research and development of software | 100% | 100% |
| Seedo Games Co., Ltd. | Note 1 | Design and research and development of software | 100% | 100% |
| Playcoo Co. | Note 1 | Design and research and development of software | 75.25% | 75.25% |
| Two Tigers Co., Ltd. | Note 1 | Animation production | 51% | - |
| Gash Plus Co., Ltd. | Note 1 | Software and electronic information services and sales | 100% | - |

Note 1: Majority-owned subsidiary

Note 2: A majority-owned subsidiary of Gamania Holdings Ltd.

Note 3: A majority-owned subsidiary of Gamania International Holdings Ltd.

Note 4: A majority-owned subsidiary of Gamania China Holdings Ltd.

Note 5: A majority-owned subsidiary of Gamania Netherlands Holdings Cooperatief U.A.

Note 6: A majority-owned subsidiary of Gamania Western Holdings Ltd.

Note 7: A majority-owned subsidiary of Gamania Sino Holdings Ltd.

Note 8: Gameastor Digital Entertainment Co., Ltd., formerly Taiwan Index Co., Ltd., has completed its change of registration in September 2010.

Note 9: As of March 31, 2011, the Company has not invested in the subsidiary.

B) The consolidated financial statements include unreviewed financial statements of certain consolidated subsidiaries as of March 31, 2011 and 2010, respectively. The statements reflect total assets of \$1,636,527 and \$1,144,223 as of March 31, 2011 and 2010, respectively, and total operating revenues of \$368,717 and \$410,000 for the three-month periods then ended, respectively.

(3) Changes in the consolidated subsidiaries:

No subsidiary was deconsolidated from the consolidated financial statements during the three-month period ended March 31, 2011. The following were majority-owned subsidiaries that were 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 March 31,</u> | | <u>Note</u> |
|---|---------------------|--|---|-------------|-------------|
| | | | <u>2011</u> | <u>2010</u> | |
| Two Tigers Co., Ltd. | Note 1 | Animation production | 51% | - | Note 5 |
| Gash Plus Co., Ltd. | Note 1 | Software and electronic information services and sales | 100% | - | Note 4 |
| Firedog Studio Company Ltd. | Note 2 | Design and research of software | 100% | - | Note 5 |
| Gash Plus (Hong Kong) Company Ltd. | Note 2 | Software and electronic information services and sales | Note 7 | - | Note 4 |
| Gamania Netherlands Holdings Cooperatief U.A. | Note 2 | Investment holdings | 100% | - | Note 6 |
| Gamania Digital Entertainment (Europe) B.V. | Note 3 | Software services and sales | 100% | - | Note 6 |

Note 1: Majority-owned subsidiary.

Note 2: A majority-owned subsidiary of Gamania International Holdings Ltd.

Note 3: A majority-owned subsidiary of Gamania Netherlands Holdings Cooperatief U.A.

Note 4: The Company was established in the first quarter of 2011.

Note 5: The Company was established in the fourth quarter of 2010.

Note 6: The Company was established in the third quarter of 2010.

Note 7: As of March 31, 2011, the Company has not invested in the subsidiary.

(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 stock and bonds: None.

- (11) Convertible bonds and new stocks are issued by the subsidiaries: None.
- (12) 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” 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) 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. Effective January 1, 2008, the Company prepares quarterly consolidated financial statements.
- B) The results of operations of a subsidiary are included in the consolidated financial statements from the date of acquisition. 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.
- C) All significant intercompany balances and transactions are eliminated in the consolidation.

(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 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 Company and its subsidiaries are maintained in New Taiwan dollars and functional currencies, respectively. Transactions arising in foreign currencies are translated into New Taiwan dollars and functional currencies 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 period'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) 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 and beneficiary certificates.

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.

C) Financial instruments that meet one of the following criteria are designated as financial assets or financial liabilities at fair value through profit or loss:

- a) The instrument is a hybrid instrument.
- b) The instrument is designated as a financial asset or liability at fair value through

profit or loss in order to eliminate or substantially reduce the inconsistency in accounting measurement or recognition.

- c) The instrument is managed in accordance with the Company's documented risk management and investment strategies, and its performance is evaluated on a fair value basis.

(6) 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.

(7) Notes and accounts receivable and other receivables

Receivables arising from the sale of goods or services to customers are recognized as notes and accounts receivable. Other receivables are those arising from transactions other than sale of goods or services.

The Company measures notes and accounts receivable and other receivables based on the aging and collectibility of receivables and past experience of bad debts.

Effective January 1, 2011, notes and accounts receivable and other receivables are initially recognized based on estimated fair value, and are subsequently assessed for the amount of amortization under effective interest rate method and any impairment. The Company assesses whether objective evidence of impairment exists individually for financial assets at the balance sheet date. Once the objective evidence of impairment exists, an impairment loss is recognized. The amount of impairment is the difference between the book value of financial assets and the discounted value of future cash flows which is estimated using the effective interest rate. If the fair value of the receivables subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed to the extent of the loss previously recognized.

(8) Inventories

The Group uses the perpetual inventory system and the original cost is the cost to obtain the assets. Cost is determined using the weighted-average method. The ending balance of inventory is valued at the lower of cost or net realizable value based on specific identification. The net realizable value is determined based on the estimated selling price of an inventory item less the estimated costs of completion.

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

- A) Long-term equity investments in which the Group holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net asset value of the investee attributable to goodwill is no longer amortized and carries on tests of impairment every year. Retrospective adjustment of the amount of goodwill amortized in previous years is not required.
- B) Investment loss on the non-controlled entities over which the Group has the ability to exercise significant influence is recognized to the extent that the amount of long-term investments in such investees is written down to zero. However, if the Group continues to provide endorsements, guarantees or financial support for such investees, the investment loss is recognized continuously in proportion to the Group's equity interest in such investees. In the case of controlled entities, the Group recognizes all the losses incurred by such entities that will not be covered by other stockholders. When the operations of such investees become profitable, the Group recognizes the profits until the amount of losses previously recognized by the Group is fully recovered.
- C) Exchange differences arising from translation of the financial statements of overseas investee companies accounted for under the equity method are recorded as "cumulative translation adjustments" under stockholder's equity, and recognized in proportion to the percentage of shares held by the Group.
- 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.

(10) 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 contract period of asset. The estimated useful lives are 3 to 55 years for buildings and 2 to 5 years for the other property, plant and equipment.

- B) When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in current non-operating income (expense).
 - C) Major renewals or betterments are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred.
- (11) 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.
- (12) 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) Franchises for sales of on-line games are recorded at acquisition cost and amortized over the estimated life of 3 years using the straight-line method.
 - C) Comic copyright is recorded at acquisition cost and amortized over the estimated life of 1 year using the straight-line method.
- (13) Impairment of non-financial assets
- A) Impairment loss is recognized when the recoverable amount of an asset 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.
- (14) Share-based payment – employee compensation plan
- A) The employee stock options granted from January 1, 2004 through December 31, 2007 are accounted for in accordance with EITF 92-070, EITF 92-071 and EITF 92-072 “Accounting for Employee Stock Options” as prescribed by the Accounting Research and Development Foundation, R.O.C., dated March 17, 2003. Under the share-based employee compensation plan, compensation cost is recognized using the intrinsic value method and pro forma disclosures of net income and earnings per

share are prepared in accordance with the R.O.C. SFAS No. 39, "Accounting for Share-based Payment".

- B) For the grant date of the share-based payment agreements set on or after January 1, 2008, the Company shall measure the services received during the vesting period by reference to the fair value of the equity instruments granted and account for those amounts as payroll expenses during that period.

(15) Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and the amounts can be estimated reasonably. However, if the accrued amounts for employees' bonuses and directors' and supervisors' remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders' meeting subsequently, the differences shall be recognized as gain or loss in the following year. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated March 31, 2008, "Criteria for Listed Companies in Calculating the Number of Shares of Employees' Stock Bonus", the Company calculates the number of shares of employees' stock bonus based on the closing price of the Company's common stock at the previous day of the stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

(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 research and development expenditures 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 taxes 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, when income tax is lower than the basic tax, income tax due shall be equal to the basic tax.
- G) When a change in the tax laws is enacted, the deferred tax liability or asset is recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, is reported as an adjustment to current income tax expense (benefit).

(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 liabilities in the interim financial statements are 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 they are delivered.
- 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 period and net income is adjusted by the amount associated with the conversion.
- B) The potential dilutive shares are employee stock options and estimated shares of employees’ bonuses when distributing stock. The Company adopted the “treasury stock method” in computing the dilutive effect of the employee stock options and the employees’ bonuses.

(21) Use of estimates

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

(22) Operating segments

The Company discloses the segment information in accordance with the internal management report provided to the chief operating decision-maker. The Company's chief operating decision-maker is the chief executive officer, who distributes resources and assesses performance.

Effective January 1, 2011, in accordance with the Statement of Financial Accounting Standards No. 41, "Operating Segments", the Company discloses the segment information in the consolidated financial statements and not in the stand-alone financial statements.

3. CHANGES IN ACCOUNTING PRINCIPLES

(1) Notes and accounts receivable, other receivables

Effective January 1, 2011, the Company and its domestic subsidiaries adopted the amended Statement of Financial Accounting Standards No. 34, "Financial Instruments: Recognition and Measurement". Under the amended standard, if there is any objective evidence that the notes and accounts receivable, other receivables and other rights of credit are impaired, an impairment loss (or provision for doubtful accounts) is recognized immediately. The adoption of this regulation had no significant effect on the financial statements as of and for the three-month period ended March 31, 2011.

(2) Operating segments

Effective January 1, 2011, the Company and its domestic subsidiaries adopted the newly issued Statement of Financial Accounting Standards No. 41, "Operating Segments" to replace Statement of Financial Accounting Standards No. 20, "Segment Reporting". The Company has restated the segment information as of and for the three-month period ended March 31, 2010 in accordance with the standard. The adoption of this regulation had no effect on the consolidated net income and earnings per share for the three-month periods ended March 31, 2011 and 2010.

4. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>March 31,</u> | |
|---------------|---------------------|---------------------|
| | <u>2011</u> | <u>2010</u> |
| Cash on hand | \$ 1,181 | \$ 729 |
| Cash in banks | 801,047 | 740,484 |
| Time deposits | 360,434 | 356,405 |
| | <u>\$ 1,162,662</u> | <u>\$ 1,097,618</u> |

(2) Financial assets at fair value through profit or loss – current

| <u>Items</u> | <u>March 31,</u> | |
|--|-------------------|-------------|
| | <u>2011</u> | <u>2010</u> |
| Financial assets at fair value through profit or loss – current | | |
| Bond fund | \$ 200,000 | \$ - |
| Adjustment of designated as at fair value through profit or loss | - | - |
| | <u>\$ 200,000</u> | <u>\$ -</u> |

(3) Notes receivable – net

| | <u>March 31,</u> | |
|---------------------------------------|-------------------|------------------|
| | <u>2011</u> | <u>2010</u> |
| Notes receivable | \$ 309,813 | \$ 70,279 |
| Less: Allowance for doubtful accounts | (16) | (16) |
| | <u>\$ 309,797</u> | <u>\$ 70,263</u> |

(4) Accounts receivable – net

| | <u>March 31,</u> | |
|---------------------------------------|---------------------|---------------------|
| | <u>2011</u> | <u>2010</u> |
| Accounts receivable | \$ 1,573,764 | \$ 1,432,949 |
| Less: Allowance for doubtful accounts | (96,838) | (81,492) |
| Allowance for sales returns | (3,717) | (5,412) |
| | <u>\$ 1,473,209</u> | <u>\$ 1,346,045</u> |

(5) Inventories – net

| | <u>March 31,</u> | |
|---|------------------|------------------|
| | <u>2011</u> | <u>2010</u> |
| Inventories | \$ 75,404 | \$ 90,548 |
| Less: Allowance for obsolescence and market value decline | (6,902) | (13,836) |
| | <u>\$ 68,502</u> | <u>\$ 76,712</u> |

Related loss recognized for the period:

| | <u>For the three-month periods ended March 31,</u> | |
|--|--|-----------------|
| | <u>2011</u> | <u>2010</u> |
| Provision for decline in market value of inventories | <u>\$ 731</u> | <u>\$ 1,196</u> |

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

| <u>Items</u> | <u>March 31,</u> | |
|---|------------------|-------------|
| | <u>2011</u> | <u>2010</u> |
| Designated as at financial assets at fair value through profit or loss: | | |
| Callable preferred stock | \$ 2,850 | \$ - |
| Adjustment of designated as at fair value through profit or loss | - | - |
| | <u>\$ 2,850</u> | <u>\$ -</u> |

For business operation purposes, the Company's domestic subsidiary, Gamania Asia Investment Co., Ltd., invested 285 thousand shares at a par value of \$10 (NT dollars) per share in the amount of \$2,850. Such investment is not entitled to a voting right, profit distribution right and the right to claim for remaining property. According to the investment contract, both parties agreed that during the thirty days from the repurchase base day, which is at the expiration of three years of settling date or other documents' appointment date, the investor can ask the issuer to redeem all of the preferred stock based on fair value at the repurchase base day. If the fair value will be lower than the published price, the issuer will have to repurchase based on the issue price. In accordance with the contents of the preferred stock contract and Statement of Financial Accounting Standards No. 34, "Accounting for Financial Instruments: Recognition and Measurement", the subsidiary is accounted for as Financial assets at fair value through profit or loss.

(7) Financial assets carried at cost

| <u>Items</u> | <u>March 31,</u> | |
|------------------------|-------------------|-------------------|
| | <u>2011</u> | <u>2010</u> |
| Unlisted stocks | | |
| Nice Finance Co., Ltd. | \$ 91,453 | \$ 91,453 |
| NC Taiwan Co., Ltd. | 22,841 | 22,841 |
| | <u>\$ 114,294</u> | <u>\$ 114,294</u> |

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

(8) Long-term investment accounted for under the equity method

A) Details of long-term investment

| <u>Name of investee</u> | <u>Original cost</u> | <u>March 31, 2011</u> | | <u>Investment loss for the three-month period ended March 31, 2011</u> |
|---------------------------------------|----------------------|-----------------------------|-----------------|--|
| | | <u>Ownership percentage</u> | <u>Balance</u> | |
| Accounted for under the equity method | | | | |
| Taiwan e-sports Co., Ltd. | <u>\$ 32,000</u> | 37.65% | <u>\$ 5,253</u> | <u>(\$ 1,492)</u> |

| <u>Name of investee</u> | <u>Original cost</u> | <u>March 31, 2010</u> | | <u>Investment loss for the three-month period ended March 31, 2010</u> |
|---------------------------------------|----------------------|-----------------------------|-----------------|--|
| | | <u>Ownership percentage</u> | <u>Balance</u> | |
| Accounted for under the equity method | | | | |
| Taiwan e-sports Co., Ltd. | <u>\$ 30,000</u> | 46.15% | <u>\$ 4,770</u> | <u>(\$ 1,025)</u> |

B) Long-term investment accounted for under the equity method in Taiwan e-sports Co., Ltd. was based on the investee's financial statements as of and for the three-month periods ended March 31, 2011 and 2010 which were not reviewed by independent accountants.

(9) Property, plant and equipment

| | <u>March 31,</u> | |
|--|-------------------|-------------------|
| | <u>2011</u> | <u>2010</u> |
| <u>Cost</u> | | |
| Land | \$ 157,066 | \$ 147,751 |
| Buildings | 213,536 | 170,495 |
| Machinery and equipment | 790,525 | 559,004 |
| Transportation equipment | 327 | - |
| Office equipment | 158,815 | 226,694 |
| Leasehold improvements | 38,996 | 37,838 |
| Other equipment | <u>15,126</u> | <u>5,669</u> |
| | <u>1,374,391</u> | <u>1,147,451</u> |
| <u>Accumulated depreciation</u> | | |
| Buildings | (41,751) | (26,077) |
| Machinery and equipment | (507,208) | (397,611) |
| Transportation equipment | (93) | - |
| Office equipment | (108,334) | (150,420) |
| Leasehold improvements | (18,869) | (33,978) |
| Other equipment | <u>(6,604)</u> | <u>(2,913)</u> |
| | <u>(682,859)</u> | <u>(610,999)</u> |
| Add: Construction in progress and prepayments for equipment | 57,456 | 11,568 |
| Less: Accumulated impairment | <u>(4,214)</u> | <u>(4,486)</u> |
| Book value | <u>\$ 744,774</u> | <u>\$ 543,534</u> |

(10) Other intangible assets

| | <u>March 31,</u> | |
|---------------------------------------|------------------|---------------|
| | <u>2011</u> | <u>2010</u> |
| Franchises for sales of on-line games | \$ 5,069 | \$ 194 |
| Comic copyright | 1,262 | |
| Prepayments for franchise | <u>123</u> | <u>-</u> |
| | <u>\$ 6,454</u> | <u>\$ 194</u> |

(11) Deferred charges

| | <u>March 31,</u> | |
|---------------------|-------------------|-------------------|
| | <u>2011</u> | <u>2010</u> |
| Royalty payments | \$ 241,541 | \$ 376,848 |
| Unamortized expense | <u>229,882</u> | <u>229,056</u> |
| | <u>\$ 471,423</u> | <u>\$ 605,904</u> |

(12) Short-term loans

| | <u>March 31,</u> | |
|-----------------------|---------------------|--------------------|
| | <u>2011</u> | <u>2010</u> |
| Short-term bank loans | <u>\$ 182,100</u> | <u>\$ 130,000</u> |
| Annual interest rate | <u>1.10%~6.44%</u> | <u>1.37%~2.36%</u> |
| Credit lines | <u>\$ 2,656,268</u> | <u>\$ 989,000</u> |

(13) Financial liabilities at fair value through profit or loss – non-current

| | <u>March 31,</u> | |
|--|------------------|-------------|
| <u>Items</u> | <u>2011</u> | <u>2010</u> |
| Designated as at financial liabilities at fair value through profit or loss: | | |
| Callable preferred stock liability | \$ 2,850 | \$ - |
| Adjustment of designated as at fair value through profit or loss | 423 | - |
| | <u>\$ 3,273</u> | <u>\$ -</u> |

For business operation purposes, the Company's domestic subsidiary, Gameastor Digital Entertainment Co., Ltd., formerly Taiwan Index Co., Ltd., issued 285 thousand shares of preferred stock at a par value of \$10 (NT dollars) per share in the amount of \$2,850 which was approved by the Board of Directors on March 30, 2010. At the expiration of three years from issuance date, if the fair value of the preferred stock is higher than the appointed base price, Gameastor Digital Entertainment Co., Ltd. can request for the redemption of the stock based on the fair value, otherwise it will have to redeem the stock based on the appointed base price. In accordance with the preferred stock contract and Statement of Financial Accounting Standards No. 34, "Accounting for Financial Instruments: Recognition and Measurement", Gameastor Digital Entertainment Co., Ltd. accounted for the preferred stock in "Financial liabilities at fair value through profit or loss".

(14) Long-term loans

| <u>Bank</u> | <u>Total Credit Line</u> | <u>Period/Terms of Repayment</u> | <u>March 31,</u> | |
|--|------------------------------|---|-------------------|-------------------|
| | | | <u>2011</u> | <u>2010</u> |
| Sumitomo Mitsui Banking Corporation | JPY 90,000 (Note) | 09.24.2008 ~ 09.23.2011 equal quarterly installments | \$ 10,955 | \$ 15,121 |
| Sumitomo Mitsui Banking Corporation | JPY 100,000 (Note) | 08.31.2009 ~ 08.31.2013 equal quarterly installments | 15,027 | 28,377 |
| Sumitomo Mitsui Banking Corporation | JPY 60,000 (Note) | 09.01.2010 ~ 08.31.2013 equal quarterly installments | <u>24,552</u> | <u>-</u> |
| | | | 50,534 | 43,498 |
| Less: Current portion | | | (<u>28,654</u>) | (<u>21,715</u>) |
| | | | <u>\$ 21,880</u> | <u>\$ 21,783</u> |

Note: Thousands of yen.

