

**SCI PHARMTECH, INC.**  
**FINANCIAL STATEMENTS**  
**TOGETHER WITH**  
**INDEPENDENT AUDITORS' REPORT**  
**AS OF DEC. 31, 2004 AND 2003**

**Name of the Company: SCI PHARMTECH, INC.**

**Address: 186-2,HAI-HU-TSUN, LU CHU HSIANG,  
TAOYUAN, TAIWAN**

**Telephone: 886-3-354-3133**

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## **INDEPENDENT AUDITORS' REPORT**

To: Board of Directors and Stockholders  
SCI PHARMTECH, INC.

We have audited the accompanying balance sheets of SCI PHARMTECH, INC. as of Dec. 31, 2004 and 2003, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of SCI PHARMTECH, INC. as of Dec. 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended Dec. 31, 2004 and 2003, in conformity with ROC generally accepted accounting principles.

BDO TAIWAN UNION & CO.  
January 28, 2005

SCI PHARMTECH, INC.

BALANCE SHEETS

December 31, 2004 and 2003

( Expressed in Thousands of New Taiwan Dollars )

| Assets  | Dec. 31, 2004    | %             | Dec. 31, 2003    | %             | Liabilities & Stockholders' Equity                       | Dec. 31, 2004    | %             | Dec. 31, 2003    | %             |
|---|------------------|---------------|------------------|---------------|--|------------------|---------------|------------------|---------------|
| <b>Current Assets</b>                               |                  |               |                  |               | <b>Current Liabilities</b>                               |                  |               |                  |               |
| Cash and Cash Equivalents (Notes 2, 4)              | \$11,440         | 1.28          | \$11,034         | 1.29          | Short-term Borrowings (Note 9)                           | \$57,956         | 6.47          | \$0              | 0.00          |
| Short-term Investments (Notes 2,5)                  | 118,703          | 13.25         | 59,183           | 6.93          | Notes Payable  | 1,824            | 0.20          | 12,530           | 1.47          |
| Notes Receivable (Notes 2, 6)                       | 9,561            | 1.07          | 4,675            | 0.55          | Accounts Payable   | 23,244           | 2.59          | 17,927           | 2.10          |
| Accounts Receivable (Notes 2, 6)                    | 114,303          | 12.76         | 100,957          | 11.83         | Income Tax Payable (Notes 2, 16)                         | 390              | 0.04          | 8,292            | 0.97          |
| Accounts Receivable - Related Parties (Note 18)     | 23,080           | 2.57          | 0                | 0.00          | Accrued Expenses   | 22,085           | 2.47          | 29,892           | 3.50          |
| Other Receivables                                   | 667              | 0.07          | 2,432            | 0.28          | Other Payables   | 7,355            | 0.82          | 5,483            | 0.64          |
| Inventories (Notes 2, 7)                            | 129,107          | 14.41         | 140,297          | 16.44         | Long-term Loans-Current Portion (Note 11)                | 14,164           | 1.58          | 14,164           | 1.66          |
| Prepaid Expenses                                    | 2,919            | 0.33          | 492              | 0.06          | Receipts under custody                                   | 260              | 0.03          | 336              | 0.04          |
| Prepayments   | 31               | 0.00          | 2,135            | 0.25          | Sub-total  | <u>127,278</u>   | <u>14.20</u>  | <u>88,624</u>    | <u>10.38</u>  |
| Temporary Payments                                  | 349              | 0.04          | 284              | 0.03          |  |                  |               |                  |               |
| Deferred Income Tax Assets-Current (Notes 2, 16)    | 6,479            | 0.72          | 6,220            | 0.73          | <b>Long-term Liabilities</b>                             |                  |               |                  |               |
| Other Current Assets-Other                          | 329              | 0.04          | 132              | 0.02          | Long-term Bank Loans (Note 11)                           | 0                | 0.00          | 14,164           | 1.66          |
| Sub-total   | <u>416,968</u>   | <u>46.53</u>  | <u>327,841</u>   | <u>38.41</u>  | Sub-total  | <u>0</u>         | <u>0.00</u>   | <u>14,164</u>    | <u>1.66</u>   |
|   |                  |               |                  |               |  |                  |               |                  |               |
| <b>Property, Plant and Equipment (Notes 2, 8)</b>   |                  |               |                  |               | <b>Other Liabilities</b>                                 |                  |               |                  |               |
| Cost :  |                  |               |                  |               | Guarantee Deposits Received                              | 120              | 0.02          | 105              | 0.02          |
| Land  | 42,736           | 4.77          | 42,736           | 5.01          | Deferred Income Tax Liabilities-Noncurrent (Notes 2, 16) | 0                | 0.00          | 101              | 0.01          |
| Land Improvements                                   | 8,229            | 0.92          | 7,940            | 0.93          | Other Liabilities-other                                  | 1,633            | 0.18          | 0                | 0.00          |
| Buildings   | 205,497          | 22.93         | 190,267          | 22.29         | Sub-total  | <u>1,753</u>     | <u>0.20</u>   | <u>206</u>       | <u>0.03</u>   |
| Machinery and Equipment                             | 611,460          | 68.24         | 524,057          | 61.39         | Total Liabilities  | <u>129,031</u>   | <u>14.40</u>  | <u>102,994</u>   | <u>12.07</u>  |
| Transportation Equipment                            | 2,085            | 0.23          | 2,784            | 0.32          |  |                  |               |                  |               |
| Office Equipment                                    | 11,568           | 1.29          | 10,842           | 1.27          | <b>Stockholders' Equity</b>                              |                  |               |                  |               |
| Costs & Revaluation Increments                      | 881,575          | 98.38         | 778,626          | 91.21         | Capital Stock (Note 12)                                  |                  |               |                  |               |
| Less : Accumulated Depreciation                     | (419,551)        | (46.82)       | (347,295)        | (40.68)       | Common Stock   | 325,107          | 36.28         | 301,290          | 35.30         |
| Construction in Progress                            | 7,266            | 0.81          | 84,227           | 9.87          | Capital Surplus (Note 13)                                |                  |               |                  |               |
| Prepayment for Equipment                            | 1,777            | 0.20          | 703              | 0.08          | Paid-In Capital in excess of par                         | 87,197           | 9.73          | 87,197           | 10.21         |
| Sub-total   | <u>471,067</u>   | <u>52.57</u>  | <u>516,261</u>   | <u>60.48</u>  | Gain on Disposal of Assets                               | 980              | 0.11          | 980              | 0.11          |
|   |                  |               |                  |               | Retained Earnings (Note 14)                              |                  |               |                  |               |
| <b>Other Assets</b>                                 |                  |               |                  |               | Legal Reserve  | 41,921           | 4.68          | 33,201           | 3.89          |
| Idle Assets (Note 2)                                | 0                | 0.00          | 2,844            | 0.33          | Unappropriated Retained Earnings                         | 311,899          | 34.80         | 327,961          | 38.42         |
| Guarantee deposits paid                             | 1,370            | 0.15          | 1,380            | 0.16          | Total Stockholders' Equity                               | <u>767,104</u>   | <u>85.60</u>  | <u>750,629</u>   | <u>87.93</u>  |
| Deferred Charges (Note 2)                           | 385              | 0.04          | 293              | 0.03          |  |                  |               |                  |               |
| Deferred Income Tax Assets-Noncurrent (Notes 2, 16) | 130              | 0.02          | 0                | 0.00          | <b>Total Liabilities and Stockholders' Equity</b>        | <u>\$896,135</u> | <u>100.00</u> | <u>\$853,623</u> | <u>100.00</u> |
| Other Assets-Other (Notes 2, 23)                    | 6,215            | 0.69          | 5,004            | 0.59          |  |                  |               |                  |               |
| Sub-total   | <u>8,100</u>     | <u>0.90</u>   | <u>9,521</u>     | <u>1.11</u>   |  |                  |               |                  |               |
| Total Assets  | <u>\$896,135</u> | <u>100.00</u> | <u>\$853,623</u> | <u>100.00</u> |  |                  |               |                  |               |

