

**Pacific Hospital Supply Co., Ltd.**

**Financial Statements for the  
Years Ended December 31, 2007 and 2006 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, 2007 and 2006, 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, 2007 and 2006, 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.

We have also audited the consolidated financial statements of Pacific Hospital Supply Co., Ltd. and subsidiaries as of and for the years ended December 31, 2007 and 2006 on which we have issued an unqualified opinion in our report dated January 25, 2008.

January 25, 2008

### Notice to Readers

*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, 2007 AND 2006**

**(In Thousands of New Taiwan Dollars, Except Par Value)**

ASSETS	2007		2006		LIABILITIES AND SHAREHOLDERS' EQUITY	2007		2006	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalent (Notes 2, 4 and 20)	\$ 185,279	22	\$ 222,229	27	Short-term bank loans (Note 11)	\$ 10,000	1	\$ 20,000	2
Notes receivable, net (Notes 2, 5 and 6)	29,806	3	26,461	3	Notes payable	29,576	4	70,920	9
Accounts receivable, net (Notes 2 and 6)	94,805	11	96,350	12	Accounts payable	66,606	8	32,760	4
Other receivables (Notes 2 and 6)	6,010	1	4,250	1	Income tax payable (Notes 2 and 16)	4,157	-	13,057	1
Inventories, net (Notes 2 and 7)	150,518	18	139,574	17	Accrued expenses	55,580	7	46,614	6
Constructions in progress, net (Notes 2 and 8)	25,539	3	15,442	2	Advances - sales revenue	21,850	3	16,663	2
Deferred income tax assets - current (Notes 2 and 16)	18,403	2	7,326	1	Advances - construction, net (Notes 2 and 8)	3,372	-	6,142	1
Restricted assets - current (Notes 4 and 20)	8,885	1	6,900	1	Current portion of long-term bank loans (Notes 12 and 20)	-	-	930	-
Prepayments and other current assets	<u>6,186</u>	<u>1</u>	<u>3,771</u>	<u>-</u>	Other current liabilities	<u>1,927</u>	<u>-</u>	<u>5,331</u>	<u>1</u>
Total current assets	<u>525,431</u>	<u>62</u>	<u>522,303</u>	<u>64</u>	Total current liabilities	<u>193,068</u>	<u>23</u>	<u>212,417</u>	<u>26</u>
LONG-TERM STOCK INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD (Notes 2 and 9)	<u>7,847</u>	<u>1</u>	<u>8,233</u>	<u>1</u>	LONG-TERM BANK LOANS, NET OF CURRENT PORTION (Notes 12 and 20)	<u>-</u>	<u>-</u>	<u>925</u>	<u>-</u>
PROPERTIES (Notes 2, 10 and 20)					OTHER LIABILITIES				
Cost					Accrued pension liability (Notes 2 and 13)	15,567	2	13,241	2
Land	11,638	1	11,638	1	Guarantee deposits received	<u>30</u>	<u>-</u>	<u>30</u>	<u>-</u>
Building	167,052	20	105,946	13	Total other liabilities	<u>15,597</u>	<u>2</u>	<u>13,271</u>	<u>2</u>
Machinery equipment	184,677	22	152,750	19	Total liabilities	<u>208,665</u>	<u>25</u>	<u>226,613</u>	<u>28</u>
Transportation equipment	9,463	1	9,314	1	SHAREHOLDERS' EQUITY				
Leasehold improvements	16,128	2	16,128	2	Capital stock: \$10 par value; authorized - 60,000 thousand shares; issued - 41,815 thousand shares in 2007 and 41,443 thousand shares in 2006	<u>418,153</u>	<u>49</u>	<u>414,430</u>	<u>51</u>
Miscellaneous equipment	<u>74,378</u>	<u>9</u>	<u>61,320</u>	<u>8</u>	Capital surplus from stock issued in excess of par value	<u>64,858</u>	<u>8</u>	<u>64,826</u>	<u>8</u>
Less: Accumulated depreciation	<u>463,336</u>	<u>55</u>	<u>357,096</u>	<u>44</u>	Retained earnings				
	<u>171,512</u>	<u>20</u>	<u>141,595</u>	<u>17</u>	Legal reserve	31,005	4	23,133	3
Constructions in progress	-	-	49,209	6	Unappropriated earnings	<u>123,219</u>	<u>14</u>	<u>86,760</u>	<u>10</u>
Prepayment for equipment	<u>3,436</u>	<u>-</u>	<u>3,031</u>	<u>-</u>	Total retained earnings	<u>154,224</u>	<u>18</u>	<u>109,893</u>	<u>13</u>
Net properties	<u>295,260</u>	<u>35</u>	<u>267,741</u>	<u>33</u>	Net loss not recognized as pension cost	<u>(757)</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED PENSION COST (Notes 2 and 13)	<u>7,153</u>	<u>1</u>	<u>5,286</u>	<u>1</u>	Total shareholders' equity	<u>636,478</u>	<u>75</u>	<u>589,149</u>	<u>72</u>
OTHER ASSETS					TOTAL	<u>\$ 845,143</u>	<u>100</u>	<u>\$ 815,762</u>	<u>100</u>
Refundable deposits (Note 19)	6,281	1	6,667	1					
Deferred charges (Note 2)	1,257	-	868	-					
Overdue receivables, net (Notes 2 and 6)	-	-	2,675	-					
Deferred income tax assets - noncurrent (Notes 2 and 16)	<u>1,914</u>	<u>-</u>	<u>1,989</u>	<u>-</u>					
Total other assets	<u>9,452</u>	<u>1</u>	<u>12,199</u>	<u>1</u>					
<b>TOTAL</b>	<b><u>\$ 845,143</u></b>	<b><u>100</u></b>	<b><u>\$ 815,762</u></b>	<b><u>100</u></b>					

