Dynamic Medical Technologies Inc.

Financial Statements for the
Nine Months Ended September 30, 2012 and 2011 and
Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
Dynamic Medical Technologies Inc.

We have reviewed the accompanying balance sheets of Dynamic Medical Technologies Inc. (the "Company") as of September 30, 2012 and 2011, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

Except as discussed in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36, "Engagements to Review Financial Statements", of the Republic of China. A review of financial statements consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Republic of China and consequently does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As stated in Note 7 to the financial statements, the carrying amount of NT$270,900 thousand and NT$127,153 thousand of the Company's long-term stock investments accounted for under the equity method as of September 30, 2012 and 2011, respectively, and the related investment loss of NT$4,291 thousand and NT$12,403 thousand respectively, recognized for the nine months then ended were determined on the basis of the unreviewed financial statements of the investees.

Based on our reviews, except for the effects of such adjustments, if any, as might have been required had we been able to obtain reviewed financial statements of the investees as of and for the nine months ended September 30, 2012 and 2011, as explained in the preceding paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be 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.

October 24, 2012

<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 review such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the accountants' review 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 accountants' review report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

DYNAMIC MEDICAL TECHNOLOGIES INC.

BALANCE SHEETS
SEPTEMBER 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2012 Amount	2012 %	2011 Amount	2011 %
CURRENT ASSETS				
Cash (Note 4)	$ 343,949	23	$ 906,729	47
Notes receivable, net of allowance for doubtful accounts of $1,234 thousand and $4,487 thousand in 2012 and 2011, respectively (Note 3)	160,964	11	133,452	7
Accounts receivable, net of allowance for doubtful accounts of $17,648 thousand and $5,556 thousand in 2012 and 2011, respectively (Note 3)	145,482	10	189,409	10
Lease payments receivable (Note 3)	10,897	1	-	-
Accounts receivable from related parties (Notes 3 and 17)	48,699	3	17,885	1
Other receivables from related parties (Notes 3 and 17)	3,594	-	65	-
Merchandise inventories (Note 5)	204,221	14	308,214	16
Prepayments (Note 17)	7,887	1	6,489	-
Deferred income tax assets - current (Note 12)	17,166	1	11,962	-
Other current assets (Note 17)	3,687	-	3,867	-
Total current assets	946,546	64	1,578,072	81
LONG-TERM INVESTMENTS				
Financial assets carried at cost - noncurrent (Note 6)	52,860	4	52,860	3
Investments accounted for under the equity method (Note 7)	270,900	18	127,153	6
Total long-term investments	323,760	22	180,013	9
PROPERTIES AND PROPERTIES FOR LEASE				
Properties (Note 8)				
Cost				
Office equipment	9,493	1	9,958	1
Leasehold improvements	6,830	-	6,749	1
Exhibition equipment	95,816	6	83,593	4
Other equipment	22,501	2	1,806	-
Total cost	134,640	9	102,106	6
Less: Accumulated depreciation	(66,611)	(4)	(53,766)	(3)
Properties, net	68,029	5	48,340	3
Properties for lease				
Cost				
Medical equipment	95,758	6	113,419	6
Less: Accumulated depreciation	(25,963)	(2)	(27,862)	(2)
Accumulated impairment loss	(19,772)	(1)	(21,602)	(1)
Properties for lease, net	50,023	3	63,955	3
Total properties and properties for lease, net	118,052	8	112,295	6
INTANGIBLE ASSETS				
Deferred pension cost	266	-	288	-
OTHER ASSETS				
Refundable deposits	32,453	2	29,596	2
Long-term notes receivable (Note 3)	19,957	1	19,851	1
Long-term lease payments receivable (Note 3)	12,877	1	2,920	-
Long-term accounts receivable (Note 3)	9,184	1	-	-
Long-term accounts receivable from related parties (Notes 3 and 17)	3,766	-	2,940	-
Deferred charges, net	2,210	-	3,014	-
Deferred income tax assets - noncurrent (Note 12)	15,859	1	15,690	1
Total other assets	96,306	6	74,011	4
TOTAL	$ 1,484,930	100	$ 1,944,679	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2012 Amount	2012 %	2011 Amount	2011 %
CURRENT LIABILITIES				
Short-term loans (Note 9)	$ -	-	$ 98,585	5
Notes payable	-	-	5	-
Accounts payable	23,504	1	26,753	1
Accounts payable to related parties (Note 17)	500	-	58	-
Income tax payable, net of prepayments of income tax	9,670	1	17,144	1
Accrued expenses	89,555	6	75,827	4
Other payables to related parties (Note 17)	82	-	86	-
Repayable advance receipts for common stock (Note 13)	-	-	357,886	18
Collections in advance (Note 17)	69,245	5	105,484	6
Other current liabilities	28,485	2	21,509	1
Total current liabilities	221,041	15	703,337	36
LONG-TERM LIABILITIES				
Liability component of convertible bonds - noncurrent (Note 10)	305,915	21	298,599	16
OTHER LIABILITIES				
Accrued pension cost (Note 11)	1,683	-	2,525	-
Deferred credits	2,138	-	1,424	-
Total other liabilities	3,821	-	3,949	-
Total liabilities	530,777	36	1,005,885	52
STOCKHOLDERS' EQUITY (Note 13)				
Common stock, $10 par value, authorized - 50,000 thousand shares; issued - 26,500 thousand shares	265,000	18	265,000	13
Capital surplus				
Additional paid-in capital on issuance of common stock	405,652	27	405,652	21
Long-term equity investments	720	-	-	-
Equity component of convertible bonds	19,232	1	19,232	1
Total capital surplus	425,604	28	424,884	22
Retained earnings				
Legal reserve	73,549	5	58,062	3
Special reserve	-	-	5,025	-
Unappropriated earnings	192,168	13	183,959	10
Total retained earnings	265,717	18	247,046	13
Other equity items				
Cumulative translation adjustments	(1,291)	-	3,416	-
Net loss not recognized as pension cost	(877)	-	(1,552)	-
Total other equity items	(2,168)	-	1,864	-
Total stockholders' equity	954,153	64	938,794	48
TOTAL	$ 1,484,930	100	$ 1,944,679	100