SCI PHARMTECH, INC.

STATEMENTS OF INCOME

For the years ended December 31, 2004 and 2003

(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

| Items   | 2004      | %        | 2003      | %        |
|---|-----------|----------|-----------|----------|
| Operating Revenues (Note 2)                           |           |          |           |          |
| Sales Revenues  | \$461,123 | 100.71   | \$515,715 | 100.25   |
| Sales Returns   | (2,056)   | (0.45)   | (1,169)   | (0.23)   |
| Sales Discounts and Allowances                        | (1,190)   | (0.26)   | (115)     | (0.02)   |
| Sub-total   | 457,877   | 100.00   | 514,431   | 100.00   |
| Operating Costs (Note 2)                              |           |          |           |          |
| Cost of Goods Sold                                    | (338,724) | (73.98)  | (332,297) | (64.60)  |
| Sub-total   | (338,724) | (73.98)  | (332,297) | (64.60)  |
| Gross Profit from Operations                          | 119,153   | 26.02    | 182,134   | 35.40    |
| Operating Expenses                                    |           |          |           |          |
| Selling Expenses                                      | (19,890)  | (4.34)   | (19,835)  | (3.86)   |
| General and Administrative Expenses                   | (19,976)  | (4.36)   | (28,207)  | (5.48)   |
| Research and Development Expenses                     | (15,473)  | (3.38)   | (20,906)  | (4.06)   |
| Net Operating Income                                  | 63,814    | 13.94    | 113,186   | 22.00    |
| Non-Operating Revenue                                 |           |          |           |          |
| Interest Income                                       | 33        | 0.01     | 83        | 0.02     |
| Gain on Value Recovery of Inventory                   | 0         | 0.00     | 3,900     | 0.76     |
| Miscellaneous Income                                  | 5,707     | 1.24     | 3,316     | 0.64     |
| Sub-total   | 5,740     | 1.25     | 7,299     | 1.42     |
| Non-Operating Expenses                                |           |          |           |          |
| Interest Expense                                      | (1,474)   | (0.32)   | (2,291)   | (0.44)   |
| Loss on Disposal of Assets                            | (276)     | (0.06)   | (2,965)   | (0.58)   |
| Foreign Exchange Loss                                 | (3,722)   | (0.81)   | (1,182)   | (0.23)   |
| Provision for Loss on Inventory                       | (1,118)   | (0.24)   | 0         | 0.00     |
| Depreciation and Loss on Value Decline of Idle Assets | (2,541)   | (0.56)   | (619)     | (0.12)   |
| Miscellaneous Expenses                                | (6,985)   | (1.53)   | (2,400)   | (0.47)   |
| Sub-total   | (16,116)  | (3.52)   | (9,457)   | (1.84)   |
| Continuing Operating Income before Income Tax         | 53,438    | 11.67    | 111,028   | 21.58    |
| Income Tax (Expenses) Benefits (Notes 2, 16)          | (11,658)  | (2.55)   | (23,833)  | (4.63)   |
| Net Income after Income Tax                           | \$41,780  | 9.12     | \$87,195  | 16.95    |
| Primary Earnings Per Share : (Notes 17)               | Pretax    | Aftertax | Pretax    | Aftertax |
| Income From Continuing Operations, Net of Tax         | \$1.64    | \$1.29   | \$3.52    | \$2.77   |
| Net Income  | \$1.64    | \$1.29   | \$3.52    | \$2.77   |

