

SCI PHARMTECH, INC.
FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
AS OF DEC. 31, 2005 AND 2004

Name of the Company: SCI PHARMTECH, INC.

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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, 2005 and 2004, 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, 2005 and 2004, and the results of its operations and its cash flows for the years then ended Dec. 31, 2005 and 2004, in conformity with ROC generally accepted accounting principles.

BDO TAIWAN UNION & CO.
January 20, 2006

SCI PHARMTECH, INC.

BALANCE SHEETS

December 31, 2005 and 2004

(Expressed in Thousands of New Taiwan Dollars)

Assets	Dec. 31, 2005	%	Dec. 31, 2004	%	Liabilities & Stockholders' Equity	Dec. 31, 2005	%	Dec. 31, 2004	%
Current Assets					Current Liabilities				
Cash and Cash Equivalents (Notes 2, 4)	\$62,986	7.38	\$11,440	1.28	Short-term Borrowings (Note 9)	\$26,326	3.09	\$57,956	6.47
Short-term Investments (Notes 2,5)	79,525	9.33	118,703	13.25	Notes Payable	9,276	1.09	1,824	0.20
Notes Receivable (Notes 2, 6)	21,219	2.49	9,561	1.07	Accounts Payable	20,546	2.41	23,244	2.59
Accounts Receivable (Notes 2, 6)	81,203	9.52	114,303	12.76	Income Tax Payable (Notes 2, 15)	2,026	0.24	390	0.04
Accounts Receivable - Related Parties (Note 18)	0	0.00	23,080	2.57	Accrued Expenses	23,082	2.70	22,085	2.47
Other Receivables	2,899	0.34	667	0.07	Other Payables	3,225	0.38	7,355	0.82
Inventories (Notes 2, 7)	131,696	15.44	129,107	14.41	Long-term Loans-Current Portion (Note 10)	0	0.00	14,164	1.58
Prepaid Expenses	524	0.06	2,919	0.33	Receipts under custody	278	0.03	260	0.03
Prepayments	1	0.00	31	0.00	Sub-total	<u>84,759</u>	<u>9.94</u>	<u>127,278</u>	<u>14.20</u>
Temporary Payments	108	0.01	349	0.04					
Deferred Income Tax Assets-Current (Notes 2, 15)	7,844	0.92	6,479	0.72	Other Liabilities				
Other Current Assets-Other	76	0.01	329	0.04	Guarantee Deposits Received	129	0.02	120	0.02
Sub-total	<u>388,081</u>	<u>45.50</u>	<u>416,968</u>	<u>46.53</u>	Deferred Income Tax Liabilities-Noncurrent (Notes 2, 15)	502	0.06	0	0.00
					Other Liabilities-other	723	0.09	1,633	0.18
Property, Plant and Equipment (Notes 2, 8)					Sub-total	<u>1,354</u>	<u>0.17</u>	<u>1,753</u>	<u>0.20</u>
Cost :					Total Liabilities	<u>86,113</u>	<u>10.11</u>	<u>129,031</u>	<u>14.40</u>
Land	42,736	5.01	42,736	4.77					
Land Improvements	4,651	0.55	8,229	0.92	Stockholders' Equity				
Buildings	206,211	24.18	205,497	22.93	Capital Stock (Note 11)				
Machinery and Equipment	627,385	73.56	611,460	68.24	Common Stock	325,107	38.12	325,107	36.28
Transportation Equipment	2,085	0.24	2,085	0.23	Capital Surplus (Note 12)				
Office Equipment	11,468	1.34	11,568	1.29	Paid-In Capital in excess of par	87,197	10.22	87,197	9.73
Costs & Revaluation Increments	894,536	104.88	881,575	98.38	Gain on Disposal of Assets	980	0.11	980	0.11
Less : Accumulated Depreciation	(486,397)	(57.03)	(419,551)	(46.82)	Retained Earnings (Note 13)				
Construction in Progress	49,527	5.81	7,266	0.81	Legal Reserve	46,099	5.40	41,921	4.68
Prepayment for Equipment	356	0.04	1,777	0.20	Unappropriated Retained Earnings	307,410	36.04	311,899	34.80
Sub-total	<u>458,022</u>	<u>53.70</u>	<u>471,067</u>	<u>52.57</u>	Total Stockholders' Equity	<u>766,793</u>	<u>89.89</u>	<u>767,104</u>	<u>85.60</u>
Other Assets									
Guarantee deposits paid	1,053	0.13	1,370	0.15	Total Liabilities and Stockholders' Equity	<u>\$852,906</u>	<u>100.00</u>	<u>\$896,135</u>	<u>100.00</u>
Deferred Charges (Note 2)	285	0.03	385	0.04					
Deferred Income Tax Assets-Noncurrent (Notes 2, 15)	0	0.00	130	0.02					
Other Assets-Other (Notes 2, 22)	5,465	0.64	6,215	0.69					
Sub-total	<u>6,803</u>	<u>0.80</u>	<u>8,100</u>	<u>0.90</u>					
Total Assets	<u>\$852,906</u>	<u>100.00</u>	<u>\$896,135</u>	<u>100.00</u>					

