SCI PHARMTECH, INC.

FINANCIAL STATEMENTS

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

AS OF DEC. 31, 2006 AND 2005

Name of the Company: SCI PHARMTECH, INC.

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

Telephone: 886-3-354-3133

INDEX TO FINANCIAL STATEMENTS

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, 2006 and 2005, 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, 2006 and 2005, and the results of its operations and its cash flows for the years then ended Dec. 31, 2006 and 2005, in conformity with ROC generally accepted accounting principles.

As disclosed in Note 3 to the financial statements, from January 1, 2006, the Corporation adopted the recently released Statements of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions of previously released Statements.

BDO TAIWAN UNION & CO.

January 20, 2007

English Translation of Financial Statements Originally Issued in Chinese

SCI PHARMTECH, INC.

BALANCE SHEETS

December 31,2006 and 2005

UNIT：NTD (In Thousands)

Assets	December 31,2006	%	December 31,2005	%	Liabilities & Stockholders' Equity	December 31,2006	%	December 31,2005	%
Current assets					Current liabilities				
Cash and cash equivalents	$5,466	0.63	$62,986	7.38	Short-term borrowings	$18,751	2.15	$26,326	3.09
Financial assets whose changes in fair value are recognized in earnings - current	65,891	7.56	79,525	9.32	Notes payable	3,122	0.36	9,276	1.09
Notes receivable -net	26,933	3.09	21,219	2.49	Accounts payable	32,393	3.71	20,546	2.41
Accounts receivable -net	85,453	9.80	81,203	9.52	Income tax payable	505	0.06	2,026	0.24
Other receivables	1,113	0.13	2,899	0.34	Accrued expenses	25,010	2.87	23,082	2.71
Inventories - net	124,433	14.27	131,696	15.44	Other payables	8,751	1.00	3,225	0.38
Prepaid expenses	588	0.07	524	0.06	Advance receipts	5,231	0.60	-	-
Prepayment	61	0.01	2	-	Receipts under custody	488	0.06	279	0.02
Temporary debits	108	0.01	108	0.01	Sub-total	94,251	10.81	84,760	9.94
Deferred income tax assets-current	11,825	1.35	7,844	0.92					
Other current assets - other	63	-	75	0.02					
Sub-total	321,934	36.92	388,081	45.50	Other liabilities				
Fixed assets					Guarantee deposits received	126	0.01	129	0.02
Cost					Deferred income tax liabilities-noncurrent	568	0.08	502	0.06
Land	42,736	4.90	42,736	5.01	Other liabilities-other	-	-	722	0.09
Land improvements	4,651	0.53	4,651	0.55	Sub-total	694	0.09	1,353	0.17
Buildings	270,248	30.99	206,211	24.18	Total liabilities	94,945	10.90	86,113	10.11
Machinery and equipment	631,040	72.37	627,385	73.56					
Transportation equipment	2,085	0.24	2,085	0.24	Stockholders' equity				
Office equipment	14,507	1.66	11,468	1.34	Capital stock				
Cost and Revaluation increment	965,267	110.69	894,536	104.88	Common stock	325,107	37.28	325,107	38.12
Less:Accumulated depreciation	(554,375)	(63.58)	(486,397)	(57.03)	Capital surplus				
Construction in progress	76,949	8.82	49,526	5.81	Additional paid-in capital	87,197	10.00	87,197	10.22
Prepayments for equipment	56,638	6.51	357	0.04	Gain on sale of fixed assets	980	0.11	980	0.11
Sub-total	544,479	62.44	458,022	53.70	Retained earnings				
Other Assets					Legal reserve	50,076	5.74	46,099	5.40
Guarantee deposits paid	13	-	1,053	0.12	Unappropriated retained earnings(accumulated deficits)	313,647	35.97	307,410	36.04
Deferred charges	184	0.02	285	0.03					
Other assets - other	5,342	0.62	5,465	0.65	Total stockholders' equity	777,007	89.10	766,793	89.89
Sub-total	5,539	0.64	6,803	0.80					
Total assets	$871,952	100.00	$852,906	100.00	Total liabilities and stockholders' equity	$871,952	100.00	$852,906	100.00

The accompanying notes are an integral part of financial statements

English Translation of Financial Statements Originally Issued in Chinese

SCI PHARMTECH, INC.