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

(With Deloitte & Touche review report dated October 24, 2012)

DYNAMIC MEDICAL TECHNOLOGIES INC.

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2012		2011	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES				
Gross sales	$ 702,598	87	$ 735,872	91
Less: Sales returns and allowances	17,211	2	21,532	3
Net sales (Note 17)	685,387	85	714,340	88
Workshop service	64,748	8	45,739	6
Others	58,064	7	50,846	6
Total operating revenue	808,199	100	810,925	100
OPERATING COSTS (Note 15)				
Cost of sales (Notes 5 and 17)	450,311	56	432,164	53
Cost of workshop service	27,210	3	23,718	3
Others	13,798	2	14,699	2
Total operating costs	491,319	61	470,581	58
GROSS PROFIT BEFORE ADJUSTMENTS	316,880	39	340,344	42
LESS: UNREALIZED INTER-COMPANY PROFIT	3,293	-	1,326	-
ADD: REALIZED INTER-COMPANY PROFIT	2,544	-	644	-
GROSS PROFIT	316,131	39	339,662	42
OPERATING EXPENSES (Notes 15 and 17)				
Selling expenses	133,003	16	134,687	17
General and administrative expenses	39,176	5	40,009	5
Total operating expenses	172,179	21	174,696	22
INCOME FROM OPERATIONS	143,952	18	164,966	20
NON-OPERATING INCOME AND GAINS				
Interest income	4,695	1	1,170	-
Foreign exchange gain, net	1,889	-	-	-
Reversal of impairment loss	2,673	-	-	-
Others (Note 17)	799	-	2,591	1
Total non-operating income and gains	10,056	1	3,761	1

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DYNAMIC MEDICAL TECHNOLOGIES INC.

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2012		2011	
	Amount	**%**	**Amount**	**%**
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	$ 5,714	1	$ 1,715	-
Investment loss recognized under the equity method, net (Note 7)	4,291	-	12,403	2
Loss on disposal of properties	-	-	128	-
Foreign exchange loss, net	-	-	4,385	1
Impairment loss	-	-	3,346	-
Valuation loss on financial instruments, net (Note 19)	1,173	-	-	-
Others	-	-	3	-
Total non-operating expenses and losses	11,178	1	21,980	3
INCOME BEFORE INCOME TAX	142,830	18	146,747	18
INCOME TAX EXPENSE (Note 12)	25,195	3	25,412	3
NET INCOME	$ 117,635	15	$ 121,335	15

	2012		2011	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 14)				
Basic earnings per share	$ 5.39	$ 4.44	$ 5.54	$ 4.58
Diluted earnings per share	$ 5.14	$ 4.27	$ 5.49	$ 4.54

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

(With Deloitte & Touche review report dated October 24, 2012) (Concluded)

DYNAMIC MEDICAL TECHNOLOGIES INC.

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 117,635	$ 121,335
Depreciation	26,424	29,330
Amortization	1,231	1,169
Loss on disposal of properties	-	128
Investment loss recognized under the equity method, net	4,291	12,403
Cash dividends received from investees accounted for under the equity method	1,863	1,959
Amortization of discount on convertible bonds	5,493	986
Impairment loss (reversal of impairment loss)	(2,673)	3,346
Deferred income tax	(4,750)	(8,036)
Changes in operating assets and liabilities		
Notes receivable	31,973	(17,480)
Accounts receivable	4,629	(45,332)
Lease payments receivable	(10,897)	-
Accounts receivable from related parties	(29,969)	(16,788)
Other receivables from related parties	(3,486)	(1)
Merchandise inventories	104,852	(133,051)
Prepayments	(1,296)	37,566
Other current assets	(1,993)	37
Long-term notes receivable	136	(18,652)
Long-term accounts receivable	(2,782)	(131)
Long-term lease payments receivable	(9,184)	-
Long-term accounts receivable from related parties	737	(2,940)
Financial liabilities at fair value through profit or loss	(14)	-
Notes payable	(243)	5
Accounts payable	(31,365)	11,666
Accounts payable to related parties	500	58
Income tax payable	(14,763)	(2,329)
Accrued expenses	12,665	1,095
Other payables to related parties	22	(852)
Collections in advance	(42,006)	2,528
Other current liabilities	8,317	1,180
Accrued pension cost	(155)	(133)
Deferred credits	749	683
Net cash provided by (used in) operating activities	165,941	(20,251)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets carried at cost	-	(22,860)
Acquisition of investments accounted for under the equity method	(154,983)	(65,714)
Acquisition of properties	(431)	(9,113)
Proceeds from disposal of properties	-	286

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DYNAMIC MEDICAL TECHNOLOGIES INC.