SCI PHARMTECH, INC.

STATEMENTS OF INCOME

For the years ended December 31, 2005 and 2004

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

Items	2005	%	2004	%
Operating Revenues (Note 2)				
Sales Revenues	\$456,457	100.52	\$461,123	100.71
Sales Returns	(868)	(0.19)	(2,056)	(0.45)
Sales Discounts and Allowances	(1,478)	(0.33)	(1,190)	(0.26)
Sub-total	454,111	100.00	457,877	100.00
Operating Costs (Note 2)				
Cost of Goods Sold	(348,181)	(76.67)	(338,724)	(73.98)
Sub-total	(348,181)	(76.67)	(338,724)	(73.98)
Gross Profit from Operations	105,930	23.33	119,153	26.02
Operating Expenses				
Selling Expenses	(15,500)	(3.41)	(19,890)	(4.34)
General and Administrative Expenses	(22,315)	(4.92)	(19,976)	(4.36)
Research and Development Expenses	(16,648)	(3.67)	(15,473)	(3.38)
Net Operating Income	51,467	11.33	63,814	13.94
Non-Operating Revenue				
Interest Income	101	0.02	33	0.01
Gain on Disposal of Investments	1,730	0.38	816	0.18
Gain on Physical Inventory Count	238	0.05	0	0.00
Foreign Exchange Gains	1,052	0.23	0	0.00
Miscellaneous Income	4,944	1.09	4,741	1.03
Sub-total	8,065	1.77	5,590	1.21
Non-Operating Expenses				
Interest Expense	(1,820)	(0.40)	(1,474)	(0.32)
Loss on Disposal of Assets	(381)	(0.08)	(126)	(0.03)
Foreign Exchange Loss	0	0.00	(3,722)	(0.81)
Provision for Loss on Inventory	(5,365)	(1.18)	(1,118)	(0.24)
Depreciation and Loss on Value Decline of Idle Assets	(344)	(0.07)	(2,541)	(0.56)
Miscellaneous Expenses	(4,677)	(1.03)	(6,985)	(1.53)
Sub-total	(12,587)	(2.76)	(15,966)	(3.49)
Continuing Operating Income before Income Tax	46,945	10.34	53,438	11.67
Income Tax (Expenses) Benefits (Notes 2, 15)	(7,176)	(1.58)	(11,658)	(2.55)
Net Income after Income Tax	\$39,769	8.76	\$41,780	9.12
Primary Earnings Per Share : (Notes 16)	Pretax	Aftertax	Pretax	Aftertax
Income From Continuing Operations, Net of Tax	\$1.44	\$1.22	\$1.64	\$1.29
Net Income	\$1.44	\$1.22	\$1.64	\$1.29

SCI PHARMTECH, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the years ended December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan Dollars)

Summary	Common Stock	Capital Surplus	Retained Earnings		Total
			Legal Reserve	Unappropriated Retained Earnings	
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 January 1, 2005	\$325,107	\$88,177	\$41,921	\$311,899	\$767,104
Appropriations and Distributions for 2004					
Legal Reserve			4,178	(4,178)	0
Cash Dividends				(38,200)	(38,200)
Compensation to Directors and Supervisors				(752)	(752)
Bonus Paid to Employees				(1,128)	(1,128)
Net Income after Tax for the year ended Dec. 31, 2005				39,769	39,769
Balance on Dec. 31, 2005	\$325,107	\$88,177	\$46,099	\$307,410	\$766,793