SCI PHARMTECH, INC.  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
For the years ended December 31, 2004 and 2003  
( Expressed in Thousands of New Taiwan Dollars )

| Summary   | Common Stock | Capital Surplus | Retained Earnings |                                  | Total     |
|---|--------------|-----------------|-------------------|----------------------------------|-----------|
|   |              |                 | Legal Reserve     | Unappropriated Retained Earnings |           |
| Balance on January 1, 2003                            | \$228,000    | \$8,177         | \$24,857          | \$285,024                        | \$546,058 |
| Appropriations and Distributions for 2002             |              |                 |                   |                                  |           |
| Legal Reserve   |              |                 | 8,344             | (8,344)                          | 0         |
| Compensation to Directors and Supervisors             |              |                 |                   | (1,502)                          | (1,502)   |
| Bonus Paid to Employees                               |              |                 |                   | (1,122)                          | (1,122)   |
| Stock Dividends                                       | 32,160       |                 |                   | (32,160)                         | 0         |
| Stock Issued as Employee Bonus                        | 1,130        |                 |                   | (1,130)                          | 0         |
| Issuance of Common Stock for Cash                     | 40,000       | 80,000          |                   |                                  | 120,000   |
| Net Income after Tax for the year ended Dec. 31, 2003 |              |                 |                   | 87,195                           | 87,195    |
| Balance on January 1, 2004                            | \$301,290    | \$88,177        | \$33,201          | \$327,961                        | \$750,629 |
| Appropriations and Distributions for 2003             |              |                 |                   |                                  |           |
| Legal Reserve   |              |                 | 8,720             | (8,720)                          | 0         |
| Cash Dividends  |              |                 |                   | (22,597)                         | (22,597)  |
| Compensation to Directors and Supervisors             |              |                 |                   | (1,570)                          | (1,570)   |
| Bonus Paid to Employees                               |              |                 |                   | (1,138)                          | (1,138)   |
| Stock Dividends                                       | 22,597       |                 |                   | (22,597)                         | 0         |
| Stock Issued as Employee Bonus                        | 1,220        |                 |                   | (1,220)                          | 0         |
| Net Income after Tax for the year ended Dec. 31, 2004 |              |                 |                   | 41,780                           | 41,780    |
| Balance on Dec. 31, 2004                              | \$325,107    | \$88,177        | \$41,921          | \$311,899                        | \$767,104 |

SCI PHARMTECH, INC.  
STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2004 and 2003  
( Expressed in Thousands of New Taiwan Dollars )

| Items   | 2004            | 2003             |
|---|-----------------|------------------|
| Cash Flows from Operating Activities  |                 |                  |
| Net Income  | \$41,780        | \$87,195         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |                  |
| Gain on reversal of allowance for bad debts                                       | 0               | (1,164)          |
| Depreciation expense  | 76,923          | 68,324           |
| Fixed Assets Transferred to Others  | 1,997           | 1,708            |
| Amortization expense  | 158             | 197              |
| Gain on value Recovery of Inventory   | 0               | (3,900)          |
| Loss on Disposal of Assets  | 276             | 2,966            |
| Gain on Disposal of Assets  | (150)           | (6)              |
| Loss on Assets Obsolescence   | 4,678           | 0                |
| Loss on Inventory Obsolescence  | 129             | 0                |
| Loss on Inventory Valuation Loss  | 1,118           | 0                |
| Loss on Idle Assets Valuation Loss  | 1,648           | 0                |
| (Increase) Decrease in Notes Receivable   | (4,886)         | (3,101)          |
| (Increase) Decrease in Accounts Receivable  | (13,346)        | 22,245           |
| (Increase) Decrease in Accounts Receivable -Related Parties                       | (23,080)        | 21,507           |
| (Increase) Decrease in Other Receivables  | 1,765           | 3,805            |
| (Increase) Decrease in Inventories  | 9,943           | 691              |
| (Increase) Decrease in Prepaid Expenses   | (2,426)         | 166              |
| (Increase) Decrease in Prepayments  | 2,104           | (1,308)          |
| (Increase) Decrease in Other Current Assets                                       | (522)           | 516              |
| (Increase) Decrease in Deferred Income Tax Assets - Noncurrent                    | (130)           | 8,421            |
| Increase (Decrease) in Notes Payable  | (10,706)        | (3,313)          |
| Increase (Decrease) in Accounts Payable   | 5,317           | 3,707            |
| Increase (Decrease) in Income Tax Payable   | (7,902)         | 720              |
| Increase (Decrease) in Accrued Expenses   | (7,807)         | 3,513            |
| Increase (Decrease) in Other Payables   | (89)            | (5,440)          |
| Increase (Decrease) in Advance Receipts   | 0               | (899)            |
| Increase (Decrease) in Other Current Liabilities                                  | (76)            | 210              |
| Increase (Decrease) in Deferred Income tax Liabilities -Noncurrent                | (101)           | 101              |
| Net Cash Provided by (Used in) Operating Activities                               | <u>76,615</u>   | <u>206,861</u>   |
| Cash Flows from Investing Activities  |                 |                  |
| (Increase) Decrease in Short-Term Investments                                     | (59,520)        | (59,183)         |
| Increase (Decrease) in Payables on Equipment                                      | 1,961           | 4,321            |
| Proceed from Disposal of Fixed Assets   | 160             | 86               |
| Acquisition of Fixed Assets   | (37,508)        | (100,167)        |
| Proceed from Disposal of Idle Assets  | 14              | 0                |
| Acquisition of Idle Assets  | 0               | (125)            |
| (Increase) Decrease in Guarantee deposits paid                                    | 10              | (1,000)          |
| (Increase) Decrease in Deferred Charges   | (251)           | (251)            |
| (Increase) Decrease in Other Assets   | (1,211)         | (199)            |
| Net Cash Provided by (Used in) Investing Activities                               | <u>(96,345)</u> | <u>(156,518)</u> |
| Cash Flows from Financing Activities  |                 |                  |
| Increase (Decrease) in Short-term Borrowings                                      | 57,956          | (63,746)         |
| Increase (Decrease) in Commercial Paper Payable                                   | 0               | (79,608)         |
| Increase (Decrease) in Long-term Loans  | (14,164)        | (14,164)         |
| Increase (Decrease) in Guarantee Deposits Received                                | 15              | (3)              |
| Increase (Decrease) in Other Liabilities  | 1,633           | 0                |
| Compensation Paid to Directors and Supervisors                                    | (1,569)         | (1,502)          |
| Bonus Paid to Employees   | (1,138)         | (1,122)          |
| Cash Dividends Paid   | (22,597)        | 0                |
| Increase (Decrease) in Capital by Cash  | 0               | 120,000          |
| Net Cash Provided by (Used in) Financing Activities                               | <u>20,136</u>   | <u>(40,145)</u>  |
| Increase (Decrease) in Cash and Cash Equivalents                                  | 406             | 10,198           |
| Cash and Cash Equivalents at Beginning of Year                                    | 11,034          | 836              |
| Cash and Cash Equivalents at the End of Year                                      | <u>\$11,440</u> | <u>\$11,034</u>  |
| Supplemental Disclosures of Cash Flow Information                                 |                 |                  |
| Cash Paid for Interest Expense (excluding interest capitalized)                   | <u>\$1,333</u>  | <u>\$2,039</u>   |
| Cash Paid for Income Tax  | <u>\$20,050</u> | <u>\$13,936</u>  |
| Supplemental Disclosure of Noncash Investing and Financing Activities             |                 |                  |
| Long-term Loans - Current Portion   | <u>\$14,164</u> | <u>\$14,164</u>  |