(15) Income tax payable

A) Income tax payable and income tax expense for the three-month periods ended March 31, 2011 and 2010 are reconciled as follows:

| | <u>For the three-month periods ended March 31,</u> | |
|--|--|------------------|
| | <u>2011</u> | <u>2010</u> |
| Current year income tax expense | \$ 49,415 | \$ 37,976 |
| Additional 10% corporate income tax on undistributed earnings | <u>2,547</u> | <u>8,028</u> |
| | 51,962 | 46,004 |
| Add (Less): Net change in deferred income tax assets | (23,570) | (22,996) |
| Prepaid income tax | (141) | (13) |
| Under provision of prior year's income tax | (649) | - |
| Income tax payable of prior year | 26,073 | 11,680 |
| Withholding tax by the foreign government | - | (60) |
| Effect of exchange rate | (<u>1</u>) | (<u>39</u>) |
| | <u>\$ 53,674</u> | <u>\$ 34,576</u> |
| Income tax payable | \$ 53,708 | \$ 34,576 |
| Income tax refundable (recognized as "other receivables") | (<u>34</u>) | <u>-</u> |
| | <u>\$ 53,674</u> | <u>\$ 34,576</u> |

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

| | March 31, | |
|--|-------------------|-------------------|
| | 2011 | 2010 |
| Deferred income tax assets – current | \$ 20,620 | \$ 67,659 |
| Deferred income tax assets – non-current | <u>227,322</u> | <u>248,781</u> |
| | 247,942 | 316,440 |
| Less: Valuation allowance – current | (20,886) | (1,108) |
| Valuation allowance – non-current | <u>(199,854)</u> | <u>(230,527)</u> |
| | <u>\$ 27,202</u> | <u>\$ 84,805</u> |

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

| | March 31, | | | |
|---|---------------|-------------------|---------------|-------------------|
| | 2011 | | 2010 | |
| | <u>Amount</u> | <u>Tax effect</u> | <u>Amount</u> | <u>Tax effect</u> |
| Current items: | | | | |
| Allowance for sales returns | \$ 3,717 | \$ 632 | \$ 4,956 | \$ 991 |
| Allowance for decline in market value and inventory obsolescence | 6,223 | 1,058 | 12,865 | 2,573 |
| Loss carryforwards | 112,865 | 19,187 | - | - |
| Others | 6,029 | 1,025 | - | - |
| Investment tax credits | | <u>363</u> | | <u>64,095</u> |
| | | 22,265 | | 67,659 |
| Less: Valuation allowance | | <u>(20,886)</u> | | <u>(1,108)</u> |
| Deferred income tax assets – current | | 1,379 | | 66,551 |
| Depreciation allowances in excess of related depreciation (recognized as Deferred income tax liabilities – current) | (9,969) | <u>(1,645)</u> | - | <u>-</u> |
| | | <u>(\$ 266)</u> | | <u>\$ 66,551</u> |
| Non-current items: | | | | |
| Investment loss on financial assets carried at cost – non-current | \$ 9,851 | \$ 1,675 | \$ 9,851 | \$ 1,970 |
| Reserve for foreign investments | (10,832) | (1,842) | (31,529) | (6,306) |
| Loss on foreign investments | 161,002 | 27,370 | 80,036 | 16,007 |
| Depreciation allowance in excess of related depreciation | - | - | (17,489) | (2,885) |
| Loss carryforwards | 705,725 | 119,973 | 719,075 | 143,814 |
| Others | 12,304 | 2,091 | 114 | 23 |
| Investment tax credits | | <u>78,055</u> | | <u>96,158</u> |
| | | 227,322 | | 248,781 |
| Less: Valuation allowance | | <u>(199,854)</u> | | <u>(230,527)</u> |
| | | <u>\$ 27,468</u> | | <u>\$ 18,254</u> |

As of March 31, 2011 and 2010, the balance of shareholders account of deductible tax was as follows:

| | <u>March 31,</u> | |
|--|------------------------|----------------------|
| | <u>2011</u> | <u>2010</u> |
| a. Balance of shareholders account of deductible tax | <u>\$ 15,544</u> | <u>\$ 16,983</u> |
| | <u>2010 (Budgeted)</u> | <u>2009 (Actual)</u> |
| b. Creditable tax ratio | <u>10.43%</u> | <u>6.49%</u> |

D) Undistributed retained earnings:

| | <u>March 31,</u> | |
|---|-------------------|-------------------|
| | <u>2011</u> | <u>2010</u> |
| On or after January 1, 1998 | | |
| a. Earnings not yet subjected to 10% income tax | \$ 129,764 | \$ 109,841 |
| b. Earnings subjected to 10% income tax | <u>397,905</u> | <u>393,941</u> |
| | <u>\$ 527,669</u> | <u>\$ 503,782</u> |

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

- a) As of March 31, 2011, the Company's income tax returns through 2008 have been assessed and approved by the Tax Authority.
- b) The Tax Authority imposed additional tax amounting to \$23,481 on the Company's 2002 income tax return after the re-examination. The Company filed a petition in January 2011, which is still pending as of the report date.
- c) The Tax Authority imposed additional tax amounting to \$3,958 on the Company's 2003 income tax return after the re-examination. The Company filed a petition in November 2010, which is still pending as of the report date.

G) As of March 31, 2011, according to the “Statute for Upgrading Industries”, the Company’s domestic subsidiaries had investment tax credits in the amount of \$78,418 to offset against taxable income for the next few 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 | \$ 75,131 | \$ 75,131 | 2011~2013 |
| Machinery and equipment | <u>3,287</u> | <u>3,287</u> | 2011~2013 |
| | <u>\$ 78,418</u> | <u>\$ 78,418</u> | |

H) As of March 31, 2011, in accordance with the “Income Tax Law”, the Company’s domestic subsidiaries had loss carryforwards in the amount of \$139,160 to offset against taxable income for the next few years. The details are as follows:

| <u>Deductible item</u> | <u>Amount reported</u> | <u>Total credits</u> | <u>Unused balance</u> | <u>Year of expiration</u> |
|------------------------|------------------------|----------------------|-----------------------|---------------------------|
| Loss carryforwards | <u>\$ 818,589</u> | <u>\$ 139,160</u> | <u>\$ 139,160</u> | 2013~2021 |

(16) Accrued pension liability

A) The Company and its domestic subsidiaries have 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 and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees’ monthly salaries and wages to the retirement fund deposited with Bank of Taiwan under the name of the independent retirement fund committee. The balance of the retirement fund deposited with Bank of Taiwan was \$44,688 and \$43,863 as of March 31, 2011 and 2010, respectively. For the three-month periods ended March 31, 2011 and 2010, net pension costs recognized by the Company and its domestic subsidiaries under the defined benefit plan amounted to \$981 and \$527, respectively. The fund balances are not reflected in the consolidated financial statements. The accumulated contributions exceeded the net pension costs in the amount of \$9,321 and \$7,507 as of March 31, 2011 and 2010, respectively, which was accounted for in other assets – other.

B) Gamania Digital Entertainment (Japan) Co., Ltd., Gamania Korea Co., Ltd., Gamania Digital Entertainment (H.K.) Co., Ltd. and Firedog Studio Company Ltd. provide pension reserves annually for their employees in accordance with the local

regulations. The net pension costs were \$1,179 and \$746 for the three-month periods ended March 31, 2011 and 2010, respectively.

C) Gamania Digital Entertainment (Beijing) Co., Ltd. provides an old-age pension and insurance monthly based on 20~22% of the employees' salaries and wages in accordance with the local regulations. The net pension and insurance costs were \$1,719 and \$913 for the three-month periods ended March 31, 2011 and 2010, respectively.

D) Effective July 1, 2005, in accordance with the Labor Pension Act, the Company and its domestic subsidiaries adopted a defined contribution pension plan (the "New Plan"). Under the New Plan, employees have the option to choose the New Plan and the Company and its domestic subsidiaries 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 domestic subsidiaries under the defined contribution plan amounted to \$9,221 and \$8,010 for the three-month periods ended March 31, 2011 and 2010, respectively.

E) Gamania Holdings Ltd., Gamania Asia Investment Co., Ltd., Gamania Digital Entertainment Labuan Holdings, Ltd., Gamania International Holdings Ltd., Gamania China Holdings Ltd., Gamania Western Holding Ltd., Gamania Netherlands Holdings Cooperatief U.A., Gamania Digital Entertainment (U.S.) Co., Ltd., Gamania Digital Entertainment (Europe) B.V. and Gash Plus (Hong Kong) Company Ltd. do not have an employee retirement plan.

(17) Capital reserve

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

(18) Legal reserve

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

paid-in capital, and the amount is limited to 50% of its balance.

(19) Retained earnings

- 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 the following 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 shareholders can claim a proportionate share in the company's corporate income tax as tax credit against its individual income tax liability effective 1998.

- C) The appropriation of 2010 and 2009 earnings had been approved at the Board of Directors' meeting and stockholders' meeting on March 21, 2011 and June 9, 2010, respectively. Details are summarized below:

| | <u>2010 Earnings</u> | | <u>2009 Earnings</u> | |
|--|----------------------|--|----------------------|--|
| | <u>Amount</u> | <u>Dividend per share (in dollars)</u> | <u>Amount</u> | <u>Dividend per share (in dollars)</u> |
| Legal reserve | \$ 23,260 | | \$ 30,919 | |
| Cash dividends | 183,866 | \$ 1.11 | 197,999 | \$ 1.30 |
| Employees' cash bonuses | Note 1 | | Note 2 | |
| Directors' and supervisors' remuneration | " | | " | |

Note 1: The amounts approved during the stockholders' meeting for employees' bonus and directors' and supervisors' remuneration are \$38,200 and \$5,040, respectively.

