

**SCI PHARMTECH, INC.**  
**FINANCIAL STATEMENTS**  
**TOGETHER WITH**  
**INDEPENDENT AUDITORS' REPORT**  
**AS OF DEC. 31, 2003 AND 2002**

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

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

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

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying balance sheets of SCI PHARMTECH, INC. as of Dec. 31, 2003 and 2002, 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended Dec. 31, 2003 and 2002, in conformity with ROC generally accepted accounting principles.

BDO TAIWAN UNION & CO.  
January 16, 2004

SCI PHARMTECH, INC.

BALANCE SHEETS

December 31, 2003 and 2002

( Expressed in Thousands of New Taiwan Dollars )

Assets	Dec. 31, 2003	%	Dec. 31, 2002	%	Liabilities & Stockholders' Equity	Dec. 31, 2003	%	Dec. 31, 2002	%
<b>Current Assets</b>					<b>Current Liabilities</b>				
Cash and Cash Equivalents (Notes 2, 4)	\$11,034	1.29	\$836	0.10	Short-term Borrowings (Note 9)	\$0	0.00	\$63,746	7.93
Short-term Investments (Notes 2,5)	59,183	6.93	0	0.00	Commercial Paper Payable(Note 10)	0	0.00	79,607	9.91
Notes Receivable (Notes 2, 6)	4,675	0.55	1,574	0.20	Notes Payable	12,530	1.47	15,843	1.97
Accounts Receivable (Notes 2, 6)	100,957	11.83	122,038	15.18	Accounts Payable	17,927	2.10	14,219	1.77
Accounts Receivable - Related Parties (Note 18)	0	0.00	21,507	2.68	Income Tax Payable (Notes 2, 16)	8,292	0.97	7,572	0.94
Other Receivables	2,432	0.28	6,237	0.78	Accrued Expenses	29,892	3.50	26,379	3.28
Inventories (Notes 2, 7)	140,297	16.44	137,087	17.05	Other Payables	5,483	0.64	6,773	0.84
Prepaid Expenses	492	0.06	658	0.08	Advance Receipts	0	0.00	899	0.11
Prepayments	2,135	0.25	827	0.10	Long-term Loans-Current Portion (Note 11)	14,164	1.66	14,164	1.76
Temporary Payments	284	0.03	226	0.03	Receipts under custody	336	0.04	126	0.02
Deferred Income Tax Assets-Current (Notes 2, 16)	6,220	0.73	6,875	0.85	Sub-total	<u>88,624</u>	<u>10.38</u>	<u>229,328</u>	<u>28.53</u>
Other Current Assets-Other	132	0.02	52	0.01					
Sub-total	<u>327,841</u>	<u>38.41</u>	<u>297,917</u>	<u>37.06</u>	<b>Long-term Liabilities</b>				
					Long-term Bank Loans (Note 11)	14,164	1.66	28,328	3.53
<b>Property, Plant and Equipment (Notes 2, 8)</b>					Sub-total	<u>14,164</u>	<u>1.66</u>	<u>28,328</u>	<u>3.53</u>
Cost :									
Land	42,736	5.01	42,736	5.32	<b>Other Liabilities</b>				
Land Improvements	7,940	0.93	7,426	0.92	Guarantee Deposits Received	105	0.02	108	0.01
Buildings	190,267	22.29	184,811	22.99	Deferred Income Tax Liabilities-Noncurrent (Notes 2, 16)	101	0.01	0	0.00
Machinery and Equipment	524,057	61.39	529,601	65.88	Sub-total	<u>206</u>	<u>0.03</u>	<u>108</u>	<u>0.01</u>
Transportation Equipment	2,784	0.32	2,784	0.35	<b>Total Liabilities</b>	<u>102,994</u>	<u>12.07</u>	<u>257,764</u>	<u>32.07</u>
Office Equipment	10,842	1.27	10,751	1.34					
Costs & Revaluation Increments	778,626	91.20	778,109	96.80	<b>Stockholders' Equity</b>				
Less : Accumulated Depreciation	(347,295)	(40.68)	(323,221)	(40.21)	Capital Stock (Note 12)				
Construction in Progress	84,227	9.87	35,142	4.37	Common Stock	301,290	35.30	228,000	28.36
Prepayment for Equipment	703	0.08	2,030	0.26	Capital Surplus (Note 13)				
Sub-total	<u>516,261</u>	<u>60.47</u>	<u>492,060</u>	<u>61.22</u>	Paid-In Capital in excess of par	87,197	10.21	7,197	0.90
					Gain on Disposal of Assets	980	0.11	980	0.12
<b>Other Assets</b>					Retained Earnings (Note 14)				
Idle Assets (Note 2)	2,844	0.33	0	0.00	Legal Reserve	33,201	3.89	24,857	3.09
Guarantee deposits paid	1,380	0.16	380	0.04	Unappropriated Retained Earnings	327,961	38.42	285,024	35.46
Deferred Charges (Note 2)	293	0.03	238	0.03	Total Stockholders' Equity	<u>750,629</u>	<u>87.93</u>	<u>546,058</u>	<u>67.93</u>
Deferred Income Tax Assets-Noncurrent (Notes 2, 16)	0	0.00	8,422	1.05					
Other Assets-Other (Notes2, 23)	5,004	0.59	4,805	0.60					
Sub-total	<u>9,521</u>	<u>1.11</u>	<u>13,845</u>	<u>1.72</u>					
<b>Total Assets</b>	<u>\$853,623</u>	<u>100.00</u>	<u>\$803,822</u>	<u>100.00</u>	<b>Total Liabilities and Stockholders' Equity</b>	<u>\$853,623</u>	<u>100.00</u>	<u>\$803,822</u>	<u>100.00</u>