SCI PHARMTECH, INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan Dollars)

Items	2005	2004
Cash Flows from Operating Activities		
Net Income	\$39,769	\$41,780
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on reversal of allowance for bad debts	172	0
Depreciation expense	69,451	76,923
Fixed Assets Transferred to Others	4,443	1,997
Amortization expense	101	158
Loss on Disposal of Assets	381	126
Loss on Assets Obsolescence	0	4,678
Loss on Inventory Obsolescence	120	129
Loss on Inventory Valuation Loss	5,365	1,118
Loss on Idle Assets Valuation Loss	333	1,648
(Increase) Decrease in Notes Receivable	(11,658)	(4,886)
(Increase) Decrease in Accounts Receivable	32,929	(13,346)
(Increase) Decrease in Accounts Receivable -Related Parties	23,080	(23,080)
(Increase) Decrease in Other Receivables	(2,232)	1,765
(Increase) Decrease in Inventories	(8,074)	9,943
(Increase) Decrease in Prepaid Expenses	2,394	(2,426)
(Increase) Decrease in Prepayments	29	2,104
(Increase) Decrease in Other Current Assets	(870)	(522)
(Increase) Decrease in Deferred Income Tax Assets - Noncurrent	130	(130)
Increase (Decrease) in Notes Payable	7,452	(10,706)
Increase (Decrease) in Accounts Payable	(2,698)	5,317
Increase (Decrease) in Income Tax Payable	1,637	(7,902)
Increase (Decrease) in Accrued Expenses	997	(7,807)
Increase (Decrease) in Other Payables	(4,130)	1,872
Increase (Decrease) in Other Current Liabilities	18	(76)
Increase (Decrease) in Deferred Income tax Liabilities -Noncurrent	502	(101)
Net Cash Provided by (Used in) Operating Activities	<u>159,641</u>	<u>78,576</u>
Cash Flows from Investing Activities		
(Increase) Decrease in Short-Term Investments	39,178	(59,520)
Proceed from Disposal of Fixed Assets	93	160
Acquisition of Fixed Assets	(61,657)	(37,508)
Proceed from Disposal of Idle Assets	0	14
(Increase) Decrease in Guarantee deposits paid	317	10
(Increase) Decrease in Deferred Charges	0	(251)
(Increase) Decrease in Other Assets	750	(1,211)
Net Cash Provided by (Used in) Investing Activities	<u>(21,319)</u>	<u>(98,306)</u>
Cash Flows from Financing Activities		
Increase (Decrease) in Short-term Borrowings	(31,630)	57,956
Increase (Decrease) in Long-term Loans	(14,164)	(14,164)
Increase (Decrease) in Guarantee Deposits Received	9	15
Increase (Decrease) in Other Liabilities	(911)	1,633
Compensation Paid to Directors and Supervisors	(753)	(1,569)
Bonus Paid to Employees	(1,128)	(1,138)
Cash Dividends Paid	(38,199)	(22,597)
Net Cash Provided by (Used in) Financing Activities	<u>(86,776)</u>	<u>20,136</u>
Increase (Decrease) in Cash and Cash Equivalents	51,546	406
Cash and Cash Equivalents at Beginning of Year	11,440	11,034
Cash and Cash Equivalents at the End of Year	<u>\$62,986</u>	<u>\$11,440</u>
Supplemental Disclosures of Cash Flow Information		
Cash Paid for Interest Expense (excluding interest capitalized)	<u>\$1,948</u>	<u>\$1,333</u>
Cash Paid for Income Tax	<u>\$6,271</u>	<u>\$20,050</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Long-term Loans - Current Portion	<u>\$0</u>	<u>\$14,164</u>

SCI PHARMTECH, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

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, 2005 and 2004, the Company had 107 and 105 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)
December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

(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)
December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

(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)
December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

Pursuant to the new "Labor Pension Act" enacted July 1, 2005, the Company set up a defined contribution pension plan. For domestic employees who select to participate in the defined contribution pension plan, the Company contributes an amount no less than 6% of the employees' salaries and wages paid each month to employees' individual pension accounts at the Bureau of Labor Insurance. Benefit accrued are portable upon service. Pension payments to employees are made either by monthly installments or in lump sum from the accumulated contributions and earnings in employees' individual accounts.