Note 2: The amounts approved during the stockholders' meeting for employees' bonus and directors' and supervisors' remuneration are \$41,740 and \$5,565, respectively.

The appropriation for 2010 earnings has not been approved at the stockholders' meeting as of the report date.

- D) The estimated amounts of employees' bonuses were \$20,421 and \$16,820, and the estimated amounts for directors' and supervisors' remuneration were \$2,723 and \$2,243 for the three-month periods ended March 31, 2011 and 2010, respectively. The above amounts constitute 10%~15% and 2%, respectively, of the net income after taking into account the legal reserve, and are recognized as operating cost and expense. If the actual distribution amounts are different from the estimated amounts, the difference will be adjusted in the income statement of the following year.
- E) The distribution of the employees' bonus and directors' and supervisors' remuneration in 2010, as mentioned in C) above, was different from the employees' bonus of \$41,401 and directors' and supervisors' remuneration of \$5,520 recognized in the 2010 financial statements. The differences of \$3,201 and \$480, respectively, had been adjusted in the income statement for the three-month period ended March 31, 2011. The distribution of the employees' bonus and directors' and supervisors' remuneration in 2009, as mentioned in C) above, was different from the employees' bonus of \$42,596 and directors' and supervisors' remuneration of \$5,679 recognized in the 2009 financial statements. The differences of \$856 and \$114, respectively, had been adjusted in the income statement for the year ended December 31, 2010.

(20) Earnings per share

| | For the three-month period ended March 31, 2011 | | | | |
|--------------------------------|---|---------------------|--|-----------------------------|---------------------|
| | 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 | \$ 181,726 | \$ 129,764 | 153,997 | <u>\$ 1.18</u> | <u>\$ 0.84</u> |
| Dilutive effect: | | | | | |
| Stock options | - | - | 2,431 | | |
| Employees' bonuses | - | - | 1,467 | | |
| Diluted earnings per share: | | | | | |
| Net income | <u>\$ 181,726</u> | <u>\$ 129,764</u> | <u>157,895</u> | <u>\$ 1.15</u> | <u>\$ 0.82</u> |

| | For the three-month period ended March 31, 2010 | | | | |
|--------------------------------|---|---------------------|--|-----------------------------|---------------------|
| | 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 | \$ 155,845 | \$ 109,841 | 151,464 | <u>\$ 1.03</u> | <u>\$ 0.73</u> |
| Dilutive effect: | | | | | |
| Stock options | - | - | 4,340 | | |
| Employees' bonuses | - | - | 1,221 | | |
| Diluted earnings per share: | | | | | |
| Net income | <u>\$ 155,845</u> | <u>\$ 109,841</u> | <u>157,025</u> | <u>\$ 0.99</u> | <u>\$ 0.70</u> |

Note 1: In New Taiwan Dollars.

Effective January 1, 2008, as employees' bonus could be distributed in the form of stock, the diluted EPS computation shall include the estimated shares that would increase from employees' stock bonus issuance in the computation of the weighted-average number of common shares outstanding during the reporting period, taking into account the dilutive effects of stock bonus on potential common shares; whereas, basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting period that include the shares of employees' stock bonus for the appropriation of prior year earnings, which have already been resolved at the stockholders' meeting held in the reporting period. Since capitalization of employees' bonus no longer belongs to distribution of stock dividends, the calculation of basic EPS and diluted EPS for all periods presented shall not be adjusted retroactively.

(21) Treasury stock

Changes in the treasury stock for the three-month periods ended March 31, 2011 and 2010 are set forth below (in thousands of shares):

A)

| <u>Purpose</u> | <u>For the three-month period ended March 31, 2011</u> | | | |
|------------------------|--|------------------|------------------|---------------|
| | <u>Beginning</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending</u> |
| Employee stock options | <u>13,099</u> | <u>-</u> | <u>-</u> | <u>13,099</u> |

| <u>Purpose</u> | <u>For the three-month period ended March 31, 2010</u> | | | |
|------------------------|--|------------------|------------------|---------------|
| | <u>Beginning</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending</u> |
| Employee stock options | <u>13,099</u> | <u>-</u> | <u>-</u> | <u>13,099</u> |

B) The maximum and ending balances of treasury stock for the three-month periods ended March 31, 2011 and 2010 are as follows:

| <u>March 31, 2011</u> | | <u>March 31, 2010</u> | |
|------------------------|-----------------------|------------------------|-----------------------|
| <u>Maximum balance</u> | <u>Ending balance</u> | <u>Maximum balance</u> | <u>Ending balance</u> |
| <u>\$ 370,182</u> | <u>\$ 370,182</u> | <u>\$ 370,182</u> | <u>\$ 370,182</u> |

C) According to 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.

D) According to 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.

E) According to the R.O.C. Securities and Exchange Act, treasury shares for the purpose of enhancing the Company's creditworthiness and shareholders' equity not reissued within six months shall be retired, while treasury stocks for all other purposes shall be reissued within three years from the month of acquisition.

(22) Employee stock option plan

A) On November 14, 2007, the board of directors approved the employee stock option plans which provide for the issuance of 12,000,000 units of options, that can be converted to one share of common stock per unit. When the contributed capital changes as a result of the issuance of new shares of common stock, the option price will be adjusted based on a predetermined formula. The Company has issued the employee stock options on December 17, 2007. 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 three-month periods ended March 31, 2011 and 2010 are as follows:

| | For the three-month periods ended March 31, | | | |
|---|---|---|-------------------------|---|
| | 2011 | | 2010 | |
| <u>Stock Options</u> | Units (in thousands) | Weighted-average exercise price (in dollars) (Note 1) | Units (in thousands) | Weighted-average exercise price (in dollars) (Note 1) |
| Beginning balance | 7,249 | \$ 24.20 | 12,663 | \$ 25.33 |
| Number of options granted | - | - | - | - |
| Adjustment due to issuance of stock dividends | - | - | - | - |
| Exercised (Note 2 and 3) | (1,807) | - | (3,899) | - |
| Cancelled | (1) | - | (420) | - |
| Ending balance | <u>5,441</u> | 24.20 | <u>8,344</u> | 24.80 |
| Exercisable at the end of the period | <u>5,441</u> | | <u>2,844</u> | |
| Authorized but unissued at the end of the period | <u>-</u> | | <u>-</u> | |

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

Note 2: As of March 31, 2011, 2,426 thousand shares had not been registered and were accounted for under stock subscriptions received in advance.

Note 3: As of March 31, 2010, 5,143 thousand shares had not been registered and were accounted for under stock subscriptions received in advance.

C) As of March 31, 2011 and 2010, the details of outstanding stock options are as follows:

| For the three-month period ended March 31, 2011 | | | | | |
|---|-------------------------|---|--|-------------------------|--|
| 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) |
| \$ 24.20 | 5,441 | 2.67 | \$ 24.20 | 5,441 | \$ 24.20 |

| For the three-month period ended March 31, 2010 | | | | | |
|---|-------------------------|---|--|-------------------------|--|
| 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) |
| \$ 24.80 | 8,344 | 3.67 | \$ 24.80 | 2,844 | \$ 24.80 |

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

(a) Model: The Black-Scholes model

(b) Assumptions:

| <u>Black-Scholes model assumptions</u> | <u>For the three-month period ended March 31, 2010</u> |
|--|--|
| Dividend yield | 0% |
| Volatility (Note 1) | 43.58% |
| Risk-free interest rate | 2.65% |
| Expected life of the option | 4.3 years |
| Exercise price (Note 2) | \$ 24.8 (in dollars) |
| Amortization period | 2~3 years |

Note 1: The Company started trading in OTC on May 21, 2002, so it adopted the stock prices 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 earnings distribution and was readjusted to \$24.8.

(c) Result of evaluation:

| | <u>For the three-month period ended March 31, 2010</u> | |
|---|--|-----------------------|
| Weighted average fair value of options granted to employees | \$ | 10.95 (in dollars) |
| Compensation cost under “fair value method” | \$ | 4,838 |

There is no compensation cost for the three-month period ended March 31, 2011 under the fair value method.

(23) Personnel, depreciation and amortization expenses

| | <u>For the three-month period ended March 31, 2011</u> | | |
|-----------------------------|--|---------------------------|-------------------|
| | <u>Operating costs</u> | <u>Operating expenses</u> | <u>Total</u> |
| Personnel expenses | | | |
| Salaries | \$ 28,453 | \$ 266,642 | \$ 295,095 |
| Labor and health insurances | 2,896 | 19,425 | 22,321 |
| Pension | 1,035 | 12,065 | 13,100 |
| Others | 653 | 17,479 | 18,132 |
| | <u>\$ 33,037</u> | <u>\$ 315,611</u> | <u>\$ 348,648</u> |
| Depreciation | <u>\$ 19,890</u> | <u>\$ 18,936</u> | <u>\$ 38,826</u> |
| Amortization | <u>\$ 69,739</u> | <u>\$ 17,884</u> | <u>\$ 87,623</u> |

| | <u>For the three-month period ended March 31, 2010</u> | | |
|-----------------------------|--|---------------------------|-------------------|
| | <u>Operating costs</u> | <u>Operating expenses</u> | <u>Total</u> |
| Personnel expenses | | | |
| Salaries | \$ 23,995 | \$ 227,170 | \$ 251,165 |
| Labor and health insurances | 1,445 | 16,293 | 17,738 |
| Pension | 381 | 9,815 | 10,196 |
| Others | 281 | 14,288 | 14,569 |
| | <u>\$ 26,102</u> | <u>\$ 267,566</u> | <u>\$ 293,668</u> |
| Depreciation | <u>\$ 13,974</u> | <u>\$ 16,222</u> | <u>\$ 30,196</u> |
| Amortization | <u>\$ 56,309</u> | <u>\$ 14,785</u> | <u>\$ 71,094</u> |

5. RELATED PARTY TRANSACTIONS

(1) Names and relationship of related parties

| <u>Names of related parties</u> | <u>Relationship with the Company</u> |
|---------------------------------|--|
| Nexon Corporation (Nexon) | Note |
| Taiwan e-sports Co., Ltd. | Investee company accounted for under the equity method |
| Gamania Cheer Up Foundation | Same chairman |

Note: Nexon held more than 20% of the Company's voting shares which were accounted for under the equity method since March 2011. As Nexon has the ability to exercise significant influence on the Company's operational decisions and thus considered as the Company's related party, the relevant transaction information between the Company and Nexon are disclosed from then on.