SCI PHARMTECH, INC.

STATEMENTS OF INCOME

For the years ended December 31, 2003 and 2002

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

Items	2003	%	2002	%
Operating Revenues (Note 2)				
Sales Revenues	\$515,715	100.25	\$519,084	101.81
Sales Returns	(1,169)	(0.23)	(9,111)	(1.79)
Sales Discounts and Allowances	(115)	(0.02)	(109)	(0.02)
Sub-total	514,431	100.00	509,864	100.00
Operating Costs (Note 2)				
Cost of Goods Sold	(332,297)	(64.60)	(351,264)	(68.89)
Sub-total	(332,297)	(64.60)	(351,264)	(68.89)
Gross Profit from Operations	182,134	35.40	158,600	31.11
Operating Expenses				
Selling Expenses	(19,835)	(3.86)	(17,582)	(3.45)
General and Administrative Expenses	(28,207)	(5.48)	(21,577)	(4.23)
Research and Development Expenses	(20,906)	(4.06)	(18,241)	(3.58)
Net Operating Income	113,186	22.00	101,200	19.85
Non-Operating Revenue				
Interest Income	83	0.02	178	0.04
Gain on Value Recovery of Inventory	3,900	0.76	9,342	1.83
Miscellaneous Income	3,316	0.64	2,318	0.45
Sub-total	7,299	1.42	11,838	2.32
Non-Operating Expenses				
Interest Expense	(2,291)	(0.44)	(7,891)	(1.55)
Loss on Disposal of Assets	(2,965)	(0.58)	(2,065)	(0.40)
Foreign Exchange Loss	(1,182)	(0.23)	(1,212)	(0.24)
Depreciation and Losses on Value Decline of Idle Assets	(619)	(0.12)	(2,097)	(0.41)
Miscellaneous Expenses	(2,400)	(0.47)	(2,027)	(0.40)
Sub-total	(9,457)	(1.84)	(15,292)	(3.00)
Continuing Operating Income before Income Tax	111,028	21.58	97,746	19.17
Income Tax (Expenses) Benefits (Notes 2, 16)	(23,833)	(4.63)	(14,306)	(2.80)
Net Income after Income Tax	\$87,195	16.95	\$83,440	16.37
Primary Earnings Per Share : (Notes 17)	Pretax	Aftertax	Pretax	Aftertax
Income From Continuing Operations, Net of Tax	\$3.80	\$2.99	\$3.85	\$3.28
Net Income	\$3.80	\$2.99	\$3.85	\$3.28

SCI PHARMTECH, INC.  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
For the years ended December 31, 2003 and 2002  
( Expressed in Thousands of New Taiwan Dollars )