STATEMENTS OF INCOME

For the Years Ended December 31, 2006 and 2005

UNIT：NTD (In Thousands)

Item	2006	%	2005	%
Operating income				
Sales	$520,234	101.03	$456,456	100.52
Sales returns	(5,295)	(1.03)	(868)	(0.19)
Sales discounts and allowances	-	-	(1,477)	(0.33)
Sub-total	514,939	100.00	454,111	100.00
Operating costs				
Cost of goods sold	(405,707)	(78.79)	(348,181)	(76.67)
Sub-total	(405,707)	(78.79)	(348,181)	(76.67)
Gross profit(loss)	109,232	21.21	105,930	23.33
Operating expenses				
Selling expenses	(20,559)	(3.99)	(15,500)	(3.41)
General and administrative expenses	(24,033)	(4.67)	(22,315)	(4.91)
Research and development expenses	(22,606)	(4.39)	(16,648)	(3.68)
Net operating income(loss)	42,034	8.16	51,467	11.33
Non-operating income				
Interest income	334	0.06	101	0.02
Valuation gains of financial assets	1,176	0.23	-	-
Gains on disposal of investments	737	0.14	1,730	0.38
Gains on physical inventory	-	-	238	0.05
Foreign exchange gain	7,003	1.36	1,052	0.23
Gains on inventory value recoveries	418	0.08	-	-
Miscellaneous income	3,877	0.76	4,943	1.10
Sub-total	13,545	2.63	8,064	1.78
Non-operating expenses				
Interest expenses	(2,076)	(0.40)	(1,820)	(0.40)
Losses on disposal of properties	-	-	(381)	(0.08)
Losses on physical inventory	(70)	(0.01)	-	-
Foreign exchange loss	(5,255)	(1.02)	-	-
Losses from market price decline and obsolescence inventories	-	-	(5,485)	(1.21)
Losses on idle assets depreciation and valuation loss	(1,022)	(0.20)	(344)	(0.08)
Miscellaneous expenses	(1,476)	(0.29)	(4,556)	(1.00)
Sub-total	(9,899)	(1.92)	(12,586)	(2.77)
Income(loss)before income tax from continuing operations	45,680	8.87	46,945	10.34
Income tax expenses	(627)	(0.12)	(7,176)	(1.58)
Income(loss) from continuing operations	45,053	8.75	39,769	8.76
Cumulative effect of changes in accounting principles, net of taxIncome tax	924	0.18	-	-
	$45,977	8.93	$39,769	8.76

Primary earnings per share	2006 PreTax	2006 AfterTax	2005 PreTax	2005 AfterTax
Income(loss) from continuing operations, net of tax	$1.41	$1.39	$1.44	$1.22
Cumulative effect of changes in accounting principle, net of tax	0.02	0.02	-	-
Net income(loss)	$1.43	$1.41	$1.44	$1.22

The accompanying notes are an integral part of financial statements

English Translation of Financial Statements Originally Issued in Chinese

SCI PHARMTECH, INC.

SATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Year Ended December 31,2006 and 2005

UNIT：NTD (In Thousands)

Summary	Common Stock	Capital Surplus	Retained Earnings: Legal Reserve	Retained Earnings: Unappropriated Retained Earnings	Total
Balance onJanuary1,2005	$325,107	$88,177	$41,921	$311,899	$767,104
Appropriations and distributions for 2004					
Legal reserve	-	-	4,178	(4,178)	-
Cash dividends	-	-	-	(38,200)	(38,200)
Remuneration to directors and supervisions	-	-	-	(752)	(752)
Bonus to employees	-	-	-	(1,128)	(1,128)
Net income in 2005	-	-	-	39,769	39,769
Balance onJanuary1,2006	$325,107	$88,177	$46,099	$307,410	$766,793
Appropriations and distributions for 2005					
Legal reserve	-	-	3,977	(3,977)	-
Cash dividends	-	-	-	(33,974)	(33,974)
Remuneration to directors and supervisions	-	-	-	(716)	(716)
Bonus to employees	-	-	-	(1,073)	(1,073)
Net income in 2006	-	-	-	45,977	45,977
Balance on December 31,2006	$325,107	$88,177	$50,076	$313,647	$777,007

The accompanying notes are an integral part of financial statements

English Translation of Financial Statements Originally Issued in Chinese

SCI PHARMTECH, INC.