(10) Assets impairment

The Company records asset impairment and recovery pursuant to ROC SFAS No.35 "Accounting for Assets Impairment", which requires an impairment be recognized in the amount of the excess of the carrying amount of certain assets or assets in cash generating unit over the recoverable amount of such assets.

Following the date of the immediately preceding impairment recognition, if there is evidence that the impairment to the assets (other than goodwill) during the prior periods no longer exists or has decreased, the excess of recoverable amount over the carrying amount of the impaired assets is estimated and recognized as a recovery of impairment loss and the carrying amount of the impaired assets is increased by such excess, but in no event shall the carrying amount of the assets following such increase be greater than the carrying amount of such assets, reduced by any depreciations or amortizations, prior to any impairment.

The recoverable amount is the greater of an asset's net fair value or its value in use. If there is no indication that the value in use of an asset materially exceeds its fair value less costs to sell, then the fair value less costs to sell is used as the recoverable amount. Otherwise, the value in use is used as the recoverable amount if the fair value less costs to sell cannot be determined.

Goodwill derived from enterprise merge should amortize its value to each cash generating unit of the Company since acquisition date. The recoverable amount of each cash generating unit is calculated and compared with the good will allocated to that unit. If the recoverable amount is less than the carrying value, an impairment write-down must be made. Recognized goodwill impairment loss may not be reversed for previous write-downs in goodwill.

Assets which recognized impairment should be adjusted using its book value minus required salvage value and amortized over the economic useful life by straight-line method.

SCI PHARMTECH, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

(11) 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.

(12) 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.

(13) Recognition of Revenue and Expense

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

SCI PHARMTECH, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

(14) 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.

3.CHANGES IN ACCOUNTING PRINCIPLES AND ITS EFFECTS

Effective from January 1, 2005, the Company adopted the ROC SFAS No. 35, "Accounting for Asset Impairment". The change in accounting principle had no significant effect on the Company's financial statements for the year ended December 31, 2005.

4.CASH AND CASH EQUIVALENTS

	December 31,	
	2005	2004
Cash on hand.....	\$192	\$222
Cash in banks.....	9,048	11,218
Cash equivalents.....	53,746	0
Total.....	\$62,986	\$11,440

5.SHORT-TERM INVESTMENTS

	December 31,	
	2005	2004
Mutual funds.....	\$79,525	\$118,703
Less: Allowance for valuation of short-term investments....	(0)	(0)
Net.....	\$79,525	\$118,703

SCI PHARMTECH, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

6. NOTES AND ACCOUNTS RECEIVABLE

(1) Notes Receivable, Net

	December 31,	
	2005	2004
Notes receivable.....	\$21,219	\$9,561
Less: Allowance for bad and doubtful debts	(0)	(0)
Net.....	<u>\$21,219</u>	<u>\$9,561</u>

(2) Accounts Receivable, Net

	December 31,	
	2005	2004
Accounts receivable.....	\$82,954	\$115,882
Less: Allowance for bad and doubtful debts.....	(1,751)	(1,579)
Net.....	<u>\$81,203</u>	<u>\$114,303</u>

7. INVENTORIES

	December 31,	
	2005	2004
Raw materials.....	\$32,585	\$26,499
Work in process.....	78,488	83,630
Finished goods.....	48,651	35,791
Materials in transit.....	0	5,850
Total.....	<u>159,724</u>	<u>151,770</u>
Less: Allowance for Loss on decline in market value and obsolescence	(28,028)	(22,663)
Net.....	<u>\$131,696</u>	<u>\$129,107</u>