(2) Significant transactions and balances with related parties

A) License fees

| | <u>For the three-month periods ended March 31,</u> | | | |
|-------|--|--------------------------|---------------|--------------------------|
| | <u>2011</u> | | <u>2010</u> | |
| | <u>Amount</u> | <u>% of license fees</u> | <u>Amount</u> | <u>% of license fees</u> |
| Nexon | <u>\$ 94,090</u> | <u>19</u> | <u>\$ -</u> | <u>-</u> |

The above represents payments for license fees as agent of on-line games. The license fees are negotiated based on different factors.

B) Donation

| | <u>For the three-month periods ended March 31,</u> | | | |
|-----------------------------|--|----------------------|---------------|----------------------|
| | <u>2011</u> | | <u>2010</u> | |
| | <u>Amount</u> | <u>% of donation</u> | <u>Amount</u> | <u>% of donation</u> |
| Gamania Cheer Up Foundation | <u>\$ 5,000</u> | <u>93</u> | <u>\$ -</u> | <u>-</u> |

C) Deferred charges

| | <u>March 31, 2011</u> | | <u>March 31, 2010</u> | |
|-------|-----------------------|-------------------------|-----------------------|-------------------------|
| | % of net | | % of net | |
| | <u>Amount</u> | <u>deferred charges</u> | <u>Amount</u> | <u>deferred charges</u> |
| Nexon | \$ 99,433 | 21 | \$ - | - |

The above represents payment for on-line games license fees.

D) Accounts payable

| | <u>March 31, 2011</u> | | <u>March 31, 2010</u> | |
|-------|-----------------------|-------------------------|-----------------------|-------------------------|
| | % of net | | % of net | |
| | <u>Amount</u> | <u>accounts payable</u> | <u>Amount</u> | <u>accounts payable</u> |
| Nexon | \$ 62,332 | 15 | \$ - | - |

6. DETAILS OF PLEDGED OR RESTRICTED ASSETS

| <u>Assets</u> | <u>March 31,</u> | | <u>Purpose</u> |
|--|-------------------|-------------------|---|
| | <u>2011</u> | <u>2010</u> | |
| Cash in bank (shown in other financial assets – current) | \$ - | \$ 2,000 | Short-term loans guarantee |
| Land | 90,254 | 117,270 | Short-term and long-term loans / Credit lines |
| Buildings | <u>72,954</u> | <u>116,931</u> | " |
| | <u>\$ 163,208</u> | <u>\$ 236,201</u> | |

7. COMMITMENTS AND CONTINGENT LIABILITIES

In addition to Note 4(15), others are as follows:

A) As of March 31, 2011, the total future rental payments for the next 3 years under non-cancelable operating lease agreements for the lease of the Group's office building, transportation equipment and networking device was \$126,963.

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

8. MAJOR CATASTROPHE

None.

9. SUBSEQUENT EVENTS

None.

10. OTHERS

(1) Financial statement presentation

Certain accounts in the March 31, 2010 consolidated financial statements were reclassified to conform with the March 31, 2011 consolidated financial statements presentation.

(2) Fair values of the financial instruments

| | March 31, 2011 | | | March 31, 2010 | | |
|---|----------------|--------------------------------|-----------------|----------------|--------------------------------|-----------------|
| | Fair value | | | Fair value | | |
| | Book value | Quotations in an active market | Estimated value | Book value | Quotations in an active market | Estimated value |
| <u>Financial instruments</u> | | | | | | |
| Non-derivative financial instruments | | | | | | |
| Assets | | | | | | |
| Financial assets with fair values equal to book values | \$2,966,017 | (Note A) | \$2,966,017 | \$2,528,507 | (Note A) | \$2,528,507 |
| Financial assets at fair value through profit or loss | 200,000 | 200,000 | - | - | - | - |
| Financial assets carried at cost | 114,294 | - | - | 114,294 | - | - |
| Refundable deposits | 50,507 | - | 50,507 | 46,072 | - | 46,072 |
| Liabilities | | | | | | |
| Financial liabilities with fair values equal to book values | \$1,228,758 | (Note A) | \$1,228,758 | \$ 978,205 | (Note A) | \$ 978,205 |
| Long-term loans | 21,880 | - | 21,431 | 21,783 | - | 20,644 |
| Guarantee deposits | 12 | - | 12 | 380 | - | 380 |

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, notes and accounts receivable, other receivables (excluding income tax refundable), other financial asset - current, short-term loans, notes and accounts payable (including related party), accrued expenses, other payables, current portion of long-term liabilities and other current liabilities.
- B) Designated as financial assets at fair value through profit or loss are regarded as quoted in an active market if quoted price are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those price

represent actual and regularly occurring market transactions on an arm's length basis. If the market for financial instruments is not active, an entity establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing.

- 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 at about 1.775% and 2.225%.
- D) The fair values of refundable deposits and guarantee deposits are the book value since the amounts are insignificant.
- E) Off-balance sheet financial instruments with credit risk:

| | March 31, | |
|-------------------------------------|------------|------------|
| | 2011 | 2010 |
| Guarantee for loans of subsidiaries | \$ 435,010 | \$ 256,000 |

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

- F) As of March 31, 2011 and 2010, the fair values of the financial instruments with interest rate risk were \$360,434 and \$356,405, respectively.

(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 financial assets carried at cost 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

(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 rates for most of the loans for working capital are fixed, 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

Fixed and floating interests for loans are adopted by the Group. There will be no cash flow interest risk for loans with fixed interest, but for loans with floating interest, effective interest will vary with fluctuations in market interest and it will change future cash flows.

- D) Some transactions of the Company and its domestic subsidiaries involve non-functional currency, resulting in foreign currency denominated assets and liabilities which are affected by exchange rate fluctuations. The significant foreign currency denominated assets and liabilities of the Company and its domestic subsidiaries as of March 31, 2011 and 2010 are summarized below:

| | <u>March 31, 2010</u> | | <u>March 31, 2009</u> | |
|------------------------------|-------------------------|-----------------|-------------------------|-----------------|
| | <u>Foreign Currency</u> | <u>Exchange</u> | <u>Foreign Currency</u> | <u>Exchange</u> |
| | <u>Amount (Note)</u> | <u>Rate</u> | <u>Amount (Note)</u> | <u>Rate</u> |
| <u>Financial Assets</u> | | | | |
| USD : TWD | USD 1,621,767 | 29.5288 | USD 268,998 | 31.7730 |
| HKD : TWD | HKD 3,545,992 | 3.7889 | HKD 5,195,203 | 4.0924 |
| CNY : TWD | CNY 2,034,034 | 4.4972 | CNY 1,368,616 | 4.6546 |
| <u>Financial Liabilities</u> | | | | |
| USD : TWD | USD 4,187,689 | 29.5288 | USD 3,646,160 | 31.7730 |

Note: Foreign currency amount is expressed in dollars.

- (5) For the three-month periods ended March 31, 2011 and 2010, the Group donated cash amounting to \$5,400 and \$800, respectively, to charities and educational institutions that are accredited by the government, without significant appointed considerations.

11. DISCLOSURE INFORMATION

(1) Related information of significant transactions

A) Financing activities to any company or person: None

B) Guarantee for any other company or person:

Unit: Thousands of New Taiwan Dollars

| Company or investee companies | | Parties being guaranteed | | Limit of guarantee for each party (Note 4) | Maximum outstanding guarantee amount for the three-month period ended March 31, 2011 | Outstanding guarantee amount at March 31, 2011 | Amount of guarantee with collateral placed | Ratio of accumulated guarantee amount to net value of the Company | Maximum amount available for guarantee (Notes 3 and 4) |
|-------------------------------|-------------|---|--|--|--|--|--|---|--|
| Number (Note 1) | Name | Name | Relationship with the Company (Note 2) | | | | | | |
| 0 | The Company | Gameastor Digital Entertainment Co., Ltd. | 2 | \$ 497,106 (30% of the Company's capital) | \$ 330,000 | \$ 310,000 | None | 10.89% | \$ 1,657,020 |
| 0 | The Company | Gamania Digital Entertainment (Japan) Co., Ltd. | 3 | \$ 497,106 (30% of the Company's capital) | 66,000 | 66,000 | None | 2.32% | 1,657,020 |
| 0 | The Company | Gamania Digital Entertainment (Beijing) Co., Ltd. | 3 | \$ 497,106 (30% of the Company's capital) | 59,010 | 59,010 | None | 2.07% | 1,657,020 |

Note 1: Number 0 represents the Company.

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

Number 3 means the Company and the subsidiary own over 50% of the shares of the investee company.

Note 3: The calculation method of maximum amount available for guarantee, the maximum outstanding guarantee amount and the recognized contingent loss, if any, should be stated in the financial statements.

Note 4: The Company provides guarantee for the subsidiaries in which the Company directly or indirectly holds more than 50% voting rights. The limit of guarantee for each party is 30% of the Company's capital, and the maximum amount available for guarantee is the Company's capital.