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2006 and 2005

UNIT：NTD (In Thousands)

Items	2006	2005
Cash flows from operating activities		
Net income(loss)	$45,977	$39,769
Adjusted items:		
Bad debts losses	508	172
Depreciation	73,472	69,451
Amortization	101	101
Fix assets transfer to other expenses	452	4,443
Valuation losses(gains) of financial assets	(1,176)	-
Gain on inventory value recoveries	(418)	-
Losses on idle assets valuation loss	1,022	334
Losses on disposal of assets	-	381
Losses on assets obsolescence	566	-
Losses on inventory obsolescence	-	120
Losses on inventory valuation loss	-	5,365
Cumulative effect of changes in accounting principale, net of tax	(925)	-
(Increase)decrease in notes receivable	(5,715)	(11,658)
(Increase)decrease in accounts receivable	(4,758)	32,929
(Increase)decrease in accounts receivable - related parties	-	23,080
(Increase)decrease in other receivable	1,786	(2,232)
(Increase)decrease in inventories	7,681	(8,074)
(Increase)decrease in prepaid expenses	(64)	2,394
(Increase)decrease in prepayments	(60)	29
(Increase)decrease in other current assets	(3,967)	(870)
(Increase)decrease in deferred income tax assets - noncurrent	-	130
Increase(decrease) in notes payable	(6,155)	7,452
Increase(decrease) in accounts payable	11,847	(2,698)
Increase(decrease) in income tax payable	(1,521)	1,637
Increase(decrease) in accrued expenses	1,928	997
Increase(decrease) in other payables	5,526	(4,130)
Increase(decrease) in advance receipts	5,231	-
Increase(decrease) in other current liabilities	212	18
Increase(decrease) in deferred income tax liabilities - non-current	66	501
Net cash flows provided by operating activities	131,616	159,641
Cash flows from investing activities		
(Increase)decrease in financial assets whose changes in fair value are recognized in earnings	15,734	39,178
Proceed from disposal of fixed assets	35	93
Acquisition of fixed assets	(162,004)	(61,657)
(Increase)decrease in guarantee deposits paid	1,040	317
Increase (decrease) in other assets	123	750
Net cash provided by investing activities	(145,072)	(21,319)
Cash flows from financing activities		
Increase(decrease) in short-term borrowings	(7,575)	(31,630)
Increase(decrease) in long-term borrowings	-	(14,164)
Increase(decrease) in guarantee deposit received	(3)	9
Increase(decrease) in other liabilities	(723)	(911)
Remuneration to directors and supervisions	(716)	(752)
Bonus paid to employees	(1,074)	(1,128)
Dividends paid	(33,973)	(38,200)
Net cash provided by financing activities	(44,064)	(86,776)
Net increase(decrease)in cash and cash equivalents	(57,520)	51,546
Cash and cash equivalents at the beginning of year	62,986	11,440
Cash and cash equivalents at the end of year	$5,466	$62,986
Supplemental disclosure of cash flow information		
Interest paid	$2,134	$1,948
Cash paid for interest expense excluding interest capitalized	$2,134	$1,948
Income taxes paid	$6,063	$6,272

The accompanying notes are an integral part of financial statements

SCI PHARMTECH, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005
(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, 2006 and 2005, the Company had 119 and 107 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) Use of Estimates

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

(2) 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.

(3) Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and so near their maturity that there is little risk of changes in value because of changes in interest rates. Generally, only investments with maturity dates of three months or less from the date acquired by the holder are cash equivalents.

(4) Financial assets and financial liabilities

Financial assets in the scope of SFAS No. 34 and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, derivative financial assets held for hedging purposes, bond portfolio with no active market bonds, available-for-sale financial assets, or financial assets carried at cost, as appropriate. Financial liabilities are classified as financial liabilities at fair value through profit or loss, derivative financial liabilities for hedging purposes and financial liabilities accounted for by the cost method.

When financial assets and financial liabilities are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognized on the trade date (i.e. the date that the Company commits to purchase the asset.) Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

a. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are subsequently measured at fair value and changes in fair value are recognized in profit and loss. Held for trading and designated by the Company as at fair value through profit or loss are classified as financial assets at fair value through profit or loss.