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

**PACIFIC HOSPITAL SUPPLY CO., LTD.**

**STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	%	Amount	%
REVENUE (Notes 2 and 19)				
Sales	\$ 719,747	87	\$ 621,303	84
Less: Sales returns and allowances	<u>(7,270)</u>	<u>(1)</u>	<u>(3,354)</u>	<u>-</u>
Net sales	712,477	86	617,949	84
Construction	112,090	13	112,009	15
Services	<u>8,280</u>	<u>1</u>	<u>8,968</u>	<u>1</u>
Total net revenue	<u>832,847</u>	<u>100</u>	<u>738,926</u>	<u>100</u>
COSTS (Notes 2 and 17)				
Sales	508,427	61	449,610	61
Construction	76,814	9	82,406	11
Services	<u>6,734</u>	<u>1</u>	<u>5,495</u>	<u>1</u>
Total costs	<u>591,975</u>	<u>71</u>	<u>537,511</u>	<u>73</u>
GROSS PROFIT	<u>240,872</u>	<u>29</u>	<u>201,415</u>	<u>27</u>
OPERATING EXPENSES (Notes 17 and 19)				
Marketing	55,453	7	42,788	6
General and administrative	60,817	7	56,112	8
Research and development	<u>15,002</u>	<u>2</u>	<u>11,653</u>	<u>1</u>
Total operating expenses	<u>131,272</u>	<u>16</u>	<u>110,553</u>	<u>15</u>
OPERATING INCOME	<u>109,600</u>	<u>13</u>	<u>90,862</u>	<u>12</u>
NONOPERATING INCOME AND GAINS				
Interest income	1,906	-	1,752	-
Gain on disposal of properties	601	-	9,981	1
Gain on disposal of investments	-	-	863	-
Foreign exchange gain, net	7,416	1	3,774	1
Revenue from sales of scraps	1,275	-	720	-
Others	<u>4,075</u>	<u>1</u>	<u>5,269</u>	<u>1</u>
Total nonoperating income and gains	<u>15,273</u>	<u>2</u>	<u>22,359</u>	<u>3</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	1,307	-	1,659	-
Investment loss recognized by the equity method (Note 9)	231	-	314	-
Loss on disposal of properties	243	-	6,107	1

(Continued)

**PACIFIC HOSPITAL SUPPLY CO., LTD.**

**STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	%	Amount	%
Loss on sale of investments	\$ 15	-	\$ -	-
Loss on physical inventory, net	28	-	17	-
Loss on market price decline and obsolete inventories	4,400	1	355	-
Others	<u>180</u>	<u>-</u>	<u>2,933</u>	<u>-</u>
Total nonoperating expenses and losses	<u>6,404</u>	<u>1</u>	<u>11,385</u>	<u>1</u>
INCOME BEFORE INCOME TAX	118,469	14	101,836	14
INCOME TAX EXPENSES (Notes 2 and 16)	<u>1,225</u>	<u>-</u>	<u>23,119</u>	<u>3</u>
NET INCOME	<u>\$ 117,244</u>	<u>14</u>	<u>\$ 78,717</u>	<u>11</u>
	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 18)				
Basic	<u>\$ 2.85</u>	<u>\$ 2.82</u>	<u>\$ 2.63</u>	<u>\$ 2.03</u>
Diluted	<u>\$ 2.84</u>	<u>\$ 2.81</u>	<u>\$ 2.43</u>	<u>\$ 1.88</u>

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, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued		Certificates of Bond-to-stock Conversion		Capital Surplus - Issue of Stock in Excess of Par Value (Note 14)	Retained Earnings (Notes 2, 14, 15 and 16)			Other Equity		Total Shareholders' Equity
	Shares (Thousands)	Amount	Shares (Thousands)	Amount		Legal Reserve	Unappropriated Earnings	Total	Net Loss Not Recognized as Pension Cost (Note 13)	Treasury Stock (Note 15)	
BALANCE, JANUARY 1, 2006	39,375	\$ 393,745	-	\$ -	\$49,894	\$20,206	\$ 31,170	\$ 51,376	\$ -	\$ -	\$ 495,015
Appropriation of 2005 earnings											
Legal reserve	-	-	-	-	-	2,927	(2,927)	-	-	-	-
Cash dividends - \$0.419 per share	-	-	-	-	-	-	(15,762)	(15,762)	-	-	(15,762)
Remuneration to directors and supervisors	-	-	-	-	-	-	(400)	(400)	-	-	(400)
Stock bonus to employees	-	-	-	-	-	-	(2,350)	(2,350)	-	-	(2,350)
Issuance of stock upon exercise of stock options	866	8,662	-	-	47	-	-	-	-	-	8,709
Convertible bonds converted to capital stock	3,002	30,023	-	-	17,164	-	-	-	-	-	47,187
Net income in 2006	-	-	-	-	-	-	78,717	78,717	-	-	78,717
Treasury stock buy back - 1,800 thousand shares	-	-	-	-	-	-	-	-	-	(21,967)	(21,967)
Treasury stock write off - 1,800 thousand shares	(1,800)	(18,000)	-	-	(2,279)	-	(1,688)	(1,688)	-	21,967	-
BALANCE, DECEMBER 31, 2006	41,443	414,430	-	-	64,826	23,133	86,760	109,893	-	-	589,149
Appropriation of 2006 earnings											
Legal reserve	-	-	-	-	-	7,872	(7,872)	-	-	-	-
Cash dividends - \$1.5 per share	-	-	-	-	-	-	(62,363)	(62,363)	-	-	(62,363)
Remuneration to directors and supervisors	-	-	-	-	-	-	(1,050)	(1,050)	-	-	(1,050)
Stock bonus to employees	-	-	-	-	-	-	(9,500)	(9,500)	-	-	(9,500)
Issuance of stock upon exercise of stock options	372	3,723	-	-	32	-	-	-	-	-	3,755
Net income in 2007	-	-	-	-	-	-	117,244	117,244	-	-	117,244
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	(757)	-	(757)
BALANCE, DECEMBER 31, 2007	41,815	\$418,153	-	\$ -	\$64,858	\$31,005	\$123,219	\$154,224	\$ (757)	\$ -	\$636,478

