Pacific Hospital Supply Co., Ltd.

Financial Statements for the
Years Ended December 31, 2012 and 2011 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders
Pacific Hospital Supply Co., Ltd.

We have audited the accompanying balance sheets of Pacific Hospital Supply Co., Ltd. as of December 31, 2012 and 2011, and the related statements of income, changes in shareholders' 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 the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and 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 position of Pacific Hospital Supply Co., Ltd. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

February 27, 2013

<u>*Notice to Readers*</u>

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

PACIFIC HOSPITAL SUPPLY CO., LTD.

BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Par Value)

	2012		2011	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Note 4)	$ 816,281	41	$ 626,494	35
Notes receivable (Note 2)	29,344	2	27,850	2
Accounts receivable, net (Notes 2 and 5)	154,003	8	107,866	6
Other receivables (Note 2)	4,898	-	775	-
Inventories, net (Notes 2 and 6)	163,216	8	193,009	11
Constructions in progress, net (Notes 2 and 7)	-	-	1,002	-
Deferred income tax assets - current (Notes 2 and 11)	6,306	-	5,895	-
Prepayments and other current assets	15,001	1	12,690	1
Total current assets	1,189,049	60	975,581	55
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 8 and 15)				
Cost				
Land	110,767	5	110,767	6
Building	530,485	27	528,988	30
Machinery and equipment	231,022	12	220,650	13
Transportation equipment	14,545	1	14,171	1
Leasehold improvements	6,040	-	5,782	-
Miscellaneous equipment	131,140	6	123,606	7
	1,023,999	51	1,003,964	57
Less: Accumulated depreciation	279,250	14	246,562	14
	744,749	37	757,402	43
Prepayment for equipment	17,033	1	9,051	-
Property, plant and equipment, net	761,782	38	766,453	43
DEFERRED PENSION COST (Notes 2 and 10)	4,173	-	4,769	-
OTHER ASSETS				
Refundable deposits (Note 15)	4,730	1	4,070	-
Deferred charges (Note 2)	22,369	1	25,109	2
Deferred income tax assets - noncurrent (Notes 2 and 12)	1,104	-	1,274	-
Total other assets	28,203	2	30,453	2
TOTAL	$ 1,983,207	100	$ 1,777,256	100

	2012		2011	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes payable (Note 14)	$ 5,382	-	$ 38,144	2
Accounts payable	146,508	7	80,185	5
Income tax payable (Notes 2 and 11)	30,653	2	17,535	1
Accrued expenses	104,465	5	98,009	6
Advances - sales revenue	22,700	1	7,896	-
Advances - construction, net (Notes 2 and 7)	-	-	1,737	-
Other current liabilities	9,043	1	1,128	-
Total current liabilities	318,751	16	244,634	14
OTHER LIABILITIES				
Accrued pension liability (Notes 2 and 9)	22,291	1	23,261	1
Total liabilities	341,042	17	267,895	15
SHAREHOLDERS' EQUITY				
Capital stock: $10 par value; authorized: 100,000 thousand shares; issued: 2012 - 66,015 thousand shares; 2011 - 60,014 thousand shares,	660,152	33	600,138	34
Capital surplus from stock issued in excess of par value	410,354	21	410,354	23
Retained earnings				
Legal reserve	122,563	6	90,235	5
Special reserve	10,998	-	10,085	1
Unappropriated earnings	449,719	23	409,547	23
Total retained earnings	583,280	29	509,867	29
Net loss not recognized as pension cost	(11,621)	-	(10,998)	(1)
Shareholders' equity, net	1,642,165	83	1,509,361	85
TOTAL	$ 1,983,207	100	$ 1,777,256	100

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

PACIFIC HOSPITAL SUPPLY CO., LTD.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 20)				
Sales	$ 1,456,761	101	$ 1,307,864	97
Less: Sales returns and allowances	(18,053)	(1)	(6,209)	-
Net sales	1,438,708	100	1,301,655	97
Construction revenue	-	-	38,737	3
Service revenue	-	-	3,227	-
Operating revenue, net	1,438,708	100	1,343,619	100
OPERATING COSTS (Notes 2, 6 and 12)				
Cost of goods sold	875,547	61	800,876	60
Construction cost	-	-	20,347	1
Service cost	-	-	2,883	-
Total operating costs	875,547	61	824,106	61
GROSS PROFIT	563,161	39	519,513	39
OPERATING EXPENSES (Notes 12 and 14)				
Selling expenses	69,012	5	64,588	5
General and administrative expenses	82,506	5	75,602	6
Research and development expenses	26,284	2	21,568	1
Total operating expenses	177,802	12	161,758	12
OPERATING INCOME	385,359	27	357,755	27
NONOPERATING INCOME AND GAINS				
Interest income	2,431	-	1,056	-
Gain on disposal of property, plant and equipment	-	-	2,692	-
Exchange gain, net	-	-	18,187	1
Recovery of provision for doubtful accounts (Note 5)	691	-	759	-
Miscellaneous income	4,219	1	6,741	1
Total nonoperating income and gains	7,341	1	29,435	2
NONOPERATING EXPENSES AND LOSSES				
Interest expense	265	-	276	-
Loss on disposal of property, plant and equipment	2,457	-	3,499	-
Exchange loss, net	22,993	2	-	-
Miscellaneous expenses	12	-	-	-
Total nonoperating expenses and losses	25,727	2	3,775	-

(Continued)