Cash dividends received (including those received in the year of investing) are recorded as current income.

b. Held-to-Maturity Financial Assets

Investment in bonds with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets when the Company has the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains and losses are recognized in the income statement when the investments are derecognized, impaired, or amortized. The amortized cost is calculated as the cost (amount initially recognized) minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the cost and the maturity amount, and less any loss on impairment or unrecoverable amount. While determining cash flows associated with the financial instruments for calculating the effective interest rate, the Company takes into consideration the contract terms of financial instruments including transaction fees paid or received, premiums or discounts and transaction cost…etc.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount of the financial asset that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

c. Derivative financial assets held for hedging purposes:

Derivative financial assets held for hedging purposes refer to derivative financial assets that meet all hedge accounting criteria and are designate as effective hedging instruments. Such assets are measured at fair value.

d. Debt investments with no active market:

Debt investments with fixed or determinable payments that are not quoted in an active market are carried at amortized cost using the effective interest method. These Debt investments are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or the issuance of the financial asset. Profit or loss are recognized when such investments are derecognized, impaired, or amortized.

e. Available-for-Sale Financial Assets:

Available-for-sale financial assets include assets that are available for sale and all other non-derivative financial assets that do not fit into any of the categories of financial assets like as held-to-maturity financial assets, Financial assets or liabilities at fair value through profit or loss, or loan and receivables . Available-for-sale assets are measured at fair value. All changes in fair value, except impairment losses and foreign exchange rate losses for monetary financial assets, are recognized directly in equity until the asset is derecognized. When the financial asset is derecognized, the cumulative gain or loss that was previously recognized in equity is recognized in profit or loss in the income statement.

Cash dividends are recognized as investment income upon resolution of the shareholders of an investee but are accounted for as reductions to the original cost of investment if such dividends are declared on the earnings of the investees attributable to periods prior to the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new number of shares.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

f. Financial assets carried at cost

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at original cost, such as non-publicly traded stocks and stocks trading on emerging stock market. The costs of funds and non-publicly traded stocks are determined using the weighted-average method. If there is objective evidence that a financial asset is impaired, a loss is recognized. No recording of a subsequent recovery in the fair value is allowed.

Fair value for beneficiary certificates of open-end funds and publicly traded stocks are determined using the net asset value and the closing − price at the balance sheet date, respectively.

Financial liabilities are subsequently measured at amortized cost. Financial liabilities at fair value through profit or loss and derivative financial liabilities held for hedging purposes are measured at fair value.

(5) Derivative Transactions

The Company entered into forward exchange contract transactions and interest rate swap contract transactions to hedge its exposures to fluctuations of foreign-exchange rates and interest rates. Such derivative transactions are initially and subsequently measured at fair value. When derivative transactions do not meet the criteria for hedge accounting, the derivative transactions are remeasured at fair value with the changes in fair value recognized in earnings.

Hedge Accounting

a. Fair value hedges

The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument or, non-derivative hedging instrument shall be recognized in profit or loss. Gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item.

b. Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in shareholders equity through the statement of changes in equity and the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized directly in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

c. Hedges of a net investment in a foreign operation

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in shareholders equity through the statement of changes in equity. Profit or loss are regonized when such foreign operation are disposed.

The Company uses interest rate swaps to hedge cash flow risk from interest rate fluctuations.

(6) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on management's judgment and on the evaluation of collectibility and aging analysis of accounts and other receivables.

(7) 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.

(8) 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 average method over the estimated service lives. 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. The followings are estimated service lives: building – 3 to 55 years, other fixed assets –2.5 to 15 years.

(9) Interest Capitalization

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

(10) Deferred Charges

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

(11) 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.

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.

(12) 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.

(13) 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.

(14) Estimated Income Tax

The Company adopted the R.O.C. SFAS No. 22 "Accounting for Income Taxes" for inter-period and intra-period income tax allocation. Provision for income tax includes deferred income tax resulting from temporary differences, loss carry-forward and investment tax credits. Deferred income tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized.

Income tax (10%) on unappropriated earnings is recorded as expense in the year when the shareholders have resolved that the earnings shall be retained.

Income Basic Tax Act took effect on January 1, 2006. If the amount of regular income tax is less than the amount of basic tax, the amount of income tax payable shall also include the balance of the amount of basic tax and regular income tax.