**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Expressed in Thousands of New Taiwan dollars unless otherwise stated)**  
**December 31, 2004 and 2003**

**1. ORGANIZATION AND BUSINESS SCOPE**

SCI PHARMTECH, INC. (the "Company"), named Siegfried Chemicals, Inc. before May 2002, was incorporated under the Company Law of the Republic of China on September 18, 1987. The Company is engaged mainly in :

- (1) To manufacture and sell bulk pharmaceuticals, pharmaceutical intermediates, specialty and fine chemicals (in such items as approved by the competent government agency).
- (2) To act as an agent providing price quotations, bidding and distribution services for domestic and overseas companies.
- (3) To provide research and development services for the products stated in the preceding paragraphs.
- (4) To conduct such other businesses related to the above.

As of December 31, 2004 and 2003, the Company had 105 and 106 employees, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company maintains its official accounting records in New Taiwan dollars and prepares statutory financial statements in the Chinese language in conformity with the accounting principles generally accepted in the Republic of China. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Chinese language financial statements. Certain information included in the Chinese language financial statements, but not required for a fair presentation of the Company's financial positions, results of operations or cash flows, is not presented in the accompanying financial statements.

(1) Distinction between Current and Noncurrent Asset and Liability

Current assets are cash and other assets that are reasonably expected to be realized in cash, or sold, or consumed during the normal operating cycle of the business within one year, exclude from the classification of current assets are noncurrent assets. Current liabilities are obligation that are due on demand or will be due on demand within one year or the operating cycle, if longer. Exclude from the classification of current liabilities are noncurrent liabilities.



**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**(Expressed in Thousands of New Taiwan dollars unless otherwise stated)**  
**December 31, 2004 and 2003**

(2) Cash and Cash Equivalents

Cash equivalents represent all highly liquid debt instruments, such as treasury bills, commercial paper and bank acceptance purchases with a maturity of three months or less, and other highly liquid investments with insignificant interest rate risk.

(3) Short-Term Investments

Marketable equity securities are recorded at cost when acquired and are stated at the lower of aggregate cost or market value on the balance sheet date. Stock dividends are treated as an increase in the number of shares. The cost of marketable equity securities sold is determined by the weighted-average cost method.

Short-term notes are recorded at cost when acquired and are stated at the lower of cost or market value on the balance sheet date, if the market value is available. The cost of these notes, interest income, and gain or loss either due to maturity or resulting from the sale of notes are determined by the specific identification method.

Beneficiary certificates are recorded at cost when acquired and are stated at the lower of aggregate cost or market value on the balance sheet date. The cost of beneficiary certificates sold is determined by the weighted-average cost method.

(4) Allowance for Bad and Doubtful Debts

Allowance for bad and doubtful debts on notes receivables, accounts receivables, accounts overdue and other receivables is determined based on the aging of outstanding balances of such accounts and the past experience of the Company.

(5) Inventories

Inventories are recorded at cost when purchased and follow the perpetual inventory system. The average cost method is adopted in determining costs of inventories. On the balance sheet date, lower of cost or market method is adopted. Any defective, damaged, or obsolete inventories are stated at net realizable value.

**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**(Expressed in Thousands of New Taiwan dollars unless otherwise stated)**  
**December 31, 2004 and 2003**

(6) Property, Plant and Equipment

Property and equipment are stated at cost, significant renewals and improvements are capitalized, while repairs and maintenance are expensed currently.

Upon sale or disposal of properties and equipment, the related cost and accumulated depreciation are removed from the accounts. The gain or loss resulting from such a disposal is recorded as a non-operating gain or expense. Idle assets are transferred to other assets according to the lower of book value or net realizable value, with the difference charged to earnings. The corresponding depreciation expenses provided for the year are classified as non-operating expenses.

Depreciation is computed using the straight-line method over the estimated service lives under the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the Government. The remaining book values of the properties still used in operations after they have reached their original estimated service lives are further depreciated over their new estimated service lives.

(7) Interest Capitalization

The accounting treatments of interest capitalization follow the Statements of Financial Accounting Standards (SFAS) No. 3, "Capitalization of Interest Cost".

(8) Deferred Charges

Deferred charges are stated at cost and amortized over five years on the straight-line method.

(9) Retirement plan

The Company established a retirement plan for all of its employees. Pension plan benefits are based primarily on participants' compensation and years of credited service.

In compliance with ROC SFB regulations, the Company implemented ROC Statement of Financial Accounting Standards (SFAS) No. 18, "Accounting for Pensions". An actuarial valuation of pension liability is performed as of the balance sheet date, and a minimum pension liability in the amount of the excess of the accumulated benefit obligation over the fair value of plan assets is recognized in the financial statements. In accordance with SFAS No. 18. The unrecognized transitional net benefit obligation and pension gain or loss is amortized on a straight-line basis over the average remaining service period.