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

# PACIFIC HOSPITAL SUPPLY CO., LTD.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 117,244	\$ 78,717
Depreciation and amortization	32,829	29,777
Bad debts	6,651	3,510
Loss on market price decline and obsolete inventories	4,400	355
Loss (gain) on disposal of investments	15	(863)
Investment loss recognized by the equity method	231	314
Gain on disposal of properties, net	(358)	(3,874)
Accrued interest compensation	-	590
Deferred income taxes	(11,002)	2,450
Accrued pension liabilities	(298)	(415)
Net changes in operating assets and liabilities		
Notes receivable	(3,344)	(5,602)
Accounts receivable	306	2,789
Other receivables	(1,754)	7,863
Inventories, net	(15,344)	(32,246)
Construction in progress, net	(10,097)	(4,845)
Prepayments and other current assets	(2,415)	4,499
Overdue receivables	(2,744)	(5,759)
Notes payable	(41,344)	15,250
Accounts payable	33,846	3,268
Income tax payable	(8,900)	13,057
Accrued expenses	8,966	14,296
Other payables	-	(2,376)
Advances for sales revenue	5,187	4,536
Advances for construction, net	(2,770)	(550)
Other current liabilities	(3,404)	2,115
Net cash provided by operating activities	<u>105,901</u>	<u>126,856</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of investments accounted for by equity method	140	-
Proceeds from disposal of available-for-sale financial assets	-	16,820
Decrease (increase) in restricted assets - current	(1,985)	83
Acquisition of properties	(60,082)	(73,867)
Proceeds from disposal of properties	1,023	13,851
Decrease (increase) in refundable deposits	386	(1,196)
Increase in deferred charges	(1,320)	(505)
Net cash used in investing activities	<u>(61,838)</u>	<u>(44,814)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term bank loans	(10,000)	-
Repayments of long-term bank loans	(1,855)	(906)
Issuance of stock due to exercise of stock options	3,755	8,709

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# PACIFIC HOSPITAL SUPPLY CO., LTD.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

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	2007	2006
Cash dividends	\$ (62,363)	\$ (15,762)
Cost of treasury stock buy back	-	(21,967)
Remuneration to directors and supervisors	<u>(10,550)</u>	<u>(2,750)</u>
Net cash used in financing activities	<u>(81,013)</u>	<u>(32,676)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,950)	49,366
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>222,229</u>	<u>172,863</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 185,279</u>	<u>\$ 222,229</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 1,308	\$ 1,675
Income tax paid	21,127	7,612
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term bank loans	-	928
Convertible bonds converted to capital stock and capital surplus	-	47,187
Restricted assets transferred to fixed assets	-	34,212

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

(Concluded)

# PACIFIC HOSPITAL SUPPLY CO., LTD.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. ORGANIZATION AND OPERATIONS

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

The Company’s common shares were listed on the exchange of the GreTai Securities Market (GTSM) in February 2004.

As of December 31, 2007 and 2006, the Company had 500 and 482 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). Under these guidelines 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, pension cost and loss on pending litigation. Actual results may differ from these estimates.

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 difference arise in the interpretation between the two versions, the Chinese-version of the financial statements shall prevail.

Significant accounting policies are summarized as follows:

#### **Current and Noncurrent Assets and Liabilities**

Current assets include cash and cash equivalents, 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 and intangible assets 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.

#### **Cash Equivalents**

Cash equivalents, consisting of repurchase agreements collateralized by bonds, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

## **Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts**

Sales are recognized when titles to products and evident risks of ownerships are transferred to customers, primarily upon shipment, since the earnings process is almost completed and revenues are realized or realizable. Sales returns and allowances are subtracted from gross sales, and the related costs of goods are eliminated. Sales are not recognized on the shipment of raw materials to subcontractors for further processing since the shipment does not involve a transfer of ownership titles and risks.

Sales are determined at fair value, taking into account related sales discounts agreed to by the Company and customer. Since receivables from sales are collectible within one year and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash received.

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

Service revenues are recognized when services are rendered.

Allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Company evaluate doubtful accounts based on the outstanding account analysis, credit ratings, and economic environment analysis, and periodically evaluate the collectibility of each account.

## **Inventories**

Inventories, including raw materials, finished products and work in process, are stated at the lower of weighted-average cost or market value. An allowance for losses is recognized for obsolete and slow-moving items. Market value refers to replacement cost of raw materials and to net realizable value of finished goods and work in process.

## **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.

## **Long-term Stock Investments Accounted for by the Equity Method**

A long-term stock investment in which the Company owns at least 20% of the outstanding voting shares or exercises significant influence on the investee is accounted for by the equity method.

On the balance sheet date, the Company evaluates investments for any impairment. An impairment loss is recognized and charged to current income if the investment carrying amount as of the balance sheet date exceeds the expected recoverable amount. Investments in which the Company has significant influence over investees are tested for impairment separately at their carrying amounts. Investments in which the Company has significant control over investees are tested for impairment based on the cash flow of consolidated financial statements.

Equity-method investments are stated at cost plus (or less) the proportionate share in the investees' net earnings (or net losses). The share in net earnings or losses of the investees is recognized as investment income or loss, and cash dividends received are recognized as a reduction of the carrying value of the investments. Stock dividends received are accounted for only as increases in the number of shares held and are not recognized as investment income. Cost or carrying value per share is recomputed on the basis of total shares after stock dividends are received. Provisions for estimated losses are recognized in the period in which these losses are determined.

### **Properties, Plant and Equipment**

Properties, plant and equipment are stated at cost less accumulated depreciation. Major additions and improvements 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, 2 to 50 years; machinery and equipment, 2 to 20 years; transportation equipment, 1 to 5 years; leasehold improvements, 2 to 5 years; and miscellaneous equipment, 2 to 8 years. Properties, plant and equipment that have reached their residual value but are still being used by the Company are depreciated over their newly estimated service lives.

The related cost 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 are amortized using the straight-line method over 1 to 3 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.