(15) Recognition of Revenue and Expense

Revenue is recognized when titles to products and risks of ownership are transferred to customers, primarily upon shipment. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the balance sheet date. Expenses thereof are recognized as current expenses when the rights and obligations from the transaction arise.

(16) 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

(1) 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.

(2) Effective from January 1, 2006, the Company adopted the ROC SFAS No. 34 and No. 36.

a. Effect of adopting the newly released SFASs and related revisions of previously released SFASs

The Company had properly categorized its financial assets and liabilities (included derivative financial instruments) when initially adoption of the newly released and amended SFASs. The adjustments in original carrying amount for financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss are included in the cumulative effect of change in accounting principles; on the other hand, the adjustments in original carrying amount for those categorized as available-for-sale financial assets are recognized as adjustments to shareholders' equity. The effect of the aforementioned changes in accounting principles is summarized as follows:

(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

Accounting Item	Increase/Decrease
Financial assets whose changes in fair value are recognized in earnings – current	$2,100
Valuation gain of financial assets	$1,176
Cumulative effect of changes in accounting principles	$924
Net income	$2,100
Adjusted per share	$0.06(NT$)

b. Accounting principle used prior to the adoption of SFAS No.34:

Short-Term Investments 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.

c. Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the financial statements as of and for the year ended December 31, 2006 in the adoption of newly released and related revisions of previously released SFASs. The reclassifications are summarized as follows:

	Before Reclassification	After Reclassification
Balance sheets:		
Short-term investments	$79,525	-
Financial assets whose changes in fair value are recognized in earnings - current	-	$79,525

4.CASH AND CASH EQUIVALENTS

	December 31,	
	2006	2005
Cash on hand………..	$211	$192
Cash in banks………...	5,255	9,048
Cash equivalents………..	0	53,746
Total……………………...	$5,466	$62,986

(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

5.FINANCIAL ASSETS WHOSE CHANGES IN FAIR VALUE ARE RECOGNIZED IN EARNINGS - CURRENT

	December 31,	
	2006	2005
Mutual funds………...…...	$65,891	$79,525

6.NOTES AND ACCOUNTS RECEIVABLE

(1)Notes Receivable, Net

	December 31,	
	2006	2005
Notes receivable…………………………….............	$26,933	$21,219
Less: Allowance for doubtful accounts ....…………	(0)	(0)
Net…………………………………..….............	$26,933	$21,219

(2)Accounts Receivable, Net

	December 31,	
	2006	2005
Accounts receivable…………..…..………...............	$87,712	$82,954
Less: Allowance for doubtful accounts ....……	(2,259)	(1,751)
Net…………………………………..…..............	$85,453	$81,203

①Have an official contract between the SCI PHARMTECH. INC. and financial / banking institution for selling debt right of accounts receivable. Based on the terms and conditions of contract, the financial / banking institution can rescind the contract if the accounts receivable can't be collected over 45 days, or SCI's credit defect within valid period.

(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

②Until December 31st, 2006, the details of Accounts Receivable as follows:

Accounts Receivable Transferred Subject (Buyer)	Taishin International Bank
Accounts Receivable Transferred Line	USD 1,500 Thousand Dollars
Accounts Receivable Transferred Amount	USD 0 Thousand Dollars
Draw in Advance	USD 0 Thousand Dollars
Valid Duration	Effectively before February 28th, 2007
Interest Rate Interval	Negotiate Each Transaction
Collateral	Promissory Note USD 1,500 Thousand Dollars

7.INVENTORIES

	December 31,	
	2006	2005
Raw materials………………………………………...............	$34,654	$32,585
Work in process……………………………………................	86,251	78,488
Finished goods…………………………………....................	31,138	48,651
Total…………………………………..............	152,043	159,724
Less: Allowance for Loss on decline in market value and obsolescence	(27,610)	(28,028)
Net…………………………………..............	$124,433	$131,696

8.PROPERTY, PLANT AND EQUIPMENT

	December 31, 2006		
Item	Cost	Accumulated Depreciation	Net Value
Land………………………...........	$42,736	$0	$42,736
Land improvements…………..	4,651	3,062	1,589
Buildings…………………..…….	270,248	82,990	187,258
Machinery and equipment……	631,040	455,677	175,363
Transportation equipment........	2,085	2,079	6
Office equipment.....................	14,507	10,567	3,940
Sub-total………………….	965,267	554,375	410,892
Construction in progress………	76,949	0	76,949
Prepayment for equipment……	56,638	0	56,638
Total………………………	$1,098,854	$544,375	$544,479

(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

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………………………	$944,419	$486,397	$458,022

Part of the property, plant and equipment had been pledged for short-term borrowings. Please refer to Note 17 for details.