**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**(Expressed in Thousands of New Taiwan dollars unless otherwise stated)**  
**December 31, 2004 and 2003**

(10) Foreign Currency Transactions

The Company maintains its accounts in New Taiwan dollars. Transactions in foreign currency are recorded in New Taiwan dollars at the exchange rates prevailing on the transaction dates. Gains or losses realized upon the settlement are included in the period in which the transaction is settled. At the balance sheet dates, foreign currency assets and liabilities (other than those arising from forward contracts) are adjusted to reflect the prevailing exchange rates with the related gains and losses reflected in income.

(11) Estimated Income Tax

The Company uses interperiod tax allocation method for income tax. Deferred income tax assets and liabilities are recognized for the tax effects of taxable/deductible temporary differences, unused tax credits, and operating loss carryforwards. A valuation allowance is recognized if, based on available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. A deferred tax asset or liability is classified as current or non-current according to the classification of its related asset or liability; or the expected reversal or utilization date of temporary differences.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Income taxes, at a rate of 10%, on undistributed earnings are recorded as expenses in the year when the shareholders have resolved to retain earnings.

(12) Recognition of Revenue and Expense

Revenue is recognized when it is realizable and earned. Matching principle is applied for the corresponding revenues and expenses.

(13) Capital Expenditure and Expenses

Expenditure is capitalized and amortized over its useful life if it involves a significant amount and benefits future periods. Otherwise, it is expensed in the year of expenditure.

**SCI PHARMTECH, INC.**  
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**3.CHANGES IN ACCOUNTING PRINCIPLES AND ITS EFFECTS:** None

**4.CASH AND CASH EQUIVALENTS**

|                    | December 31,    |                 |
|--------------------|-----------------|-----------------|
|                    | 2004            | 2003            |
| Cash on hand.....  | \$222           | \$217           |
| Cash in banks..... | 11,218          | 10,817          |
| Total.....         | <u>\$11,440</u> | <u>\$11,034</u> |

**5.SHORT-TERM INVESTMENTS**

|   | December 31,     |                 |
|---|------------------|-----------------|
|   | 2004             | 2003            |
| Mutual funds.....   | \$118,703        | \$59,183        |
| Less: Allowance for valuation of short-term investments.... | (0)              | (0)             |
| Net.....  | <u>\$118,703</u> | <u>\$59,183</u> |

**6.NOTES AND ACCOUNTS RECEIVABLE**

(1)Notes Receivable, Net

|  | December 31,   |                |
|--|----------------|----------------|
|  | 2004           | 2003           |
| Notes receivable.....                            | \$9,561        | \$4,675        |
| Less: Allowance for bad and doubtful debts ..... | (0)            | (0)            |
| Net.....   | <u>\$9,561</u> | <u>\$4,675</u> |

(2)Accounts Receivable, Net

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2004             | 2003             |
| Accounts receivable.....                        | \$115,882        | \$102,162        |
| Less: Allowance for bad and doubtful debts..... | (1,579)          | (1,205)          |
| Net.....  | <u>\$114,303</u> | <u>\$100,957</u> |

Accounts receivable amounting to \$36,061 thousand had been pledged for short-term borrowings. Please refer to Note 18 for details.

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**7. INVENTORIES**

|   | December 31, |           |
|---|--------------|-----------|
|   | 2004         | 2003      |
| Raw materials.....  | \$26,499     | \$22,979  |
| Work in process.....  | 83,630       | 105,498   |
| Finished goods.....   | 35,791       | 30,317    |
| Materials in transit.....   | 5,850        | 3,048     |
| Total.....  | 151,770      | 161,842   |
| Less: Allowance for Loss on decline in market value and<br>obsolescence ..... | (22,663)     | (21,545)  |
| Net.....  | \$129,107    | \$140,297 |

**8. PROPERTY, PLANT AND EQUIPMENT**

| Item                          | December 31, 2004 |                             |           |
|-------------------------------|-------------------|-----------------------------|-----------|
|                               | Cost              | Accumulated<br>Depreciation | Net Value |
| Land.....                     | \$42,736          | \$0                         | \$42,736  |
| Land improvements.....        | 8,229             | 5,673                       | 2,556     |
| Buildings.....                | 205,497           | 63,346                      | 142,151   |
| Machinery and equipment.....  | 611,460           | 339,624                     | 271,836   |
| Transportation equipment..... | 2,085             | 1,384                       | 701       |
| Office equipment.....         | 11,568            | 9,524                       | 2,044     |
| Sub-total.....                | 881,575           | 419,551                     | 462,024   |
| Construction in progress..... | 7,266             | 0                           | 7,266     |
| Prepayment for equipment..... | 1,777             | 0                           | 1,777     |
| Total.....                    | \$890,618         | \$419,551                   | \$471,067 |

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| Item                          | December 31, 2003 |                             |           |
|-------------------------------|-------------------|-----------------------------|-----------|
|                               | Cost              | Accumulated<br>Depreciation | Net Value |
| Land.....                     | \$42,736          | \$0                         | \$42,736  |
| Land improvements.....        | 7,940             | 5,259                       | 2,681     |
| Buildings.....                | 190,267           | 55,497                      | 134,770   |
| Machinery and equipment.....  | 524,057           | 276,488                     | 247,569   |
| Transportation equipment..... | 2,784             | 1,735                       | 1,049     |
| Office equipment.....         | 10,842            | 8,316                       | 2,526     |
| Sub-total.....                | 778,626           | 347,295                     | 431,331   |
| Construction in progress..... | 84,227            | 0                           | 84,227    |
| Prepayment for equipment..... | 703               | 0                           | 703       |
| Total.....                    | \$863,556         | \$347,295                   | \$516,261 |

Part of the property, plant and equipment had been pledged for short-term and long-term borrowings. Please refer to Note 18 for details.