Summary	Common Stock	Capital Surplus	Retained Earnings		Total
			Legal Reserve	Unappropriated Retained Earnings	
Balance on January 1, 2002	\$200,000	\$2,177	\$20,984	\$227,494	\$450,655
Appropriations and Distributions for 2001					
Legal Reserve			3,873	(3,873)	0
Bonus Paid to Employees				(37)	(37)
Stock Dividends	20,000			(20,000)	0
Stock Issued as Employee Bonus	2,000			(2,000)	0
Issuance of Common Stock for Cash	6,000	6,000			12,000
Net Income after Tax for the year ended Dec. 31, 2002				83,440	83,440
Balance on January 1, 2003	\$228,000	\$8,177	\$24,857	\$285,024	\$546,058
Appropriations and Distributions for 2002					
Legal Reserve			8,344	(8,344)	0
Compensation to Directors and Supervisors				(1,502)	(1,502)
Bonus Paid to Employees				(1,122)	(1,122)
Stock Dividends	32,160			(32,160)	0
Stock Issued as Employee Bonus	1,130			(1,130)	0
Issuance of Common Stock for Cash	40,000	80,000			120,000
Net Income after Tax for the year ended Dec. 31, 2003				87,195	87,195
Balance on Dec. 31, 2003	\$301,290	\$88,177	\$33,201	\$327,961	\$750,629

SCI PHARMTECH, INC.  
STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2003 and 2002  
( Expressed in Thousands of New Taiwan Dollars )

Items	2003	2002
Cash Flows from Operating Activities		
Net Income	\$87,195	\$83,440
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on reversal of bad debts	(1,164)	0
Depreciation	68,324	68,414
Fixed Assets Transferred to Others	1,708	1,164
Amortization	197	164
Gain on value Recovery of Inventory	(3,900)	(9,342)
Loss on Disposal of Assets	2,965	2,065
Gain on Disposal of Assets	(6)	0
Loss on Value Decline of Idle Assets	0	2,097
(Increase) Decrease in Notes Receivable	(3,101)	(749)
(Increase) Decrease in Accounts Receivable	22,245	(36,227)
(Increase) Decrease in Accounts Receivable -Related Parties	21,508	(17,013)
(Increase) Decrease in Other Receivables	3,805	(1,068)
(Increase) Decrease in Inventories	691	(6,043)
(Increase) Decrease in Prepaid Expenses	166	2,460
(Increase) Decrease in Prepayments	(1,308)	965
(Increase) Decrease in Other Current Assets	516	1,735
(Increase) Decrease in Deferred Income Tax Assets—Noncurrent	8,421	345
Increase (Decrease) in Notes Payable	(3,313)	9,994
Increase (Decrease) in Accounts Payable	3,707	1,729
Increase (Decrease) in Accounts Payable-Related Parties	0	(4,318)
Increase (Decrease) in Income Tax Payable	720	3,181
Increase (Decrease) in Accrued Expenses	3,513	4,871
Increase (Decrease) in Other Payables	(5,440)	(1,086)
Increase (Decrease) in Advance Receipts	(899)	217
Increase (Decrease) in Other Current Liabilities	210	122
(Increase) Decrease in Deferred Income tax Liabilities -Noncurrent	101	0
Net Cash Provided by (Used in) Operating Activities	<u>206,861</u>	<u>107,117</u>
Cash Flows from Investing Activities		
(Increase) Decrease in Short-Term Investments	(59,183)	0
Increase (Decrease) in Payables on Equipment	4,321	0
Proceed from Disposal of Fixed Assets	86	229
Acquisition of Fixed Assets	(100,167)	(41,734)
Acquisition of Idle Assets	(125)	0
(Increase) Decrease in Guarantee deposits paid	(1,000)	13
(Increase) Decrease in Deferred Charges	(251)	0
(Increase) Decrease in Other Assets	(199)	(1,886)
Net Cash Provided by (Used in) Investing Activities	<u>(156,518)</u>	<u>(43,378)</u>
Cash Flows from Financing Activities		
Increase (Decrease) in Short-term Borrowings	(63,746)	(39,254)
Increase (Decrease) in Commercial Paper Payable	(79,608)	(29,664)
Increase (Decrease) in Long-term Loans	(14,164)	(14,164)
Increase (Decrease) in Guarantee Deposits Received	(3)	(12)
Compensation Paid to Directors and Supervisors	(1,502)	0
Bonus Paid to Employees	(1,122)	(37)
Increase (Decrease) in Capital by Cash	120,000	12,000
Net Cash Provided by (Used in) Financing Activities	<u>(40,145)</u>	<u>(71,131)</u>
Increase (Decrease) in Cash and Cash Equivalents	10,198	(7,392)
Cash and Cash Equivalents at Beginning of Year	836	8,228
Cash and Cash Equivalents at End of Year	<u>\$11,034</u>	<u>\$836</u>
Supplemental Disclosures of Cash Flow Information		
Interest Paid	\$2,039	\$8,644
Less : Interest Capitalization	0	(781)
Cash Paid for Interest Expense (excluding interest capitalized)	<u>\$2,039</u>	<u>\$7,863</u>
Cash Paid for Income Tax	<u>\$13,940</u>	<u>\$8,915</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Long-term Loans—Current Portion	<u>\$14,164</u>	<u>\$14,164</u>