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2012	2011
Increase in refundable deposits	$ (3,198)	$ (22,645)
Increase in deferred charges	(853)	(1,973)
Net cash used in investing activities	(159,465)	(122,019)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term loans	(72,927)	98,585
Issuance of convertible bonds	-	320,000
Decrease in deposits received	-	(1,750)
Cash dividends	(132,500)	(132,500)
Repayable for advance receipts for common stock (Note 13)	-	357,886
Net cash provided by (used in) financing activities	(205,427)	642,221
NET INCREASE (DECREASE) IN CASH	(198,951)	499,951
CASH, BEGINNING OF PERIOD	542,900	406,778
CASH, END OF PERIOD	$ 343,949	$ 906,729
SUPPLEMENTARY INFORMATION		
Interest paid	$ 476	$ 555
Income tax paid	$ 44,708	$ 35,777
NON-CASH INVESTING ACTIVITIES		
Transfer of merchandise inventories to properties	$ 41,525	$ 9,080
Transfer of merchandise inventories to properties for lease	$ -	$ 12,954
Properties for lease transfer of merchandise inventories	$ 7,629	$ -
Transfer of properties to properties for lease	$ 5,017	$ -

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

(With Deloitte & Touche review report dated October 24, 2012) (Concluded)

1. ORGANIZATION AND OPERATIONS

Dynamic Medical Technologies Inc. (the “Company”) was incorporated on October 9, 2003. The Company mainly sells and leases laser medical equipment for beauty treatment and renders related workshop service, and sells the consumables of beauty treatment and cosmetic products.

The Company’s stock has been traded on the Taiwan Gre Tai Securities Market since December 29, 2010.

The parent company of the Company is Excelsior Medical Co., Ltd. (“Excelsior”). As of September 30, 2012 and 2011, Excelsior’s percentage of ownership in the Company was 42.6%.
As of September 30, 2012 and 2011, the number of employees of the Company was 157 and 160, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying 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 the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (“SFB”) for their oversight purposes.

The Company’s significant accounting policies are summarized as follows:

Foreign Currencies

Foreign currency transactions other than derivative financial instruments are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from settlement of foreign-currency assets and liabilities at rates different from those at which these assets and liabilities are carried in the accounts are recognized in profit or loss in the period of settlement.

At period-end, foreign-currency monetary assets and liabilities are restated using prevailing exchange rates and the resulting differences are recognized in profit or loss.

The differences resulting from translation into New Taiwan dollars of foreign-currency financial statements of foreign equity-method investees prepared in their respective functional currencies are recorded as translation adjustments under stockholders’ equity.

Accounting Estimates

The preparation of financial statements 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 ROC requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of certain revenues and expenses during the reporting period. Actual results could differ from those estimates.

Current and Noncurrent Assets and Liabilities

Current assets are cash and assets that are expected to be converted into cash or consumed within one year from the balance sheet date; assets other than current assets are noncurrent assets. Current liabilities are obligations that are expected to be settled within one year from the balance sheet date; liabilities other than current liabilities are noncurrent liabilities.

Financial Assets and Liabilities at Fair Value through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. These derivatives are remeasured at fair value subsequently with changes in fair value recognized in profit or loss. All regular way purchase or sale of financial instruments is accounted for using settlement date accounting.

Fair value is estimated using valuation techniques. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Financial Assets Carried at Cost

Investments in emerging market stocks whose fair value can not be reliably measured are carried at their original cost. Costs of stocks sold are determined using the weighted-average method. If there is objective evidence of impairment, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Cash dividends are recognized as investment income on the ex-dividend date, but are accounted for as a reduction to the original cost of investment if such dividends are declared out of the earnings of the investee attributable to the period prior to the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

Impairment of Accounts Receivable

Allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Company adopted the third-time revised Statement of Financial Accounting Standards ("SFAS") No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Company should be covered by SFAS No. 34. Accounts receivable 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 accounts receivable, the estimated future cash flows of the asset have been affected.

Accounts receivable that are assessed not to be 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 of collecting payments and an increase in the number of delayed payments.

The amount of 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 accounts receivable is reduced through the use of an allowance account. When accounts receivable 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.

Merchandise Inventories

Merchandise inventories are stated at the lower of cost or net realizable value. Merchandise 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 merchandise inventories less all estimated costs necessary to make the sale. Merchandise inventories are recorded at weighted-average cost.