**9.SHORT-TERM BORROWINGS**

|                                    | December 31, |      |
|------------------------------------|--------------|------|
|                                    | 2004         | 2003 |
| L/C loan.....                      | \$27,034     | \$0  |
| Accounts receivable financing..... | 30,922       | 0    |
| Total.....                         | \$57,956     | \$0  |
| Interest rates.....                | 2.38%~3.66%  | —    |

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**10. LONG-TERM BANK LOANS**

|                            | Payment terms   | December 31, |                 |
|----------------------------|---|--------------|-----------------|
|                            |   | 2004         | 2003            |
| Secured loans.....         | Payable quarterly from Dec. 10, 2000 to Dec. 10, 2005 | \$14,164     | \$28,328        |
| Less: Current portion..... |   | (14,164)     | (14,164)        |
| NET.....                   |   | <u>\$0</u>   | <u>\$14,164</u> |
| Interest rates.....        |   | 2.89%~3.05%  | 2.89%~5.00%     |

**11. CAPITAL STOCK**

- (1)The Company has 39,600 thousand authorized shares of \$10 par value common stock. As of December 31, 2004 and 2003, the capital issued were \$325,107 thousand and \$301,290 thousand for 32,511 thousand and 30,129 thousand ordinary shares.
- (2)On June 16, 2004, the stockholders meeting approved \$23,817 thousand increase of capital from retained earnings and employees' bonus. The issuance had been authorized and registered with the authorities on September 14, 2004.
- (3)On March 24, 2004, the board of directors meeting approved to issue 1,500 thousand units of the employee stock option plan (ESOP), which has been authorized but still not been issued until December 31, 2004.
- (4)As approved by the board of directors on January 16, 2003, the Company issued 4,000 thousand new shares of \$30 per share. The share issuance had been authorized and registered with authorities on April 2, 2003.
- (5)On May 16, 2003, the stockholders meeting approved \$33,290 thousand increase of capital from retained earnings and employees' bonus. The issuance had been authorized and registered with the authorities on July 22, 2003.

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**NOTES TO FINANCIAL STATEMENTS (Continued)**  
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**12.CAPITAL SURPLUS**

Pursuant to the ROC Company Law, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. According to the SFB regulations, capital increases from capital surplus per year cannot exceed 10% of total capital surplus and can only commence in the year following the capital surplus incurred.

The Company's capital surplus is as follows:

|  | December 31 |          |
|--|-------------|----------|
|  | 2004        | 2003     |
| Additional paid-in capital .....             | \$87,197    | \$87,197 |
| Gains on disposal of assets (after tax)..... | 980         | 980      |
| Total.....                                   | \$88,177    | \$88,177 |

**13.RETAINED EARNINGS**

(1)Legal Reserve

Pursuant to the Company Law, 10% of the annual after-tax net income of the Company must be appropriated as legal reserve until the total amount of the legal reserve equals to the issued share capital. Such reserve can only be used to offset a deficit. When the reserve has reached 50% of the aggregate par value of the Company's outstanding capital stock, up to 50% thereof can be distributed as stock dividend.

(2)Retained Earnings

1.As stipulated in the Company's Articles of Incorporation, the restrictions and sequences for distributing annual net income are as follows:

- A.Paying income tax;
- B.Covering previous deficit;
- C.Appropriating 10% of the remaining net income as legal reserve;
- D.Appropriating special reserve



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E. Appropriation of the remainder of the net income as proposed by the board of directors and approved by the stockholders as follows:

- (a) Bonus to employees at least 3% of the remaining net income; and
- (b) Consideration to the directors and supervisors: 2%
- (c) Distributing dividends to stockholders.

2. Distributions Information of 2003:

Details of the settlements of 2003 employees' bonus and remuneration of directors and supervisors are as follows:

| For the year ended December 31, 2003  | As approved by<br>the stockholders'<br>meeting | As recommended<br>by the board of<br>directors | Difference |
|---|--|--|------------|
| a. Settlement of employees' bonus by Cash   | \$1,138  | \$1,138  | —          |
| b. Settlement of employee's bonus by<br>issuance of new shares                          |  |  |            |
| Number of shares (in thousands)   | 122  | 122  | —          |
| Amount  | \$1,220  | \$1,220  | —          |
| Percentage on total number of outstanding<br>shares at end of year                      | 0.40%  | 0.40%  | —          |
| c. Remuneration of directors and supervisors  | \$1,570  | \$1,570  | —          |
| Effect on earnings per share before<br>retroactive adjustments                          |  |  |            |
| Original primary earnings per share   | \$2.99   | \$2.99   | —          |
| Revised primary earnings per share taking<br>into consideration of the employees' bonus | \$2.85   | \$2.85   | —          |

The appropriation of 2004 retained earnings has not yet been recommended by the board of directors as of the date of the Report of Independent Auditors. Information on board of directors' recommendations and stockholders' approvals can be obtained from the "Market Observation Post System" on the website of Taiwan Stock Exchange Corporation.

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**NOTES TO FINANCIAL STATEMENTS (Continued)**  
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**14. THE INFORMATION OF PERSONNEL COST, DEPRECIATION AND AMORTIZATION ARE AS FOLLOWS:**

| Function<br>Item                   | December 31, 2004             |                                  |          | December 31, 2003             |                                  |          |
|------------------------------------|-------------------------------|----------------------------------|----------|-------------------------------|----------------------------------|----------|
|                                    | Classified to operating costs | Classified to operating expenses | Total    | Classified to operating costs | Classified to operating expenses | Total    |
| Personnel cost                     |                               |                                  |          |                               |                                  |          |
| Salary and wages                   | \$47,859                      | \$24,643                         | \$72,502 | \$52,029                      | \$32,148                         | \$84,177 |
| Labor and health insurance expense | 1,989                         | 1,347                            | 3,336    | 3,418                         | 1,378                            | 4,796    |
| Pension cost                       | 3,140                         | 1,660                            | 4,800    | 2,746                         | 1,559                            | 4,305    |
| Other personnel cost               | 545                           | 4,980                            | 5,525    | 451                           | 3,728                            | 4,179    |
| Depreciation                       | 66,653                        | 9,376                            | 76,029   | 57,407                        | 10,297                           | 67,704   |
| Amortization                       | 158                           | 0                                | 158      | 197                           | 0                                | 197      |