**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
**(Expressed in Thousands of New Taiwan dollars unless otherwise stated)**  
**December 31, 2003 and 2002**

## **1. ORGANIZATION OF BUSINESS**

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, 2003 and 2002, the Company had 106 and 101 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) 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, are liabilities, exclude from the classification of current liabilities are noncurrent liabilities.



**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
**(Expressed in Thousands of New Taiwan dollars unless otherwise stated)**  
**December 31, 2003 and 2002**

(2) Cash and Cash Equivalents

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

(3) Short-Term Investments

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

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

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

(4) Allowance for Bad and Doubtful Debts

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

(5) Inventories

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

**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
**(Expressed in Thousands of New Taiwan dollars unless otherwise stated)**  
**December 31, 2003 and 2002**

(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) Pension Plan

The Company has a funded defined benefit pension plan covering all regular employees. Pension plan benefits are based primarily on participants’ compensation and years of credited service.

The Company follows SFAS No. 18, “Accounting for Pensions” in 1999. An actuarial valuation of pension liability is performed as of the balance sheet date, and a minimum pension liability will be disclosed in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets.

**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
**(Expressed in Thousands of New Taiwan dollars unless otherwise stated)**  
**December 31, 2003 and 2002**

(10) Foreign Currency Transactions

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

(11) Estimated Income Tax

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

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

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

(12) Recognition of Revenue and Expense

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

(13) Capital Expenditure and Expenses

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

**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)  
December 31, 2003 and 2002

**3.CHANGES IN ACCOUNTING PRINCIPLES AND ITS EFFECTS:** None

**4.CASH AND CASH EQUIVALENTS**

	December 31,	
	2003	2002
Cash on hand.....	\$217	\$267
Cash in banks.....	10,817	569
Total.....	\$11,034	\$836

**5.SHORT-TERM INVESTMENTS**

	December 31,	
	2003	2002
Mutual funds.....	\$59,183	\$0
Less: Allowance for valuation of short-term investments....	(0)	(0)
Net.....	\$59,183	\$0

**6.NOTES AND ACCOUNTS RECEIVABLE**

(1)Notes Receivable, Net

	December 31,	
	2003	2002
Notes receivable.....	\$4,675	\$1,574
Less: Allowance for bad and doubtful debts .....	(0)	(0)
Net.....	\$4,675	\$1,574

(2)Accounts Receivable, Net

	December 31,	
	2003	2002
Accounts receivable.....	\$102,162	\$124,407
Less: Allowance for bad and doubtful debts.....	(1,205)	(2,369)
Net.....	\$100,957	\$122,038

**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)  
**December 31, 2003 and 2002**

**7. INVENTORIES**

	December 31,	
	2003	2002
Raw materials.....	\$22,979	\$30,034
Work in process.....	105,498	100,525
Finished goods.....	30,317	27,847
Materials in transit.....	3,048	4,126
Total.....	161,842	162,532
Less: Allowance for Loss on decline in market value and obsolescence .....	(21,545)	(25,445)
Net.....	\$140,297	\$137,087

**8. PROPERTY, PLANT AND EQUIPMENT**

Item	December 31, 2003		
	Cost	Accumulated Depreciation	Net Value
Land.....	\$42,736	\$0	\$42,736
Land improvements.....	7,940	5,259	2,681
Buildings.....	190,267	55,497	134,769
Machinery and equipment.....	524,057	276,488	247,569
Transportation equipment.....	2,784	1,735	1,049
Office equipment.....	10,842	8,316	2,526
Sub-total.....	778,626	347,295	431,331
Construction in progress.....	84,227	0	84,227
Prepayment for equipment.....	703	0	703
Total.....	\$863,556	\$347,295	\$516,261

**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
**(Expressed in Thousands of New Taiwan dollars unless otherwise stated)**  
**December 31, 2003 and 2002**