SCI PHARMTECH, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

8.PROPERTY, PLANT AND EQUIPMENT

Item	December 31, 2005		
	Cost	Accumulated Depreciation	Net Value
Land.....	\$42,736	\$0	\$42,736
Land improvements.....	4,651	2,579	2,072
Buildings.....	206,211	72,238	133,973
Machinery and equipment.....	627,385	399,710	227,675
Transportation equipment.....	2,085	1,731	354
Office equipment.....	11,468	10,139	1,329
Sub-total.....	894,536	486,397	408,139
Construction in progress.....	49,527	0	49,527
Prepayment for equipment.....	356	0	356
Total.....	<u>\$944,419</u>	<u>\$486,397</u>	<u>\$458,022</u>
Item	December 31, 2004		
	Cost	Accumulated 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.....	<u>\$890,618</u>	<u>\$419,551</u>	<u>\$471,067</u>

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

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9.SHORT-TERM BORROWINGS

	December 31,	
	2005	2004
L/C loan.....	\$26,326	\$27,034
Accounts receivable financing.....	0	30,922
Total.....	<u>\$26,326</u>	<u>\$57,956</u>
Interest rates.....	3.93%~5.62%	2.38%~3.66%

10.LONG-TERM BANK LOANS

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

11.CAPITAL STOCK

- (1)As of December 31, 2005 and 2004, the capital issued were \$325,107 thousand for 32,511 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 an employee stock option plan (ESOP), to issue 1,500 thousand units. As of December 31, 2005, the ESOP had been expired and no shares had been issued.

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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	
	2005	2004
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 2004:

Details of the settlements of 2004 employees' bonus and remuneration of directors and supervisors are as follows:

For the year ended December 31, 2004	As approved by the stockholders' meeting	As recommended by the board of directors	Difference
a. Settlement of employees' bonus by Cash	\$1,128	\$1,128	-
b. Settlement of employee's bonus by issuance of new shares			
Number of shares (in thousands)	-	-	-
Amount	-	-	-
Percentage on total number of outstanding shares at end of year	-	-	-
c. Remuneration of directors and supervisors	\$752	\$752	-
Effect on earnings per share before retroactive adjustments			
Original primary earnings per share	\$1.29	\$1.29	-
Revised primary earnings per share taking into consideration of the employees' bonus	\$1.23	\$1.23	-

The appropriation of 2005 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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14. THE INFORMATION OF PERSONNEL COST, DEPRECIATION AND AMORTIZATION ARE AS FOLLOWS:

Function Item	December 31, 2005			December 31, 2004		
	Classified to operating costs	Classified to operating expenses	Total	Classified to operating costs	Classified to operating expenses	Total
Personnel cost						
Salary and wages	\$45,494	\$26,658	\$72,152	\$47,859	\$24,643	\$72,502
Labor and health insurance expense	3,442	1,495	4,937	3,407	1,347	4,754
Pension cost	2,867	1,645	4,512	3,140	1,660	4,800
Other personnel cost	276	3,560	3,836	545	4,980	5,525
Depreciation	60,141	9,300	69,441	66,653	9,376	76,029
Amortization	101	0	101	158	0	158

15. ESTIMATED INCOME TAX

(1) Income tax expenses include the followings:

	2005	2004
Income tax expense-current.....	\$7,896	\$8,778
Deferred income tax expense (benefits).....	(733)	(490)
Separation tax.....	13	0
10% additional income tax based on undistributed earnings..	-	3,370
Total Income tax expenses.....	<u>\$7,176</u>	<u>\$11,658</u>

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

	December 31,	
	2005	2004
A.Total deferred income tax liabilities.....	\$1,324	\$1,082
Total deferred income tax assets.....	8,666	7,691
B.Components of deferred income taxes liabilities and assets resulting from temporary difference		
Deductible temporary difference from inventory valuation loss	\$28,028	\$22,663
Deductible temporary difference from unrealized exchange loss.....	1,906	2,445
Taxable temporary difference from recognition of pension expense.....	(5,296)	(4,330)
Deductible temporary difference from interest expense.....	1,521	2,331
Deductible temporary difference from bad debt loss.....	632	0
Deductible temporary difference from losses on idle assets valuation loss.....	2,576	3,327
C.Deferred tax assets current.....	\$7,844	\$6,479
Deferred tax liabilities current.....	0	0
Net balance of deferred tax assets (liabilities) current.....	\$7,844	\$6,479
D.Deferred tax assets noncurrent.....	\$822	\$1,212
Deferred tax liabilities noncurrent.....	(1,324)	(1,082)
Net balance of deferred tax assets (liabilities) noncurrent.	(\$502)	\$130