### **Convertible Bonds**

Effective January 1, 2006, pursuant to the bond issued prior to December 31, 2005, the total issuing price is recorded as financial liability. The stated redemption price in excess of the face value of the bond is recognized as interest expense over a period starting from the issuance date to the last day of the redemption period, using the effective interest rate method.

The stated redemption price in excess of the face value of the bond is recognized as interest expense over a period starting from the issue date to the last day of the redemption period, using the effective interest rate method. The book value approach is used to account for bond conversion by bondholders. Under this method, the unamortized issue costs, recognized interest-premium, unpaid accrued interests and par value of the convertible bonds are written off. The common stock exchange certificate (capital stock) should be valued at the carrying amount net of the amounts written off, and the difference of this net amount from the par value of the common stock exchange certificate (capital stock) is recognized as capital surplus.

### **Pension Costs**

The Company has two types of pension plans: Defined contribution and defined benefit.

Under the defined benefit plan, pension costs are recognized on the basis of actuarial reports; under the defined contribution plan, the Company's contributions to employees' individual pension accounts are charged to current expense.

The prior service cost caused by the amendment of a defined benefit plan is amortized over the average period from the amendment date until the benefits are vested. When benefits become vested, prior service costs are immediately charged to current expense.

If the defined benefit plan is curtailed or settled, the resulting gains or losses are recognized as part of the net pension cost for the period.

### **Treasury Stock**

The Company reacquired its issued shares in accordance with government regulations and recorded this reacquisition as treasury stock at cost, which is presented as a deduction to stockholders' equity.

### **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, unused loss carryforward and unused tax credits. Valuation allowances are 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, research and development expenditures, and personnel training are recognized as reduction of the current year's income tax expense.

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.

### **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.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

The spot exchange rates use the middle price of the main correspondent bank.

### 3. ACCOUNTING CHANGES

#### Recent accounting pronouncements

In March 2007, the ARDF issued an interpretation that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses are currently recorded as appropriations from earnings.

### 4. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Cash on hand	\$ 798	\$ 1,164
Checking accounts and demand deposits	101,639	190,253
Time deposits - interest of 1.7%-2.53% in 2007 and 1.3%-2.2% in 2006	59,297	37,712
Cash equivalents		
Repurchase agreements collateralized by bonds - interest of 4.9%	<u>32,430</u>	<u>-</u>
	194,164	229,129
Less: Restricted assets - current (Note 20)	<u>8,885</u>	<u>6,900</u>
	<u>\$ 185,279</u>	<u>\$ 222,229</u>

As of December 31, 2007 and 2006, cash in overseas banks was as follows:

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
China - Hong Kong (US\$1 thousand and HK\$3 thousand in 2007 and US\$1 thousand and HK\$4 thousand in 2006)	<u>\$ 47</u>	<u>\$ 49</u>

### 5. NOTES RECEIVABLE

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Notes receivable	\$ 29,806	\$ 26,462
Less: Allowance for doubtful accounts	<u>-</u>	<u>1</u>
	<u>\$ 29,806</u>	<u>\$ 26,461</u>

### 6. ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Accounts receivable	\$ 96,276	\$ 97,215
Less: Allowance for doubtful accounts	<u>(1,471)</u>	<u>(865)</u>
	<u>\$ 94,805</u>	<u>\$ 96,350</u>

Movements of allowances for doubtful accounts were as follows:

	Year Ended December 31							
	2007				2006			
	Notes Receivable	Accounts Receivable	Overdue Receivable	Other Receivable	Notes Receivable	Accounts Receivable	Overdue Receivable	Other Receivable
Balance, beginning of year	\$ 1	\$ 865	\$ 10,848	\$ 634	\$ 1	\$ 554	\$ 10,743	\$ 909
Deduct: Amounts written off	-	-	(632)	-	-	-	(3,369)	-
Add (deduct): Provision (reversal of provision) for doubtful accounts	(1)	606	6,051	(5)	-	311	3,474	(275)
Balance, end of year	\$ -	\$ 1,471	\$ 16,267	\$ 629	\$ 1	\$ 865	\$ 10,848	\$ 634

Overdue receivables were classified under other assets.

## 7. INVENTORIES

	December 31	
	2007	2006
Finished goods	\$ 57,577	\$ 47,790
Work in process	16,724	12,404
Raw materials	99,015	97,778
	173,316	157,972
Less: Allowance for loss on inventory	22,798	18,398
	<u>\$ 150,518</u>	<u>\$ 139,574</u>

## 8. CONSTRUCTIONS IN PROGRESS AND ADVANCES ON CONSTRUCTION

	December 31	
	2007	2006
Constructions in progress	\$ 28,753	\$ 31,501
Less: Advances on construction	3,214	16,059
Constructions in progress, net	<u>\$ 25,539</u>	<u>\$ 15,442</u>
Advances on construction	\$ 6,642	\$ 9,774
Less: Constructions in progress	3,270	3,632
Advances on construction, net	<u>\$ 3,372</u>	<u>\$ 6,142</u>

As of December 31, 2007, outstanding construction projects amounting to about \$87,129 thousand were expected to be completed by the end of October 2008.

## 9. LONG-TERM STOCK INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2007		2006	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Equity method				
Pacific Medical Engineering & Consultant Co., Ltd.	\$ 7,847	99.996	\$ 8,078	99.996
Pacific Hospital Supply Co., Ltd.	<u>-</u>	-	<u>155</u>	100.000
	<u>\$ 7,847</u>		<u>\$ 8,233</u>	

The calculation of the carrying value of the investments accounted for by the equity method and the related investment losses was based on the investees' audited financial statements as of and for the years ended December 31, 2007 and 2006.

Investment losses on stocks were \$231 thousand in 2007 and \$314 thousand in 2006.

On June 30, 2007, the subsidiary company Pacific Hospital Supply Co., Ltd. ("Pacific") was completely dissolved, which received approval by the board of directors on June 29, 2007. Upon dissolution, the Company reclaimed \$140 thousand in cash. All the subsidiaries' figures are reported in the Company's consolidated financial statements in 2007 and 2006.