Item	December 31, 2002		
	Cost	Accumulated Depreciation	Net Value
Land.....	\$42,736	\$0	\$42,736
Land improvements.....	7,426	4,890	2,536
Buildings.....	184,811	47,103	137,708
Machinery and equipment.....	529,601	263,206	266,395
Transportation equipment.....	2,784	1,388	1,396
Office equipment.....	10,751	6,634	4,117
Sub-total.....	778,109	323,221	454,888
Construction in progress.....	35,142	0	35,142
Prepayment for equipment.....	2,030	0	2,030
Total.....	\$815,281	\$323,221	\$492,060

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

(2)The capitalized interest on property, plant and equipments amounted to \$0 and \$781,000 for the years ended Dec.31, 2003 and 2002, respectively.

**9.SHORT-TERM BORROWINGS**

	December 31,	
	2003	2002
Unsecured bank loans.....	\$0	\$62,000
Banker's usance.....	0	1,746
Total.....	\$0	\$63,746
Interest rates.....	—	2.72%~4.40%

**SCI PHARMTECH, INC.**  
**NOTES TO FINANCIAL STATEMENTS—(Continued)**  
(Expressed in Thousands of New Taiwan dollars unless otherwise stated)  
**December 31, 2003 and 2002**

**10.COMMERCIAL PAPER PAYABLE**

	December 31,	
	2003	2002
Commercial paper payable.....	\$0	\$80,000
Unamortized discount.....	0	(393)
Net.....	<u>\$0</u>	<u>\$79,607</u>
Interest rates.....	—	1.60%~3.30%

**11.LONG-TERM BANK LOANS**

	Payment terms	December 31,	
		2003	2002
Secured loans.....	Payable quarterly from Dec. 10, 2000 to Dec. 10, 2005	\$28,328	\$42,492
Less: Current portion.....		(14,164)	(14,164)
NET.....		<u>\$14,164</u>	<u>\$28,328</u>
Interest rates.....		2.89%~5.00%	5.15%~6.05%

**12.CAPITAL STOCK**

(1)The Company has 39,600 thousand authorized shares of \$10 par value common stock. As of December 31, 2003 and 2002, the capital issued were \$301,290 thousand and \$228,000 thousand for 30,190 thousand and 22,800 thousand ordinary shares.

(2)As recommended by the board of directors on January 16, 2003, the Company issued 4,000 thousand new shares of \$30 per share. The share issuance had been authorized and registered with authorities on April 2, 2003.

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(3) On May 16, 2003, the stockholders approved a \$32,160 thousand increase of capital from retained earnings and employees' bonus. The issuance had been authorized and registered with the authorities on July 22, 2003.

(4) On April 9, 2002, the stockholders approved a \$22,000 thousand increase of capital from retained earnings and employee's bonus. A cash capital increment of 600 thousand shares with \$20 per share was also approved. The share issuance had been authorized and registered with the authorities on May 29, 2002.

**13. 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 SFC 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 are as follows:

	December 31	
	2003	2002
Additional paid-in capital .....	\$87,197	\$7,197
Gains on disposal of assets (after tax).....	980	980
Total.....	\$88,177	\$8,177

**14. 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.



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(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 2002:

Detail of the settlement of 2002 employees' bonus and remuneration of directors and supervisors are as follows:

For the year ended December 31, 2002	As approved by the stockholders' meeting	As recommended by the board of directors	Difference
a. Settlement of employees' bonus by Cash	\$1,122	\$1,122	—
b. Settlement of employee's bonus by issuance of new shares			
Number of shares (in thousands)	113	113	—
Amount	\$1,130	\$1,130	—
Percentage on total number of outstanding shares at end of year	0.50%	0.50%	—
c. Remuneration of directors and supervisors	\$1,502	\$1,502	—
Effect on earnings per share before retroactive adjustments			
Original primary earnings per share	\$3.69	\$3.69	—
Revised primary earnings per share taking into consideration of the employees' bonus	\$3.52	\$3.52	—

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The appropriation of 2003 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.