9.SHORT-TERM BORROWINGS

	December 31,	
	2006	2005
L/C loan..	$18,751	$26,326
Interest rates..	6.17%	3.93%~5.62%

10.CAPITAL STOCK

(1)As of December 31, 2006 and 2005, the capital issued were $325,107 thousand for 32,511 thousand ordinary shares.

(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

11.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	
	2006	2005
Additional paid-in capital	$87,197	$87,197
Gains on disposal of assets (after tax).........................	980	980
Total..	$88,177	$88,177

12.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

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 2005:

Details of the settlements of 2005 employees' bonus and remuneration of directors and supervisors are as follows:

For the year ended December 31, 2005	As approved by the stockholders' meeting	As recommended by the board of directors	Difference
a.Settlement of employees' bonus by Cash	$1,074	$1,074	—
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	$716	$716	—
Effect on earnings per share before retroactive adjustments			
Original primary earnings per share	$1.22	$1.22	—
Revised primary earnings per share taking into consideration of the employees' bonus	$1.17	$1.17	—

The appropriation of 2006 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.

13.THE INFORMATION OF PERSONNEL COST, DEPRECIATION AND AMORTIZATION ARE AS FOLLOWS:

Function / Item	December 31, 2006			December 31, 2005		
	Classified to operating costs	Classified to operating expenses	Total	Classified to operating costs	Classified to operating expenses	Total
Personnel cost						
Salary and wages	$50,445	$26,744	$77,189	$45,494	$26,658	$72,152
Labor and health insurance expense	3,711	1,611	5,322	3,442	1,495	4,937
Pension cost	3,420	1,829	5,249	2,867	1,645	4,512
Other personnel cost	407	3,934	4,341	276	3,560	3,836
Depreciation	62,639	10,689	73,328	60,141	9,300	69,441
Amortization	101	0	101	101	0	101

(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

14. ESTIMATED INCOME TAX

(1) Income tax expenses include the followings:

	2006	2005
Income tax expense-current	($4,630)	($7,896)
Deferred income tax expense (benefits)	3,915	733
Prior year's over (under) estimates	143	-
Separation tax	(54)	(13)
10% additional income tax based on undistributed earnings	(1)	-
Total Income tax expenses	($627)	($7,176)

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

	December 31,	
	2006	2005
A. Total deferred income tax liabilities	$1,293	$1,324
Total deferred income tax assets	12,550	8,666
B. Components of deferred income taxes liabilities and assets resulting from temporary difference		
Deductible temporary difference from bad debt loss	$1,018	$632
Deductible temporary difference from inventory valuation loss	27,610	28,028
Taxable temporary difference from recognition of pension expense	(5,172)	(5,296)
Deductible temporary difference from losses on idle assets valuation loss	2,717	2,576
Deductible temporary difference from other expense	937	3,427
Deductible temporary difference from investment tax credits	4,480	0

SCI PHARMTECH, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)
December 31, 2006 and 2005
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

	December 31,	
	2006	2005
C.Deferred tax assets—current……………………………......	$11,825	$7,844
Deferred tax liabilities—current…..……..………………..	0	0
Net balance of deferred tax assets (liabilities)—current.......	$11,825	$7,844
D.Deferred tax assets—noncurrent…………………………......	$725	$822
Deferred tax liabilities—noncurrent…..………………………..	(1,293)	(1,324)
Net balance of deferred tax assets (liabilities)—noncurrent.	($568)	($502)

E. Adjustments between accrued income tax and income tax for the years ended Dec.31, 2006 and 2005 are as follows:

	2006	2005
Accrued income tax…...……………………………………......	($4,630)	($7,896)
Deferred income tax expenses (benefits) on other expenses	($564)	$733
Prior year's over (under) estimates……………………………	$143	-
Separation tax…………..………………..……………..……..	($55)	($13)
10% additional income tax based on undistributed earnings	($1)	-
Deferred income tax expenses (benefits) on recognition of investment tax credits…..………………………………......	$4,480	-
Total income tax expenses…………………………………...	($627)	($7,176)

(3)Imputation credit account (ICA)

	December 31,	
	2006	2005
Balance of ICA	$43,686	$46,282

	2006(Estimate)	2005 (Actual)
Imputation tax credit ratio	19.83%	21.78%

(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

(4) Unappropriated retained earnings:

Year	December 31, 2006	December 31, 2005
Prior to 1997	$86,063	$86,063
After 1998	181,607	221,347
Total	$267,670	$307,410

(5) The Company's income tax returns through the year 2004 have been assessed and approved by the Tax Authority.

