

SPRINGSOFT INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2003 AND 2004

(Amounts are Expressed in Thousands, Except Par Value)

ASSETS	2003	2004	
	NT\$	NT\$	US\$
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 4)	\$ 1,055,199	\$ 820,317	\$ 25,468
Short-term investments, net (Notes 2 and 5)	2,338,771	2,514,631	78,070
Accounts receivable (Notes 2, 6 and 16)	223,605	307,744	9,554
Other financial assets	7,145	4,107	128
Other current assets (Notes 2 and 13)	43,243	31,745	985
Total current assets	<u>3,667,963</u>	<u>3,678,544</u>	<u>114,205</u>
LONG-TERM INVESTMENTS (Notes 2 and 7)			
Equity method	316,246	332,683	10,329
Cost method	166,566	199,296	6,187
Prepayment for subscribed stocks	-	95,751	2,973
Total long-term investments	<u>482,812</u>	<u>627,730</u>	<u>19,489</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 8)			
Cost			
Buildings	303,221	293,426	9,110
Machinery and equipment	156,972	180,841	5,615
Office equipment	16,373	15,541	482
Leasehold improvements	2,124	2,095	65
Other facilities	2,750	1,456	45
	481,440	493,359	15,317
Accumulated depreciation	(95,456)	(115,564)	(3,588)
Unfinished construction	707	37,941	1,178
Net property, plant and equipment	<u>386,691</u>	<u>415,736</u>	<u>12,907</u>
INTANGIBLE ASSETS			
Other intangible assets	<u>567</u>	<u>397</u>	<u>12</u>
OTHER ASSETS			
Deferred bond issuance costs (Note 2)	3,898	-	-
Guarantee deposits paid	581	532	17
Others	628	111	3
Total other assets	<u>5,107</u>	<u>643</u>	<u>20</u>
TOTAL	<u>\$ 4,543,140</u>	<u>\$ 4,723,050</u>	<u>\$ 146,633</u>

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

LIABILITIES AND STOCKHOLDERS' EQUITY	2003	2004	
	NT\$	NT\$	US\$
CURRENT LIABILITIES			
Notes and accounts payable (Note 16)	\$ 5,682	\$ 23,339	\$ 725
Income tax payable (Notes 2 and 13)	15,370	24,024	746
Accrued expenses (Note 16)	139,240	156,436	4,857
Other payable	20,178	31,652	983
Unearned revenue (Note 16)	226,268	205,090	6,367
Other current liabilities	6,426	24,780	769
Total current liabilities	<u>413,164</u>	<u>465,321</u>	<u>14,447</u>
CONVERTIBLE BOND (Notes 2 and 9)	<u>793,520</u>	-	-
OTHER LIABILITIES			
Accrued pension liability (Notes 2 and 10)	7,376	9,281	288
Guarantee deposits received	64,341	2,987	93
Minority interest	4,687	16,650	517
Others (Note 2)	14,000	29,000	900
Total other liabilities	<u>90,404</u>	<u>57,918</u>	<u>1,798</u>
Total liabilities	<u>1,297,088</u>	<u>523,239</u>	<u>16,245</u>
STOCKHOLDERS' EQUITY (Notes 2, 9 and 11)			
Common stock - \$10 par value			
Authorized - 175,000 thousand shares in 2003 and 300,000 thousand shares in 2004			
Issued - 126,163 thousand shares in 2003 and 164,735 thousand shares in 2004	<u>1,252,379</u>	<u>1,647,347</u>	<u>51,144</u>
Certificates of bond-to-stock conversion	9,250	-	-
Capital surplus			
Paid-in capital in excess of par value	693,304	557,115	17,296
Arising from conversion of bonds	518,951	1,155,693	35,880
Gain on sale of fixed assets	380	380	12
Arising from long-term investments	45,164	45,164	1,402
Total capital surplus	<u>1,257,799</u>	<u>1,758,352</u>	<u>54,590</u>
Retained earnings			
Legal reserve	116,486	171,517	5,325
Unappropriated earnings	557,788	822,588	25,538
Total retained earnings	<u>674,274</u>	<u>994,105</u>	<u>30,863</u>
Treasury stock (at cost) - 2,000 thousand shares in 2004 (Notes 2 and 12)	-	(171,145)	(5,313)
Cumulative translation adjustments (Note 2)	52,350	(28,848)	(896)
Total stockholders' equity	<u>3,246,052</u>	<u>4,199,811</u>	<u>130,388</u>
TOTAL	<u>\$ 4,543,140</u>	<u>\$ 4,723,050</u>	<u>\$ 146,633</u>

SPRINGSOFT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004

(Amounts are Expressed in Thousands, Except Consolidated Earnings Per Share)