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E. Adjustments between accrued income tax and income tax for the years ended Dec.31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Accrued income tax.....	\$7,896	\$8,778
Deferred income tax expenses (benefits) on recognition of bad debts.....	(158)	0
Deferred income tax expenses (benefits) on inventory valuation loss.....	(1,341)	(279)
Deferred income tax expenses (benefits) on unrealized exchange gain /loss.....	135	(700)
Deferred income tax expenses (benefits) on interest capitalization.....	202	202
Deferred income tax expenses (benefits) on recognition of investment tax credits.....	0	216
Deferred income tax expenses (benefits) on recognition of pension.....	241	(126)
Deferred income tax expenses (benefits) on losses on Idle assets' valuation loss.....	188	(308)
Deferred income tax expenses (benefits) on other expenses	0	505
Separation tax.....	13	0
10% additional income tax based on undistributed earnings	-	3,370
Total income tax expenses.....	<u>\$7,176</u>	<u>\$11,658</u>

(3) Imputation credit account (ICA)

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Balance of ICA	<u>\$46,282</u>	<u>\$49,856</u>
Imputation tax credit ratio	<u>20.91%</u>	<u>22.25%</u>

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(4) Unappropriated retained earnings:

Year	December 31,	
	2005	2004
Prior to 1997.....	\$86,063	\$86,063
After 1998.....	221,347	225,836
Total.....	<u>\$307,410</u>	<u>\$311,899</u>

(5) The Company's income tax returns through the year 2003 have been assessed and approved by the Tax Authority.

(6) As of December 31, 2005, the Company's unused investments tax credit is as follows:

Item	Deductible amounts	Deducted amounts	Residual amounts	Expiration year
Investment tax credits	\$4,358	(\$4,358)	\$0	2005~2009

16. EARNINGS PER SHARE

	2005		2004	
	Pretax	After tax	Pretax	After tax
Net income	\$46,945	\$39,769	\$53,438	\$41,780
Adjusted weighted average outstanding number of shares..... (Shares in thousands)	32,511	32,511	32,511	32,511
Adjusted primary earnings per share..	\$1.44	\$1.22	\$1.64	\$1.29

17. RELATED PARTY TRANSACTIONS

(1) Related Parties

Name of the related parties	Relationship with the Company
Siegfried Ltd.	Affiliated company
Siegfried (USA), Inc	Affiliated company

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(2) Significant transactions with related parties

(A) Operating Revenues

	For the years ended Dec. 31,	
	2005	2004
Siegfried Ltd.	\$0	\$11,496
Siegfried (USA), Inc.	22,904	11,610
Total	\$22,904	\$23,106

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

(B) Accounts Receivable, Net

	Dec. 31, 2005	Dec. 31, 2004
Siegfried Ltd.	\$0	\$11,758
Siegfried (USA), Inc.	0	11,322
Total	\$0	\$23,080

18. ASSETS PLEDGED AS COLLATERAL

Item	Dec. 31, 2005	Dec. 31, 2004	Purpose of collateral
Land	\$42,736	\$42,736	Short-term borrowings
Buildings	59,822	65,615	Short-term borrowings and Long-term loans
Machinery and equipment	0	65,424	Long-term loans
Accounts Receivable	0	36,061	Short-term borrowings
Total	\$102,558	\$209,836	

(1) The pledged assets are disclosed at their net carrying values.

(2) The above assets were pledged or mortgaged as collateral for the short-term borrowings and long-term loans.