## 10. PROPERTIES, PLANT AND EQUIPMENT

	Year Ended December 31, 2007				
	Balance, Beginning of Year	Additions	Disposals	Reclassified	Balance, End of Year
Costs					
Land	\$ 11,638	\$ -	\$ -	\$ -	\$ 11,638
Building	105,946	2,567	536	59,075	167,052
Machinery and equipment	152,750	3,588	119	28,458	184,677
Transportation equipment	9,314	668	519	-	9,463
Leasehold improvement	16,128	-	-	-	16,128
Miscellaneous equipment	<u>61,320</u>	<u>11,451</u>	<u>1,472</u>	<u>3,079</u>	<u>74,378</u>
	<u>357,096</u>	<u>18,274</u>	<u>2,646</u>	<u>90,612</u>	<u>463,336</u>
Accumulated depreciation					
Building	11,486	3,749	447	-	14,788
Machinery and equipment	79,364	15,087	97	-	94,354
Transportation equipment	3,800	1,335	507	-	4,628
Leasehold improvement	8,093	2,223	-	-	10,316
Miscellaneous equipment	<u>38,852</u>	<u>9,504</u>	<u>930</u>	<u>-</u>	<u>47,426</u>
	<u>141,595</u>	<u>31,898</u>	<u>1,981</u>	<u>-</u>	<u>171,512</u>
Properties, plant and equipment, net	215,501	(13,624)	665	90,612	291,824
Constructions in progress	49,209	32,215	-	(81,424)	-
Prepayments for equipment	<u>3,031</u>	<u>9,593</u>	<u>-</u>	<u>(9,188)</u>	<u>3,436</u>
	<u>\$ 267,741</u>	<u>\$ 28,184</u>	<u>\$ 665</u>	<u>\$ -</u>	<u>\$ 295,260</u>

	<b>Year Ended December 31, 2006</b>				<b>Balance, End of Year</b>
	<b>Balance, Beginning of Year</b>	<b>Additions</b>	<b>Disposals</b>	<b>Reclassified</b>	
Costs					
Land	\$ -	\$ -	\$ 1,434	\$ 13,072	\$ 11,638
Building	-	1,816	5,164	109,294	105,946
Machinery and equipment	137,048	8,460	6,652	13,894	152,750
Transportation equipment	10,839	1,960	3,575	90	9,314
Leasehold improvement	14,582	1,446	-	100	16,128
Miscellaneous equipment	<u>51,100</u>	<u>10,751</u>	<u>1,218</u>	<u>687</u>	<u>61,320</u>
	<u>213,569</u>	<u>24,433</u>	<u>18,043</u>	<u>137,137</u>	<u>357,096</u>
Accumulated depreciation					
Building	-	2,547	1,987	10,926	11,486
Machinery and equipment	69,917	12,818	3,371	-	79,364
Transportation equipment	4,111	1,576	1,887	-	3,800
Leasehold improvement	5,504	2,589	-	-	8,093
Miscellaneous equipment	<u>30,164</u>	<u>9,509</u>	<u>821</u>	<u>-</u>	<u>38,852</u>
	<u>109,696</u>	<u>29,039</u>	<u>8,066</u>	<u>10,926</u>	<u>141,595</u>
Properties, plant and equipment, net	103,873	(4,606)	9,977	126,211	215,501
Constructions in progress	91,715	34,721	-	(77,227)	49,209
Prepayments for equipment	<u>3,090</u>	<u>14,713</u>	<u>-</u>	<u>(14,772)</u>	<u>3,031</u>
	<u>\$ 198,678</u>	<u>\$ 44,828</u>	<u>\$ 9,977</u>	<u>\$ 34,212</u>	<u>\$ 267,741</u>

#### 11. SHORT-TERM BANK LOANS

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Unsecured loans: Interest of 2.850% in 2007 and 1.980%-2.427% in 2006	<u>\$ 10,000</u>	<u>\$ 20,000</u>

#### 12. LONG-TERM BANK LOANS

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Secured loans - repayable in installments starting January 2002, annual interest of 4.05%	\$ -	\$ 1,855
Less: Current portion	<u>-</u>	<u>930</u>
	<u>\$ -</u>	<u>\$ 925</u>

#### 13. PENSION PLAN

The Labor Pension Act (the "LPA") took effect on July 1, 2005. Employees subject to the Labor Standards Law (the "LSL") prior to July 1, 2005 were allowed to choose to continue being subject to the LSL or to be subject to the LPA, with their service years as of July 1, 2005 retained. Those hired as regular employees on or after July 1, 2005 automatically become subject to the LPA.

The pension plan under 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\$7,919 thousand and NT\$7,620 thousand for the years ended December 31, 2007 and 2006, respectively.

Under the Labor Standards Law, the Company has a retirement plan which is regarded as defined benefit plan. According to the retirement plan, employees can get pension benefit based on length of service before retirement. The Company appropriates 4% of an employee's monthly salary into a fund, and beginning January and July 2005 the percentage changed to 6% and 3%, respectively, of Labor Retirement Fund Supervising Committee who in turn deposit the fund into a designated account at the Bank of Taiwan (the Central Trust of China merged with the Bank of Taiwan in 2007, with the Bank of Taiwan as the survivor entity). The Company recognized pension costs of NT\$3,642 thousand and NT\$3,264 thousand for the years ended December 31, 2007 and 2006, respectively.