PACIFIC HOSPITAL SUPPLY CO., LTD.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	$ 366,973	26	$ 383,415	29
INCOME TAX EXPENSE (Notes 2 and 11)	53,505	4	60,134	5
NET INCOME	$ 313,468	22	$ 323,281	24

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 13)				
Basic	$ 5.56	$ 4.75	$ 5.81	$ 4.90
Diluted	$ 5.53	$ 4.72	$ 5.78	$ 4.87

The accompanying notes are an integral part of the financial statements. (Concluded)

PACIFIC HOSPITAL SUPPLY CO., LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Common Stock Issued		Capital Surplus - Issue of Stock in Excess of Par Value (Note 10)	Retained Earnings (Notes 2, 10 and 11)				Net Loss Not Recognized as Pension Cost (Notes 2 and 9)	Shareholders' Equity, Net
	Shares (Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Total		
BALANCE, JANUARY 1, 2011	53,969	$ 539,693	$ 410,354	$ 55,843	$ 5,562	$ 347,534	$ 408,939	$ (10,085)	$ 1,348,901
Appropriation of 2010 earnings									
Legal reserve	-	-	-	34,392	-	(34,392)	-	-	-
Special reserve	-	-	-	-	4,523	(4,523)	-	-	-
Cash dividends - $3 per share	-	-	-	-	-	(161,908)	(161,908)	-	(161,908)
Stock dividends - $1.12 per share	6,045	60,445	-	-	-	(60,445)	(60,445)	-	-
Net income in 2011	-	-	-	-	-	323,281	323,281	-	323,281
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	(913)	(913)
BALANCE, DECEMBER 31, 2011	60,014	600,138	410,354	90,235	10,085	409,547	509,867	(10,998)	1,509,361
Appropriation of 2011 earnings									
Legal reserve	-	-	-	32,328	-	(32,328)	-	-	-
Special reserve	-	-	-	-	913	(913)	-	-	-
Cash dividends - $3 per share	-	-	-	-	-	(180,041)	(180,041)	-	(180,041)
Stock dividends - $1 per share	6,001	60,014	-	-	-	(60,014)	(60,014)	-	-
Net income in 2012	-	-	-	-	-	313,468	313,468	-	313,468
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	(623)	(623)
BALANCE, DECEMBER 31, 2012	66,015	$ 660,152	$ 410,354	$ 122,563	$ 10,998	$ 449,719	$ 583,280	$ (11,621)	$ 1,642,165

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

PACIFIC HOSPITAL SUPPLY CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 313,468	$ 323,281
Depreciation and amortization	53,481	51,112
Recovery of provision for doubtful accounts	(691)	(759)
Recovery of loss on inventories	(164)	(541)
Inventory obsolescence	2,988	1,516
Loss on disposal of property, plant and equipment, net	2,457	807
Deferred income taxes	(241)	1,817
Accrued pension liabilities	(997)	(669)
Net changes in operating assets and liabilities		
Notes receivable	(1,494)	(9,413)
Accounts receivable	(45,446)	31,542
Tax refund receivable	-	480
Other receivables	(4,123)	6,660
Inventories	26,969	(47,255)
Construction in progress	1,002	517
Prepayments and other current assets	(2,311)	(5,968)
Overdue receivables	-	1,365
Notes payable	(32,762)	85
Accounts payable	66,323	3,709
Income tax payable	13,118	17,535
Accrued expenses	6,456	(273)
Advances - sales revenue	14,804	(33,123)
Advances - construction	(1,737)	(269)
Other current liabilities	(54)	129
Net cash provided by operating activities	411,046	342,285
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(35,063)	(62,947)
Proceeds from disposal of property, plant and equipment	235	3,791
Increase in refundable deposits	(660)	(118)
Increase in deferred charges	(5,730)	(25,609)
Net cash used in investing activities	(41,218)	(84,883)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	(180,041)	(161,908)
NET INCREASE IN CASH	189,787	95,494
CASH, BEGINNING OF YEAR	626,494	531,000
CASH, END OF YEAR	$ 816,281	$ 626,494

(Continued)

PACIFIC HOSPITAL SUPPLY CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 265	$ 276
Income tax paid	$ 40,628	$ 40,302
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	$ 43,032	$ 49,725
Decrease (increase) in payable for equipment purchased	(7,969)	13,222
Cash paid for acquisition of property, plant and equipment	$ 35,063	$ 62,947

The accompanying notes are an integral part of the financial statements. (Concluded)

1. ORGANIZATION AND OPERATIONS

Pacific Hospital Supply Co., Ltd. (the "Company") mainly manufactures, processes and sells medical disposable products and equipment and does medical engineering work on centralized medical gas piping systems.

The Company's shares have been traded on the Taiwan GreTai Securities Market (GTSM) since February 2004.

As of December 31, 2012 and 2011, the Company had 545 and 572 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China (ROC).

For readers' convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If inconsistencies arise between the English version and the original Chinese version or if differences arise in the interpretation between the two versions, the Chinese-version of the financial statements shall prevail.

Significant accounting policies are summarized as follows:

Foreign Currencies

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

Accounting Estimates

Under these guidelines, laws and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventory, depreciation of property, plant and equipment, income tax, pension cost, bonuses to employees, directors and supervisors, etc. Actual results may differ from these estimates.

Current and Noncurrent Assets and Liabilities

Current assets include cash, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Impairment of Accounts Receivable

Receivables are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the receivables, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the debtor;
- Receivables becoming overdue; or
- It is becoming probable that the debtor will enter bankruptcy or financial re-organization.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Company’s past experience in the collection of payments and an increase in the number of delayed payments.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable’s original effective interest rate.