C) Marketable securities held at March 31, 2011

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 | March 31, 2011 | | | | |
|-------------|--|---|---|--|------------------|--------------------|------------|-----------------------|--------|
| | | | | | Number of shares | Book value | Percentage | Market Value (Note 2) | Note |
| The Company | Common Stock | Gamania Holdings Ltd. | Subsidiary | Long-term investment | 25,320 | \$ 735,582 | 100% | \$ 735,582 | Note 4 |
| " | " | Gamania Korea Co., Ltd. | " | " | 416 | 23,859 | 100% | 23,859 | " |
| " | " | Fantasy Fish Digital Games Co., Ltd. | " | " | 8,174 | 14,207 | 99.69% | 12,316 | " |
| " | " | Gameastor Digital Entertainment Co., Ltd. | " | " | 3,863 | 51,542 | 72.08% | 51,965 | " |
| " | " | Gamania Asia Investment Co., Ltd. | " | " | 13,945 | 137,000 | 100% | 137,000 | " |
| " | " | Gamania Digital Entertainment Labuan Holdings, Ltd. | " | " | 10 | (151) | 100% | (151) | " |
| " | " | Fundation Digital Entertainment Co., Ltd. | " | " | 6,448 | 23,409 (Note 3) | 100% | 23,409 (Note 3) | " |
| " | " | Playcoo Co. | " | " | 13,996 | 101,243 | 75.25% | 55,115 | " |
| " | " | Redgate Games Co., Ltd. | " | " | 10,200 | 4,580 | 100% | 4,580 | " |
| " | " | Seedo Games Co., Ltd. | " | " | 10,200 | 9,481 | 100% | 9,481 | " |
| " | " | Two Tigers Co., Ltd. | " | " | 627 | 6,241 | 51% | 6,241 | " |
| " | " | Gash Plus Company Ltd. | " | " | 5,000 | 44,085 | 100% | 44,085 | " |
| " | " | Taiwan e-sports Co., Ltd. | Investee company accounted for under the equity method | " | 3,200 | 5,253 | 37.65% | 5,253 | None |
| " | " | NC Taiwan Co., Ltd. | Investee company accounted for under financial assets carried at cost | Financial assets carried at cost – non-current | 2,100 | 22,841 | 15% | 22,841 | " |

Note 1: Marketable securities consist of stocks, bonds, beneficiary certificates and other 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, respectively, at the balance sheet date. The market value of open-end mutual funds is determined based on the net asset par value at the balance sheet date.

Note 3: Including prepayment of \$30,000 for long-term investment.

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

- D) Marketable securities acquired or sold during the three-month period ended March 31, 2011 in excess of \$100,000 or 20% of capital: None.
- E) Acquired real estate in excess of \$100,000 or 20% of capital: None.
- F) Disposal of real estate in excess of \$100,000 or 20% of capital: None.
- G) Sales to or purchases from related parties in excess of \$100,000 or 20% of capital: None.
- H) Receivable from related parties in excess of \$100,000 or 20% of capital: None.
- I) Information on derivative transactions: None.

(2) Information of investee companies

A) Information of investee companies:

The information about investee companies was based on unreviewed financial statements.

Unit: Thousands of New Taiwan Dollars / Thousands of Shares

| Company | Name of investee | Location | Main operating activities | Original investment cost | | Held by the Company | | | Income (loss) incurred by the investee | Investment income (loss) recognized by the Company | Note |
|-------------|---|--|---|--------------------------|-------------|---------------------|------------|-----------------|--|--|---------------------|
| | | | | 2011.3.31 | 2010.3.31 | Number of shares | Percentage | Book value | | | |
| The Company | Gamania Holdings Ltd. | P.O. Box 30592 SMB, Cayside, 2nd Floor, Harbour Drive, Grand Cayman, Cayman Islands, British West Indies | Investment holdings | \$1,608,089 | \$1,530,031 | 25,320 | 100% | \$ 753,582 | \$ 9,550 | \$ 9,550 | Subsidiary (Note 2) |
| " | Gamania Korea Co., Ltd. | 3F, NO.75-6 Soodang B/D, Samseong-Dong Kang Nam-Gu, Seoul, Korea | Design and sales of software | 267,952 | 249,615 | 416 | 100% | 23,859 | (5,678) | (5,678) | " |
| " | Fantasy Fish Digital Games Co., Ltd. | 18F, No. 736 Chang-Cheng Rd., Chung-Ho City, Taipei County, Taiwan | Design and research and development of software | 310,000 | 310,000 | 8,174 | 99.69% | 14,207 | (12,341) | (12,304) | " |
| " | Gameastor Digital Entertainment Co., Ltd. | " | Software services and sales | 211,433 | 211,433 | 3,863 | 72.08% | 51,542 | 4,359 | 3,142 | " |
| " | Gamania Asia Investment Co., Ltd. | " | Investment holdings | 190,000 | 190,000 | 13,945 | 100% | 137,000 | 1,204 | 1,204 | " |
| " | Gamania Digital Entertainment Labuan Holdings, Ltd. | Level 15(A), Main Office Tower, Financial Park Labuan, 87000 Labuan, Jalan Merdeka, 87000 Labuan, FT, Malaysia | Investment holdings | 329 | 329 | 10 | 100% | (151) | 1 | 1 | " |
| " | Fundation Digital Entertainment Co., Ltd. | 18F, No. 736 Chang-Cheng Rd., Chung-Ho City, Taipei County, Taiwan | Sales and publishing of magazines and periodicals | 150,000 (Note 1) | 120,000 | 6,448 | 100% | 23,409 (Note 1) | (9,674) | (9,674) | " |
| " | Playcoo Co. | " | Design and research and development of software | 152,554 | 152,554 | 13,996 | 75.25% | 101,243 | (646) | (4,681) (Note 3) | " |

Note 1: Including prepayment of \$30,000 for long-term investment.

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

Note 3: Including amortization of subsidiary's patent amounting to (\$4,195).

Unit: Thousands of New Taiwan Dollars / Thousands of Shares

| Company | Name of investee | Location | Main operating activities | Original investment cost | | Held by the Company | | | Income (loss) incurred by the investee | Investment income (loss) recognized by the Company | Note |
|-------------------------------------|---|--|--|--------------------------|---------------------|---------------------|------------|---------------------|--|--|---|
| | | | | 2011.3.31 | 2010.3.31 | Number of shares | Percentage | Book value | | | |
| The Company | Redgate Games Co., Ltd. | 18F, No. 736 Chang-Cheng Rd., Chung-Ho City, Taipei County, Taiwan | Design and research and development of software | \$ 102,000 | \$ 82,000 | 10,200 | 100% | \$ 4,580 | (\$ 14,380) | (\$ 14,380) | Subsidiary (Note) |
| " | Seedo Games Co., Ltd. | " | Design and research and development of software | 102,000 | 82,000 | 10,200 | 100% | 9,481 | (12,341) | (12,341) | " |
| " | Two Tigers Co., Ltd. | " | Animation production | 6,269 | 6,269 | 627 | 51% | 6,241 | (7) | (4) | " |
| " | Gash Plus Company Ltd. | " | Software and electronic information services and sales | 50,000 | - | 5,000 | 100% | 44,085 | (5,915) | (5,915) | " |
| " | Taiwan e-sports Co., Ltd. | 9F, No.176 Chung Hsiao East Rd. Section 4, Taipei City, Taiwan | Software and electronic information services and sales | 32,000 | 32,000 | 3,200 | 37.65% | 5,253 | (3,963) | (1,492) | Investee company accounted for under the equity method |
| Gamania Asia Investment Co., Ltd. | Gameastor Digital Entertainment Co., Ltd. | 18F, No. 736 Chang-Cheng Rd., Chung-Ho City, Taipei County, Taiwan | Design and sales of software | 80,625 | 80,625 | 1,458 | 27.20% | 19,609 | 4,359 | 1,186 | Investee company accounted for under the equity method (Note) |
| Gamania Holdings Ltd. | Gamania International Holdings Ltd. | P.O. Box 30592 SMB, Cayside, 2nd Floor, Harbour Drive, Grand Cayman, Cayman Islands, British West Indies | Investment holdings | USD 48,710 thousand | USD 46,040 thousand | 48,710 | 100% | USD 25,676 thousand | USD 327 thousand | USD 327 thousand | Subsidiary (Note) |
| Gamania International Holdings Ltd. | Gamania Digital Entertainment (Japan) Co., Ltd. | Sumitomo Ooimachi Bldg. (South) 3F, 1-20-10 Town, Ooi, Shinagawa-Ku, Tokyo, Japan 140-0014 | Design and sales of software; sales of hardware | USD 14,298 thousand | USD 14,298 thousand | 3 | 100% | USD 6,717 thousand | USD 868 thousand | USD 868 thousand | " |

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

Unit: Thousands of New Taiwan Dollars / Thousands of Shares

| Company | Name of investee | Location | Main operating activities | Original investment cost | | Held by the Company | | | Income (loss) incurred by the investee | Investment income (loss) recognized by the Company | Note |
|-------------------------------------|---|--|--|------------------------------|---------------------|---------------------|------------|---------------------|--|--|---------------------|
| | | | | 2011.3.31 | 2010.3.31 | Number of shares | Percentage | Book value | | | |
| Gamania International Holdings Ltd. | Gamania China Holdings Ltd. | P.O. Box 30592 SMB, Cayside, 2nd Floor, Harbour Drive, Grand Cayman, Cayman Islands, British West Indies | Investment holdings | USD 31,884 thousand (Note 1) | USD 29,784 thousand | 32,370 | 98.37% | USD 12,539 thousand | USD 262 thousand | USD 262 thousand | Subsidiary (Note 3) |
| Gamania International Holdings Ltd. | Gamania Western Holdings Ltd. | P.O. Box 2804 Scotia Centre, 4th George Town, Grand Cayman KY1-1112, Cayman Islands | Investment holdings | USD 6,150 thousand | USD 4,850 thousand | 6,150 | 100% | USD 3,545 thousand | (USD 418 thousand) | (USD 418 thousand) | " |
| Gamania International Holdings Ltd. | Gamania Netherlands Holdings Cooperatief U.A. | Prof J H Barincklaan 5, 1183AT Amstelveen | Investment holdings | EUR 1,500 thousand (Note 2) | EUR 500 thousand | 1,500 | 100% | EUR 1,384 thousand | (EUR 29 thousand) | (EUR 29 thousand) | " |
| Gamania International Holdings Ltd. | Firedog Studio Company Ltd. | Unit 509 5/F., Conic Investment Building, No.13 Hok Yuen St. Hunghom, Kowloon, Hong Kong | Design and research and development of software | HKD 10,455 thousand | HKD 10,455 thousand | 10,455 | 100% | HKD 4,491 thousand | (USD 1,943 thousand) | (USD 1,943 thousand) | " |
| Gamania International Holdings Ltd. | Gash Plus (Hong Kong) Company Ltd. | Unit 509 5/F., Conic Investment Building, No.13 Hok Yuen St. Hunghom, Kowloon, Hong Kong | Supply of software services and electronic information | (Note 4) | - | (Note 4) | - | (USD 93 thousand) | (USD 93 thousand) | (USD 93 thousand) | " |
| Gamania China Holdings Ltd. | Gamania Sino Holdings Ltd. | Fourth Floor, One Capital Place P.O. Box 874GT, Grand Cayman, Cayman Islands, British West Indies | Investment holdings | USD 26,920 thousand | USD 26,920 thousand | 26,920 | 100% | USD 1,425 thousand | (USD 1,289 thousand) | (USD 1,289 thousand) | " |

Note 1: Including prepayment of USD2,500 thousand for long-term investment.