Investments Accounted for Under the Equity Method

Investments in which the Company can exercise significant influence over the investees are accounted for under the equity method. The Company's share of the net income or the net loss of an investee is recognized in the "investment income/loss recognized under the equity method, net" account. When an investment was acquired, the acquisition cost is allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The excess of the fair value of the net identifiable assets acquired over the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for under the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. When an indication of impairment is identified, the carrying amount of investment is reduced, with the related impairment loss charged to earnings.

Unrealized profits and losses on downstream transactions are eliminated as follows: When the Company has control over the investees - 100%; otherwise - in proportion to the percentage of ownership at period-end. Unrealized profits and losses on upstream transactions are eliminated using the weighted average percentage of ownership during the period.

Properties and Properties for Lease

Properties and properties for lease are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is provided on a straight-line basis over estimated service lives ranging as follows: office equipment, 2-5 years; leasehold improvements, 3-5 years; exhibition equipment, 3 years; other equipment, 5-7 years; medical equipment, 7 years. When an asset has reached its original estimated service life but is still in use, its carrying amount is further depreciated over a new estimated service life. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized in prior period.

Convertible Bonds

For convertible bonds, the Company first determines the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component, then determines the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component from the fair value of the convertible bonds as a whole. The liability component (excluding embedded derivatives) is measured at amortized cost using the effective interest method. Transaction costs of convertible bonds, net of related income tax benefit, are allocated in proportion to the liability and equity components of the bonds. Upon conversion, the Company uses the aggregate carrying amount of the liability and equity components of the bonds at the time of conversion as a basis to record the common shares issued.

Pension Cost

For a defined contribution pension plan, pension cost is recorded based on the amount of contributions made during the period in which employees render services.

For a defined benefit pension plan, pension cost is recorded based on actuarial calculations.

Income Tax

The Company applies the intra-year and inter-year allocation methods to its income tax, whereby (1) a portion of income tax expense charged or credited directly to stockholders' equity; and (2) tax effects of deductible temporary differences are recognized as deferred income tax assets, Valuation allowances is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Tax effects of taxable temporary differences are recognized as deferred income tax liabilities. Deferred income tax assets or liabilities are classified as current or noncurrent based on the classification of the related asset or liability. A deferred income tax asset or liability that is not related to an asset or liability is classified as current or noncurrent based on the expected length of time before it is realized or settled.

Additional income tax at 10% of undistributed earnings is recorded when its amount is determinable, namely, when the retention of earnings is resolved by the stockholders.

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

Stock-based Compensation

The value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

Revenue Recognition

Sales of products are recognized when titles to the products and risks of ownership are transferred to customers, primarily upon shipment.

Revenue of workshop service is recognized when the service is rendered.

Lease

Leasing revenue on operating lease contract is recognized over the lease term.

For sales-type capital lease contract, the cash sales price of leased equipment and implicit interest are recognized as lease receivables. The cash sales price minus the present value of unguaranteed residual value is recognized as sales revenue, and the implicit interest is recognized as unrealized interest income which will be transferred to interest income according to interest method.

Reclassifications

Certain accounts in the financial statements as of and for the nine months ended September 30, 2011 have been reclassified to conform to the presentation of the financial statements as of and for the nine months ended September 30, 2012.

3. ACCOUNTING CHANGES

Financial Instruments

On January 1, 2011, the Company adopted the newly revised SFAS No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include loan and receivables originated by the Company under SFAS No. 34. This accounting change did not have a material effect on the financial statements of the Company as of and for the nine months ended September 30, 2012.

Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires that segment information be disclosed based on the information about the components of the Company that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting."

4. CASH

	September 30	
	2012	**2011**
Cash on hand	$ 1,772	$ 1,341
Checking account deposits and demand deposits	162,077	575,388
Time deposits	180,100	330,000
	$ 343,949	$ 906,729

5. MERCHANDISE INVENTORIES

	September 30	
	2012	**2011**
Medical equipment for beauty treatment	$ 82,245	$ 107,205
Medical consumables and spare parts for beauty treatment	118,798	193,127
Others	3,178	7,882
	$ 204,221	$ 308,214

As of September 30, 2012 and 2011, the allowance for inventory devaluation was $14,774 thousand and $12,458 thousand, respectively.

The cost of sales for the nine months ended September 30, 2012 and 2011 included the gains on reversal of write-downs of merchandise inventories of $187 thousand and $924 thousand, respectively.

6. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	September 30	
	2012	**2011**
Emerging market stocks		
Scivision Biotech Inc.	$ 52,860	$ 52,860

7. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	September 30			
	2012		**2011**	
	Carrying Amount	**% of Owner-ship**	**Carrying Amount**	**% of Owner-ship**
Unlisted companies				
Great China Technology Development Limited ("Great China")	$ 166,707	100.0	$ 124,335	100.0
Excelsior Beauty Co., Ltd. ("Excelsior Beauty", formally known as Younch Enterprise Inc.)	104,193	51.2	2,818	50.0
	$ 270,900		$ 127,153	

Investment income (loss) recognized under the equity method comprised:

	Nine Months Ended September 30	
	2012	**2011**
Great China	$ (3,886)	$ (12,958)
Excelsior Beauty	(405)	555
	$ (4,291)	$ (12,403)

The Company's aforementioned long-term stock investments accounted for under the equity method as of September 30, 2012 and 2011 and the related investment loss recognized for the nine months then ended were determined on the basis of the unreviewed financial statements of investees.