The carrying amount of the receivables is reduced through the use of an allowance account. When receivables are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

Inventories

Inventories consist of raw materials, finished goods and work-in-process. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

Construction Contracts

Revenues of construction contracts are recognized using the completed-contract method since the construction periods are less than one year. Provisions for estimated losses on uncompleted contracts are recognized in the period in which these losses are determined. Any reduction of the estimated losses will be recognized as income in the periods these reductions are determined.

Upon the completion of a project, the advances for construction and construction in progress are recognized as construction revenue and cost, respectively. On balance sheet dates, if the balance of the construction in progress for each project exceeds the related advances, the excess is classified under current assets; conversely, the excess is classified under current liabilities.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Major additions and improvements to property, plant and equipment are capitalized, while cost of repairs and maintenance are expensed currently.

Provisions for estimated losses on properties are recognized in the period in which these losses are determined. Any reduction of the estimated losses will be recognized as income in the periods these reductions are determined, with maximum income set at original book value minus depreciation.

Depreciation is calculated using the straight-line method over service lives estimated as follows: buildings, 5 to 50 years; machinery and equipment, 2 to 20 years; transportation equipment, 5 to 10 years; leasehold improvements, 2 to 15 years; and miscellaneous equipment, 2 to 15 years. Property, plant and equipment that have reached their residual value but are still being used by the Company are depreciated over their new estimated service lives.

The related cost and accumulated depreciation of an item of property, plant and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal.

Deferred Charges

Software installation costs acquired are amortized on a straight-line basis over 1 to 5 years.

Provisions for estimated losses on deferred charges are recognized in the period in which these losses are determined. Any reduction of the estimated losses will be recognized as income in the periods these reductions are determined, with maximum income set at original book value minus amortization.

Pension Cost

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Curtailment or settlement gains or losses of the defined benefit plan are recognized as part of the net periodic pension cost for the year.

Income Tax

The Company applies inter-year allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Tax credits for certain purchases of machinery, equipment and technology, barren area investment, research and development expenditures, and personnel training expenditures are recognized using the flow-through method.

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

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Revenue Recognition

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. Sales returns and allowances are subtracted from gross sales, and the related costs of goods returned are reversed. The Company does not recognize sales revenue on raw materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of raw materials ownership.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business. For receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

On the accounting for construction revenue, please refer to the section “Construction Contracts.”

Service revenues are recognized when services are rendered.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, “Financial Instruments: Recognition and Measurement.” The main revisions include (1) loans and receivables originated by the Company are now covered by SFAS No. 34; (2) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (3) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change did not have a significant effect on the Company’s financial statements as of and for the year ended December 31, 2011.

4. CASH

	December 31	
	2012	**2011**
Cash on hand	$ 829	$ 1,130
Checking accounts and demand deposits	666,952	625,364
Time deposits - interest of 0.94%-1.36%	148,500	-
	$ 816,281	$ 626,494

5. ACCOUNTS RECEIVABLE

	December 31	
	2012	**2011**
Accounts receivable	$ 155,330	$ 110,396
Less: Allowance for doubtful accounts	(1,327)	(2,530)
	$ 154,003	$ 107,866

Movements of allowance for doubtful accounts were as follows:

	Year Ended December 31			
	2012		2011	
	Accounts Receivable	Overdue Receivable	Accounts Receivable	Overdue Receivable
Balance, beginning of year	$ 2,530	$ -	$ 1,642	$ 4,005
Deduct: Amounts written off	(512)	-	-	-
Deduct: Recovery of provision for doubtful accounts (Note)	(691)	-	(1,752)	(1,365)
Reclassifications	-	-	2,640	(2,640)
Balance, end of year	$ 1,327	$ -	$ 2,530	$ -

Overdue receivables were classified under other assets.

Note: Accounts receivable of NT$2,358 thousand were directly written off as bad debt expense for the year ended December 31, 2011.

6. INVENTORIES

	December 31	
	2012	2011
Finished goods	$ 45,314	$ 51,842
Work in process	25,900	23,007
Raw materials	92,002	118,160
	$ 163,216	$ 193,009

As of December 31, 2012 and 2011, the allowance for loss on inventory was NT$22,754 thousand and NT$22,918 thousand, respectively.

The cost of inventories recognized as operating cost for the years ended December 31, 2012 and 2011 was NT$875,547 thousand and NT$821,223 thousand, respectively. The cost of inventories recognized as operating cost for the year ended December 31, 2012 included NT$21 thousand net gain, which comprised revenue from sale of scraps, net gain on physical inventory, gain on recovery of write-downs of inventories and loss on disposal of inventory. The cost of inventories recognized as operating cost for the year ended December 31, 2011 included NT$1,876 thousand net gain, which comprised revenue from sale of scraps, net gain on physical inventory, gain on recovery of write-downs of inventories, and loss on disposal of inventory.