Note 2: Including prepayment of EUR1 million for long-term investment.

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

Note 4: As of March 31, 2011, the Company has not invested in the subsidiary.

Unit: Thousands of New Taiwan Dollars / Thousands of Shares

| Company | Name of investee | Location | Main operating activities | Original investment cost | | Held by the Company | | | Income (loss) incurred by the investee | Investment income (loss) recognized by the Company | Note |
|---|---|--|------------------------------|-----------------------------|---------------------|---------------------|------------|--------------------|--|--|---------------------|
| | | | | 2011.3.31 | 2010.3.31 | 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 St. Hunghom, Kowloon, Hong Kong | Design and sales of software | USD 3,009 thousand | USD 3,009 thousand | 35,500 | 100% | USD 7,188 thousand | USD 1,776 thousand | USD 1,776 thousand | Subsidiary (Note 2) |
| Gamania Sino Holdings Ltd. | Gamania Digital Entertainment (Beijing) Co., Ltd. | Building B 3F, No.329, Tian Yao Qiao Rd., Xuhui Dist., Shanghai City, China | Design and sales of software | USD 23,000 thousand | USD 23,000 thousand | N/A | 100% | USD 1,238 thousand | (USD 1,271 thousand) | (USD 1,271 thousand) | " |
| Gamania Western Holdings Ltd. | Gamania Digital Entertainment (U.S.) Co., Ltd. | Suite 806, 1220 N. Market Street, Wilmington, DE 19801, County of New Castle | Design and sales of software | USD 6,130 thousand | USD 4,830 thousand | 1 | 100% | USD 3,560 thousand | (USD 403 thousand) | (USD 403 thousand) | " |
| Gamania Netherlands Holdings Cooperatief U.A. | Gamania Digital Entertainment (Europe) B.V. | Naritaweg 165, Telestone 8, 1043 BW, Amsterdam | Design and sales of software | EUR 1,500 thousand (Note 1) | EUR 500 thousand | 1,500 | 100% | EUR 1,384 thousand | (EUR 28 thousand) | (EUR 28 thousand) | " |

Note 1: Including prepayment of EUR1 million for long-term investment.

Note 2: 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 March 31, 2011:

| Issuer | Type of marketable securities (Note 1) | Name of marketable securities | Relationship with the security holders | General ledger account | March 31, 2011 | | | | |
|-------------------------------------|--|---|--|---|---------------------------|---------------------|------------|-----------------------|--------|
| | | | | | Number of shares (Note 3) | 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 | 48,710 | USD 25,676 thousand | 100% | USD 25,676 thousand | Note 5 |
| Gamania International Holdings Ltd. | " | Gamania Digital Entertainment (Japan) Co., Ltd. | " | " | 3 | USD 6,717 thousand | 100% | USD 6,717 thousand | " |
| Gamania International Holdings Ltd. | " | Gamania China Holdings Ltd. | " | " | 32,370 | USD 12,539 thousand | 98.37% | USD 11,645 thousand | " |
| Gamania International Holdings Ltd. | " | Gamania Western Holdings Ltd. | " | " | 6,150 | USD 3,545 thousand | 100% | USD 3,545 thousand | " |
| Gamania International Holdings Ltd. | " | Gamania Netherlands Holdings Cooperatief U.A. | " | " | 1,500 | EUR 1,384 thousand | 100% | EUR 1,384 thousand | " |
| Gamania International Holdings Ltd. | " | Firedog Studio Company Ltd. | " | " | 10,455 | HKD 4,491 thousand | 100% | HKD 4,491 thousand | " |
| Gamania International Holdings Ltd. | " | Gash Plus (Hong Kong) Company Ltd. | " | " | (Note 4) | (USD 93 thousand) | - | (USD 93 thousand) | " |
| Gamania China Holdings Ltd. | " | Gamania Digital Entertainment (H.K.) Co., Ltd. | " | " | 35,500 | USD 7,188 thousand | 100% | USD 7,188 thousand | " |

Note 1: Marketable securities consist of stocks, bonds, beneficiary certificates and other 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, respectively, at the balance sheet date.

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: As of March 31, 2011, the Company has not invested in the subsidiary.

Note 5: The transaction has been eliminated in the consolidated financial statements.

| Issuer | Type of marketable securities (Note 1) | Name of marketable securities | Relationship with the security holders | General ledger account | March 31, 2011 | | | | |
|---|--|---|--|---|---------------------------|--------------------|------------|-----------------------|--------|
| | | | | | Number of shares (Note 3) | Book value | Percentage | Market value (Note 2) | Note |
| Gamania China Holdings Ltd. | Common Stock | Gamania Sino Holdings Ltd. | Subsidiary | Long-term investments – accounted for under the equity method | 26,920 | USD 1,425 thousand | 100% | USD 1,425 thousand | Note 4 |
| Gamania Sino Holdings Ltd. | " | Gamania Digital Entertainment (Beijing) Co., Ltd. | " | " | N/A | USD 1,238 thousand | 100% | USD 1,238 thousand | " |
| Gamania Western Holdings Ltd. | " | Gamania Digital Entertainment (U.S.) Co., Ltd. | " | " | 1 | USD 3,560 thousand | 100% | USD 3,560 thousand | " |
| Gamania Netherlands Holdings Cooperatief U.A. | " | Gamania Digital Entertainment (Europe) B.V. | " | " | 1,500 | EUR 1,384 thousand | 100% | EUR 1,384 thousand | " |
| Gamania Asia Investment Co., Ltd. | " | Gameastor Digital Entertainment Co., Ltd. | Investee company accounted for under the equity method | " | 1,458 | 19,609 | 27.20% | 19,609 | " |
| Gamania Asia Investment Co., Ltd. | " | Nice Finance Co., Ltd. | None | Financial assets carried at cost | 9,383 | 91,453 | 14.60% | 91,453 | None |
| Gamania Asia Investment Co., Ltd. | " | Iwan Interactive Entertainment Co., Ltd. | " | " | 285 | 2,850 | 14.96% | 2,850 | " |

Note 1: Marketable securities consist of stocks, bonds, beneficiary certificates and other 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, respectively, at the balance sheet date.

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 three-month period ended March 31, 2011 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: None.
- 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, 2011 | Remitted or received investment amount during the period | | Accumulated investment as of March 31, 2011 | Direct and indirect percentage of ownership | Investment loss recognized during the period (Note 3) | Balance of investment at March 31, 2011 | Accumulated investment income received as of March 31, 2011 |
|---|------------------------------|-------------------------------------|-------------------|--|--|----------|---|---|---|---|---|
| | | | | | Remitted | Received | | | | | |
| Gamania Digital Entertainment (Beijing) Co., Ltd. | Design and sales of software | (RMB 174,799 thousand) \$786,102 | (Note 2) | (USD 20,870 thousand) \$616,266 | \$ - | \$ - | (USD 20,870 thousand) \$616,266 | 98.37% | (USD 1,250 thousand) (\$ 36,911) | (USD1,220 thousand) \$ 36,025 | \$ - |

| Accumulated amount of investment in Mainland China as of March 31, 2011 | Related investment amount approved by FIA | Upper limit of investment in Mainland China |
|---|---|---|
| \$ 616,266 (USD 20,870 thousand) | \$ 773,064 (Note 1) | \$ 1,726,751 |

Note 1: Related total investment amount approved by FIA is USD 26,180,000 or NTD 773,064 thousand based on 29.5288 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 period is calculated based on the percentage 98.37% of indirect ownership using the unreviewed financial statements of the investee.