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

Function Item	December 31, 2003			December 31, 2002		
	Classified to operating costs	Classified to operating expenses	Total	Classified to operating costs	Classified to operating expenses	Total
Personnel cost						
Salary and wages	\$52,029	\$32,148	\$84,177	\$48,977	29,731	\$78,708
Labor and health insurance expense	3,418	1,378	4,796	3,207	1,208	4,415
Pension cost	2,746	1,559	4,305	1,804	1,006	2,810
Other personnel cost	451	3,728	4,179	361	4,112	4,473
Depreciation	57,407	10,297	67,704	57,571	10,843	68,414
Amortization	197	0	197	164	0	164

**16. ESTIMATED INCOME TAX**

(1) Income tax expenses include the followings:

	2003	2002
Income tax expense-current.....	\$15,036	\$11,283
Deferred income tax expense (benefits).....	9,177	2,210
Tax on a separate basis.....	0	1
Adjustment on previous year's income tax.....	(380)	51
10% additional income tax based on undistributed earnings..	0	761
Total Income tax expenses.....	<u>\$23,833</u>	<u>\$14,306</u>

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

	December 31,	
	2003	2002
A.Total deferred income tax liabilities.....	\$1,297	\$1,275
Total deferred income tax assets.....	\$7,416	\$16,572
B.Components of deferred income taxes liabilities and assets resulting from temporary difference		
Deductible temporary difference from bad debt loss.....	\$0	\$490
Deductible temporary difference from inventory valuation loss	\$21,545	\$25,445
Taxable temporary difference from unrealized exchange gain	\$357	\$297
Taxable temporary difference from recognition of pension expense.....	\$4,834	\$4,805
Deductible temporary difference from interest expense.....	\$3,142	\$3,952
Deductible temporary difference from other expenses.....	\$71	\$343
Deductible temporary difference from losses on idle assets valuation loss.....	\$2,097	\$2,097
Deductible temporary difference from processing expenses..	\$778	\$778
Deductible temporary difference from allowance for sales returns.....	\$1,169	\$0
Deductible temporary difference from investment tax credits..	\$216	\$8,295
C.Deferred tax assets—current.....	\$6,309	\$6,949
Deferred tax liabilities—current.....	(89)	(74)
Net balance of deferred tax assets (liabilities)—current.....	\$6,220	\$6,875
D.Deferred tax assets—noncurrent.....	\$1,107	\$9,623
Deferred tax liabilities—noncurrent.....	(1,208)	(1,201)
Net balance of deferred tax assets (liabilities)—noncurrent.	(\$101)	\$8,422

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E. Adjustments between accrued income tax and income tax for the years ended Dec.31, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Accrued income tax.....	\$15,036	\$11,283
Deferred income tax expenses (benefits) on recognition of bad debts.....	122	(122)
Deferred income tax expenses (benefits) on inventory valuation loss.....	975	2,336
Deferred income tax expenses (benefits) on unrealized exchange gain /loss.....	15	(154)
Deferred income tax expenses (benefits) on recognition of investment tax credits.....	8,079	127
Deferred income tax expenses (benefits) on recognition of pension.....	7	471
Deferred income tax expenses (benefits) on losses on Idle assets' valuation loss.....	0	(524)
Deferred income tax expenses (benefits) on other expenses	(21)	76
Tax on a separate basis.....	0	1
Adjustment on previous year's income tax.....	(380)	51
10% additional income tax based on undistributed earnings	0	761
Total income tax expenses.....	<u>\$23,833</u>	<u>\$14,306</u>

(3) Imputation credit account (ICA)

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Balance of ICA	<u>\$41,783</u>	<u>\$37,869</u>
	<u>2003(Estimate)</u>	<u>2002 (Actual)</u>
Imputation tax credit ratio	<u>20.70%</u>	<u>22.65%</u>

(4) Unappropriated retained earnings:

	<u>December 31,</u>	
<u>Year</u>	<u>2003</u>	<u>2002</u>
Prior to 1997.....	\$86,063	\$86,063
After 1998.....	241,898	198,961
Total.....	<u>\$327,961</u>	<u>\$285,024</u>

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(5)The Company's income tax returns through the year 2001 have been assessed and approved by the Tax Authority.

(6)As of December 31, 2003, the Company's unused investments tax credit is as follow:

Item	Deductible amounts	Deducted amounts	Residual amounts	Expiration year
Investment tax credits	\$15,252	(\$15,036)	\$216	2004~2007

**17. EARNINGS PER SHARE**

	2003		2002	
	Pre tax	After tax	Pre tax	After tax
Net income .....	\$111,028	\$87,195	\$97,746	\$83,440
Adjusted weighted average outstanding number of shares..... (Shares in thousands)	29,192	29,192	25,407	25,407
Adjusted primary earnings per share..	\$3.80	\$2.99	\$3.85	\$3.28

**18. RELATED PARTY TRANSACTIONS**

(1)Related Parties

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

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(2) Significant transactions with related parties

(A) Operating Revenues

	For the years ended Dec. 31,	
	2003	2002
Siegfried Ltd.	\$16,874	\$49,685
Siegfried (USA), Inc	30,577	31,650
Total	<u>\$47,451</u>	<u>\$81,335</u>

The sales were made at regular purchase price compared with other clients.