7. CONSTRUCTIONS IN PROGRESS AND ADVANCES ON CONSTRUCTION

	December 31, 2011
Constructions in progress	$ 1,475
Less: Advances on construction	(473)
Constructions in progress, net	$ 1,002

(Continued)

	December 31, 2011
Advances on construction	$ 2,876
Less: Constructions in progress	(1,139)
Advances on construction, net	$ 1,737

(Concluded)

8. PROPERTY, PLANT AND EQUIPMENT

	Year Ended December 31, 2012				
	Balance, Beginning of Year	Additions	Disposals	Reclassified	Balance, End of Year
Cost					
Land	$ 110,767	$ -	$ -	$ -	$ 110,767
Buildings	528,988	808	-	689	530,485
Machinery and equipment	220,650	8,628	(10,812)	12,556	231,022
Transportation equipment	14,171	374	-	-	14,545
Leasehold improvement	5,782	181	-	77	6,040
Miscellaneous equipment	123,606	10,119	(4,203)	1,618	131,140
	1,003,964	20,110	(15,015)	14,940	1,023,999
Accumulated depreciation					
Building	57,664	17,557	-	-	75,221
Machinery and equipment	99,066	14,936	(9,008)	-	104,994
Transportation equipment	7,715	1,449	-	-	9,164
Leasehold improvement	4,900	142	-	-	5,042
Miscellaneous equipment	77,217	10,927	(3,315)	-	84,829
	246,562	45,011	(12,323)	-	279,250
Property, plant and equipment, net	757,402	(24,901)	(2,692)	14,940	744,749
Prepayments for equipment	9,051	22,922	-	(14,940)	17,033
	$ 766,453	$ (1,979)	$ (2,692)	$ -	$ 761,782

	Year Ended December 31, 2011				
	Balance, Beginning of Year	Additions	Disposals	Reclassified	Balance, End of Year
Cost					
Land	$ 110,767	$ -	$ -	$ -	$ 110,767
Buildings	505,381	2,679	986	21,914	528,988
Machinery and equipment	226,001	6,001	15,495	4,143	220,650
Transportation equipment	13,163	1,120	131	19	14,171
Leasehold improvement	6,636	116	170	(800)	5,782
Miscellaneous equipment	112,841	21,258	13,764	3,271	123,606
	974,789	31,174	30,546	28,547	1,003,964

(Continued)

	Year Ended December 31, 2011				
	Balance, Beginning of Year	Additions	Disposals	Reclassified	Balance, End of Year
Accumulated depreciation					
Building	$ 41,402	$ 17,061	$ 799	$ -	$ 57,664
Machinery and equipment	97,883	15,235	14,050	(2)	99,066
Transportation equipment	6,053	1,766	104	-	7,715
Leasehold improvement	5,399	199	128	(570)	4,900
Miscellaneous equipment	73,939	13,573	10,867	572	77,217
	224,676	47,834	25,948	-	246,562
Property, plant and equipment, net	750,113	(16,660)	4,598	28,547	757,402
Constructions in progress	16,417	5,497	-	(21,914)	-
Prepayments for equipment	2,630	13,054	-	(6,633)	9,051
	$ 769,160	$ 1,891	$ 4,598	$ -	$ 766,453

(Concluded)

9. PENSION PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT$9,614 thousand and NT$9,701 thousand for the years ended December 31, 2012 and 2011, respectively.

Based on the defined benefit plan under the Labor Standards Law (the "LSL"), employees with at least 15 years of service are entitled to benefits equal to 2 months' average earnings for each year of service, and 1 month's average earning for each additional year of service beyond 15 years, up to a maximum benefit of 45 months' average earnings. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 4% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. As of January and July 2005, the contribution amounts were changed to 6% and 3%, respectively. The pension fund is deposited in the Bank of Taiwan in the committee's name. The Company recognized pension costs of NT$3,498 thousand and NT$3,592 thousand for the years ended December 31, 2012 and 2011, respectively.

Information about the defined benefit plan was as follows:

a. Components of net periodic pension cost

	Year Ended December 31	
	2012	2011
Service cost	$ 773	$ 802
Interest cost	1,617	1,710
Projected return on plan assets	(772)	(679)
Amortization of net transitional obligation	596	596
Amortization of pension cost	1,284	1,163
Net periodic pension cost	$ 3,498	$ 3,592

b. Reconciliation of the fund status of the plan and accrued pension cost

	December 31	
	2012	2011
Benefit obligation		
Vested benefit obligation	$ 19,659	$ 15,120
Non-vested benefit obligation	45,304	45,930
Accumulated benefit obligation	64,963	61,050
Additional benefits based on future salaries	20,696	20,240
Projected benefit obligation	85,659	81,290
Fair value of plan assets	(42,672)	(37,788)
Funded status	42,987	43,502
Unrecognized net transitional obligation	(4,173)	(4,769)
Unrecognized net loss	(32,317)	(31,239)
Additional liability	15,794	15,767
Accrued pension liabilities	$ 22,291	$ 23,261
Deferred pension cost	$ 4,173	$ 4,769
Net loss not recognized as pension cost	$ 11,621	$ 10,998

c. Actuarial assumptions as of December 31, 2012 and 2011

	Year Ended December 31	
	2012	2011
Discount rate used in determining present values	1.75%	2.00%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	1.75%	2.00%

10. SHAREHOLDERS' EQUITY

Capital Surplus

The capital surplus from shares issued in excess of par and donation may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Company's paid-in capital and once a year).

Appropriation of Earnings and Dividend Policy

The Company's Articles of Incorporation provide that 10% of annual net income less any deficit should be appropriated as legal reserve. From the remainder, the board of directors should propose the appropriation of up to 5% as remuneration to directors and supervisors and 1% to 15% as bonus to employees.