Other information on the defined benefit plan is as follows:

a. Net pension cost

	<b>2007</b>	<b>2006</b>
Service cost	\$ 1,772	\$ 1,708
Interest cost	1,715	1,486
Projected return on plan assets	(653)	(559)
Amortization of net transitional obligation	596	596
Amortization of pension cost	<u>212</u>	<u>33</u>
Net pension cost	<u>\$ 3,642</u>	<u>\$ 3,264</u>

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

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Benefit obligation		
Vested benefit obligation	\$ 1,987	\$ -
Non-vested benefit obligation	<u>43,399</u>	<u>38,380</u>
Accumulated benefit obligation	45,386	38,380
Additional benefits based on future salaries	<u>12,418</u>	<u>11,008</u>
Projected benefit obligation	57,804	49,388
Fair value of plan assets	<u>(29,818)</u>	<u>(25,138)</u>
Funded status	27,986	24,250
Unrecognized net transitional obligation	(7,154)	(7,750)
Unrecognized net loss	(13,175)	(8,545)
Additional liability	<u>7,910</u>	<u>5,286</u>
Deferred pension cost	<u>\$ 15,567</u>	<u>\$ 13,241</u>
Accrued pension cost	<u>\$ 7,153</u>	<u>\$ 5,286</u>
Net loss not recognized as pension cost	<u>\$ 757</u>	<u>\$ -</u>

c. Actuarial assumptions

Discount rate used in determining present values	3.50%	3.50%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	2.50%	2.50%

## 14. SHAREHOLDERS' EQUITY

In August of 2003 and 2002, the Company granted qualified employees 153 thousand units and 192 thousand units, respectively, of option rights, with each unit representing 10 common shares. The option rights on both plans are valid for five years and exercisable at 50% on the second year of issuance, 80% on the third year of issuance, and 100% on the fourth year and thereafter of issuance.

Adjusted exercise price as of December 2007 were NT\$10.1 and NT\$10, respectively.

Outstanding stock options in 2007 and 2006 were as follows:

	<u>2003 Option Plan</u>		<u>2002 Option Plan</u>	
	Number of Outstanding Stock Option Rights (in Thousands)	Weighted-average Exercise Price (NT\$)	Number of Outstanding Stock Option Rights (in Thousands)	Weighted-average Exercise Price (NT\$)
<u>2007</u>				
Beginning outstanding balance	33	\$ 10.1	6	\$ 10.0
Options exercised	<u>(32)</u>		<u>(6)</u>	
Ending outstanding balance	<u><u>1</u></u>		<u><u>-</u></u>	
<u>2006</u>				
Beginning outstanding balance	84	\$ 10.1	46	\$ 10.0
Options exercised	(47)	10.1	(39)	10.0
Options canceled	<u>(4)</u>	10.1	<u>(1)</u>	10.0
Ending outstanding balance	<u><u>33</u></u>		<u><u>6</u></u>	

The number of outstanding option rights and exercise prices have been adjusted retroactively to reflect the appropriation of dividends based on the plans.

Employee stock options granted in 2002 were exercisable up until the expiry date of August 30, 2007.

As of December 31, 2007, outstanding and exercisable option rights were as follows:

	Exercise Price (NT\$)	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
		Number of Outstanding Options (in Thousands)	Weighted-averaged Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Exercisable Options (in Thousands)	Weighted-average Exercise Price (NT\$)
2003 option plan	\$10.1	1	0.67	\$10.1	1	\$10.1

### Capital Surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital and once a year. Also, the capital surplus from long-term investments may not be used for any purpose.

## Earnings Appropriation 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 a balanced dividend policy. Dividends are appropriately distributed in the form of common shares or cash. The policy takes into account both the Company's operational needs and shareholders' interests. However, cash earning distribution cannot be less than 20% of overall distribution value.

Under the Company Law, legal reserve must be appropriated each year until the reserve equals the Company's paid-in capital. This reserve may be used to offset deficit. Also, when the reserve reaches 50% of paid-in capital, up to 50% of the reserve may be transferred to capital.

The appropriation of the remaining earnings should be resolved by the shareholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

When the Company appropriates the earnings generated after January 1, 1998, resident noncorporate shareholders are allowed a tax credit based on the ratio of creditable tax to unappropriated earnings on the date of appropriation.

The appropriation of the earnings of 2006 and 2005 were approved in the shareholders' meetings in June 2006 and June 2007, respectively. The appropriations and dividends per share are as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Fiscal Year 2006</u>	<u>For Fiscal Year 2005</u>	<u>For Fiscal Year 2006</u>	<u>For Fiscal Year 2005</u>
Legal reserve	\$ 7,872	\$ 2,927		
Common dividends - in cash	62,363	15,762	\$1.5	\$0.419
Remuneration to directors and supervisors - in cash	1,050	400		
Bonus paid to employees - in cash	<u>9,500</u>	<u>2,350</u>		
	<u>\$ 80,785</u>	<u>\$ 21,439</u>		

Had the above employee bonus and remuneration to directors and supervisors been paid in cash and charged against the 2006 and 2005 income, the basic earnings per share would have decreased from NT\$2.03 to NT\$1.76 in 2006 and from NT\$0.77 to NT\$0.70 in 2005.

Information about the appropriations of earnings of 2007 is not available as of the report date. Information about the appropriations of earnings is available on the market observation post system website of the Taiwan Stock Exchange.

## 15. TREASURY STOCK

Reasons for Common Stock Buyback	Beginning Balance	Current Year Increase	Current Year Cancellation	Year End Balance
<u>2007</u>				
To preserve company credibility and shareholder's interest	-	-	-	-
<u>2006</u>				
To preserve company credibility and shareholder's interest	-	1,800	1,800	-

Treasury stocks held by the Company cannot be mortgaged, does not distribute dividend, nor possess voting rights according to law.

The board of the Company have consented in April 28, 2006 to cancel all treasury stocks as of April 28, 2006. The capital decrease were approved by the Executive Yuan Financial Supervisory Commission.

## 16. INCOME TAX

The government enacted the Alternative Minimum Tax Act (AMT Act), which became effective on January 1, 2006. The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.