(B) Accounts Receivable, Net

	Dec. 31, 2003	Dec. 31, 2002
Siegfried Ltd.	\$1,169	\$21,507
Less: Allowance for sales returns	(1,169)	0
Total	<u>\$0</u>	<u>\$21,507</u>

(C) Accrued Expenses

	Dec. 31, 2003	Dec. 31, 2002
Siegfried Holding AG	\$1,010	\$2,018

**19. ASSETS PLEDGED AS COLLATERAL**

Item	Dec. 31, 2003	Dec. 31, 2002	Purpose of collateral
Land	\$42,736	\$42,736	Short-term borrowings and Commercial paper payable
Buildings	74,087	80,172	Short-term borrowings, Commercial paper payable and Long-term loans
Machinery and equipment	82,362	99,330	Long-term loans
Construction in progress	526	1,052	Long-term loans
Total	<u>\$199,711</u>	<u>\$223,290</u>	

The pledged assets are disclosed at their net carrying values.

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**20. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES**

Issued and unused L/C for purchase of materials amounted to \$5,808 thousands and \$2,799 thousands as of Dec. 31, 2003 and 2002, respectively.

**21. SIGNIFICANT DISASTER LOSS:** None

**22. SIGNIFICANT SUBSEQUENT EVENTS:** None

**23. OTHER IMPORTANT EVENTS**

**(1) PENSION RELATED INFORMATION**

1. Net periodic pension cost:

	For the years ended	
	2003	2002
(1) Service cost	\$4,152	\$3,009
(2) Interest cost	1,079	828
(3) Actual return on plan assets	(442)	(604)
(4) Deferred pension gain and loss	(668)	(454)
(5) Projected return on plan assets (3)+(4)	(1,110)	(1,058)
(6) Net amortization cost	184	31
(7) Net periodic pension cost (1)+(2)+(5)+(6)	\$4,305	\$2,810

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2. Pension funded status:

	December 31,	
	2003	2002
(1) Vested benefit obligation	(\$3,258)	(\$3,053)
① Nonvested benefit obligation	(25,469)	(20,384)
② Accumulated benefit obligation	(28,727)	(23,437)
③ Additional benefits based on future salaries	(8,038)	(7,401)
④ Projected benefit obligation	(36,765)	(30,838)
(2) Fair value of plan assets	34,306	29,360
(3) Funded status	(2,459)	(1,478)
(4) Unrecognized net transition obligation (asset)	412	443
(5) Unrecognized prior service cost	0	0
(6) Unrecognized net (gain) and loss	7,052	5,841
(7) Accrued pension cost /prepaid pension cost	\$5,005	\$4,806
(8) Vested benefit	\$3,258	\$3,053

	December 31,	
	2003	2002
3. Actuarial assumptions		
(1) Discount rate	3.00%	3.50%
(2) Rate of increase in compensation	2.00%	2.25%
(3) Projected return on plan assets	3.00%	3.50%



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

(a) Derivative Financial Instruments related information : None

(b) Non-Derivative Financial Instruments related information

As of December 31, 2003, the carrying values of non-derivative financial instruments are equal to their market values.

**(3) MATERIAL CONTRACT:** None

**(4) RECLASSIFICATIONS**

Certain accounts in the financial statements as of and for the year ended Dec. 31, 2002 have been reclassified to conform to the financial statements as of Dec.31, 2003.

**24. SEGMENT INFORMATION**

(1) Segment financial information by industry

The Company operates principally in one industry. The Company's major business activity is manufacturing and selling pharmaceuticals.

(2) Geographic financial information

The Company has no significant foreign operations.

(3) Export sales information :

The Company exports sales information in 2003 and 2002 are shown below:

	For the years ended December 31,	
	2003	2002
ASIA	\$93,939	\$79,561
AMERICA	82,180	66,414
EUROPE	292,328	306,357
Total	\$468,447	\$452,332

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(4) Disclosures of major customers :

Customers in excess of 10% sales are shown below

Name	For the years ended December 31,	
	2003	2002
Client A	\$173,197	\$198,701