(6) As of December 31, 2006, the Company's unused investments tax credit is as follows:

Item	Deductible amounts	Deducted amounts	Residual amounts	Expiration year
Investment tax credits	$9,110	($4,632)	$4,478	2006~2010

(7) Income from additional capital invested for the manufacturing and sales of semiconductor products is exempt from income tax for five consecutive years commencing in 2006.

15. EARNINGS PER SHARE

項　　目	2006 Pretax	2006 After tax	2005 Pretax	2005 After tax
Net income (loss) :				
Income (loss) before income tax from continuing operations	$45,680	$45,053	$46,945	$39,769
Cumulative effect of changes in accounting principles.	924	924	-	-
Net income (loss)	$46,604	$45,977	$46,945	$39,769
Adjusted weighted average outstanding number of shares	32,510,675	32,510,675	32,510,675	32,510,675
Adjusted primary earnings per share (NT$) :				
Income (loss) from continuing operation	$1.41	$1.39	$1.44	$1.22
Cumulative effect of changes in accounting principles.	0.02	0.02	-	-
Net income (loss)	$1.43	$1.41	$1.44	$1.22

(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

16. RELATED PARTY TRANSACTIONS

(1) Related Parties

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

(2) Significant transactions with related parties

(A) Operating Revenues

	For the years ended Dec. 31,	
	2006	2005
Siegfried Ltd.	$12,613	$0
Siegfried (USA), Inc.	33,265	22,904
Total	$45,878	$22,904

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

17. ASSETS PLEDGED AS COLLATERAL

Item	Dec. 31, 2006	Dec. 31, 2005
Land	$42,736	$42,736
Buildings	47,260	59,822
Total	$89,996	$102,558

(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.

(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

18. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

Issued and unused L/C for purchase of materials amounted to USD$7,346 thousand and NTD$5,173 thousand as of Dec. 31, 2006 and 2005, respectively.

19. SIGNIFICANT DISASTER LOSS: None

20. SIGNIFICANT SUBSEQUENT EVENTS: None

21. OTHER IMPORTANT EVENTS

(1) PENSION RELATED INFORMATION

1.Net periodic pension cost:

	For the years ended	
	2006	2005
(1) Service cost	$2,431	$3,351
(2) Interest cost	1,417	1,123
(3) Actual return on plan assets	(1,025)	(1,123)
(4) Deferred pension gain and loss	31	31
(5) Projected return on plan assets (3)+(4)	(994)	(1,092)
(6) Net amortization cost	112	127
(7) Net periodic pension cost (1)+(2)+(5)+(6)	$2,966	$3,509

(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

2.Pension funded status:

	December 31,	
	2006	2005
(1) Vested benefit obligation	($6,766)	($1,520)
①Nonvested benefit obligation	(32,971)	(32,632)
②Accumulated benefit obligation	(39,737)	(34,152)
③Additional benefits based on future salaries	(8,760)	(7,988)
④Projected benefit obligation	(48,497)	(42,140)
(2) Fair value of plan assets	45,374	41,358
(3) Funded status	(3,123)	(782)
(4) Unrecognized net transition obligation (asset)	319	350
(5) Unrecognized prior service cost	-	-
(6)Unrecognized net (gain) and loss	8,146	5,892
(7)Accrued pension cost /prepaid pension cost	$5,342	$5,460
(8)Vested benefit	($7,307)	$1,689

	December 31,	
	2006	2005
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%	2.50%

(2) FINANCIAL INSTRUMENTS RELATED INFORMATION:

A. Derivative financial instruments related information: None

B.Non-Derivative Financial Instruments related information

As of December 31, 2006 and 2005, the carrying values of non-derivative financial instruments are equal to their market values.