8. PROPERTIES

	September 30	
	2012	2011
Accumulated depreciation		
Office equipment	$ 4,917	$ 3,497
Leasehold improvements	3,946	2,104
Exhibition equipment	55,539	47,365
Other equipment	2,209	800
	$ 66,611	$ 53,766

9. SHORT-TERM LOANS

	September 30	
	2012	2011
Usance letters of credit (USD): Interest at 1.06%-1.98%	$ -	$ 98,585

10. CONVERTIBLE BONDS

	September 30	
	2012	2011
The first domestic secured convertible bonds		
Convertible bonds issued at face value	$ 320,000	$ 320,000
Less: Unamortized discount	(14,085)	(21,401)
	$ 305,915	$ 298,599

On August 12, 2011, the Company issued the first domestic secured convertible bonds of $320,000 thousand at face value, with a face interest rate of 0% and a maturity date of August 12, 2014. The bonds are guaranteed by Mega International Commercial Bank. The bonds may be converted into common shares of the Company at any time from the day one month after issuance to the day ten days before maturity. The initial conversion price was $145.2 New Taiwan dollars per share, which is subject to adjustment according to an agreed formula since September 23, 2012, (the conversion price is adjusted to $139 New Taiwan dollars per share). From the day one month after issuance to the day forty days before maturity, the Company may redeem all of the bonds at face value, provided that the average closing price exceeds the then conversion price by 30% or more for 30 consecutive trade days or the total amount of the outstanding bonds is less than 10% of the total amount of the bonds initial issue. Other than in the case of conversion or redemption mentioned above, the Company shall redeem the bonds by cash on their maturity. As of September 30, 2011, no bondholder had exercised rights to convert bonds.

11. PENSION PLANS

a. Defined contribution pension plan

The pension plan under the Labor Pension Act is a defined contribution pension plan. Pursuant to the plan, the Company makes monthly contributions to employees' individual pension accounts at 6% of each applicable employee's monthly salary. The Company recognized pension cost of $3,767 thousand and $3,365 thousand under the plan for the nine months then ended 2012 and 2011, respectively.

b. Defined benefit pension plan

Under the Labor Standards Law, the Company has a defined benefit pension plan for its employees. Benefits under this plan are based on length of service and average salary for the nine months before retirement. The Company makes monthly contributions to a pension fund, which is administered by the employees' pension fund committee and deposited in the committee's name with the Bank of Taiwan. Movements of the accrued pension cost and the pension fund were as follows:

	September 30	
	2012	2011
Accrued pension cost		
Balance, beginning of period	$ 1,838	$ 2,658
Provisions	188	257
Contributions to pension fund	(343)	(390)
Balance, end of period	$ 1,683	$ 2,525
Pension fund		
Balance, beginning of period	$ 2,932	$ 2,436
Contributions	343	390
Interest income	42	7
Balance, end of period	$ 3,317	$ 2,833

12. INCOME TAX

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

	Nine Months Ended September 30	
	2012	2011
Income tax expense based on income before income tax at statutory rate	$ 24,281	$ 24,947
Tax effect of adjusting items		
Permanent differences	125	(463)
Temporary differences	4,250	8,036
Additional income tax at 10% of undistributed earnings	1,191	-
Current income tax	29,847	32,520
Deferred income tax		
Allowance for doubtful accounts	(850)	(274)
Allowance for inventory devaluation	(32)	157
Accrued warranty expense	(1,573)	(436)
Accrued bonus expense	(3,145)	(3,121)
Impairment loss on properties for lease	455	(569)
Difference in depreciation of properties	397	(556)
Impairment loss on business rights	229	229
Temporary differences relating to recognition of foreign investment income or loss under the equity method	(661)	(2,203)
Others	930	(1,263)
Other adjustment in valuation allowance	(500)	-
Adjustments of prior years' income tax	98	928
Income tax expense	$ 25,195	$ 25,412

Deferred income tax assets comprised:

	September 30	
	2012	2011
Current		
Allowance for doubtful accounts	$ 2,494	$ 1,068
Allowance for inventory devaluation	2,512	2,118
Accrued warranty expense	4,457	2,870
Accrued bonus expense	9,073	6,786
Others	630	1,620
	19,166	14,462
Valuation allowance	(2,000)	(2,500)
	$ 17,166	$ 11,962
Noncurrent		
Difference in depreciation of properties	$ 6,431	$ 6,567
Impairment loss on properties for lease	3,361	3,672
Temporary differences relating to recognition of foreign investment loss under the equity method	4,917	4,043
Others	1,150	1,408
	$ 15,859	$ 15,690

The Company’s income tax returns have been examined by the tax authorities through 2010.

For distribution of earnings under the ITL, the ratio for the imputation credits allocated to the domestic stockholders of the Company is based on the balance of the imputation credit account (“ICA”) as of the date of dividend distribution. Information about integrated income tax was as follows:

The balance of the ICA as of September 30, 2012 and 2011 was $55,374 and $89,393 thousand, respectively.