	<u>2003</u>	<u>2004</u>	
	NT\$	NT\$	US\$
GROSS SALES	\$ 977,127	\$1,367,354	\$ 42,451
SALES RETURNS AND ALLOWANCES	<u>1,616</u>	<u>22,721</u>	<u>705</u>
NET SALES (Note 16)	975,511	1,344,633	41,746
COST OF SALES (Notes 15 and 16)	<u>40,047</u>	<u>49,026</u>	<u>1,522</u>
GROSS PROFIT	<u>935,464</u>	<u>1,295,607</u>	<u>40,224</u>
OPERATING EXPENSES (Notes 2, 15 and 16)			
Selling	152,205	233,710	7,256
General and administrative	47,380	63,180	1,962
Research and development	<u>162,160</u>	<u>205,533</u>	<u>6,381</u>
Total operating expenses	<u>361,745</u>	<u>502,423</u>	<u>15,599</u>
OPERATING INCOME	<u>573,719</u>	<u>793,184</u>	<u>24,625</u>
NONOPERATING INCOME AND GAINS			
Gain on sale of investments, net (Note 2)	36,528	87,331	2,711
Subsidy income	5,371	13,703	425
Interest income	18,221	11,844	368
Foreign exchange gain, net (Note 2)	6,357	-	-
Others	<u>6,906</u>	<u>9,431</u>	<u>293</u>
Total nonoperating income and gains	<u>73,383</u>	<u>122,309</u>	<u>3,797</u>
NONOPERATING EXPENSES AND LOSSES			
Investment loss on equity-method investments, net (Notes 2 and 7)	21,829	60,694	1,884
Foreign exchange loss, net (Note 2)	-	9,893	307
Interest expense (Notes 2 and 9)	50,710	-	-
Others	<u>12,806</u>	<u>4,507</u>	<u>140</u>
Total nonoperating expenses and losses	<u>85,345</u>	<u>75,094</u>	<u>2,331</u>

(Continued)

	<u>2003</u>	<u>2004</u>	
	NT\$	NT\$	US\$
INCOME BEFORE INCOME TAX AND MINORITY INTEREST	\$ 561,757	\$ 840,399	\$ 26,091
INCOME TAX EXPENSE (Notes 2 and 13)	<u>11,429</u>	<u>27,353</u>	<u>849</u>
INCOME BEFORE MINORITY INTEREST	550,328	813,046	25,242
INCOME OF MINORITY INTEREST	<u>21</u>	<u>291</u>	<u>9</u>
CONSOLIDATED NET INCOME	<u>\$ 550,307</u>	<u>\$ 812,755</u>	<u>\$ 25,233</u>

	<u>2003</u>		<u>2004</u>			
	<u>Before</u>	<u>After</u>	<u>Before</u>		<u>After</u>	
	<u>Income</u>	<u>Income</u>	<u>Income Tax</u>		<u>Income Tax</u>	
	<u>Tax</u>	<u>Tax</u>	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
	NT\$	NT\$	NT\$	US\$	NT\$	US\$
CONSOLIDATED EARNINGS PER SHARE						
(Note 14)						
Basic earnings per share	<u>\$ 4.00</u>	<u>\$ 3.91</u>	<u>\$ 5.23</u>	<u>\$ 0.16</u>	<u>\$ 5.06</u>	<u>\$ 0.16</u>
Diluted earnings per share	<u>\$ 3.68</u>	<u>\$ 3.61</u>	<u>\$ 5.12</u>	<u>\$ 0.16</u>	<u>\$ 4.95</u>	<u>\$ 0.15</u>

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

(Concluded)

SPRINGSOFT INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004
(Amounts are Expressed in Thousands of New Taiwan Dollars)**

	<u>Capital Stock Issued (Notes 9 and 11)</u>			<u>Capital Surplus</u>	<u>Retained Earnings (Note 11)</u>		<u>Treasury Stock (Notes 2 and 12)</u>	<u>Cumulative Translation Adjustments (Note 2)</u>	<u>Total</u>
	<u>Shares (Thousands)</u>	<u>Amount</u>	<u>Certificates of Bond-to- Stock Conversion</u>		<u>Legal Reserve</u>	<u>Unappropriated Earnings</u>			
BALANCE, JANUARY 1, 2003	88,903	\$ 889,026	\$ -	\$ 771,427	\$ 70,618	\$ 483,267	\$ -	\$ 51,792	\$ 2,266,130
Foreign unsecured convertible bond converted to common stock	10,145	92,206	9,250	486,372	-	-	-	-	587,828
Distribution of 2002 earnings									
Appropriation for legal reserve	-	-	-	-	45,868	(45,868)	-	-	-
Cash dividends	-	-	-	-	-	(124,464)	-	-	(124,464)
Bonuses to employees, directors and supervisors	-	-	-	-	-	(34,307)	-	-	(34,307)
Stock bonus to employees	4,000	40,000	-	-	-	(40,000)	-	-	-
Stock dividends	23,115	231,147	-	-	-	(231,147)	-	-	-
Cumulative translation adjustment	-	-	-	-	-	-	-	558	558
Consolidated net income for 2003	-	-	-	-	-	550,307	-	-	550,307
BALANCE, DECEMBER 31, 2003	126,163	1,252,379	9,250	1,257,799	116,486	557,788	-	52,350	3,246,052
Foreign unsecured convertible bond converted to common stock	13,191	141,163	(9,250)	636,742	-	-	-	-	768,655
Distribution of 2003 earnings									
Appropriation for legal reserve	-	-	-	-	55,031	(55,031)	-	-	-
Cash dividends	-	-	-	-	-	(334,159)	-	-	(334,159)
Bonuses to employees, directors and supervisors	-	-	-	-	-	(41,149)	-	-	(41,149)
Stock bonus to employees	4,800	48,000	-	-	-	(48,000)	-	-	-
Stock dividends	6,962	69,616	-	-	-	(69,616)	-	-	-
Stock dividends from capital surplus	13,619	136,189	-	(136,189)	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-	-	-	(81,198)	(81,198)
Consolidated net income for 2004	-	-	-	-	-	812,755	-	-	812,755
Purchase of treasury stock	-	-	-	-	-	-	(171,145)	-	(171,145)
BALANCE, DECEMBER 31, 2004	164,735	\$ 1,647,347	\$ -	\$ 1,758,352	\$ 171,517	\$ 822,588	\$ (171,145)	\$ (28,848)	\$ 4,199,811