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.If the financial instruments at fair value through profit or loss and the available-for-sale financial assets have active market and quotation price, the price will be the fair value; if not, valuation technique is used. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Corporation uses that technique.

c.The fair values of he Company's refundable deposits are also their carrying values.

d.The fair values of he Company's guarantee deposits are also their carrying values.

C.Procedures of financial risk control and hedge

The Company's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

D.Information about financial risks

a.Exchange rate

(a) Market risk：

Partial purchase is valuated in US dollars, the fair value changes with market exchange rate. The Company held equivalent assets and liabilities in foreign currencies, and the period of collection and payment is equivalent to offset the market risk, thus the risk is minimal.

(b) Credit risk：

The counter parties are reputable financial institutions. Management believes its exposure to default by those parties is low.

(c) Liquidity risk：

The Company's equivalent assets and liabilities in foreign currencies held by the Company are received and paid in short time period, thus the risk is minimal.

(d) Cash flow interest rate risk：

None

b.Receivables

(a) Market risk

No significant market risk is expected about the Company's receivables.

(b) Credit risk

The Debtor of the Company's receivables are reputable financial institutions. Management believes its exposure related to the potential default by those counter-parties is low.

(c) Liquidity risk

No significant liquidity risk is expected about the Company's receivables.

(d) Cash flow interest rate risk

No significant cash flow interest rate risk is expected about the Company's receivables.

c.Equity financial instruments

(a) Market risk

The Company engaged in equity derivative financial instruments which are affected by changes in market price. The Company has set a stop-loss point in these transactions, therefore, the Company does not expect to have significant market risk.

(b) Credit risk

The counter parties are reputable financial institutions. Management believes its exposure to default by those parties is low.

(c) Liquidity risk

The company invested in equity instruments that have quoted prices in active market. Thus, Thus, the liquidity risk is low.

(d) Cash flow interest rate risk

The Company mainly engages in investments in non-interest-rate securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rated.

d.Liability financial instruments

(a) Market risk

Liabilities held by the Company are mainly fixed-interest-rate debt securities. Because the contract will be expired and the Company has evaluated the expected volatily of the market interest rate, thus, the market risk is low.

(b) Credit risk：

The Company do not have liquidity risk.

(c) Liquidity risk：

The Company has sufficient operating capital to meet cash requirement. Thus, the liquidity risk is low.

(d) Cash flow interest rate risk：

The Company mainly engages in investments in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rated.

e.Loan

(a) Market risk

The loans are debts with floating interest rates, however, the risk is minimal due to the minimal fluctuations.

(b) Credit risk

The Company do not have liquidity risk.

(c) Liquidity risk

The Company has sufficient operating capital to meet cash requirement. Thus, the Company do not have liquidity risk.

(d) Cash flow interest rate risk

The Company interest rate risk arises from loans. Loans issued at variable rates expose the Company to cash flow interest-rate risk.

f.Derivative Transactions

(a) Market risk

Foreign exchange forward contracts are influenced by the fluctuation in currency exchange rate. Thus, the Company do not have liquidity risk.

(b) Credit risk

The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposure related to the potential default by those counter-parties is low.

(c) Liquidity risk

The Company has sufficient operating capital to meet cash requirement. Thus, the Company do not have liquidity risk.

(d) Cash flow interest rate risk

The Company mainly engages in investments in non-interest-rate financial instruments.. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rated.

(3) MATERIAL CONTRACT: None

(4) RECLASSIFICATIONS

Certain accounts in the financial statements as of and for the year ended Dec. 31, 2005 have been reclassified to conform to the financial statements as of Dec.31, 2006.

22. 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.

(2) Geographic financial information

The Company has no significant foreign operations.

(Expressed in Thousands of New Taiwan dollars unless otherwise stated)

(3) Export sales information ：

The Company’s export sales information in 2006 and 2005 are shown below:

	For the years ended December 31,	
	2006	2005
ASIA	$122,541	$99,982
AMERICA	65,300	54,424
EUROPE	207,114	221,091
Total	$394,955	$375,497

(4) Disclosures of major customers：

Customers in excess of 10% sales are shown below

	For the years ended December 31,	
Name	2006	2005
Client A	$106,141	$140,438
Client B	74,692	55,352
Total	$180,833	$195,790