- a. A reconciliation of income tax expense based on "income before income tax" at statutory rate and income tax currently payable was as follows:

	2007	2006
Income tax expense based on income before income tax at statutory rate of 25%:	\$ 29,607	\$ 25,449
Tax effect on adjusting items		
Permanent differences		
Tax exempt income	(5,065)	(4,892)
Others	(11)	180
Temporary differences	2,758	(434)
Tax on unappropriated earnings (10%)	-	783
Less investment tax credits	<u>(13,645)</u>	<u>(5,952)</u>
Tax payable	<u>\$ 13,644</u>	<u>\$ 15,134</u>

- b. Income tax expense consisted of:

Current income tax	\$ 13,644	\$ 15,134
Prior years' adjustments	(1,417)	5,535
Deferred income tax expense (benefit)	<u>(11,002)</u>	<u>2,450</u>
	<u>\$ 1,225</u>	<u>\$ 23,119</u>

c. Changes in income tax payable:

	2007	2006
Balance, beginning of year	\$ 13,057	\$ -
Current income tax	13,644	15,134
Payment in current year	(21,127)	(7,612)
Prior year adjustments	<u>(1,417)</u>	<u>5,535</u>
Balance, end of year	<u>\$ 4,157</u>	<u>\$ 13,057</u>

d. Deferred income tax assets were as follows:

	<u>December 31</u>	
	2007	2006
Current		
Investment tax credits	\$ 8,400	\$ -
Allowance for decline in value of inventories	5,700	4,600
Allowance for doubtful accounts	4,211	2,726
Unrealized loss due to fire	50	-
Losses on disposal of inventories	<u>42</u>	<u>-</u>
Deferred income tax assets	<u>\$ 18,403</u>	<u>\$ 7,326</u>
Noncurrent		
Deferred income tax assets		
Deferred income tax expense	\$ 20,000	\$ -
Accrued pension cost	<u>1,914</u>	<u>1,989</u>
	21,914	1,989
Less: Valuation allowance	<u>20,000</u>	<u>-</u>
	<u>\$ 1,914</u>	<u>\$ 1,989</u>

e. The Company's sales generated through expansion projects are exempt from income tax from January 1, 2006 to December 31, 2010.

f. As of December 31, 2007, investment tax credits consisted of the following:

Laws and Statutes	Tax Credit Source	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Region-specific investment	<u>\$ 42,113</u>	<u>\$ 28,400</u>	2011

g. The information on the integrated income tax system is as follows:

	<u>December 31</u>	
	2007	2006
Year-end balance of the imputation credit account	<u>\$ 10,943</u>	<u>\$ 9,462</u>

The projected 2007 and actual 2006 creditable tax ratios were 8.88% and 24.32%, respectively.

Under tax regulations, the tax credits allocated to shareholders are based on the balance of the imputation credit account (ICA) on the dividend distribution date. Thus, the creditable tax ratio for the 2007 earnings may change depending on the actual ICA balance on the dividend distribution date.

There were no unappropriated earnings generated before 1997 as of December 31, 2007 and 2006.

g. The effective tax rate for deferred income tax was 25% in 2007 and 2006.

Income tax returns through 2005 had been examined and cleared by the tax authorities.

## 17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2007			2006		
	Classified as Operating Cost	Classified as Operating Expense	Total	Classified as Operating Cost	Classified as Operating Expense	Total
Personnel expenses						
Salary	\$ 134,978	\$ 52,633	\$ 187,611	\$ 130,615	\$ 47,876	\$ 178,491
Pension	8,998	2,563	11,561	8,667	2,217	10,884
Meal	9,189	1,390	10,579	8,356	1,288	9,644
Welfare	-	1,350	1,350	-	1,030	1,030
Employee insurance	11,869	2,941	14,810	12,318	2,836	15,154
Others	52	216	268	72	212	284
	<u>\$ 165,086</u>	<u>\$ 61,093</u>	<u>\$ 226,179</u>	<u>\$ 160,028</u>	<u>\$ 55,459</u>	<u>\$ 215,487</u>
Depreciation	\$ 28,804	\$ 3,094	\$ 31,898	\$ 25,165	\$ 3,874	\$ 29,039
Amortization	167	764	931	161	577	738

## 18. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) were as follows:

	Amounts (Numerator)		Shares (Denominator) (Thousands)	EPS (Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>2007</u>					
Basic earnings per share					
Income of common shareholders	\$ 118,469	\$ 117,244	41,599	<u>\$ 2.85</u>	<u>\$ 2.82</u>
Effect of dilutive securities - stock options	-	-	68		
Diluted earnings per share					
Income of common stock shareholders	<u>\$ 118,469</u>	<u>\$ 117,244</u>	<u>41,667</u>	<u>\$ 2.84</u>	<u>\$ 2.81</u>
<u>2006</u>					
Basic earnings per share					
Income of common shareholders	\$ 101,836	\$ 78,717	38,749	<u>\$ 2.63</u>	<u>\$ 2.03</u>
Effect of dilutive securities - convertible bonds	-	-	2,464		
Effect of dilutive securities - stock options	-	-	742		
Diluted earnings per share					
Income of common stock shareholders	<u>\$ 101,836</u>	<u>\$ 78,717</u>	<u>41,955</u>	<u>\$ 2.43</u>	<u>\$ 1.88</u>

The effect of dilutive stock options is calculated at the adjusted exercise prices of NT\$10.00 and NT\$10.10 for the 2002 and 2003 stock option plans, respectively, and at the average closing price of NT\$32 of the Company's stock in the Emerging Stock Market in 2007.

## 19. RELATED-PARTY TRANSACTIONS

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

<u>Related Party</u>	<u>Relationship with the Company</u>
Pacific Medical Engineering & Consultant Co., Ltd. (PME)	Equity-method investee
Feng-Yang International Investment Co., Ltd. ("Feng-Yang")	Same chairman
Zhi-Qun Co., Ltd. ("Zhi-Qun")	Company president is the chairman of Zhi-Qun

b. The significant transactions with the related parties were as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Carrying Value</u>	<u>%</u>	<u>Carrying Value</u>	<u>%</u>
<u>For the year</u>				
Sales				
PME	\$ -	-	\$ 30	-
Feng-Yang	-	-	2	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 32</u>	<u>-</u>
Rental expense (included in operating expenses)				
Zhi-Qun	<u>\$ 6,687</u>	<u>5</u>	<u>\$ 6,710</u>	<u>6</u>
<u>At end of the year</u>				
Refundable deposits				
Zhi-Qun	<u>\$ 1,200</u>	<u>19</u>	<u>\$ 1,200</u>	<u>18</u>

All related-party transactions were conducted on an arm's-length basis between two independent parties.