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

SPRINGSOFT INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004 (Amounts are Expressed in Thousands)

	<u>2003</u>	<u>2004</u>	
	NT\$	NT\$	US\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net income	\$ 550,307	\$ 812,755	\$ 25,233
Adjustments to reconcile consolidated net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	33,100	35,405	1,099
Amortization of bonds issuance cost	12,777	955	30
Investment loss on equity-method investees	21,829	60,694	1,884
Accrued interest compensation	50,411	(5,186)	(161)
Foreign exchange gain from convertible bond	(39,340)	(13,323)	(414)
Loss on disposal of long-term investment	455	-	-
Loss (gain) on decline in value of short-term investment	(4,500)	3,552	110
Accrued pension liability	2,048	1,905	59
Changes in assets and liabilities provided (used) cash:			
Short-term investments	50,957	(179,412)	(5,570)
Accounts receivable	(71,806)	(84,139)	(2,612)
Other financial assets	(4,504)	3,038	94
Other current assets	(3,519)	11,498	357
Notes and accounts payable	5,604	17,657	548
Income tax payable	4,068	8,654	269
Accrued expenses	64,062	17,196	533
Unearned revenue	(107,804)	(21,178)	(657)
Other current liabilities	5,269	18,354	570
Other liabilities	7,000	15,000	466
Others	(6,659)	(51,130)	(1,587)
Net cash provided by operating activities	<u>569,755</u>	<u>652,295</u>	<u>20,251</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of long-term investments	(177,312)	(236,191)	(7,333)
Proceeds from sales of long-term investments	38,963	-	-
Acquisition of property, plant and equipment	(78,939)	(62,514)	(1,941)
Proceeds from disposal of property, plant and equipment	-	4,373	136
Decrease in refundable deposits	1,463	49	2
Minority interest	-	12,448	386
Others	(116)	(14)	-
Net cash used in investing activities	<u>(215,941)</u>	<u>(281,849)</u>	<u>(8,750)</u>

(Continued)

	<u>2003</u>	<u>2004</u>	
	NT\$	NT\$	US\$
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term borrowing	\$ (80,000)	\$ -	\$ -
Decrease in short-term notes and bills payable	(80,000)	-	-
Purchase of convertible bond	-	(3,413)	(106)
Cash dividends	(124,496)	(334,159)	(10,374)
Directors' and supervisors' remuneration paid	(26,747)	(35,257)	(1,095)
Purchase of treasury stock	-	(171,145)	(5,313)
Decrease in guarantee deposits received	(936)	(61,354)	(1,905)
	<u>(312,179)</u>	<u>(605,328)</u>	<u>(18,793)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,635	(234,882)	(7,292)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,013,564</u>	<u>1,055,199</u>	<u>32,760</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,055,199</u>	<u>\$ 820,317</u>	<u>\$ 25,468</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid (excluding amounts capitalized of NT\$584 thousand in 2003)	\$ 882	\$ 133	\$ 4
Income tax paid	\$ 12,347	\$ 18,755	\$ 582
Noncash investing and financing activities			
Convertible bonds and Certificates of bond to stock conversion converted to common stock	\$ 92,206	\$ 141,163	\$ 4,383
Certificates from bond conversion	\$ 9,250	\$ -	\$ -
Capital surplus from bond conversion	\$ 486,372	\$ 636,742	\$ 19,768
Cash paid for acquisition of property, plant and equipment			
Total acquisition	\$ 71,029	\$ 68,096	\$ 2,114
Equipment payable, beginning of year	7,910	-	-
Equipment payable, end of year	-	(5,582)	(173)
	<u>\$ 78,939</u>	<u>\$ 62,514</u>	<u>\$ 1,941</u>

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

(Concluded)