The Company has adopted the equalization dividend policy for the payment of dividends, which may be paid either in the form of stock dividends (including dividends from earnings and capital surplus) or cash dividends. Dividend payments are made from current year earnings of the Company after the appropriation for bonus to directors and supervisors and employees. In determining distribution of dividends, the Board of Directors shall take into consideration the general business and financial conditions of the Company, and shall be approved in the shareholders' meetings. Distribution of dividends shall take into consideration general business and financial conditions of the Company. Distributions of cash dividends shall not be less than 20% of total dividends.

For the years ended December 31, 2012 and 2011, the bonus to employees was both NT$19,000 thousand and the remuneration to directors and supervisors was NT$2,120 thousand and NT$1,600 thousand, respectively. The bonus to employees and remuneration to directors and supervisors were estimated based on net income (net of the bonus and remuneration) multiplied by a percentage which is in accordance with the Company’s Articles of Incorporation. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders’ resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the shareholders’ meeting.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain shareholders’ equity accounts (including unrealized revaluation increment, unrealized gain or loss on financial instruments, net loss not recognized as pension cost, cumulative translation adjustments) shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company’s paid-in capital legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company’s paid-in capital, the excess may be transferred to capital or distributed in cash.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings and the bonus to employees and remuneration to directors and supervisors for 2011 and 2010 were approved in the shareholders’ meetings on May 30, 2012 and May 18, 2011, respectively. The appropriations of earnings and dividends per share were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Year 2011	**For Year 2010**	**For Year 2011**	**For Year 2010**
Legal reserve	$ 32,328	$ 34,392		
Special reserve	913	4,523		
Cash dividends	180,041	161,908	$3.00	$3.00
Stock dividends	60,014	60,445	1.00	1.12
	$ 273,296	$ 261,268		

For 2011 and 2010, the bonus to employees and the remuneration to directors and supervisors were as follows:

	Cash Bonus For Year 2011	**Cash Bonus For Year 2010**
Bonus to employees	$ 19,000	$ 18,000
Remuneration to directors and supervisors	1,600	1,600

	Bonus to Employees For Year 2011	Remuneration to Directors and Supervisors For Year 2011	Bonus to Employees For Year 2010	Remuneration to Directors and Supervisors For Year 2010
The amounts approved in shareholders' meetings	$ 19,000	$ 1,600	$ 18,000	$ 1,600
Accrued amounts reflected in financial statements for the year	19,000	1,600	18,000	1,600
	$ -	$ -	$ -	$ -

The shareholders also resolved the transfer of NT$60,014 thousand of unappropriated earnings to capital stock, total 6,001 thousand shares, in the shareholders' meeting on May 30, 2012. The base date of transfer was July 10, 2012. The transfer took effect after applying to the Financial Supervisory Commission (the FSC) on June 14, 2012.

The shareholders also resolved the transfer of NT$60,445 thousand of unappropriated earnings to capital stock, total 6,045 thousand shares, in the shareholders' meeting on May 18, 2011. The base date of transfer was July 1, 2011. The transfer took effect after applying to the FSC on May 30, 2011.

The appropriations of the earnings of 2012 had been proposed by the board of directors on February 27, 2013. The proposed appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 31,347	
Special reserve	623	
Cash dividends	264,061	$4.00

The 2012 appropriations of earnings for reserves, dividends, bonus to employees and remuneration to directors and supervisors will be resolved by the shareholders in their meeting scheduled for June 11, 2013.

Information on the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

11. INCOME TAX

a. A reconciliation of income tax expense based on income before income tax at the statutory rate of 17% and income tax expense was as follows:

	Year Ended December 31 2012	2011
Income tax expense based on income before income tax at statutory rate:	$ 62,385	$ 65,181
Tax effect on adjusting items		
Permanent differences		
Tax-exempt income	(14,652)	(15,234)
Others	139	68
Temporary differences	1,704	(2,558)

(Continued)

	Year Ended December 31	
	2012	2011
Tax on unappropriated earnings (10%)	$ 4,999	$ 8,266
Less: Investment tax credits used	-	(10,780)
Income tax payable	54,575	44,943
Adjustments to prior years' tax	(829)	13,374
Deferred income tax - temporary differences	(241)	1,817
Income tax expense	$ 53,505	$ 60,134

(Concluded)

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

b. Changes in income tax payable:

	Year Ended December 31	
	2012	2011
Balance, beginning of year	$ 17,535	$ -
Tax refunds receivable, beginning of year	-	(480)
Current income tax	54,575	44,943
Payment in current year	(40,628)	(40,302)
Adjustments to prior years' tax	(829)	13,374
Balance, end of year	$ 30,653	$ 17,535

c. Deferred income tax assets, net were as follows:

	December 31	
	2012	2011
Current		
Deferred income tax assets		
Allowance for loss on inventories	$ 3,868	$ 3,896
Unrealized exchange losses (gains)	1,973	(156)
Unrealized overheads	145	187
Realized two-year overdue advance sales revenue	206	206
Allowance for doubtful accounts	114	299
Investment tax credits	-	1,463
	$ 6,306	$ 5,895
Noncurrent		
Deferred income tax assets		
Deferred pension expense	$ 1,104	$ 1,274

d. The Company has expansion projects and sales from such projects, based on the Tax Law, are exempt from income tax for the five-year period beginning January 1, 2011. Such sales were summarized as follows:

Approval Date and Reference Number	Expansion Commencement Date	Tax Exemption Period	Tax Exemption Cost
April 20, 2011 (ref #10005108240)	January 1, 2011	January 1, 2011 to December 31, 2015	$ 100,813

e. Information about integrated income tax was as follows:

	December 31	
	2012	2011
Balance of imputation credits allocable to shareholders	$ 54,272	$ 69,560

The creditable tax ratio for distribution of earnings of 2012 and 2011 was 12.07% (estimated) and 20.46%, respectively.