## 20. ASSETS PLEDGED OR MORTGAGED

The following assets had been pledged or mortgaged as collaterals for long-term bank loans and refundable construction warranties:

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Time deposits	\$ 8,885	\$ 6,900
Land and buildings, net	<u>12,224</u>	<u>12,380</u>
	<u>\$ 21,109</u>	<u>\$ 19,280</u>

## 21. CONTINGENCIES

- a. On November 23, 2001, the Kaohsiung factory had a fire, which affected two other companies nearby (companies X and Y). Company X had an estimated loss of \$128,540 thousand and sought compensation through the court. It obtained insurance indemnity of approximately \$48,249 thousand; in turn, the insurance company sought a \$48,249 thousand compensation from the Company. Company Y also sought \$5,144 thousand in damages. Thus, the Company's government bonds valued at \$15,957 thousand and properties valued at \$34,809 thousand were temporarily restricted by the court in February 2002 and May 2002, respectively.

In February and May of 2004, the court declared that the Company should pay Company X \$12,862 thousand as compensation plus guarantees. The rest of the claims, including those on the government bonds and properties, were rejected by the court. The Company and Company Y did not accept the adjudication and thus appealed to a higher court.

The Company have reached a settlement with company X, Y and the insurance company in 2006, and made settlement payment totaled \$18,450 thousand. The difference from the previous fire hazard reserves of \$20,376 thousand were reclassified as other income, and court restriction on government bonds and properties were released.

- b. Charges for the rental period from November 2003 to January 2014 for office, factory, and storage facilities were as follows:

Year	Amount
2008	\$ 11,726
2009	11,266
2010	6,334
2011-2013 (each year)	6,159
January 2014	513

## 22. FINANCIAL INSTRUMENTS

- a. The Company had no derivative transactions in 2007 and 2006.
- b. The fair values of nonderivative financial instruments were as follows:

	December 31			
	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Financial assets - with fair values approximating carrying amounts	\$ 315,900	\$ 315,900	\$ 349,290	\$ 349,290
Restricted assets - current	8,885	8,885	6,900	6,900
Long-term investments	7,847	7,847	8,233	8,233
Refundable deposits	6,281	6,281	6,667	6,667
<u>Liabilities</u>				
Financial liabilities - with fair values approximating carrying amounts	106,182	106,182	123,680	123,680
Long-term bank loans (including current portion)	-	-	1,855	1,855
Guarantee deposits received	30	30	30	30

The assumptions and methods used in determining fair values are as follows:

- 1) The carrying values of cash and cash equivalents, notes and accounts receivable, other receivables, short-term bank loans and notes and accounts payable, approximate fair value because of the short maturities of these instruments.
- 2) Fair value of restricted assets - current is based on market prices. If market prices are unavailable, fair value is based on carrying amount.
- 3) Fair value of long-term investments is based on market prices. If market prices are unavailable, fair value is based on carrying amount.
- 4) Since long-term debts bear floating interest rates, the carrying amount approximates fair value.
- 5) For refundable deposits and guarantee deposits received, which have no maturity dates, their carrying amounts represent fair values.

### 23. ADDITIONAL DISCLOSURES

Except for Tables 1 and 2, 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.

### 24. SEGMENT INFORMATION

a. Industry

The Company manufactures, processes and sells medical disposable products and equipment and does medical engineering work on central gas piping systems. Thus, the Company is considered as engaging in a single industry.

b. Geographic

As of December 31, 2007, the Company had no foreign operating segments.

c. Export sales

Region	2007		2006	
	Amount	Percentage of Net Revenue	Amount	Percentage of Net Revenue
Asia	\$ 324,469	39	\$ 261,372	35
Europe	148,053	18	139,841	19
Others	<u>88,510</u>	<u>10</u>	<u>76,873</u>	<u>11</u>
	<u>\$ 561,032</u>	<u>67</u>	<u>\$ 478,086</u>	<u>65</u>

- d. There are no clients that accounted for at least 10% of the Company's total operating revenues.

**PACIFIC HOSPITAL SUPPLY CO., LTD. AND INVESTEES**

**MARKETABLE SECURITIES HELD  
DECEMBER 31, 2007  
(In Thousands of New Taiwan Dollars)**

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Account	December 31, 2007				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Pacific Hospital Supply Co., Ltd.	<u>Common stock</u> Pacific Medical Engineering & Consultant Co., Ltd.	Equity-method investee	Long-term stock investments accounted for by the equity method	1,499,940	\$7,847	99.996	\$7,847	(Note)

Note: Calculation was based on investees' audited financial statements.

**PACIFIC HOSPITAL SUPPLY CO., LTD. AND INVESTEEES**

**NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE**

**YEAR ENDED DECEMBER 31, 2007**

**(In Thousands of New Taiwan Dollars)**

Hold Company Name	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2007			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2007	Dec. 31, 2006	Shares	Percentage of Ownership	Carrying Value			
Pacific Hospital Supply Co., Ltd.	Pacific Medical Engineering & Consultant Co., Ltd.	No. 53, Kuosin Neighborhood 21, Siuying Village, Miaoli City, Miaoli County, Taiwan, R.O.C.	Installation of medical equipment	\$ 18,300	\$ 18,300	1,499,940	99.996	\$ 7,847	\$ (231)	\$ (231)	(Note 1)
	Pacific Hospital Supply Co., Ltd. (BVI)	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Selling of medical products	-	349	-	-	-	(15)	(15)	(Note 2)

Note 1: Calculation was based on investees' audited financial statements.

Note 2: On June 30, 2007, the subsidiary company Pacific Hospital Supply Co., Ltd. ("Pacific") was completely dissolved, which received approval by the board of directors on June 29, 2007. Upon dissolution, the Company reclaimed \$140 thousand in cash.