The creditable ratio for distribution of earnings of 2011 and 2010 was 28.57% and 31.76%, respectively.

13. STOCKHOLDERS’ EQUITY

When the Company has no deficit, capital surplus from shares issued in excess of par (additional paid-in capital) may be distributed as such dividends or transferred to capital (limited to a certain percentage of the Company’s paid-in capital and once a year).

The Company’s Articles of Incorporation provide that the following shall be appropriated from the annual net income (less any deficit):

a. 10% thereof as legal reserve;

b. Special reserve provided in accordance with directives issued by the SFB or other authorities;

c. A portion retained for operation needs;

d. A remuneration to directors and supervisors of not more than 5% and a bonus to employees of not less than 1% of the remainder; and

e. Dividends proposed by the board of directors and resolved by the stockholders out of the sum of the remainder and prior years' unappropriated earnings.

The bonus to employees, if paid in stock, may be distributed to employees of subsidiaries that meet certain criteria. The guidelines for distribution of bonus to employees are to be determined by the chairman of the Company.

The Company's Articles of Incorporation also prescribe that dividends shall not be distributed in such a manner as to negatively affect the Company's financial structure and that 20% to 100% of the dividends shall be paid in cash; however, if the Company has major capital expenditure plans in the future, 100% of the dividends may be distributed in stock, if resolved by the stockholders.

For the nine months ended September 30, 2012 and 2011, the bonus to employees was $2,118 thousand and $2,184 thousand, respectively, and the remuneration to directors and supervisors was $5,294 thousand and $5,460 thousand, respectively. The bonus to employees for the nine months ended September 30, 2012 and 2011 was both 2% of the net income minus the legal reserve to be appropriated. The remuneration to directors and supervisors for the nine months ended September 30, 2012 and 2011 was both 5% of the net income minus the legal reserve to be appropriated. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Under the Company Law, the aforementioned appropriation for legal reserve shall be made until the reserve equals the Company's capital. The reserve may be used to offset a deficit. When the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

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 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.

The appropriations of earnings for 2011 and 2010 had been approved in the stockholders' meetings on June 15, 2012 and May 2, 2011, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividends Per Share (In New Taiwan Dollars)**	
	For Year 2011	**For Year 2010**	**For Year 2011**	**For Year 2010**
Legal reserve	$ 15,487	$ 12,606		
Special reserve	-	5,025		
Cash dividends	132,500	132,500	$ 5.0	$ 5.0

The bonus to employees and the remuneration to directors and supervisors for the years ended December 31, 2011 and 2010 approved in the stockholders' meeting on June 15, 2012 and May 2, 2011, respectively, were as follows:

	2011	**2010**
Bonus to employees - cash	$ 2,788	$ 2,269
Remuneration to directors and supervisors	6,969	5,421

	Years Ended December 31			
	2011		2010	
	Bonus to Employees	Remuneration to Directors and Supervisors	Bonus to Employees	Remuneration to Directors and Supervisors
Amounts approved in stockholders' meetings	$ 2,788	$ 6,969	$ 2,269	$ 5,421
Amounts recognized in respective financial statements	2,788	6,969	2,269	5,673
	$ -	$ -	$ -	$ (252)

The approved amount of the remuneration to directors and supervisors was different from the accrual amount reflected in the financial statements for the year ended December 31, 2010, and the difference of $252 thousand resulted from the difference in estimation and had been adjusted in profit and loss for the nine months ended September 30, 2011.

The Company reverted special reserve of $5,025 thousand to unappropriated earnings based on a directive approved in the stockholders' meeting on June 15, 2012.

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

On August 21, 2012, the board of directors has decided to raise cash by issuing 3,500 thousand common shares, $10 par value, at issue price of $88 per share. The issuance of common stock for cash capital increase was registered by the Financial Supervisory Commission on September 10, 2012.

The issuance of common stock for cash resolved by the board of directors on July 1, 2011 was approved for cancellation by the Financial Supervisory Commission on September 26, 2011. As of September 30, 2011, the Company had received $357,886 thousand (included in repayable advance receipts for common stock) in advance from the aforementioned issue of common stock for cash. In October 2011, the Company had repaid the advance receipts for common stock together with interest to subscribers.

14. EARNINGS PER SHARE

The numerators and denominators used in the computation of earnings per share are disclosed as follows:

	Amount (Numerator)		Shares	Earnings Per Share (In New Taiwan Dollars)	
	Before Tax	After Tax	(Denominator) (In Thousands)	Before Tax	After Tax
Nine months ended September 30, 2012					
Basic earnings per share					
Earnings belonging to holders of common shares	$ 142,830	$ 117,635	26,500	$ 5.39	$ 4.44

(Continued)