The Company had no unappropriated earnings generated on or before 1997.

Income tax returns through 2010 had been examined and cleared by the tax authorities.

12. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2012			2011		
	Classified as Operating Cost	Classified as Operating Expense	Total	Classified as Operating Cost	Classified as Operating Expense	Total
Personnel expenses						
Salary	$ 169,457	$ 88,074	$ 257,531	$ 173,728	$ 80,962	$ 254,690
Pension	10,157	2,955	13,112	10,387	2,906	13,293
Employee insurance	15,468	4,862	20,330	15,997	4,524	20,521
Others	9,980	4,668	14,648	10,502	4,058	14,560
	$ 205,062	$ 100,559	$ 305,621	$ 210,614	$ 92,450	$ 303,064
Depreciation	$ 42,136	$ 2,875	$ 45,011	$ 44,733	$ 3,101	$ 47,834
Amortization	3,797	4,673	8,470	585	2,693	3,278

13. EARNINGS PER SHARE ("EPS")

The numerators and denominators used in calculating basic and diluted EPS were as follows:

	Amounts (Numerator)		Shares	EPS (Dollars)	
	Before Income Tax	After Income Tax	(Denominator) (Thousands)	Before Income Tax	After Income Tax
Year ended December 31, 2012					
Basic EPS					
Net income for the year attributable to common shareholders	$ 366,973	$ 313,468	66,015	$ 5.56	$ 4.75
Effect of dilutive potential common stock					
Bonus to employees	-	-	329		
Diluted EPS					
Net income for the year attributable to common shareholders plus effect of potential dilutive common stock	$ 366,973	$ 313,468	66,344	$ 5.53	$ 4.72
Year ended December 31, 2011					
Basic EPS					
Net income for the year attributable to common shareholders	$ 383,415	$ 323,281	66,015	$ 5.81	$ 4.90
Effect of dilutive potential common stock					
Bonus to employees	-	-	311		
Diluted EPS					
Net income for the year attributable to common shareholders plus effect of potential dilutive common stock	$ 383,415	$ 323,281	66,326	$ 5.78	$ 4.87

The Accounting Research and Development Foundation (ARDF) issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of common stock from capital surplus of 6,001 thousand shares for the year ended December 31, 2012. This adjustment caused the basic and diluted after income tax EPS for the year ended December 31, 2011 to decrease from NT$5.39 to NT$4.90 and from NT$5.36 to NT$4.87, respectively.

14. RELATED PARTY TRANSACTIONS

a. The Company's related parties were as follows:

Related Party	Relationship with the Company
Zhi-Qun Co., Ltd. ("Zhi-Qun")	Common chairman
Ren Chung	The Company's chairman and president

b. Significant transactions with the related parties were as follows:

	2012		2011	
	Carrying Value	**%**	**Carrying Value**	**%**
For the year				
Rental expense (included in operating expenses)				
Zhi-Qun	$ 7,141	4	$ 7,137	4
Ren Chung	72	-	72	-
	$ 7,213	4	$ 7,209	4
At end of the year				
Refundable deposits				
Zhi-Qun	$ 1,200	25	$ 1,200	29
Notes payable				
Ren Chung	$ -	-	$ 12	-

c. Compensation of directors, supervisors and management personnel:

	Year Ended December 31	
	2012	**2011**
Salaries (including incentives, remuneration to directors and supervisors, incidental expenses and special compensation)	$ 25,230	$ 25,376
Bonus	4,202	2,868
	$ 29,432	$ 28,244

Terms of transactions with related parties were similar to those with third parties.

15. MORTGAGED OR PLEDGED ASSETS

The following assets had been pledged or mortgaged as collaterals for unused short-term and long-term bank loans:

	December 31	
	2012	**2011**
Land and buildings, net	$ 353,576	$ 363,337

16. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Minimum future lease payments for office under operating lease for the period from July 2011 to September 2014 were as follows:

Year	Amount
2013	$ 7,723
September 2014	684

17. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments:

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Financial assets - with fair values approximating carrying amounts	$ 1,004,526	$ 1,004,526	$ 762,985	$ 762,985
Refundable deposits	4,730	4,730	4,070	4,070
Financial liabilities				
Financial liabilities - with fair values approximating carrying amounts	151,890	151,890	118,329	118,329

b. Methods and assumptions used to estimate the fair values of financial instruments were as follows:

1) The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Cash, notes receivable, accounts receivable - net, other receivables and notes and accounts payable.

2) The carrying amounts of refundable deposits which have no clear maturity dates represent fair values.

18. SUBSEQUENT EVENTS

The Company has business expansion projects to invest 100% subsidiary of NT$30,000 thousand in a 100% subsidiary in January 2013; the investment was resolved by the board of directors on December 24, 2012. The subsidiary mainly manufactures rubbers. An additional cash investment of NT$30,000 thousand in the subsidiary was resolved by the board of directors on January 26, 2013. The total investment was amount of NT$60,000 thousand.

19. ADDITIONAL DISCLOSURES

No other information on major transactions, investees and investments in mainland China are required by the Securities and Futures Bureau for disclosure by the Company.