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

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

For the three-month period ended March 31, 2011

| 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. | Gameastor Digital Entertainment Co., Ltd. | 1 | Advertising expense | \$ 7,038 | Note 4 | -% |
| 0 | " | Gamania Digital Entertainment (Europe) B.V. | 1 | Other receivables | 38,204 | Note 4 | 1% |
| 0 | " | Gash Plus (Hong Kong) Company Ltd. | 1 | Other receivables | 29,956 | Note 4 | 1% |
| 0 | " | Gamania Digital Entertainment (H.K.) Co., Ltd. | 1 | Other receivables | 6,951 | Note 4 | -% |
| 0 | " | Gamania Digital Entertainment (Beijing) Co., Ltd. | 1 | Other receivables | 8,601 | Note 4 | -% |
| 0 | " | Gash Plus Company Ltd. | 1 | Other receivables | 6,951 | Note 4 | -% |
| 0 | " | Gamania Holdings Ltd. | 1 | Other receivables | 5,114 | Note 4 | -% |
| 0 | " | Gameastor Digital Entertainment Co., Ltd. | 1 | Accrued expenses | 7,162 | Note 4 | -% |
| 0 | " | Gameastor Digital Entertainment Co., Ltd. | 1 | Other payables | 162,824 | Note 4 | 3% |
| 1 | Gameastor Digital Entertainment Co., Ltd. | Gamania Digital Entertainment Co., Ltd. | 2 | Advertising revenue | 7,038 | Note 4 | -% |
| 1 | " | Gamania Digital Entertainment Co., Ltd. | 2 | Accounts receivable | 169,986 | Note 4 | 3% |
| 1 | " | Gamania Digital Entertainment Labuan Holding, Ltd. | 3 | License costs | 5,942 | Note 4 | -% |
| 1 | " | Gamania Digital Entertainment Labuan Holding, Ltd. | 3 | Deferred charges | 25,445 | Note 4 | 1% |
| 3 | Gamania Digital Entertainment (H.K.) Co., Ltd. | Gamania Digital Entertainment Co., Ltd. | 2 | Other payables | 6,951 | Note 4 | -% |
| 3 | " | Gash Plus (Hong Kong) Company Ltd. | 3 | Accounts payable | 5,542 | Note 4 | -% |
| 4 | Gamania Digital Entertainment (Beijing) Co., Ltd. | Gamania Digital Entertainment Co., Ltd. | 2 | Other payables | 8,601 | Note 4 | -% |

| Number (Note 1) | Name of counterparty | Name of transaction parties | Relationship (Note 2) | Transaction terms | | | Percentage of total combined revenue or total assets (Note 3) |
|--------------------|--|--|--------------------------|--|-----------|----------------------|---|
| | | | | Subject | Amount | Transaction terms | |
| 5 | Gamania Digital Entertainment (Europe) B.V. | Gamania Digital Entertainment Co., Ltd. | 2 | Other payables | \$ 38,204 | Note 4 | 1% |
| 6 | Gamania Holdings Ltd. | Gamania Digital Entertainment Co., Ltd. | 2 | Other payables | 5,114 | Note 4 | -% |
| 7 | Gash Plus (Hong Kong) Company Ltd. | Gamania Digital Entertainment Co., Ltd. | 2 | Other payables | 29,956 | Note 4 | 1% |
| 7 | " | Gamania Digital Entertainment (H.K.) Co., Ltd. | 3 | Accounts receivable | 5,542 | Note 4 | -% |
| 8 | Gamania Digital Entertainment (Japan) Co. Ltd. | Gamania Digital Entertainment Labuan Holdings, Ltd. | 3 | License costs | 22,864 | Note 4 | 1% |
| 8 | " | Gamania Digital Entertainment Labuan Holdings, Ltd. | 3 | Accounts payable | 7,691 | Note 4 | -% |
| 9 | Gamania Digital Entertainment Labuan Holdings, Ltd. | Gamania Digital Entertainment (Japan) Co. Ltd. | 3 | License revenue | 22,864 | Note 4 | 1% |
| 9 | " | Gameastor Digital Entertainment Co., Ltd. | 3 | License revenue | 5,942 | Note 4 | -% |
| 9 | " | Playcoo Co. | 3 | License costs | 78,963 | Note 4 | 4% |
| 9 | " | Gamania Digital Entertainment (Japan) Co. Ltd. | 3 | Accounts receivable | 7,691 | Note 4 | -% |
| 9 | " | Playcoo Co. | 3 | Accounts payable | 14,640 | Note 4 | -% |
| 9 | " | Gameastor Digital Entertainment Co., Ltd. | 3 | Unearned revenue collected in advance | 25,445 | Note 4 | 1% |
| 10 | Playcoo Co. | Gamania Digital Entertainment Labuan Holdings, Ltd. | 3 | License revenue | 78,963 | Note 4 | 4% |
| 10 | " | Gamania Digital Entertainment Labuan Holdings, Ltd. | 3 | Accounts receivable | 14,640 | Note 4 | -% |
| 10 | Gash Plus Company Ltd. | Gamania Digital Entertainment Co., Ltd. | 2 | Other payables | 6,951 | 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 relationships with the transaction parties are as follows:

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

Note 3: Ratios of asset/liability accounts are divided by consolidated total assets, and ratios of profit/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 \$5,000 for the transaction amount.

For the three-month period ended March 31, 2010

| 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 | Purchases | \$ 7,695 | Note 4 | 1% |
| 0 | " | Taiwan Index Co., Ltd. | 1 | Advertising expense | 11,122 | Note 4 | 1% |
| 0 | " | Gamania Digital Entertainment (H.K.) Co., Ltd. | 1 | Other receivables | 12,138 | Note 4 | -% |
| 0 | " | Taiwan Index Co., Ltd. | 1 | Other receivables | 7,575 | Note 4 | -% |
| 0 | " | Gamania Digital Entertainment (Beijing) Co., Ltd. | 1 | Other receivables | 5,545 | Note 4 | -% |
| 0 | " | Taiwan Index Co., Ltd. | 1 | Accrued expenses | 8,112 | Note 4 | -% |
| 0 | " | Taiwan Index Co., Ltd. | 1 | Other payables | 93,716 | Note 4 | 2% |
| 1 | Taiwan Index Co., Ltd. | Gamania Digital Entertainment Co., Ltd. | 2 | Sales revenue | 7,695 | Note 4 | 1% |
| 1 | " | Gamania Digital Entertainment Co., Ltd. | 2 | Advertising revenue | 11,122 | Note 4 | 1% |
| 1 | " | Gamania Digital Entertainment Co., Ltd. | 2 | Accounts receivable | 101,828 | Note 4 | 2% |
| 1 | " | Gamania Digital Entertainment Co., Ltd. | 2 | Other payables | 7,575 | Note 4 | -% |
| 2 | Gamania Digital Entertainment (H.K.) Co., Ltd. | Gamania Digital Entertainment Co., Ltd. | 2 | Other payables | 12,138 | Note 4 | -% |
| 2 | " | Gamania Digital Entertainment (U.S.) Co., Ltd. | 3 | Other receivables | 21,224 | Note 4 | 1% |
| 3 | Gamania Digital Entertainment (Beijing) Co., Ltd. | Gamania Digital Entertainment Co., Ltd. | 2 | Other payables | 5,545 | Note 4 | -% |
| 4 | Gamania Digital Entertainment (U.S.) Co., Ltd. | Gamania Digital Entertainment (H.K.) Co., Ltd. | 3 | Other payables | 21,224 | Note 4 | 1% |
| 5 | Playcoo Co. | Gamania Digital Entertainment Labuan Holding, Ltd. | 3 | Sales revenue | 21,798 | Note 4 | 2% |
| 5 | " | Gamania Digital Entertainment Labuan Holding, Ltd. | 3 | Accounts receivable | 13,476 | Note 4 | -% |
| 6 | Gamania Digital Entertainment Labuan Holding, Ltd. | Gamania Digital Entertainment (Japan) Co. Ltd. | 3 | Sales revenue | 24,145 | Note 4 | 2% |
| 6 | " | Playcoo Co. | 3 | Purchases | 21,798 | Note 4 | 2% |
| 6 | " | Gamania Digital Entertainment (Japan) Co. Ltd. | 3 | Accounts receivable | 7,563 | Note 4 | -% |
| 6 | " | Playcoo Co. | 3 | Accounts payable | 13,476 | Note 4 | -% |

| 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 | |
| 7 | Gamania Digital Entertainment (Japan) Co. Ltd. | Gamania Digital Entertainment Labuan Holding, Ltd. | 3 | Purchases | \$ 24,145 | Note 4 | 2% |
| 7 | " | Gamania Digital Entertainment Labuan Holding, Ltd. | 3 | Accounts payable | 7,563 | 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 relationships with the transaction parties are as follows:

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

Note 3: Ratios of asset/liability accounts are divided by consolidated total assets, and ratios of profit/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 \$5,000 for the transaction amount.

12. OPERATING SEGMENTS INFORMATION

(1) General information

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker which are used to make strategic decisions.

(2) Assessment of segment information

The chief operating decision-maker assesses the performance of the operating segments based on net income or net loss of the reporting period.

(3) Information on segment profit (loss), assets and liabilities

The segment information on reportable segments provided to the chief operating decision-maker for the three-month periods ended March 31, 2011 and 2010 are as follows:

| For the three-month period ended March 31, 2011 | Gamania Digital Entertainment Co., Ltd. | Gameastor Digital Entertainment Co., Ltd | Others | Total | |
|--|---|--|------------|--------------|--------|
| Revenue from external customers | \$ 1,248,303 | \$ 218,150 | \$ 382,934 | \$ 1,849,387 | |
| Inter-segment revenue | 1,479 | (2,760) | 48,620 | 47,339 | |
| Segment profit (loss) | 129,764 | 4,359 | (50,355) | 129,720 | |
| Depreciation and amortization | (70,700) | (26,862) | (28,887) | (126,449) | |
| Income tax expense | (41,054) | (516) | (10,392) | (51,962) | |
| Investment income (loss) accounted for under the equity method | (52,572) | - | 1,185 | (1,492) | (Note) |
| Segment assets | - | - | - | - | |
| | | | | | |
| For the three-month period ended March 31, 2010 | Gamania Digital Entertainment Co., Ltd. | Gameastor Digital Entertainment Co., Ltd | Others | Total | |
| Revenue from external customers | \$ 985,414 | \$ 140,550 | \$ 269,923 | \$ 1,395,887 | |
| Inter-segment revenue | 1,104 | 802 | 73,048 | 74,954 | |
| Segment profit (loss) | 109,841 | 8,055 | (24,614) | 112,265 | |
| Depreciation and amortization | (71,727) | (23,214) | (6,349) | (101,290) | |
| Income tax expense | (38,272) | (865) | (6,867) | (46,004) | |
| Investment income (loss) accounted for under the equity method | (32,980) | - | 2,191 | (1,025) | (Note) |
| Segment assets | - | - | - | - | |

Note: The inter-segment investment income or loss has been eliminated.

(4) Reconciliation information of segment profit (loss), assets and liabilities

The segment reports provided to the chief operating decision-maker are measured in a manner consistent with that used for the income statements. There is no difference between the presentation of segment report and income statement and accordingly, no reconciliation is required to be disclosed.