	Amount (Numerator)		Shares	Earnings Per Share (In New Taiwan Dollars)	
	Before Tax	After Tax	(Denominator) (In Thousands)	Before Tax	After Tax
Effect of dilutive potential common shares					
Convertible bonds	$ 5,493	$ 5,493	2,302		
Bonus to employees	-	-	37		
Diluted earnings per share					
Earnings belonging to holders of common shares plus effect of dilutive potential common shares	$ 148,323	$ 123,128	28,839	$ 5.14	$ 4.27
Nine months ended September 30, 2011					
Basic earnings per share					
Earnings belonging to holders of common shares	$ 146,747	$ 121,335	26,500	$ 5.54	$ 4.58
Effect of dilutive potential common shares					
Convertible bonds	986	986	404		
Bonus to employees	-	-	29		
Diluted earnings per share					
Earnings belonging to holders of common shares plus effect of dilutive potential common shares	$ 147,733	$ 122,321	26,933	$ 5.49	$ 4.54

(Concluded)

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 earnings per share, 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 earnings per share until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

15. PERSONNEL COST, DEPRECIATION AND AMORTIZATION

	Nine Months Ended September 30, 2012		
	Operating Costs	Operating Expenses	Total
Personnel cost			
Payroll	$ 18,718	$ 88,334	$ 107,052
Insurance	1,152	6,048	7,200
Pension	643	3,312	3,955
Others	518	3,407	3,925
	$ 21,031	$ 101,101	$ 122,132
Depreciation	$ 9,786	$ 16,638	$ 26,424
Amortization	$ 263	$ 968	$ 1,231

	Nine Months Ended September 30, 2011		
	Operating Costs	Operating Expenses	Total
Personnel cost			
Payroll	$ 15,887	$ 88,386	$ 104,273
Insurance	1,025	5,166	6,191
Pension	574	3,048	3,622
Others	471	2,881	3,352
	$ 17,957	$ 99,481	$ 117,438
Depreciation	$ 11,007	$ 18,323	$ 29,330
Amortization	$ 218	$ 951	$ 1,169

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

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	September 30					
	2012			2011		
	Foreign Currencies (In Thousands)	Exchange Rate	New Taiwan Dollars (In Thousands)	Foreign Currencies (In Thousands)	Exchange Rate	New Taiwan Dollars (In Thousands)
Financial assets						
Monetary items						
USD	$ 1,434	29.35	$ 42,071	$ 142	30.53	$ 4,327
HKD	3,345	3.809	12,741	646	3.943	2,548
RMB	300	4.568	1,369	199	4.895	972
EUR	181	38.09	6,897	2	41.43	67
Investments accounted for under the equity method						
HKD	44,114	3.779	166,707	31,775	3.913	124,335
Financial liabilities						
Monetary items						
USD	281	29.35	8,237	4,063	30.53	124,072
EUR	157	38.09	5,969	5	41.43	226
HKD	129	3.809	491	-	-	-

17. RELATED PARTY TRANSACTIONS

a. Related parties and relationships with the Company:

Name of Related Party	Relationship with the Company
Excelsior	Parent company
Great China	A subsidiary
Excelsior Beauty	A subsidiary

(Continued)

Name of Related Party	Relationship with the Company
Guangzhou Dynamic Inc. (“Guangzhou Dynamic”)	An indirect subsidiary
Regent Skin and Beauty Clinic (“Regent”)	The responsible person of Regent is one of the supervisors of the Company (discharge on Mach 6, 2012)
Animation Medical Technologies Ltd. (“Animation”)	A subsidiary of Excelsior
Perfection Healthcare Co., Ltd. (“Perfection Healthcare”)	An investee accounted for under the equity method of Excelsior
Bestchain Healthtaiwan Co., Ltd. (“Bestchain Healthtaiwan”)	An investee accounted for under the equity method of Excelsior
Arcos Laboratory International Inc. (“Arcos”)	Excelsior is one of the directors of Arcos

(Concluded)

b. Except those disclosed in other notes, significant balances and transactions with related parties are summarized as follows:

	September 30	
	2012	2011
Accounts receivable		
Guangzhou Dynamic	$ 22,250	$ -
Great China	21,460	13,918
Perfection Healthcare	1,524	3,689
Excelsior Beauty	2,906	-
Excelsior	67	168
Regent	-	90
Others	492	20
	$ 48,699	$ 17,885
Prepayments		
Great China	$ 662	$ -
Prepaid expenses (included in other current assets)		
Excelsior	$ 83	$ -
Long-term accounts receivable		
Perfection Healthcare	$ 3,766	$ 2,940
Other receivables		
Guangzhou Dynamic	$ 2,529	$ 37
Great China	983	28
Others	82	-
	$ 3,594	$ 65
Accounts payable		
Great China	$ 500	$ 29
Arcos	-	29
	$ 500	$ 58

	September 30	
	2012	2011
Other payables		
Excelsior	$ 82	$ 63
Others	-	23
	$ 82	$ 86
Amounts received in advance for sales (included in collections in advance)		
Perfection Healthcare	$ 121	$ -
Regent	-	314
Others	78	-
	$ 199	$ 314

	Nine Months Ended September 30	
	2012	2011
Net sales		
Guangzhou Dynamic	$ 22,281	$ 15
Great China	19,011	15,747
Perfection Healthcare	4,282	10,190
Bestchain Healthtaiwan	3,257	48
Excelsior Beauty	2,664	-
Regent (Note)	519	1,478
Others	531	843
	$ 52,545	$ 28,321
Purchases		
Great Chain	$ 3,695	$ 29
Excelsior Beauty	-	97,320
Excelsior	60	114
Arcos	57	113
Others	7	3
	$ 3,819	$ 97,579
Rental expense		
Excelsior	$ 525	$ 509
Others	13	16
	$ 538	$ 525
Information service expense		
Excelsior	$ 1,181	$ 1,029
Other expense		
Excelsior	$ 222	$ 424
Others	23	-
	$ 245	$ 424