20. OPERATING SEGMENT FINANCIAL INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. In accordance with SFAS No. 41, the Company only has one reportable segment.

a. Revenue from major products and services

The following is an analysis of the Company's revenue from major products and services:

	Year Ended December 31	
	2012	**2011**
Medical materials	$ 1,301,735	$ 1,223,123
Medical instruments	99,156	78,532
Medical equipment	37,817	-
Medical constructions	-	38,737
Service revenues	-	3,227
	$ 1,438,708	$ 1,343,619

b. Geographical information

As of December 31, 2012, the Company had no foreign operating segments.

c. Information about major customer

Clients that accounted for at least 10% of the Company's gross sales were as follows:

Client	**2012**	**2011**
A company	$ 214,976	$ 200,874

21. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The significant foreign-currency financial assets and liabilities were as follows:

	December 31					
	2012			2011		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
Financial assets						
Monetary items						
USD	$ 12,012	29.04	$ 348,829	$ 4,203	30.275	$ 127,246
EUR	334	38.49	12,856	220	39.18	8,619
JPY	119,015	0.3364	40,037	299,495	0.3906	116,982
Financial liabilities						
Monetary items						
USD	62	29.04	1,800	67	30.275	2,028

22. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the FSC on February 2, 2010, the Company's pre-disclosure information on the adoption of International Financial Reporting Standards was as follows:

a. On May 14, 2009, the FSC announced the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC." In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, Interpretations and related guidance (hereinafter "IFRSs"). To comply with this framework, the Company has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is Mr. Jacky Lee, vice general manager. The main contents of the plan, anticipated schedule and status of execution as of December 31, 2012 were as follows:

Contents of Plan	Responsible Department	Status of Execution
Determine IFRSs accounting policies.	Project team	Finished
Determine IFRSs accounting policies under IFRS 1 - First-time Adoption of International Financial Reporting Standards	Project team	Finished
Complete the preparation of opening date balance sheet under IFRSs	Project team	Finished
Prepare comparative financial information under IFRSs for 2012	Project team	Finished

b. As of December 31, 2012, the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and their effects were as follows:

1) Reconciliation of balance sheet as of January 1, 2012:

	ROC GAAP	Effects of Transition to IFRSs	IFRSs	Note
Assets				
Deferred income tax assets - current	$ 5,895	$ (5,895)	$ -	6) a)
Prepayments	-	9,051	9,051	6) b)
Software	-	25,109	25,109	6) c)
Deferred pension cost	4,769	(4,769)	-	6) d)
Prepayment for equipment	9,051	(9,051)	-	6) b)
Deferred charges	25,109	(25,109)	-	6) c)
Deferred income tax assets - noncurrent	1,274	12,534	13,808	6) a) and 6) d)
Other assets	1,731,158	-	1,731,158	
Liabilities				
Accrued pension liability	23,261	23,289	46,550	6) d)
Other liabilities	244,634	-	244,634	
Equity				
Capital stock	600,138	-	600,138	
Capital surplus	410,354	-	410,354	
Retained earnings	509,867	(32,417)	477,450	6) d)
Net loss not recognized as pension cost	(10,998)	10,998	-	6) d)

2) Reconciliation of balance sheet as of December 31, 2012:

	ROC GAAP	Effects of Transition to IFRSs	IFRSs	Note
Assets				
Cash	$ 816,281	$ (148,500)	$ 667,781	6) e)
Other financial assets - current	-	148,500	148,500	6) e)
Deferred income tax assets - current	6,306	(6,306)	-	6) a)
Prepayments	-	17,033	17,033	6) b)
Software	-	22,369	22,369	6) c)
Prepayment for equipment	17,033	(17,033)	-	6) b)
Deferred pension cost	4,173	(4,173)	-	6) d)
Deferred charges	22,369	(22,369)	-	6) c)
Deferred income tax assets - noncurrent	1,104	12,605	13,709	6) a) and 6) d)
Other assets	1,115,941	-	1,115,941	
Liabilities				
Accrued pension liability	22,291	23,804	46,095	6) d)
Other liabilities	318,751	-	318,751	
Equity				
Capital stock	660,152	-	660,152	
Capital surplus	410,354	-	410,354	
Retained earnings	583,280	(33,299)	549,981	6) d)
Net loss not recognized as pension cost	(11,621)	11,621	-	6) d)

3) Reconciliation of statement of income for the year ended December 31, 2012:

	ROC GAAP	Effects of Transition to IFRSs	IFRSs	Note
Net operating revenue	$ 1,438,708	$ -	$ 1,438,708	
Operating costs	875,547	(1,425)	874,122	6) d)
Gross profit	563,161	1,425	564,586	
Operating expenses	177,802	(574)	177,228	6) d)
Other revenue and expenses	(18,386)	-	(18,386)	
Income tax expense	53,505	340	53,845	6) d)
Net income	$ 313,468	1,659	315,127	
Defined benefit plans actuarial loss		2,541	2,541	6) d)
Comprehensive income		$ (882)	$ 312,586	

4) Appropriation for special reserve at the date of transition to IFRSs

In accordance with Order No. 1010012865 issued by the FSC on April 6, 2012, at the first-time adoption of IFRSs, an entity shall appropriate to special reserve the amount of increase in retained earnings that resulted from unrealized revaluation increment and cumulative translation differences (gain) because of the entity's use of exemptions under IFRS 1. However, if the amount of the increase in retained earnings that resulted from all IFRSs adjustments is smaller than the amount of unrealized revaluation increment and cumulative translation differences (gain) reclassified to retained earnings, only the amount of the increase in retained earnings that resulted from all IFRSs adjustments will be appropriated to special reserve. The special reserve will be reversed in proportion to the usage, disposal or reclassification of the related assets.