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19. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

Issued and unused L/C for purchase of materials amounted to USD\$5,173 thousand and NTD\$474 thousand as of Dec. 31, 2005 and 2004, 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	
	2005	2004
(1) Service cost	\$3,351	\$4,575
(2) Interest cost	1,123	1,099
(3) Actual return on plan assets	(1,123)	(405)
(4) Deferred pension gain and loss	31	(686)
(5) Projected return on plan assets (3)+(4)	(1,092)	(1,091)
(6) Net amortization cost	127	217
(7) Net periodic pension cost (1)+(2)+(5)+(6)	\$3,509	\$4,800

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2. Pension funded status:

	December 31,	
	2005	2004
(1) Vested benefit obligation	(\$1,520)	(\$1,498)
① Nonvested benefit obligation	(32,632)	(28,372)
② Accumulated benefit obligation	(34,152)	(29,870)
③ Additional benefits based on future salaries	(7,988)	(8,578)
④ Projected benefit obligation	(42,140)	(38,448)
(2) Fair value of plan assets	41,358	36,439
(3) Funded status	(782)	(2,009)
(4) Unrecognized net transition obligation (asset)	350	381
(5) Unrecognized prior service cost	0	0
(6) Unrecognized net (gain) and loss	5,892	6,130
(7) Accrued pension cost /prepaid pension cost	\$5,460	\$4,502
(8) Vested benefit	\$1,689	\$1,498

	December 31,	
	2005	2004
3. Actuarial assumptions		
(1) Discount rate	3.50%	3.00%
(2) Rate of increase in compensation	2.00%	2.00%
(3) Projected return on plan assets	2.50%	3.00%

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(2) FINANCIAL INSTRUMENTS RELATED INFORMATION:

A. Derivative financial instruments related information:

a. Objectives

The foreign currency options and forward contracts held by the Company are for the purpose of hedging risk only.

b. Transaction risk

(a) Credit risk

Since the Company's derivative financial agreements are entered into with the financial institutions with good credit ratings, the Company's management believes that there is no significant credit risk from these transactions.

(b) Market risk

The Company entered into foreign-currency option contracts to manage exchange rate risks on foreign currency receivables or payables. Gains or losses on these contracts are likely to be offset by gains or losses from the hedged receivables and payables. Thus, market price risks are believed to be minimal.

(c) Liquidity risk and cash flow risk

Because it is expected to have enough cash flows when the hedging contracts reach the maturity date, the Company will have enough working capital to pay for the forward foreign-currency option contract and therefore no collected funds risk. In addition, because the exchange rate for forward foreign exchange transactions and foreign-currency option contracts has been determined, the risk of unexpected material cash flows is believed to be minimal.

c. Options

(a) For the year ended Dec. 31, 2005, the Company recognized exchange loss of NT\$929 thousand.

(b) Derivative financial instruments cash demand

The Company is not expected to have unexpected future cash demands for its derivative instruments.

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B.Non-Derivative Financial Instruments related information

As of December 31, 2005 and 2004, the carrying values of non-derivative financial instruments are equal to their market values, except shown as follows:

Item	December 31, 2005		December 31, 2004	
	Carrying values	Market Values	Carrying values	Market Values
Short – term Investments	\$79,525	\$80,450	\$118,703	\$119,493

Fair values of financial instruments were determined as follows:

- a.Short-term financial instruments (other than short-term investments) – the carrying value reported on the balance sheets for notes, including cash equivalents, receivables, interest receivables and payables, pledged time deposits, notes and accounts payable are approximate to their fair values because of the short maturities of these instruments.
- b.Short-term investment: Fair value of short-term investments is based on quoted market price. The basis of valuation for the shares of listed companies is the average closing price of shares on the public market during the last month of the accounting period. The basis of valuation for an open-ended mutual fund is the net value of such fund as of the balance sheet date.

(3) MATERIAL CONTRACT: None

(4) RECLASSIFICATIONS

Certain accounts in the financial statements as of and for the year ended Dec. 31, 2004 have been reclassified to conform to the financial statements as of Dec.31, 2005.

23. SEGMENT FINANCIAL 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.

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(2) Geographic financial information

The Company has no significant foreign operations.

(3) Export sales information :

The Company's export sales information in 2005 and 2004 are shown below:

	For the years ended December 31,	
	2005	2004
ASIA	\$99,982	\$125,670
AMERICA	54,424	30,255
EUROPE	221,091	228,981
Total	<u>\$375,497</u>	<u>\$384,906</u>

(4) Disclosures of major customers :

Customers in excess of 10% sales are shown below

Name	For the years ended December 31,	
	2005	2004
Client A	\$140,438	\$121,091
Client B	55,352	59,887