	Nine Months Ended September 30	
	2012	2011
Rental revenue (included in non-operating incomes and gains - others)		
Animation	$ -	$ 17
Excelsior Beauty	25	-
	$ 25	$ 17
Acquisition of properties		
Excelsior	$ -	$ 160
Acquisition of deferred charges		
Excelsior	$ -	$ 76

Note: Net sales between January 1 and March 5, 2012.

The aforementioned transactions were conducted on normal commercial terms.

Rental revenue collected semiannually and rental expense paid monthly were based on prevailing market rates.

As of September 30, 2012, guarantees provided to the Company by Excelsior Beauty were $277 thousand.

18. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of September 30, 2012, the Company had the following significant commitments and contingencies:

a. Unused letters of credit of approximately $32,000 thousand.

b. The Company had provided guarantees of $42,771 thousand to Great China for its bank credit lines.

c. The Company leases buildings and automobiles under several operating lease agreements. Minimum future rental payments under these agreements are as follows:

Period	Amount
Three months ending December 31, 2012	$ 3,110
2013	6,402
2014	4,892
2015	4,892
2016	4,892
2017	4,892
2018	3,019

d. On February 14, 2012, the board of directors resolved that Great China will invest RMB7,000 thousand to set up an indirect subsidiary in Beijing, which is to be named Beijing Excelsior Beauty Co., Ltd.

19. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	September 30			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash	$ 343,949	$ 343,949	$ 906,729	$ 906,729
Notes receivable	160,964	160,964	133,452	133,452
Accounts receivable	145,482	145,482	189,409	189,409
Lease receivable	10,897	10,897	-	-
Accounts receivable from related parties	48,699	48,699	17,885	17,885
Other receivables from related parties	3,594	3,594	65	65
Financial assets carried at cost - noncurrent	52,860		52,860	
Long-term notes receivable	19,957	19,957	19,851	19,851
Long-term lease receivable	12,877	12,877	2,920	2,920
Long-term accounts receivable	9,184	9,184	-	-
Long-term accounts receivable from related parties	3,766	3,766	2,940	2,940
Liabilities				
Short-term loans	-	-	98,585	98,585
Notes payable	-	-	5	5
Accounts payable	23,504	23,504	26,753	26,753
Accounts payable to related parties	500	500	58	58
Other payables to related parties	82	82	86	86
Liability component of convertible bonds - noncurrent	305,915	308,416	298,599	301,968

b. Methods and assumptions used in the estimation of fair values of financial instruments:

1) Fair values of short-term financial instruments are determined using their carrying amounts shown on the balance sheet because of their short maturities. This method applies to cash, receivables, short-term loans and payables.

2) The fair value of lease payments receivable and long-term lease receivable is estimated using the present value of future cash flows discounted by prevailing interest rates after taking into account risk premiums.

3) Fair value of financial assets carried at cost which represent emerging market stocks and unquoted stocks, has not been presented because their market prices are not available.

4) The fair value of long-term receivables is estimated using the present value of future cash flows, discounted by prevailing interest rates after taking into account risk premiums.

5) Fair value of liability component of convertible bonds is estimated using valuation techniques because no market prices are available. The estimates and assumptions used in the valuation techniques are consistent with those that market participants would use in setting prices for financial instruments and are attainable by the Company.

c. The Company entered into derivative contracts mainly to manage exposures to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting prescribed by SFAS No. 34, “Financial Instruments: Recognition and Measurement”. Therefore, the Company did not apply hedge accounting treatment for its derivative contracts. As of September 30, 2012, the Company did not have any outstanding forward exchange contracts. Net gains on forward exchange contracts for the nine months ended September 30, 2012 were $1,173 thousand.

d. As of September 30, 2012, financial assets and financial liabilities exposed to fair value interest rate risk were $147,401 thousand and $305,915 thousand; financial assets exposed to cash flow interest rate risk were $120,000 thousand. As of September 30, 2011, financial assets and financial liabilities exposed to fair value interest rate risk were $173,653 thousand and $397,184 thousand; financial assets exposed to cash flow interest rate risk were $160,000 thousand.

e. Information about financial risk:

1) Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter parties or third parties breached the contracts. The counter parties and third parties are reputable financial institutions, business organizations, hospitals and clinics; thus, no material credit risk is anticipated.

2) Liquidity risk

The Company has sufficient operating capital to meet the cash needs upon maturity of short-term loans and convertible bonds, thus, the liquidity risk is low. There is a liquidity risk for the Company's investments in financial assets carried at cost because they are not traded in an active market. However, the Company had evaluated the risk before making investments.

20. OPERATING SEGMENT FINANCIAL INFORMATION

The Company has disclosed the operating segment financial information in the consolidated financial statements.