**15. ESTIMATED INCOME TAX**

(1) Income tax expenses include the followings:

|   | 2004            | 2003            |
|---|-----------------|-----------------|
| Income tax expense-current.....                             | \$8,778         | \$15,036        |
| Deferred income tax expense (benefits).....                 | (490)           | 9,177           |
| Adjustment on previous year's income tax.....               | 0               | (380)           |
| 10% additional income tax based on undistributed earnings.. | 3,370           | 0               |
| Total Income tax expenses.....                              | <u>\$11,658</u> | <u>\$23,833</u> |

(2) Deferred income tax liabilities and assets are as follows:

|   | December 31, |         |
|---|--------------|---------|
|   | 2004         | 2003    |
| A. Total deferred income tax liabilities..... | \$1,082      | \$1,297 |
| Total deferred income tax assets.....         | 7,691        | \$7,416 |

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|  | December 31, |          |
|--|--------------|----------|
|  | 2004         | 2003     |
| B.Components of deferred income taxes liabilities and assets resulting from temporary difference |              |          |
| Deductible temporary difference from inventory valuation loss                                    | \$22,663     | \$21,545 |
| Taxable temporary difference from unrealized exchange gain                                       | 0            | 357      |
| Deductible temporary difference from unrealized exchange loss.....                               | 2,445        | 0        |
| Taxable temporary difference from recognition of pension expense.....                            | 4,330        | 4,834    |
| Deductible temporary difference from interest expense.....                                       | 2,331        | 3,142    |
| Deductible temporary difference from other expenses.....   | 0            | 71       |
| Deductible temporary difference from losses on idle assets valuation loss.....                   | 3,327        | 2,097    |
| Deductible temporary difference from processing expenses..                                       | 0            | 778      |
| Deductible temporary difference from allowance for sales returns.....                            | 0            | 1,169    |
| Deductible temporary difference from investment tax credits..                                    | 0            | 216      |
| C.Deferred tax assets current.....   | \$6,479      | \$6,309  |
| Deferred tax liabilities current.....  | 0            | (89)     |
| Net balance of deferred tax assets (liabilities) current.....                                    | \$6,479      | \$6,220  |
| D.Deferred tax assets noncurrent.....  | \$1,212      | \$1,107  |
| Deferred tax liabilities noncurrent.....   | (1,082)      | (1,208)  |
| Net balance of deferred tax assets (liabilities) noncurrent.                                     | \$130        | (\$101)  |

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**NOTES TO FINANCIAL STATEMENTS (Continued)**  
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E. Adjustments between accrued income tax and income tax for the years ended Dec.31, 2004 and 2003 are as follows:

|   | 2004            | 2003            |
|---|-----------------|-----------------|
| Accrued income tax.....   | \$8,778         | \$15,036        |
| Deferred income tax expenses (benefits) on recognition of bad debts.....              | 0               | 122             |
| Deferred income tax expenses (benefits) on inventory valuation loss.....              | (279)           | 975             |
| Deferred income tax expenses (benefits) on unrealized exchange gain /loss.....        | (700)           | 15              |
| Deferred income tax expenses (benefits) on recognition of investment tax credits..... | 216             | 8,079           |
| Deferred income tax expenses (benefits) on recognition of pension.....                | (126)           | 7               |
| Deferred income tax expenses (benefits) on losses on Idle assets' valuation loss..... | (308)           | 0               |
| Deferred income tax expenses (benefits) on other expenses                             | 707             | (21)            |
| Adjustment on previous year's income tax.....   | 0               | (380)           |
| 10% additional income tax based on undistributed earnings                             | 3,370           | 0               |
| <b>Total income tax expenses.....</b>   | <b>\$11,658</b> | <b>\$23,833</b> |

(3) Imputation credit account (ICA)

|                             | December 31,          |                      |
|-----------------------------|-----------------------|----------------------|
|                             | 2004                  | 2003                 |
| Balance of ICA              | \$49,856              | \$41,783             |
|                             | <u>2004(Estimate)</u> | <u>2003 (Actual)</u> |
| Imputation tax credit ratio | 22.08%                | 20.70%               |

(4) Unappropriated retained earnings:

|                    | December 31,     |                  |
|--------------------|------------------|------------------|
| Year               | 2004             | 2003             |
| Prior to 1997..... | \$86,063         | \$86,063         |
| After 1998.....    | 225,836          | 241,898          |
| <b>Total.....</b>  | <b>\$311,899</b> | <b>\$327,961</b> |

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(5)The Company's income tax returns through the year 2002 have been assessed and approved by the Tax Authority.

(6)As of December 31, 2004, the Company's unused investments tax credit is as follows:

| Item                   | Deductible<br>amounts | Deducted<br>amounts | Residual<br>amounts | Expiration<br>year |
|------------------------|-----------------------|---------------------|---------------------|--------------------|
| Investment tax credits | \$13,571              | (\$13,571)          | \$0                 | 2003~2007          |

**16. EARNINGS PER SHARE**

|   | 2004     |           | 2003      |           |
|---|----------|-----------|-----------|-----------|
|   | Pretax   | After tax | Pretax    | After tax |
| Net income .....  | \$53,438 | \$41,780  | \$111,028 | \$87,195  |
| Adjusted weighted average outstanding<br>number of shares.....<br>(Shares in thousands) | 32,511   | 32,511    | 31,500    | 31,500    |
| Adjusted primary earnings per share..   | \$1.64   | \$1.29    | \$3.52    | \$2.77    |

**17. RELATED PARTY TRANSACTIONS**

(1)Related Parties

| Name of the related parties    | Relationship with the Company |
|--------------------------------|-------------------------------|
| Siegfried Ltd.                 | Affiliated company            |
| Siegfried CMS AG               | Affiliated company            |
| Siegfried (USA), Inc           | Affiliated company            |
| Siegfried Holding AG           | Affiliated company            |
| Mercuries and Associates, LTD. | Director                      |

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(2) Significant transactions with related parties

(A) Operating Revenues

|                       | For the years ended Dec. 31, |                 |
|-----------------------|------------------------------|-----------------|
|                       | 2004                         | 2003            |
| Siegfried Ltd.        | \$11,496                     | \$16,874        |
| Siegfried (USA), Inc. | 11,610                       | 30,577          |
| Total                 | <u>\$23,106</u>              | <u>\$47,451</u> |

The sales between related parties were made at regular purchase prices compared with other clients.