For the decrease in retained earnings from all IFRSs adjustments at the first-time adoption of IFRSs, the Company has not appropriated for special reserve.

5) Exemptions from IFRS 1

IFRS 1, "First-time Adoption of International Financial Reporting Standards," establishes the procedures for first financial statements prepared in accordance with IFRSs. According to IFRS 1, the Company is required to determine the accounting policies under IFRSs and retrospectively apply those accounting policies in the opening balance sheet at the date of transition to IFRSs (January 1, 2012), except for optional exemptions to such retrospective application provided under IFRS 1. The main optional exemptions the Company adopted are summarized as follows:

<u>Deemed cost</u>

The Company elected to use cost for valuation of the designated property, plant and equipment and intangible assets at the date of transition to IFRSs.

<u>Employee benefits</u>

The Company elected to recognize all cumulative actuarial gains and losses relating to employee benefits in retained earnings at the date of transition to IFRSs.

The effects arising from the above exemptions are stated in item 6) Notes to the significant reconciliation items of transition to IFRS.

6) Notes to the significant reconciliation items of transition to IFRSs:

The material differences between the Company's existing accounting policies under ROC GAAP and the accounting policies to be adopted under IFRSs were as follows:

a) Deferred income tax assets/liabilities

Under ROC GAAP, valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under IFRSs, deferred income tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits, and valuation allowance account is not used.

In addition, under ROC GAAP, deferred tax assets or liabilities are classified as current or noncurrent in accordance with the classification of their related assets or liabilities. However, if deferred income tax assets or liabilities do not relate to assets or liabilities in the financial statements, they are classified as either current or noncurrent based on the expected length of time before they are realized or settled. Under IFRSs, deferred tax assets or liabilities are classified as noncurrent assets or liabilities.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from deferred income tax assets to noncurrent assets were NT$6,306 thousand and NT$5,895 thousand, respectively.

b) Presentation of prepayment for equipment

Under ROC GAAP, prepayments for equipment are classified under property, plant and equipment. Under IFRSs, prepayments for equipment are classified as prepayments and they are classified as either current or noncurrent assets based on the expected length of time before they are realized.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from prepayment for equipment to prepayments were NT$17,033 thousand and NT$9,051 thousand, respectively.

c) Classification of deferred charges

Under ROC GAAP, deferred charges are classified under other assets. Under IFRSs, deferred charges are classified as real estate, building, machinery and equipment, intangible assets, prepaid expenses-current or prepaid expenses-noncurrent according to their nature.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from deferred charges to intangible assets were NT$22,369 thousand and NT$25,109 thousand, respectively.

d) Employee benefits - defined benefit pension plans

Under ROC GAAP, unrecognized net transition obligation resulting from first-time adoption of SFAS No. 18, "Accounting for Pensions," should be amortized and recognized to pension cost by the straight-line method over the average remaining service period of those employees who are still in service and expected to receive pension benefits. IAS No. 19, "Employee Benefits," did not have transition provision thus, unrecognized net transition obligation and related amounts should be all recognized in retained earnings at the date of transition to IFRSs.

Under ROC GAAP, actuarial gains and losses should be accounted for under the corridor approach which resulted in the deferral of gains and losses. When using the corridor approach, actuarial gains and losses should be amortized to profit or loss over the average remaining service period of those employees who are still in service and expected to receive pension benefits. Under IFRSs, the Company will carry out actuarial valuation of defined benefit plans in accordance with IAS No. 19, "Employee Benefits," and will recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings in the statement of changes in equity. The subsequent reclassification to profit or loss is not permitted.

At the date of transition to IFRSs, the Company performed actuarial valuation of defined benefit plans under IAS No. 19, "Employee Benefits," and recognized valuation difference under the requirements of IFRS 1. As of December 31, 2012 and January 1, 2012, accrued pension cost was adjusted for an increase of NT$23,804 thousand and NT$23,289 thousand, respectively; deferred income tax assets - noncurrent were adjusted for an increase of NT$6,299 thousand and NT$6,639 thousand, respectively; deferred pension cost was adjusted for a decrease of 4,173 thousand and NT$4,769 thousand, respectively; retained earnings were adjusted for a decrease of NT$33,299 thousand and NT$32,417 thousand, respectively; net loss not recognized as pension cost was adjusted for a decrease of NT$11,621 thousand and NT$10,998 thousand, respectively; for the year ended December 31, 2012, pension cost was adjusted for a decrease of NT$1,999 thousand, income tax expense was adjusted for an increase of NT$340 thousand and defined benefit plans actuarial loss was adjusted for an increase of NT$2,541 thousand.

e) Time deposits with deposit terms of over three months

Under ROC GAAP, time deposits that can be withdrawn at any moment without detriment to the principal are classified as cash. Under IFRSs, cash equivalents are defined as investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore, only short-term investments, such as those with maturity of three months or less from the date of acquisition, normally qualify for classification as cash equivalents. Under IFRSs, time deposits with deposit terms of over three months are reclassified as other financial assets.

As of December 31, 2012, the amounts reclassified from cash to other financial assets were NT$148,500 thousand.

c. The Company made the above assessments in accordance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. Therefore, actual results may differ from these assessments.