(B) Accounts Receivable, Net

|                       | Dec. 31, 2004   | Dec. 31, 2003 |
|-----------------------|-----------------|---------------|
| Siegfried Ltd.        | \$11,758        | \$0           |
| Siegfried (USA), Inc. | 11,322          | 0             |
| Total                 | <u>\$23,080</u> | <u>\$0</u>    |

(C) Accrued Expenses

|                      | Dec. 31, 2004 | Dec. 31, 2003 |
|----------------------|---------------|---------------|
| Siegfried Holding AG | \$0           | \$1,010       |

**18. ASSETS PLEDGED AS COLLATERAL**

| Item                     | Dec. 31, 2004    | Dec. 31, 2003    | Purpose of collateral   |
|--------------------------|------------------|------------------|---|
| Land                     | \$42,736         | \$42,736         | Short-term borrowings and Commercial paper payable                  |
| Buildings                | 65,615           | 74,087           | Short-term borrowings, Commercial paper payable and Long-term loans |
| Machinery and equipment  | 65,424           | 82,362           | Long-term loans   |
| Construction in progress | 0                | 526              | Long-term loans   |
| Accounts Receivable      | 36,061           | 0                | Short-term borrowings   |
| Total                    | <u>\$209,836</u> | <u>\$199,711</u> |   |

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The pledged assets are disclosed at their net carrying values.

**19. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES**

Issued and unused L/C for purchase of materials amounted to USD\$15 thousand and NTD\$5,808 thousand as of Dec. 31, 2004 and 2003, respectively.

**20. SIGNIFICANT DISASTER LOSS: None**

**21. SIGNIFICANT SUBSEQUENT EVENTS: None**

**22. OTHER IMPORTANT EVENTS**

**(1) PENSION RELATED INFORMATION**

1. Net periodic pension cost:

|   | For the years ended |         |
|---|---------------------|---------|
|   | 2004                | 2003    |
| (1) Service cost                              | \$4,575             | \$4,152 |
| (2) Interest cost                             | 1,099               | 1,079   |
| (3) Actual return on plan assets              | (405)               | (442)   |
| (4) Deferred pension gain and loss            | (686)               | (668)   |
| (5) Projected return on plan assets (3)+(4)   | (1,091)             | (1,110) |
| (6) Net amortization cost                     | 217                 | 184     |
| (7) Net periodic pension cost (1)+(2)+(5)+(6) | 4,800               | \$4,305 |

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2. Pension funded status:

|  | December 31, |           |
|--|--------------|-----------|
|  | 2004         | 2003      |
| (1) Vested benefit obligation                      | (\$1,498)    | (\$3,258) |
| ① Nonvested benefit obligation                     | (28,372)     | (25,469)  |
| ② Accumulated benefit obligation                   | (29,870)     | (28,727)  |
| ③ Additional benefits based on future salaries     | (8,578)      | (8,038)   |
| ④ Projected benefit obligation                     | (38,448)     | (36,765)  |
| (2) Fair value of plan assets                      | 36,439       | 34,306    |
| (3) Funded status                                  | (2,009)      | (2,459)   |
| (4) Unrecognized net transition obligation (asset) | 381          | 412       |
| (5) Unrecognized prior service cost                | 0            | 0         |
| (6) Unrecognized net (gain) and loss               | 6,130        | 7,052     |
| (7) Accrued pension cost /prepaid pension cost     | \$4,502      | \$5,005   |
| (8) Vested benefit                                 | \$1,498      | \$3,258   |

|                                      | December 31, |       |
|--------------------------------------|--------------|-------|
|                                      | 2004         | 2003  |
| 3. Actuarial assumptions             |              |       |
| (1) Discount rate                    | 3.00%        | 3.00% |
| (2) Rate of increase in compensation | 2.00%        | 2.00% |
| (3) Projected return on plan assets  | 3.00%        | 3.00% |



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**(2) FINANCIAL INSTRUMENTS RELATED INFORMATION:**

(a) Derivative Financial Instruments related information : None

(b) Non-Derivative Financial Instruments related information

As of December 31, 2004 and 2003, the carrying values of non-derivative financial instruments are equal to their market values, except shown as follows:

| Item                     | December 31, 2004 |               | December 31, 2003 |               |
|--------------------------|-------------------|---------------|-------------------|---------------|
|                          | Carrying values   | Market Values | Carrying values   | Market Values |
| Short – term Investments | \$118,703         | \$119,493     | \$59,183          | \$59,456      |
| Inventories              | 129,107           | 156,468       | 140,297           | 145,361       |

**(3) MATERIAL CONTRACT:** None

**(4) RECLASSIFICATIONS**

Certain accounts in the financial statements as of and for the year ended Dec. 31, 2003 have been reclassified to conform to the financial statements as of Dec.31, 2004.

**23. SEGMENT INFORMATION**

(1) Segment financial information by industry

The Company operates principally in one industry. The Company's major business activities are manufacture and sell pharmaceuticals.

(2) Geographic financial information

The Company has no significant foreign operations.

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(3) Export sales information :

The Company's export sales information in 2004 and 2003 are shown below:

|         | For the years ended December 31, |                  |
|---------|----------------------------------|------------------|
|         | 2004                             | 2003             |
| ASIA    | \$125,670                        | \$93,939         |
| AMERICA | 30,255                           | 82,180           |
| EUROPE  | 228,981                          | 292,328          |
| Total   | <u>\$384,906</u>                 | <u>\$468,447</u> |

(4) Disclosures of major customers :

Customers in excess of 10% sales are shown below

| Name     | For the years ended December 31, |           |
|----------|----------------------------------|-----------|
|          | 2004                             | 2003      |
| Client A | \$121,091                        | \$173,197 |
| Client B | 59,887                           | -         |